EXPANDING THE SCOPE
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Dear colleagues!
The past year has confirmed the viability of the strategy we approved in 2014. By basing our operations on the UPSTREAM key segment and our chosen niche, we managed to form a business model that would be sustainable in the widest possible range of conditions. Despite the unstable foreign market environment, the difficult geopolitical situation and significant fluctuations in oil prices, we not only achieved and maintained the planned performance indicators, but also continued working on transforming the Company all the year round by improving management quality, accumulating, analyzing and implementing best practices.

Cumulative oil production in the effective share of the Company’s ownership in 2018 amounted to more than 5.1 million tons of oil equivalent, which exceeded the planned figure by 95 thousand tons of oil equivalent. This was achieved through efficient geological and technical measures that were implemented as per the approved production program.

As per the 2018 year-end results, the consolidated proceeds index has increased by 45% compared to 2017 figures. The consolidated EBITDA indicator value increased by RUB 19.3 billion, which is more than 2 times higher than the 2017 level. This, in its turn, will allow the Company to maintain its leading position in dividend payments relative to its financial results. It will also enable it to undertake commitments to pay dividends amounting to RUB 4 billion to the state in 2019.

Part of our activities over the reporting year included continuing our work to develop the UPSTREAM segment, increasing its efficiency, as well as entering new projects. Following the world structure dynamics for reserves, we continue to maintain our focus on small, difficult-to-develop fields and fields with a high degree of depletion. There has been ongoing work on expanding the resource base on existing assets.

**General Director's statement**

**19.3**

BLN RUB

is the amount the consolidated EBITDA increased in 2018 (more than two times higher than in 2017)

**~6**

BLN RUB

is the amount of dividend commitments paid to the State in 2019
WE CARRY ON THE DEVELOPMENT OF THE UPSTREAM SEGMENT IN ACCORDANCE WITH THE KEY FOCUS AREAS AIMED AT IMPROVING ITS EFFICIENCY AND ENTERING NEW PROJECTS

The reserve increment for 2018, to which our Vietnamese asset JV “Vietsovpetro” contributed the most significant share, amounted to 12 million tons of oil equivalent.

LLC “JC “RUSVIETPETRO” completed the year successfully. The Company increased its EBITDA and net-profit indicators significantly compared to 2017, owing to the surge in the oil selling price, the full implementation of the production program, the introduction of cost optimization measures, as well as tax benefit utilization, which included extension of the right to utilize privileges on export duties levied on oil coming in from the West-Khosedayu Field.

In the reporting year, the South-Syurkharatin Skoe and Ureanyrdskoye oil fields were launched on a permanent basis. For the sixth year in a row, the production activity at the Company’s fields amounted to 3 million tons, and in general, the gross production from the commissioning of the Central Khoreyver Uplift fields amounted to 22 million tons. The company, which is our largest asset in Russia, celebrated its 10th anniversary with such successes.

2018 was also filled with significant events for our other subsidiary – Zarubezhneft-Dobycha Kharyaga LLC. In July 2018, an addendum to the

Sergey Kudryashov
General Director of Zarubezhneft JSC
Kharyaga PSA was signed that extended the term of the Agreement to December 31, 2031. The company also continues working on cost optimization. Thus, the results of the events held in 2018 show that the specific OPEX indicator was a little over USD 4 per barrel of oil, while in 2016, the specific OPEX indicator was USD 7.4 per barrel. During the two years of operations, we have managed to almost double the state and partners’ revenues.

The Company has actively been working on introducing methods for enhancing oil recovery and replenishing the resource base to maintain a stable rate of production. The deepening of the lateral hole of one of the wells in 2018 led to the discovery of a new oil reservoir with the geological reserves exceeding 2 million tons (as per preliminary estimates).

Active work on expanding the activities of the Group of Companies continues. Of note is the recent acquisition of a 100% stake in VRJ and obtaining of an investment license for Block 09-3. Documents were also signed on the sidelines of a meeting between Russian Federation President Vladimir Putin and Secretary General of the Communist Party of Vietnam Nguyễn Phú Trọng for JV “Vietsovpetro” and Zarubežneft JSC to enter the Block 09-2/09. We will obtain the investment license for this section in 2019, while the first oil will come in before the end of 2022. New assets are expected to balance the production decline at the White Tiger and Dragon fields (Block 09-1), which are in their final stages of development.

In the DOWNSTREAM segment, the surge in oil price (and, consequently, in the price of petroleum products) has allowed us to achieve the set business plan indicators and increase revenue by 4% compared to 2017. I hereby separately note the 2018 continuation of implementation of an important project involving the gasification of Brod Refinery. During my meeting with President of the Republic of Croatia Kolinda Grabar-Kitarovic, the positive results of the work performed were noted and agreements were reached on comprehensive support for the project and its continuation until full completion. Using natural gas as a fuel at the oil refinery will help solve the current environmental issues of the plant and bring the levels of emissions from refinery furnaces to EU standards.

In addition, the project for the construction of an oil-sludge utilization plant at Brod Refinery was completed. The plant has already been commissioned. The New Boiler-house Construction project has almost been fully completed.

Two large investment projects have been implemented at Modrića Motor Oil Plant – replacement of filters at the base oil-dewaxing plant, which...
will reduce the risk of unplanned shutdown in subsequent periods, and the repair of three packing and filling lines.

The company has continued to work on creating a basis for entering new projects. Arrangements with specialized state authorities and oil and gas sector companies have been put in place, while a geological and technical base has been developed for entering new projects in Egypt, Ecuador, Gabon, Sudan, Iraq and Argentina. Negotiations on entering the projects in Uzbekistan have been highly elaborated. Finally, work has begun on entering projects in Cambodia.

Responding to the industry challenges, Zarubezhneft JSC has been implementing a series of projects for digital transformation. At this stage, most of the initiatives relate to the core segment “Geologic Exploration and Production”. Nevertheless, this is a strategic direction that will require the input and participation of the entire management structure of the Group of Companies. The allocation of a digital transformation section as part of a Long-term Development Program has already been agreed upon.

Taking into account the growing competition of technologies, projects have been initiated in the area of renewable energy; the Company highlights the corresponding direction in its business development unit. The main prospects are related to the construction of a 100 MW solar power plant in the countries of current activity – Cuba and Vietnam. Hevel Company has become a strategic partner of Zarubezhneft JSC in the area of solar power generation.

Dear colleagues!

In 2018, we achieved excellent results. Our Company once more demonstrated high efficiency.

In 2019, we will continue pursuing the goals stated in the strategy, carrying out high-quality transformation and focusing on best market practices and trends. We shall begin by supporting primary production, ensuring the timely commissioning of Blocks 12/11, 09/3-12 and the Lutseyakhskoye Field, as well as continuing to expand the resource base with existing and new assets.

Sergey Kudryashov
General Director of Zarubezhneft JSC
COMPANY PROFILE
Company profile and major areas of activities

Zarubezhneft JSC is a diversified state oil & gas holding acting for the benefit of the state having assets and projects in various segments. Having a rich history and unique experience in conducting external economic activities, the holding comprises more than 20 joint and subsidiary companies operating in different segments of the oil & gas business.

Zarubezhneft Group of Companies is a sustainably-developing Russian oil & gas company of strategic importance consolidating more than 20 joint and subsidiary companies operating in different segments of the oil & gas business:

**Geologic exploration and production of hydrocarbons (upstream)**

Exploration, development and operation of onshore and offshore oil and gas fields in the Russian Federation and abroad.

Vast experience in the development of complex reservoirs.

**Oil refining and marketing (downstream)**

Oil-refining capacities, wholesale and retail marketing of oil products, fuel stations chain.

**Service and other assets (services)**

Drilling and construction services.

Application of front-end domestic EOR methods for the development of oil & gas fields.

Elaboration and development of modern enhanced oil-recovery methods for expanding the export of high-tech services.

For more than five decades, the high professionalism of the Company’s management, availability of highly-qualified personnel, application of best and modern asset-management methods as well as commitment to the maximum efficiency of all business processes have allowed sustainable development and Zarubezhneft JSC’s successful competition with major oil & gas companies.
## Detailed corporate and projects structure of the Zarubezhneft Group of companies

### Upstream segment
- 49% JV “Vietsovpetro” (Block 09-1)
- 49% Block 04-3
- 100% VRJ Petroleum Co (Block 09-3)
- 51% LLC “JC “RUSVIETPETRO”
- 40% Kharyaga PSA
- 100% Ulyanovskneftegaz LLC
- 100% Orenburgnefteotdacha JSC

### Geologic exploration projects
- 100% Block 12/11
- 100% Boca de Jaruco
- 100% Severo-Karasevskoye Petroleum Enterprise LLC

### Service and other assets segment
- 100% RMNTK Nefteotdacha JSC
- 100% Zarnestservice LLC
- 100% Zarubezhneftestroymontazh LLC
- 100% Arktikmorneftegazrazvedka JSC
- 70,3% VNIIneft LLC
- 60,1% Giprovostokneft JSC
- 100% Explon LLC

### Downstream segment
- 100% OPTIMA Grupa d.o.o.
- 80% Brod Refinery A.D.
- 89% Modriča Motor Oil A.D.
- 80% Nestro Petrol A.D.
- 95% Neftegazincor JSC
Activity map of the Zarubezhneft Group of companies

**MURMANSK**
Arktikmorneftegazrazvedka JSC (AMNGR)

**MOSCOW**
Zarubezhneft JSC
VNIIneft JSC
RMNTK Nefteotdacha JSC
Zarubezhneftestroymontazh LLC
ZarnestsERVICE LLC

**SAMARA**
Giprovostokneft JSC

**NENETS AUTONOMOUS AREA**
LLC “JC “RUSVIETPETRO”
Zarubezhneft-Dobycha Kharyaga LLC

**VOLGA REGION**
Orenburgnefteotdacha JSC
U’yanovskneftegaz LLC

**SAMARA**
Zarubezhneft-Dobycha Samara LLC

**YAMALO-NENETS AUTONOMOUS AREA**
Severo-Karasevskoye Petroleum Enterprise LLC

**VIETNAM**
JV “Vietsovpetro”
(Block 09-1)
VRJ Petroleum Co
(Block 09-3)
Block 04-3
Block 12/11

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For reference:
Projects with participation of JV “Vietsovpetro”
Block 09-3/12
Block 16-1/15
Block 42
Block 09-2-09

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1 For reference:
Projects with participation of JV “Vietsovpetro”
Block 09-3/12
Block 16-1/15
Block 42
Block 09-2-09
CUBA
Boca de Jaruco

BELARUS
Visha-Thermogas

BOSNIA AND HERZEGOVINA
Brod Refinery A.D.
Modriča Motor Oil A.D.
OPTIMA Grupa d.o.o.
Nestro Petrol A.D.
Key events of 2018

Zarubezhneft participated in the Egypt Petroleum Show exhibition which took place on February 12-14, 2018, in the Cairo Exhibition Center. The company’s stand was visited by the President of Egypt Abdel Fattah Khalil El-Sisi and the Minister of Petroleum and Mineral Resources of Egypt Tarek.

ZARUBEZHNEFT-Dobycha Kharyaga produced the 20-millionth ton of oil since the commencement of commercial development of Kharyaga field in 1999.

Zarubezhneft is first of the Russian companies of the fuel and energy complex to receive the Vision Zero Certificate therefore joining the International “Zero injury rate” concept in the framework of occupational health and industrial safety.

RUSVIETPETRO produced the 20-millionth ton of oil since the commencement of fields development in the Nenets Autonomous Area.

Production events

International cooperation events

Corporate events
An international contest of professional skills “Best in profession 2018” held among the entities of Zarubezhneft Group of Companies took place in late August. ZARUBEZNHEFT-Dobycha Kharyaga, JC RUSVIETPETRO, ZARUBEZHNEFT-Dobycha Samara, Zarubezhneftestroymontazh, RMNTK Neftotdacha and the design institute Giprovostokneft took part in the contest.

Addendum to the Agreement on development and production of oil at the Kharyaga field under production sharing terms, in accordance with which the Agreement’s validity period was extended till December 31, 2031 was signed on July 17, 2018.

Sergey Kudryashov took part in the meeting between the Secretary General of the Communist Party of Vietnam Nguyen Phu Trong and the President of the Russian Federation Vladimir Putin in Sochi.

On September 6, 2018 investment certificate from CPB Government was given to Block 09-3 with the right to perform oil and gas production since January, 2017 implying a 100% participation share of Zarubezhneft JSC.
Zarubezhneft participated in the Russian Energy Week by becoming its partner. The company’s delegation visited the events dedicated to the market trends in the fuel and energy complex, including the main plenary meeting with participation of the President of the Russian Federation Vladimir Putin and a number of sessions with participation of the Minister of Energy of the Russian Federation Alexander Novak.

The General Director of Zarubezhneft JSC S.I. Kudryashov held a meeting with the Minister of Energy and Industry of Qatar Mohammed Bin Saleh Al-Sada as well as his Bruneian colleague – Minister of Energy, Labor and Industry – Mat Suny Hussein.

A meeting of the company’s General Director Sergey Kudryashov and the Minister of Oil of South Sudan Ezekiel Lul Gatkuoth and other representatives of the foreign delegation took place in the office of Zarubezhneft. Under the results of negotiations the parties agreed to elaborate possible options for cooperation in geologic exploration works applying EOR methods and technologies in the Republic of South Sudan.

The Chairman of the Board of Directors of Zarubezhneft JSC Eugeniy Murov and the company’s General Director Sergey Kudryashov have held working meetings with the President of the Republic of Srpska (BiH) Milorad Dodik in Banja Luka and the President of the Republic of Croatia Kolinda Grabar-Kitarovic in Slavonski Brod (Croatia).

Zarubezhneft was given a “Best social-oriented company of the petroleum industry for the corporate culture development” award in the framework of the VIII Saint-Petersburg International Gas Forum (Russian Energy Week).
The 1-st International conference with the contractor entities of Zarubezhneft Group of Companies on the integration of the Vision Zero Concept took place.

Zarubezhneft took the second place in the environmental responsibility rating of the Russian oil & gas companies.

The General Director of Zarubezhneft JSC Sergey Kudryashov took part in the meeting of the business representatives with the chairman of the State Council and the Ministers’ Council of the Republic of Cuba Miguel Diaz-Canel Bermudez in the framework of his official visit to the Russian Federation and the discussions with the country’s top officials.

The Head of Zarubezhneft JSC Sergey Kudryashov participated in the formal visit of the Chairman of the Government of the Russian Federation Dmitry Medvedev to Vietnam. A separate meeting with the head of the Vietnam Oil & Gas Corporation Petrovietnam took place in the framework of the official visit.

The Head of Zarubezhneft JSC Sergey Kudryashov participated in the activities of the Russian-Chinese energy business which took place in the capital of China Beijing.
Annual Report 2018

02

Strategic report
Market conditions

The average price of Urals oil for January-December 2018 was a little over USD 70.2 per barrel. The stabilization and price growth factors for 2018 besides the extension of the OPEC+ deal included the deterioration in the political situation in a number of oil exporting countries and the increased sanctions pressure.

Against the backdrop of OPEC measures, Brent’s oil price was maintained above USD 70 per barrel for most of the year, surpassing USD 84 per barrel at the beginning of Q4. The peak values were reached in October 4 at USD 84.84. The incoming oil quotes for 2018 fluctuated around US$ 66 per barrel, while the minimums were recorded at the USD 51.14 level in December.

In 2018, oil oversupply on the world market was partially eliminated due to the collective efforts of the countries participating in OPEC+ on production restriction. However, a sharp surge in the oil price caused a stimulation of production and led to compensation of the price to the October 2017 level.

The most significant periods of growth in oil prices were Q3 and Q4 2018. The sharp and immediate leap in the oil price by USD 2 occurred in late August in less than a day, when the price of Brent brand increased to USD 72 per barrel and by October surpassed US$ 80 per barrel.

Q4 2018 was characterized by conservative forecasts based on expectations of over-production of liquid hydrocarbons:
Oil price dynamics by years

<table>
<thead>
<tr>
<th>Name</th>
<th>2016</th>
<th>2017</th>
<th>Q1 2018</th>
<th>QII 2018</th>
<th>QIII 2018</th>
<th>QIV 2018</th>
<th>2018</th>
<th>+ / -</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brent (DTD), USD/barr.</td>
<td>43.7</td>
<td>54.2</td>
<td>66.8</td>
<td>74.4</td>
<td>75.2</td>
<td>68.8</td>
<td>71.3</td>
<td>+171</td>
<td>+32</td>
</tr>
<tr>
<td>Urals (Rdam), USD/barr.</td>
<td>41.9</td>
<td>52.9</td>
<td>65.3</td>
<td>72.2</td>
<td>74.0</td>
<td>68.0</td>
<td>69.9</td>
<td>+170</td>
<td>+32</td>
</tr>
<tr>
<td>Urals (MED), USD/barr.</td>
<td>42.5</td>
<td>53.3</td>
<td>65.2</td>
<td>72.8</td>
<td>74.3</td>
<td>68.5</td>
<td>70.2</td>
<td>+16.9</td>
<td>+32</td>
</tr>
<tr>
<td>USD rate, RUB</td>
<td>67.1</td>
<td>58.4</td>
<td>56.9</td>
<td>61.9</td>
<td>65.5</td>
<td>66.3</td>
<td>62.6</td>
<td>+4.3</td>
<td>+7</td>
</tr>
<tr>
<td>Price of Urals (Rdam), RUB/barr.</td>
<td>2,810</td>
<td>3,086</td>
<td>3,712</td>
<td>4,469</td>
<td>4,843</td>
<td>4,510</td>
<td>4,377</td>
<td>+1,290.8</td>
<td>+42</td>
</tr>
<tr>
<td>Price of Urals (MED), RUB/barr.</td>
<td>2,849</td>
<td>3,109</td>
<td>3,709</td>
<td>4,505</td>
<td>4,865</td>
<td>4,541</td>
<td>4,398</td>
<td>+1,288.7</td>
<td>+41</td>
</tr>
</tbody>
</table>

IN 2018, THE AVERAGE PRICE OF URALS OIL WAS AT US$ 70.2 PER BARREL, WHICH IS HIGHER THAN THE AVERAGE VALUE OF 2017 BY MORE THAN 32%. 2018 WAS MARKED BY A REDUCTION IN THE SENSITIVITY OF THE RUBLE EXCHANGE RATE TO OIL PRICE. THUS, AS THE WORLD PRICES GREW BY 32%, THE PRICE IN RUBLE EQUIVALENT SURGED BY MORE THAN 41%.

Oil price dynamics by ages with account of taxes and duties

<table>
<thead>
<tr>
<th>Name</th>
<th>2016</th>
<th>2017</th>
<th>Q1 2018</th>
<th>QII 2018</th>
<th>QIII 2018</th>
<th>QIV 2018</th>
<th>2018</th>
<th>+ / -</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urals (MED), USD/barr.</td>
<td>42.5</td>
<td>53.3</td>
<td>65.2</td>
<td>72.8</td>
<td>74.3</td>
<td>68.5</td>
<td>70.2</td>
<td>+16.9</td>
<td>+32</td>
</tr>
<tr>
<td>USD rate, RUB</td>
<td>67.1</td>
<td>58.4</td>
<td>56.9</td>
<td>61.9</td>
<td>65.5</td>
<td>66.3</td>
<td>62.6</td>
<td>+4.3</td>
<td>+7</td>
</tr>
<tr>
<td>Export tariff, USD/t</td>
<td>82.8</td>
<td>115.9</td>
<td>152.5</td>
<td>175.7</td>
<td>180.4</td>
<td>162.6</td>
<td>167.8</td>
<td>+52.0</td>
<td>+45</td>
</tr>
<tr>
<td>Mineral Extraction Tax, RUB/t</td>
<td>6,052</td>
<td>8,171</td>
<td>10,413</td>
<td>12,950</td>
<td>14,030</td>
<td>12,845</td>
<td>12,534</td>
<td>+4,363</td>
<td>+53</td>
</tr>
<tr>
<td>Price free of tariffs and taxes, RUB/t</td>
<td>8,995</td>
<td>7,544</td>
<td>7,730</td>
<td>8,745</td>
<td>9,334</td>
<td>9,210</td>
<td>8,750</td>
<td>1,206</td>
<td>16</td>
</tr>
</tbody>
</table>

Russian assets should be noted separately, as the existing tax environment in the Russian Federation in conjunction with the actual pair “oil price - dollar rate” partially mitigated the growth in the average cost of a ton of Urals oil net of taxes.

Despite the substantial world price, the ruble price net of taxes increased by only 16% due to the absence of the price-change compensation effect owing to changes in the exchange rate. At the same time, the tax burden per 1 ton of oil increased by 50% compared to 2017.
The dynamics of the oil-products market in the Mediterranean region where the assets of the Zarubezhneft JSC oil-refining segment operate allowed to maintain a high level of assets operating efficiency until the fourth quarter.

At the same time, continuation of positive spread growth for light oil products was partially mitigated by an increase in negative spread on dark oil products in the third and the fourth quarter. It is also worth noting that the refinery margin in the region of Zarubezhneft JSC’s presence remains at one of the lowest levels compared to other regions. Hence, the disruption from the North American market, which decreased in the first quarter of 2018, had grown again to the 2017 level by the end of the year.

In general, the 2018 results demonstrate the effective use of rapidly-changing macroeconomic conditions by the Zarubezhneft Group of Companies to maximize its financial results.
Development strategy

IN 2018, THE COMPANY LAUNCHED THE ZARUBEZHNEFT JSC 2030 CORPORATE DEVELOPMENT STRATEGY STAGE II, ALSO KNOWN AS READINESS FOR GROWTH AND FIRST SUCCESS.

The Board of Directors approved the Zarubezhneft JSC 2030 Corporate Development Strategy Stage II in 2014 (Record No. 85 dated June 26, 2014). The Strategy requires the Company to focus on the Upstream segment. However, in this segment, Zarubezhneft JSC is focused on those oil fields where the Company can enhance the existing competencies, such as oil fields with unbalanced development system and fields with complex reservoirs similar to those developed in the Company’s regions of presence.

Three stages of implementation of the Zarubezhneft JSC Corporate Development Strategy

- **Stage I**
  - **2014—2016**
  - Preparation for the Growth
    - Active work on the functioning assets
    - Developing competence and improving efficiency of all organizational processes

- **Stage II**
  - **2017—2020**
  - Growth Ready and First Successes
    - Team for business development is established
    - New 3—5 assets are developed within the acquired competence

- **Stage III**
  - **2020—2030**
  - Rapid Growth
    - Entering 5 or more new projects
    - Achieving the level of extraction of 15 MM tons by 2030
Key performance results for 2018

COMPETENCY DEVELOPMENT AND IMPROVEMENT OF THE EXISTING ASSET PERFORMANCE

Stage II implementation of the Zarubezhneft JSC Corporate Development Strategy includes Upstream Segment Development as one of the priority tasks.

To achieve the target production profile, measures are being provided to develop the key process competencies and introduce the best engineering solutions in the following areas:

- Exploration operations – resource base expansion;
- Increase in the oil recovery factor;
- Search and application of new infrastructure solutions to cut capital and operating expenditures and reduce the commissioning terms.

Resource base expansion

The Company is using the following approaches to the organization of work on expanding the resource base:

- Integration of all available geological data. Detailed numerical regional / basin modeling, searching for unconventional traps.
- Development of technologies for improving the quality of the fieldwork and interpretation of seismic data.

An example of the successful application of the first approach is the discovery in 2018 of gas deposits at the EF Block 12/11 structure on a Vietnam shelf using a EF-1X well. The set of measures taken to increase the oil recovery factor have shifted the oil production trend in the Company to the positive side.

Another example of the transition to a new stage of a sharp increase in the information value of seismic data is experience in using longitudinal and transverse waves obtained using bottom recorders (3D/4C method) for forecasting the lithological composition of formation and fluid saturation of reservoirs. This allowed for allocation of additional 23 perspective areas at Block 09-1 developed over decades for setting up prospecting and exploratory drilling within the submerged and slope sites previously considered unpromising. At the same time, the total geological oil resources of new facilities are estimated at 181 million tons, incl. 18 million tons with a low geological risk and 106 million tons with an average risk.

The 3D/4C seismic investigation interpretation results have already been used in planning a geological exploration program for the following periods.

Increased Oil Recovery Factor (ORF)

The Company is successfully implementing technologies for increasing its oil recovery factor:

- use of technologies aimed at involving previously non-drained reservoirs (sweep ration) in exploitation;
- use of technologies aimed at increasing the efficiency of displacement from hydrophobic collectors (displ. ratio);
- selection of technologies for effective involvement of previously non-profitable reservoirs in exploitation.

In the reporting year, Russian participants managed to initiate a program for using hydraulic fracturing at JV “Vietsovpetro” fields. Between July and September of 2018, 8 well operations were implemented. The wells where the HFF operation was carried out demonstrated significant gains in oil production (a 4.7 increase post hydraulic fracturing). In addition, the polymer composition injection program was further developed to increase the sweep ratio at the Kharyaga Field in 2018. Implementation of Stage I in 2017 and Stage II in 2018 allowed the Company to achieve a total additional production with respect to the project of about 100,000 tons of oil. The technology allowed to venture into the development of poorly-drained zones, a reduction in the products’ water cut, as well as a higher sweep ratio.
Application of new infrastructure solutions
In 2018, as part of the Innovative Development Program approved by the Company’s Board of Directors, a number of projects were implemented for the creation and implementation of pilot-scale testing (PST) of new field infrastructure development technologies.

In 2016-2017, as part of an innovative project, the Company developed its own proprietary design documentation and fabricated an engineering prototype of a preliminary water discharge unit (NESTRO-KSI).

Basic technical solutions were developed taking into account the possibility of rapid redeployment to other facilities by road, rail and sea transport and direct location at remote fields in the absence of infrastructure facilities (exploration/single wells). In 2018, LLC ZARUBEZHNEFT-Dobycha Samara carried out a pilot test of a mobile plant (NESTRO-KSI). The test results revealed the plant’s efficiency; the capital expenditures for creating the plant are on average two times lower than those of a similar capital object. The NESTRO-KSI Plant may be commissioned on average four times faster than a similar capital construction project (6 and 24 months, respectively).
An innovative project for creating an oil-fueled power plant using all types of Russian-sourced oil was initiated in connection with the significant expenditures for purchasing diesel fuel for electricity generation at LLC “JC “RUSVIETPETRO” fields and difficulties in its delivery. The project is aimed at using Russian-sourced equipment (internal combustion engines of PJSC Kolomensky Zavod) for oil up to Class 3 inclusive (high viscosity and sulfur content) and increasing the operating life of energy-converting machines. The existing energy-converting machines, both foreign made and those produced by PJSC Kolomensky Zavod, require a high degree of oil treatment and are designed to work on light and low-sulfur class 1 oil. Implementation of the innovation project in 2017-2018 involved research, development and testing & engineering work on refining units of the power plant equipment operated using Class 3 oil, elaboration of design documentation, adaptation of the power plant to the oil industry norms and rules and carrying out pilot testing at LLC “JC “RUSVIETPETRO”. A diesel and oil power plant was developed and delivered to the Company’s field. The power plant underwent a PST (pilot-scale test) for diesel fuel operation and was transformed into an oil-fired power plant to carry out oil-fired PST and to further test upgraded equipment and components as part of research and development. The power plant’s operating time amounted to more than 5,460 hours, its diesel fuel saving was 1,146 tons, and the economic effect exceeded RUB 43.2 million. In 2018, the Company implemented a technological development project to develop a concept for exploiting marginal areas of offshore fields. The project considered a number of technical solutions and technologies aimed at improving the efficiency of marginal offshore fields (automated machining, delivering personnel without using helicopters, optimization of drilling, integrated approach to connecting new facilities to the existing infrastructure, arrangement of two adjacent areas from one platform, etc.) Comprehensive application of these solutions in some cases leads to an increase in NPV projects by more than 2 times compared to traditional approaches.
ENTRY INTO NEW PROJECTS

The Zarubezhneft JSC Corporate Development Strategy sets venturing into new oil projects as the basis for the Company’s future growth. The company is constantly working on expanding its assets portfolio and searching for new assets abroad.

Zarubezhneft JSC is using the following main principles to expand the geography of its activities:
- applying privately-developed technologies and competencies;
- building partnerships, primarily with state-owned oil and gas companies.

The Company’s is concentrating its focus on the search for new assets in its regions of strategic interests and the countries where Zarubezhneft JSC is traditionally present, primarily Vietnam. An agreement stipulating the key terms and conditions for the transfer of a share in the Block 09-2/09 PSA was signed in August 2018 that resulted in the distribution of shares as follows: PVEP – 30%, Zarubezhneft JSC – 30%, JV “Vietsovpetro” – 40%. The project operator is JV “Vietsovpetro”.

Another region where Zarubezhneft JSC can search for new projects is South America. The Company’s strategic interest is focused on establishing contacts with oil and gas companies in Ecuador and Argentina. In the reporting year, direct negotiations on a number of projects as part of the contacts established between Zarubezhneft JSC and the Ministry of Hydrocarbons of Ecuador, as well as negotiations with representatives of the Federal Energy Department of Argentina and the regional Rio Negro Province Energy Department were held.

To promote business development in the Middle East and North Africa, in 2018, the Company focused its activities on the Egyptian and Iraqi markets.

Although Iraq has historically been the Company’s country of strategic presence, this was suspended after the US invasion of Iraq in 2003. However, since 2012, Zarubezhneft JSC has gradually been restoring its position in this country.
In terms of new assets in the Russian Federation and the CIS, Zarubezhneft JSC has also been actively assessing new facilities. The Company is focused on the fields and license areas in the Timan-Pechora basin, the Khanty-Mansiysk and Yamalo-Nenets autonomous districts, the Volga-Ural region, as well as the Republic of Kazakhstan.

**COMPLETION OF COMPETENT PERSONNEL TRAINING PROGRAM, KEY PROCESS STANDARDIZATION**

In preparing to enter new projects, the Company has created a personnel training and development system specifically for new projects that includes:

- oil engineering corporate school, where more than 700 man-training courses were conducted in 17 production courses;
- project management corporate school, where 18 specialists receive tuition;
- Corporate Leadership School, where more than 290 man-training courses were held in three main programs: “Modern Management Practices”, “Management Potential Development”, “Effective Leader”;
- a rotation system, in which 62 internal rotations of Group of Companies’ key staff were carried out;
- the Netrolead Program, in which 756 employees of the Group of Companies expressed their willingness to develop and participate in new projects.

To ensure the efficient and comfortable work of its employees, Company has created a new space for creative work and knowledge sharing in the Zarubezhneft JSC office. Called KNOWLEDGE TERRITORY, this platform provides residents with additional opportunities to learn, work for personal and team development, as well as share experience and best practices; all this using modern IT solutions in a comfortable and creative environment.

One of the key tasks of Stage II of the Company’s Corporate Development Strategy in terms of organizational development for planned inorganic growth in the number of assets is transition to the STRATEGIC CONTROLLER management model. This is a model of management in which the Corporate Center is transformed into a strategic system and a methodological controller of subsidiaries, ensuring the creation of a unified methodological base and uniform rules of handling key processes in the corporate center and its subsidiaries.

To implement this task, the Company has introduced and is effectively running a system of business processes.

In 2018, the improvement project called "Implementation of the Organizational Framework and the Updated Regulatory System" was completed successfully. Under it:

- the principles and matrix of functionality distribution between the Corporate Center and its subsidiaries was developed;
- the standard for a new business process called "Corporate Subsidiary Management" was approved, including the Corporate Management Matrix and the Business Processes Decision-making Matrix;
- The Specific organizational framework for business processes was developed – a set of standard requirements for enterprises of the Group of Companies;
- a single database of existing internal regulatory documents (about 500 internal regulatory documents) was formed;
- an institute of expert methodologists was established, 51 expert methodologists were allocated to 66 business processes

**DEVELOPMENT OF THE “SERVICE AND OTHER ASSETS” SEGMENT – SYNERGY WITH UPSTREAM SEGMENT**

Top-priority service-unit development areas include maximum synergy with the Company’s key segment – Upstream.

Professional research and design support for the Company’s production assets is ensured based on JSC VNImeft and Giprovostokneft JSC corporate industry-specific institutes:

**Giprovostokneft JSC:**
- Corporate requirements in general engineering (conceptual design and field facilities engineering) were 100% covered.
- Drilling engineering and conceptual completion competency centers were established.

**RMNTK Nefteotdacha JSC:**
- A qualified in-house contractor providing a full range of oil services was established;
- New business areas were developed: supervising and drilling and oilfield service management.

**Zarubezhneftestroymontazh LLC:**
- An in-house capital construction competences center was established.

The approach used for full-scale corporate service involvement in the Company’s foreign projects allows minimizing expenditures and ensures compliance with the work-quality and performance-deadline requirements.

The Zarubezhneft JSC Long-term Development Program (hereinafter – LDP) was approved by the Board of Directors of Zarubezhneft JSC on November 20, 2014 (Minutes No 91).

The LDP was approved by the following supervisory bodies:
- Strategic Planning Committee under the Zarubezhneft JSC Board of Directors, Minutes No 1 dated September 19, 2014.
- Federal State Property Management state property management agency (Rosimuschestvo), Letter No 05/43392 dated October 10, 2014.

To evaluate the Company’s assets under the LDP comprehensively, three main development scenarios for the existing entities with an outlook until 2030 and two prospective development options were contemplated: geologic exploration projects in which Zarubezhneft JSC participates directly or indirectly, as well as potentially attractive major investment projects.

A priority goal for the Company’s future development includes intensive development of current production assets (especially LLC “JC “RUSVIETPETRO” and JV “Vietsovpetro”) and active search for and entry into prospective major oil and gas-production investment projects.

The potential regions in which the Company has accumulated significant experience in project implementation, particularly Vietnam, the Russian Federation and the Middle East, are of top priority for consideration. The significant accumulated experience in increasing the current value using the current assets’ resource base incrementing and improving its development efficiency by increasing the oil recovery factor for the fractured basement deposits as well as active engagement of terrigenous block structures of low thickness into development allow outlining the advantages of the available competencies of the Company.

To improve performance in the major Upstream segment, Zarubezhneft JSC is making target-oriented efforts in several key areas:
- Maximization of synergy of the Group of Companies’ current projects with the new projects.
- Competency development for efficient development of complex reservoirs by expansion of the Company’s, VNIIneft JSC and Giprovostokneft JSC scientific assets.
- Development of full-range service package for fields at any development stage by establishing...
full-scale construction and drilling contractors on the service segment basis. Zarubezhneftestromontazh LLC continued its work as a full-scale construction contractor for the Group with expansion of its own capacities. RMNTK Nefteotdacha JSC launched the projects for sidetracking service development and further replacement of third-party contractors for performance of work and supervising at LLC JC RUSVIETPETRO remote fields.

ZARUBEZHNEFT JSC LONG-TERM DEVELOPMENT PROGRAM AUDIT

In furtherance of guidelines of the Government of the Russian Federation dated July 17, 2014, No 4955н-П13, two audits of the Long-term Development Program by different independent auditors were carried out since 2014:

- In 2015 by “Finance and Tax Audit” LLC, being a division of the WiseAdvise group of companies, that has confirmed the achievement of the Long-term Development Program’s goals for 2014, as stated in the report “Zarubezhneft JSC Long-term Development Program Audit Results” dated July 1, 2015.

- Results of the 2014 LDP Audit were submitted for consideration by the Strategic Planning Committee of the Zarubezhneft JSC Board of Directors (Minutes No 7 dated September 21, 2015) and also sent to the Ministry of Energy of the Russian Federation on October 5, 2015.

- In 2016, Nexia Pacioli LLC confirmed the accuracy of the values of the actual Zarubezhneft JSC Group of Companies performance indicators for 2015 under results of its audit and as per the report on the results of consultation services’ provision in the framework of the Zarubezhneft JSC Long-term Development Program Implementation Audit for 2016 dated April 15, 2017. The data of the financial and economic model of the Long-term Development Program are confirmed by financial statements of Zarubezhneft Group of Companies and audited consolidated financial statements of Zarubezhneft Group of Companies and comply with the initial data for calculation of actual target KPIs of Zarubezhneft JSC for 2016. The target nature of funds’ application in the framework of the approved investment budgets as per the scheduled “Development Projects” events is confirmed.

- Following the 2016 audit, several Appendices to the Long-term Development Program were reviewed and updated in terms of the Group’s activities in innovation, labor productivity increase, operating expenditure optimization and import substitution areas and the Group’s readiness for privatization.

To comply with the global trends of digital transformation and for the purpose of further optimization of activities of the Group of Companies assets the development of the digitalization strategy, provisions and tasks of which are determined in the Appendix No. 13 to the Long-term Development Program approved by the Minutes of Meeting of the Zarubezhneft JSC Board of Directors No. 163 dated January 28, 2019, has commenced. The application of these scenarios makes it possible to develop each of the above mentioned assets with a maximum possible performance.
System of key performance indicators of Zarubezhneft Group of companies

The system of Key Performance Indicators (KPI) of Zarubezhneft JSC is intended to motivate the management of the company and subsidiaries to fulfill the tasks set by the State as a 100% shareholder of the company, Zarubezhneft JSC strategy key indicators, long-term development program, Zarubezhneft JSC business-plan indicators, ongoing Zarubezhneft JSC investment projects.

Company’s KPI system consists of three main groups:

**CORPORATE**
(financial and industry indicators)
- The main indicators of the Company’s activities are approved and controlled by the Board of Directors and the Audit Committee at the Board of Directors.
- These KPI are included in the charts of the General Director, heads of departments, are decomposed in the KPIs of the general directors of subsidiaries.

**FUNCTIONAL**
(operational indicators by business activities)
- Indicators of functional activities are established for the deputies General Director, heads of departments and general directors of subsidiaries in accordance with the authority and responsibility matrix.
- Are approved and controlled by the General Director.

**PROJECT**
(strategic initiatives by business activities)
- Indicators of performance of TOP-business initiatives and project tasks are established for the deputies General Director, heads of departments and general directors of the subsidiaries.
- Are approved and controlled by the General Director.

Main tasks of the KPI system:
- Monitoring and control over implementation of the Company’s Corporate strategy.
- Assessment of the achievement of strategic tasks.
- Aligning the employees towards achievement of the Group of Companies’ priority tasks.
- Establishment of a tool contributing to the improvement of efficiency of the taken managerial decisions.
Internal regulatory documents regulating the KPI system at Zarubezhneft JSC:
- The Policy Statement on key performance indicators of Zarubezhneft JSC approved by the decision of the Board of Directors dated November 25, 2016, Minutes No. 131;
- KPI passports of Zarubezhneft JSC were approved by the decision of the Board of Directors dated November 25, 2016, Minutes No. 131 (the passport of innovation activities integral KPI was approved on August 21, 2017, Minutes No. 141).

External control of corporate KPIs implementation is carried out through the following documents:
- Directives of the Government of the Russian Federation No. 2579p-P13 – Concerning Approval of Key Performance Indicators of Companies’ Activities dated April 25, 2014 (taking into account the accompanying guidelines on the use of KPIs);
The KPI system indicators are synchronized with the KPI of the Long-term Development Program.

In 2018, the following activities were carried out in terms of functioning and improvement of the KPI system:
- as per the Guidelines for the application of key performance indicators by State Companies, the Board of Directors approved the Report on the Achievement of Corporate KPI Target Values for 2017 (Minutes of the Board of Directors No. 154 dated May 29, 2018), and the corporate KPIs values for 2019 were updated (Minutes of the Board Directors No. 162 dated December 20, 2018);
- the Board of Directors of Zarubezhneft JSC reviewed the interim results of KPI performance for the first quarter of 2018 (Minutes of the Board of Directors No. 155 dated May 30, 2018), a report on the achievement of corporate KPIs as per end-of-year forecasts taking into account the actual value for the first half of 2018 (Minutes No. 158 of September 26, 2018), as well as a report on achieving corporate KPIs according to the forecast by the end of the year, taking into account the actual value for 9 months of 2018 (Minutes No. 160 of November 20, 2018);
- as per the Policy Statement and Regulations on the KPI system of Zarubezhneft JSC, semi-annual and annual protection was held by the Director-General for KPIs management implementation of Zarubezhneft JSC (Deputy General directors, heads of departments), general directors of subsidiaries;
- The KPI system has been decomposed to the level of deputy general directors of subsidiaries, a production contract has been developed (a single set of indicators for subsidiary top managers).

Therefore, the KPI system of the Company covers all key management levels of the group of companies in 2018:
- Corporate center management (deputies general director and heads of departments) – 38 persons;
- General directors of Subsidiaries – 14 persons;
- Deputies general director of Subsidiaries – 71 persons.

In terms of “Consolidated revenue” indicator, the actual value amounted to RUB 98,347 million, which corresponds to a KPI of 106.7%. The indicator is generated based on consolidated financial statements as per IFRS, while excluding income from JV “Vietsovpetro”, which is recognized in the financial statements as per IFRS, and including income from participation in JV “Vietsovpetro”, which is recognized in Company’s financial statements as per RAS. Since 2018, “Consolidated revenue” indicator has included the export tax in the amount of RUB 655.1 million due to a change in the presentation of items of the consolidated report on profit and loss as per IFRS.

In terms of EBITDA, the actual value was RUB 35,697 million, which corresponds to KPI performance of 120%. The operating efficiency of Zarubezhneft Group of Companies is traditionally ensured by positive results in “Geologic Exploration and Production” segment, which is mainly due to the performance of LLC “JC “RUSVIETPETRO” and JV “Vietsovpetro” in the reporting year.
As per Zarubezhneft JSC Dividend Policy approved by the Board of Directors (Minutes No. 134 dated February 16, 2017), the planned dividends are equal to 25% of the highest of two values: net profit per RAS adjusted to reflect income/expenses from revaluation of subsidiaries’ securities and the associated income tax, and net profit per IFRS. The actual Dividends indicator in 2018 was equal to 4469 MM RUB. The indicator was achieved. The dividends due to the Russian Federation on the shares owned by the Russian Federation were paid on August 10, 2018, as per Order No. 499-p of the Federal Property Management Agency dated June 30, 2018 – Concerning Resolutions of the Zarubezhneft JSC Annual General Shareholders’ Meeting.

The actual value of “Return on Equity Capital” indicator amounted to 8.5% with the target level of 5.0%. The net profit of Zarubezhneft Group of Companies increased by 29.6% and amounted to RUB 11.6 billion in 2018.

The Labor Capacity indicator is estimated as the revenue of Zarubezhneft JSC according to RAS, calculated in conditions comparable to 2017 and correlated with the number of man-hours worked by the Company’s employees. In 2018, the figure was RUB 63.0 thousand/man-hour with the established target value of RUB 48.6 thousand /man-hour.

The indicator growth rate to the level of the previous year made 111%, thus, the target growth rate of 108.2% was fulfilled, fixed in the action plan on ensuring the increased productivity, creation and modernization of high-performance workplaces approved by Decree of the Government of the Russian Federation No. 1250-r dated July 9, 2014.

### Achievement of target KPI values in 2018:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>UOM</th>
<th>Indicator weight</th>
<th>2018 actual</th>
<th>performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated revenue</td>
<td>RUB mln</td>
<td>5%</td>
<td>98,347</td>
<td>106.7%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>RUB mln</td>
<td>5%</td>
<td>35,697</td>
<td>120.0%</td>
</tr>
<tr>
<td>Amount of dividends</td>
<td>RUB mln</td>
<td>20%</td>
<td>4,469</td>
<td>100.0%</td>
</tr>
<tr>
<td>Return on equity capital</td>
<td>%</td>
<td>10%</td>
<td>8.5%</td>
<td>120.0%</td>
</tr>
<tr>
<td>Labor capacity</td>
<td>thousand RUB/people per hour</td>
<td>10%</td>
<td>63.0</td>
<td>120.0%</td>
</tr>
<tr>
<td>Operating expenditure (cost) reduction</td>
<td>%</td>
<td>10%</td>
<td>3.1%</td>
<td>120.0%</td>
</tr>
<tr>
<td>Gross production volume</td>
<td>RUB toe</td>
<td>15%</td>
<td>5,149</td>
<td>107.5%</td>
</tr>
<tr>
<td>Amount of reserves</td>
<td>RUB toe</td>
<td>15%</td>
<td>100,193</td>
<td>120.0%</td>
</tr>
<tr>
<td>Integral KPI for innovations</td>
<td>%</td>
<td>10%</td>
<td>100%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Performance on corporate KPI:</td>
<td></td>
<td></td>
<td></td>
<td>111.5%</td>
</tr>
<tr>
<td>Non-Exceedance of Net Debt/EBITDA Limit</td>
<td>–</td>
<td>bonus reduction indicator</td>
<td>0.6</td>
<td>Bonus reduction indicators achieved</td>
</tr>
<tr>
<td>Achievement of revenue target</td>
<td>–</td>
<td>bonus reduction indicator</td>
<td>103%</td>
<td>Bonus reduction ratio is 1</td>
</tr>
<tr>
<td>Total performance:</td>
<td></td>
<td></td>
<td></td>
<td>111.5%</td>
</tr>
</tbody>
</table>
Operating expenditure reduction was approved with the target value of -2% (Directives No. 2303п-П13 dated April 16, 2015). As per the Cost Efficiency Improvement and Optimization Report for 2017, the actual Operating Expenditure Reduction value by the end of 2018 was equal to 3.1% (Minutes of the Meeting of Zarubezhneft JSC Board of Directors No. 164 dated February 26, 2019) and exceeded the value established by the Directive of the Government of the Russian Federation:

The gross hydrocarbon production of Zarubezhneft Group of Companies as actually accrued in 2018 amounted to 5,149 thousand tons of oil equivalent with a target value of 5,054 thousand tons of oil equivalent. The growth of the actual value is provided by an increase in production of LLC "RUSVIETPETRO", Kharyaga PSA, Blocks 04-3 and 09-3.

As a result of effective geological exploration, the actual amount of reserves by the end of the reporting period amounted to 100,193 thousand tons of oil equivalent with a target value of 92,147 thousand tons of oil equivalent. The increase in reserves was obtained as a result of the prospecting and exploratory drilling by JV "Vietsovpetro" and the reassessment of hydrocarbon reserves in the fields of Block 09-1.

For actual calculation of integral KPI for innovations, a 100% limit was established for each indicator component. As per with the Innovation Integral KPI Passport (approved by the Resolution of Zarubezhneft JSC Board of Directors, Minutes No. 141 dated August 21, 2017), when the threshold value (90%) is reached, the indicator is considered to be achieved. In view of the foregoing, the indicator achievement was recorded at 100% level.

The bonus reduction includes 2 indicators – Non-Exceedance of NetDebt/EBITDA Limit and Revenue Target Achievement. Both indicators are fulfilled and the bonus reduction factor is equal to 1. The NetDebt/EBITDA indicator in the reporting year is equal to 0.6, which is due to the decrease of the debt burden and the efficient management of the Group's liquidity.

0.6

WAS THE VALUE OF NETDEBT/EBITDA INDICATOR under results of 2018 which is due to the decrease of debt burden and efficient planning of the Zarubezhneft Group of Companies' liquidity.
Investment portfolio management system

IN 2018, THE FORMATION OF THE INVESTMENT PLANNING SYSTEM WAS MAINLY FOCUSED ON BENCHMARKING AND IDENTIFYING FURTHER AREAS OF DEVELOPMENT. STRESS TESTING OF THE INVESTMENT MANAGEMENT SYSTEM ALLOWED TO IDENTIFY SUCH AREAS OF IMPROVEMENT AS MANAGEMENT OF TARGETED PROGRAMS AND STRENGTHENING OF CONTROL OVER OIL AND GAS EXPLORATION PROJECTS.

A separate area of development of the process is optimization of reporting, particularly of investment activities aimed at finding a balance between information content, depth of analysis and ease of use. In 2018, vectors for further elaboration of the design expertise tooling were also identified, in part to separate the assessment of project elaboration and the quality of the projects in general.

Implementation of a comprehensive expert examination of projects:

The project appraisal is used as a basis for conducting a project-specific risk analysis and for defining project priorities in terms of their readiness for review by the Group’s Investment Committee.

All projects are additionally ranked in the general project reference system to identify the most attractive initiatives among similar projects in terms of each project’s economic performance and production capabilities.

The main tool for investment portfolio management during the elaboration and implementation of investment projects is project monitoring. Project monitoring is mainly aimed at obtaining accurate information on the results and prospects for the implementation of investment projects to make justified and timely management decisions. All projects approved by the Company’s Investment Committee are subject to monitoring.

The results of investment project monitoring as of December 31, 2018, show that the positive trend of the net present value in the current investment portfolio of the Company’s key activities is maintained.

NPV dynamics in the framework of the investment projects portfolio monitoring, MM RUB

<table>
<thead>
<tr>
<th>Estimate 2017</th>
<th>Estimate 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>191.4</td>
<td>193.7</td>
</tr>
</tbody>
</table>

1.2%
A mandatory requirement for maintaining the relevance of project information under investment project monitoring is the provision of an updated financial and economic model for the project. This process allows prompt responses to both changes in the macroeconomic environment of the company’s activities and risk realization in course of investment project management.

The existing investment decision-making system with its high requirements for elaboration of each separate project allows achieving the maximum possible accuracy of cost planning at each stage of implementation of the investment project.

Apart from the quarterly project monitoring, the Company carries out a routine monthly monitoring of the implementation of geological and technical measures (GTM) by analyzing the sustainability of the measures to changes in the macro-environment. Each such GTM is subject to express-evaluation as per the investment analysis principles. The measures provide for a mandatory determination of the minimum viable oil price for a zero economic outcome for each project and the initial screening of projects not capable of positive implementation under targeted macroeconomic conditions.

Combined application of the tools presented allows achieving maximum efficiency of the Company’s investment activities at each stage of the investment planning process.
Risk management system of Zarubezhneft Group of companies

Zarubezhneft JSC Group of Companies is aiming to boost its shareholder value to the maximum level, working on improving the efficiency of its activities by ensuring its sustainable development and enhancing its competitiveness in providing for the state’s interests. Zarubezhneft JSC pursues long-term objectives, carries out analyses of the current problems, threats and opportunities within all areas of activities and considers potential risks when making.

A unified approach to the risks management process has been developed and is constantly improved in Zarubezhneft GC, jointly with the unified tools and methods of risks analysis in forms the risks management system integrated with the management processes.

**Internal regulatory documents governing the risks management system’s operation:**
- Zarubezhneft Group of Companies’ risk management policy dated June 27, 2016 (approved by order of Board of Directors No 125);
- Standard for the Zarubezhneft Group of Companies risk management business process (order No 480) dated November 14, 2016;
- Major upstream project risk management standard (order No 208) dated May 30, 2016;
- Regulation of the Zarubezhneft JSC Corporate risk management committee (Order No 159 dated April 26, 2016).

**Company’s objectives in the field of risk management:**
- increasing the efficiency of management solutions by analyzing the intrinsic risks;
- ensuring the maximum effectiveness of risk management measures during the implementation of solutions adopted.

**The Company’s objectives in risk management are:**
- Cross-functional consideration of risk information in structural divisions of the Group of Companies and the joint development of risk management measures;
- Using systematic approach to the identification, analysis and assessment of risks specific for the activities of the Group of Companies;
- Building a risk management culture in the Group of Companies to achieve a common understanding of the basic principles and approaches to risk management between management and employees;
- Providing information to support decision-making at all levels of the Group of Companies management.

The risk management system of Zarubezhneft JSC Group of Companies provides a structured approach to assessing the opportunities and risks that allows for making informed management decisions and represents a set of processes, policies and procedures integrated into Zarubezhneft Group of Companies business processes, including business planning strategic processes carried out by the Board of Directors, management and employees at all management levels and aimed at achieving the goals of Zarubezhneft Group of Companies.

The responsibility for risk management and reporting is determined as per the linear and functional management system: for each risk assigned to an owner responsible for its management. In each Segment, as well as in all key business processes, risk coordinators are determined among managers who distribute and support the application of corporate risk management principles. The terms and tasks of risk analysis consider the features and requirements of each business process against which the risk management is carried out. Responsibility for the methodological support, development and maintenance of the risk management system is reserved to the Perspective and Organizational Development Office.

This approach allows forming areas of responsibility for risk management and monitoring the risks at all levels of the Company’s management, as well as ensuring the development of targeted plans of responding to significant risks both in each subsidiary and in Zarubezhneft JSC as a whole.
RISK COMMITTEE

Group of companies level risks
Supervisors: DGD for economics and finance, DGD for organizational development and corporate communications

The most significant segment risks
Supervisors: DGD supervising a segment (GRiD, NPiS, Services)

Risks of business development unit
Supervisors: DGD for business development

Detection method:
“top-bottom”, the management strategy is determined by the corporate center

Detection method:
“bottom-top” as part of business planning (risks are consolidated by assets)

Detection method:
“top-bottom and bottom-top”

Current assets risks
Gas exploration stage risks

RISK MANAGEMENT SYSTEM DEVELOPMENT
The risk management system is being improved as per the requirements of legislation, and international standards, taking into account the best practices of risk management.

The risk management system is being constantly developed and improved in Zarubezhneft Group of Companies. The work with the Group of companies’ key risks is being performed systematically. They are used for quantity assessment of the impact on the company’s key performance indicators, and the monitoring is carried out on quarterly basis by the Risks Committee chaired by the General Director.

RISK MANAGEMENT SYSTEM PERFORMANCE ASSESSMENT
As per the Guidelines on Internal Audit Arrangement in a Joint-Stock Company Partially Owned by the Russian Federation approved by Order No. 249 of the Federal Property Management Agency dated July 4, 2014, the Internal Audit Department performed assessment of risk management system performance for Zarubezhneft JSC GC. The check included assessment of CRMS maturity with criteria defined in the Letter of Bank of Russia – Concerning the Corporate Governance Code (No. 06-52/2463 dated April 10, 2014).

ACCEPTABLE RISK LEVEL
Zarubezhneft JSC defines the preferable risk level as an acceptable – maximum allowable risk level, which Zarubezhneft JSC and its subsidiaries shall pursue or maintain (as per the Zarubezhneft JSC Risk Management Policy approved by Resolution of Zarubezhneft JSC Board of Directors No. 125 dated May 27, 2016).

Zarubezhneft JSC establishes and documents the acceptable risk level and risk management requirements for financial and operating performance indicators.
### Description of the most significant risks specific for the activities of the Company and the response measures taken.

<table>
<thead>
<tr>
<th>Risk group</th>
<th>Risk name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production safety risks</td>
<td>Risks in the area of industrial safety (including with damage to the environment, human life and health).</td>
</tr>
</tbody>
</table>
| Description:                                   | Risks in the field of industrial safety are the most significant group due to legal requirements and the presence of a large number of hazardous production facilities. Include:  
• Accidents with employees and third parties;  
• Industrial accidents and disasters;  
• Non-compliance with legal requirements in the area of industrial safety;  
• Failure to comply with environmental safety legislative requirements. |
| Subsurface uncertainties                       | Insecurity of production volume with reserves.  
Failure to comply with the planned production volume based on current assets. |
| Description:                                   | Risks (uncertainties) associated with insufficient information about the geological structure of deposits, reserves, etc. |
| Risks of investment projects implementation    | Reducing the efficiency of oil and gas projects (new projects and oil and gas exploration projects).  
Overrun on the cost of arranging the infrastructure in capital construction.  
Noncompliance with reserves growth plan from entering new projects. |
| Description:                                   | All risks of the Company’s investment projects, including lack of infrastructure ensuring the year-round activities, lack of experience in implementing analogous projects in similar conditions, increasing the technological complexity of projects, a different vision statement for the project development strategy among participants, and so on. |
| Market risks                                    | Decrease of efficiency in Downstream segment. |
| Description:                                   | Risks associated with industrial competition in the region of presence (change in the structure of demand, market capacity, etc.) |
| License risks                                   | Failure to comply with license commitments. |
| Description:                                   | Risks of reclamation by state regulatory authorities due to the infringement of license terms (licenses for hydrocarbon exploration and production), to the extent of license revocation. |
| Logistical bottleneck                           | Infrastructure risk.  
Lack of opportunity of oil sales. |
<p>| Description:                                   | Breaks /disruptions in oil transportation due to infrastructure restrictions |</p>
<table>
<thead>
<tr>
<th>Risk group</th>
<th>Risk name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in macroeconomic parameters</td>
<td>Change in macroeconomic parameters: oil price, ruble/dollar rate.</td>
</tr>
<tr>
<td>Description:</td>
<td>Likelihood of changes in cross rates of major currencies and their negative impact on financial statements indicators and (or) cash flow.</td>
</tr>
<tr>
<td>Corporate fraud and corruption</td>
<td>Corporate fraud and corruption.</td>
</tr>
<tr>
<td>Description:</td>
<td>Involvement of the Company or employees in corruption activities, as well as non-compliance with the legislation of the Russian Federation and countries of presence entails the employment of legal sanctions and/or other corrective actions on the part of supervisory authorities, which will lead to significant financial losses and loss of the Company’s reputation.</td>
</tr>
<tr>
<td>Political risk</td>
<td>Political risk.</td>
</tr>
<tr>
<td>Description:</td>
<td>Zarubezhneft JSC activities are carried out in Asia-Pacific region countries, Eastern Europe, as well as in the territory of the Russian Federation.</td>
</tr>
<tr>
<td>Risks in the IT area</td>
<td>Risk of loss (leakage) of confidential data. Risk of failure, malfunction of information systems, software and IT equipment.</td>
</tr>
<tr>
<td>Description:</td>
<td>Risks associated with the operation of IT systems (primarily production and settlement systems), projects on their development, as well as the risk of the inability to purchase and use foreign software.</td>
</tr>
</tbody>
</table>

All risks were assessed, owners were appointed at the level of Deputy General Directors and responsible for activities, and the management strategy was defined. Developed preventive and reactive measures are taken into account in the production program of the Group of Companies.
Implementation of intra-corporate improvement projects

In 2013, Zarubezhneft JSC implemented the “Strategic Organizational Improvement Projects” program, which it has been running ever since.

The key objective of the Improvement Project System is implementation of project initiatives aimed at optimizing and improving the organizational structure and business processes of the Company (including automation), initiated with the aim of implementing the Corporate Strategy of Company’s development and increasing the efficiency of its activities.

The past 2 years have witnessed a trend in the increase of the number of projects aimed at improving the existing processes in the Company, such as automation, optimization, improvement, implementation of fundamentally new approaches, and best practices.

The draft changes support the Company’s key strategic focuses:

### Key strategic focuses

#### Development of technological competence
- the creation of “Technological framework”, the launch of the "Knowledge Management System", since 2018 - the portfolio of technological development Projects

#### Entering new projects
- re-engineering of “Search and valuation of new assets” process;
- creation of tools and approaches to improve the efficiency of interaction with foreign partners;
- a large package of initiatives is being implemented to provide new projects with competent personnel; a system of key personnel rotation has been implemented, Nestro Lead internal corporate competition was held, as part of which the employee pool has been formed for future project teams.

#### Development of processes and training of competent staff

As part of processes and systems development:
- a Production System has been introduced, which is the foundation of process management in subsidiary companies;
- re-engineering of the regulatory system was carried out, including the creation of an organizational framework, a single set of rules for all subsidiaries on key processes and control systems;
- key requirements for implementing the business processes are highlighted and structured into matrices for assessing business processes maturity; the level of business processes maturity has been developed and evaluated taking into account the quality of requirements regimentation, appraisal of their performance, KPI ambitiousness taking into account the benchmarking;
- company’s IT strategy was approved and have been implemented;
- the Territory of Knowledge project was implemented, which is a creative space for working, training and knowledge sharing.

In terms of competent staff training:
- the work with employee pool for key positions has been intensified;
- regular management practices have been developed for using by managers of CC and SC;
- an institute of expert methodologists was created and has been developing;
- corporate training has actively been developing in 3 corporate schools: oil engineering, project management, school of leadership and management capacity development.

At all stages of draft change life cycle:
- the system of monthly monitoring and reporting of draft changes has been implemented;
- expert support of projects was organized, including with the involvement of experts from subsidiary companies;
- surveys/feedback have been conducted for judgmental estimate and results confirmation.

An important factor in the implementation of projects in the Company and initiation of new projects is the control and support from the top management of Zarubezhneft JSC. Since the beginning of the implementation of “Strategic Organizational Improvement Projects” Program, 94 projects have been initiated (incl. 10 technology development projects), of which:
- 63 draft changes were completed (incl. 4 technological development projects);
- 31 draft changes are underway

In 2018, a new project type was identified in the Zarubezhneft JSC project portfolio called Technological Development Projects – initiatives aimed at achieving technological efficiency in production processes.
Key innovations in 2018

Initiation of technological development projects in the production unit

- In 2018, the Improvement Project System was re-engineered; the perimeter of projects was expanded, the projects of technological unit changes were included - Technological Development Projects (TDPs);
- 10 Projects of Upstream technological development were initiated in 2018, of which 5 were successfully completed.

Expansion of lean production perimeter to SC processes

- Mini-projects on Husbandry were started in Subsidiary Companies with implementation within 4-6 months:
  - LLC “JC “RUSVIETPETRO” - 17 projects
  - Zarubezhneft-Dobycha Kharyaga LLC - 15 projects
  - ZARUBEZHNEFT-Dobycha Samara LLC - 5 projects
  - RMNTK Nefteotdacha JSC – 3 projects

Active involvement of subsidiaries in implementation of current changes projects

- To maximize the involvement of the examination by Company’s specialists SCs representatives were included in the project teams of 18 improvement projects.

Key technology development projects and results of 2018

Increase in the resource base of block 09-1 (JV “VSP”) based on 3d4c new drilling and seismic survey data

Main project objectives:
identification of new objects for prospecting and exploratory drilling and appraisal drilling and increase in hydrocarbon reserves

Achievements / effect:
- prepared a concept for increasing the resource base of Block 09-1;
- according to 3D4C seismic exploration materials within Block 09-1, specialists of VNIIneft JSC together with CC prepared 23 facilities, both for the development of existing reservoirs, and for individual objects with P50 total resources along the terrigenous section part and along the foundation 173.5 million tons.
- ranking in terms of resources volume and geological success was performed.

“Well workover” information target telemetry program (TMWWO)

Main project objectives:
- improving the development, maintenance and well work management efficiency;
- the achievement of the productive time coefficient by WSWO teams in 2018 is at least 0.9.

Achievements / effect:
- a centralized system of accounting, control and management of PMCWD (production maintenance and capital workover department) operations;
- reduced labor intensity and time of work on the assembly, processing and analysis of data during PMCWD;
- improved quality and speed of reporting;
- the unified referenced data database (RD) was created for the entire information space;
- the unified database was created for all information on PMCWD work performed.

Developing a concept for involving the marginal plots of block 09-1 into development

Main project objectives:
- selection of efficient technologies and solutions for profitable development of marginal reserves of Block 09-1;
- development of Zarubezhneft JSC competencies in the field of processes and technology for the effective development of marginal offshore fields.

Achievements / effect:
- the project considers the most advanced technologies, possibilities and constraints of using these technologies and the degree of effectiveness of their influence on projects;
- an upside matrix has been developed, the technologies suitable for the marginal fields of Block 09-1;
- preliminary calculation was performed of the option of developing two sections 5 and 8 of Block 09-1 from one WHP, as a result, the NPV project is expected to increase by almost 3 times.
### Key organizational improvement projects and 2018 results

#### Formation and implementation of the corporate interaction process in Zarubezhneft JSC

**Main project objectives:**
to form and implement the process of organizing corporate interaction based on the PDCA principle: development of key principles, information tools and control tools (P), penetration into regular activities (D), monitoring and control (C), assessment of principles implementation (A).

**Achievements / effect:**
- 12 principles of corporate interaction in 4 areas have been developed;
- information tools have been developed;
- control and enforcement actions instruments have been developed;
- the plan for implementing the corporate interaction principles was developed and approved;
- the assessment of the effectiveness of corporate interaction principles implementation was carried out.

#### Development of the IT strategy of Zarubezhneft Group of Companies up to 2022

**Main project objectives:**
increasing the efficiency of Zarubezhneft GC information technology management by defining the target architecture of information systems, prioritized IT initiatives and the organizational IT model necessary for their implementation.

**Achievements / effect:**
- strategic priorities and target business structure in first priority areas (GiR, BEF, major construction, procurement) were determined;
- the selection of a contractor for the IT strategy development analyzing the adequacy of the proposed competencies in all areas of business and realistic work deadlines were summarized;
- there were surveys, formation of results on current situation analysis, assessment of existing risks, conclusions and recommendations on the diagnostics results;
- a study of applicable international and Russian practices on IT solutions was carried out;
- functional unit requirements (BEF, Upstream, other supporting functions) in the implementation and/or development of IT systems have been formed. An approach to prioritizing IT initiatives has been defined.
- the main provisions of the IT strategy have been formed, initiatives passports and integrated roadmap have been created;
- IT strategy details have been agreed with relevant departments.

#### Organization of the process of managing the risk of a change in crack spreads in oil refining

**Main project objectives:**
- creating a new business process for managing the risk of changing crack spreads in oil refining in Bosnia and Herzegovina;
- development of a mechanism and strategy of crack spread change risk management;
- minimization of potential tax risks associated with derivative financial instruments transactions.

**Achievements / effect:**
- strategy for managing calendar risk was optimized, risk minimization;
- implementation of a dynamic crack spread change risk management strategy allows increasing the positive financial result (back-testing);
- legal, accounting and tax aspects of the proposed strategies have been reviewed;
- a flexible quantification model for commodity risks has been developed.

#### Creating a knowledge management system at Zarubezhneft JSC

**Main project objectives:**
creation of an integrated system for sampling, accumulation and spread of knowledge in the field of the Company’s technological focus.

**Achievements / effect:**
- The knowledge management system corresponding to the best practices in this field was developed and put into operation.
- KMS (knowledge management system) provides a complete cycle of work with knowledge: preservation, accumulation and spread with the possibility of quick and convenient access to relevant information within the framework of technological focus through the intelligent search.
- KMS content passes an expertise for relevance and necessity. Built-in communication tools allow capturing the implicit knowledge of experts and employees and provide for production information exchange. Services for working with ideas are the tools for finding new technologies that are promising for implementation in production activities.
Energy efficiency

The 2018 Power Conservation and Energy Efficiency Improvement Program was developed in December 2017.\(^1\)

The following formation principles were applied in the development of the program:

- Implementation of “Lean production” policy based on introduction of measures with payoff period of 3-5 years;
- Development of measures intended to decrease specific energy costs per unit of production, oil containing fluid treatment and formation pressure maintenance in the Upstream segment, raw materials refining in the Downstream segment and decrease of annual power resources consumption in the segment of Service and other assets;
- Engagement of all personnel of enterprises in the process of power resources conservation;
- Engagement of secondary power resources and production waste (APG, spent oil waste etc.) in the production process.

This program is an extension of the Power conservation and Energy Efficiency Improvement Program successfully implemented in Zarubezhneft JSC Group of Companies for 2017. The main goal of developing and implementing a program for 2018 - is decreasing the self-cost of commercial products in production business-segments of the Group of companies and as a consequence - increase of competitive ability at domestic and world markets.

The program contemplates decrease of specific power resources costs for production of oil-containing fluid (OCF) volume in the oil producing subsidiaries of the Russian segment by 4% compared to the level of 2015. JV “Vietsovpetro” and oil refining enterprises of the foreign segment also participated in implementing the Zarubezhneft JSC Group of Companies’ program: Brod Refinery A.D. and Modriča Motor Oil A.D. The target milestones of the 2018 Energy Conservation Program include the development and integration of new measures (along with the operation of the measures integrated in 2015-2017) accounting for the peculiarities of the segmental activities division, the organizational structure and the specifics of the Zarubezhneft Group of Companies’ as a whole.

The energy resource saving activities and program measures introduced in all Zarubezhneft Group’s subsidiaries during the year under review made it possible to reduce specific energy consumption for floating oil production to the level of 2015 in the Upstream segment, to stabilize specific energy consumption for refining in the Downstream segment, and, thus, to increase energy saving indicators of each company separately and of the entire Group.

In 2018, eighty three measures were introduces, three measures were withdrawn from implementation due to production necessity (reconstruction of the building of the subsidiary company VNIneft JSC), one measure is currently ongoing.

Cumulative economic benefit from the energy saving program implemented in 2017 in Zarubezhneft Group of Companies was equal to 1,132 MM RUB or 36 168 MTOE, including:

- saving in the Russian segment was equal to 942.6 MM RUB (27 472 MTOE);
- JV “Vietsovpetro” – 99.1 MM RUB (4 815 MTOE);
- Brod Oil Refinery A.D. and Modriča Motor Oil Plant A.D. – 90.1 MM RUB (3 881 MTOE).

MAIN ENERGY SAVING MEASURES PERFORMED IN 2018

LLC “JC “RUSVIETPETRO”

- boiler-house shutdown and arrangement of heat supply from Energy Center 2 at the Central Production Facility during whole 2018;
- oil-fueled operation of the power station at the Oil Acceptance Station “Musyurshor”;
- construction of a low-pressure compressor station at the Central Production Facility “North-Khosedayu”;
- implementation of the program of generation equipment (gas-turbine plant, gas piston generator unit, diesel generator unit) capital repairs.

Zarubezhneft-Dobycha Kharyaga LLC

- power supply of well clusters at Kharyaga field from system to external power supply throughout 2018;
- optimization of technological furnaces operation;
- company energy audit with the development of a five-year energy efficiency retrofit.

JV “Vietsovpetro”

- installation and use of the fuel usage and power generation accounting system at the jack-up;
- vessels power supply from the electricity system while docked at a port.

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\(^1\) Order No 415 dated December 22, 2017.
Changes in specific energy consumption for oil-containing fluid production at Zarubezhneft oil production operations, tons of reference fuel / thous. m³ (Russian segment)

In the reporting year, reduction of specific energy consumption for oil-containing fluid production at the Russian segment oil production operations achieved 26.6% comparing with the level of 2015.

Actual energy consumption in 2015-2017 in tons of reference fuel, Service and Other Asset segment

Energy resources consumption indicators’ decrease of the Service and other assets segment’s companies was 2% compared to 2017.

36,168 TONS OF REFERENCE FUEL

economic effect from implementation of the Program for energy conservation in Zarubezhneft Group of Companies in 2018

Modriča Motor Oil Plant A.D.
- using the spent oil for heat production during the whole 2018;
- organization of the return of steam condensate and its accounting throughout the year of 2018;
- Insulation of 9 base oil tanks.

Brod Refinery A.D.
- cleaning and replacement of heat-exchange facilities;
- company energy audit with the development of a five-year energy efficiency retrofit.

In general, the activities carried out in 2018 contributed to the decrease of power consumption at the enterprises and further development of energy saving and improvement of Zarubezhneft Group of Companies’ energy efficiency.
Environment protection

THE HSE POLICY OF ZARUBEZHNEFT JSC DEFINES ECOLOGICAL WELL-BEING AS THE BASIS FOR ECONOMIC PROSPERITY OF THE COMPANY.

In 2018, a supervisory audit of CC Zarubezhneft JSC, LLC “JC “RUSVIETPETRO””, Zarubezhneft-Dobycha Kharyaga LLC was successfully conducted on confirmation of the Certification for compliance with international standards ISO 14001: 2015. The subsidiaries RMNTK Nefteotdacha JSC and Zarubezhnefttestroymontazh LLC were introduced into HSE Management System certification perimeter. A diagnostic audit of ZARUBEZHNEFT-Dobycha Samara LLC was conducted for the compliance with the requirements of international standards ISO 14001: 2015 for introduction into the certification perimeter in 2019.

In 2018, subsidiary companies of Zarubezhneft Group of Companies performing their operating activities in the Arctic zone of the Russian Federation Zarubezhneft-Dobycha Kharyaga LLC and LLC “JC “RUSVIETPETRO”) continued working on biodiversity preservation, as per the approved Programs. The observation program for the established lists of indicator types by Company activity regions is included in the Environmental Monitoring Program.

Caring for the Far North fragile ecosystem has traditionally been one of the Company’s priorities: in 2018, LLC “JC “RUSVIETPETRO” released 154 thousand whitefish juveniles into the Usu River (the Pechora River basin). Since 2014, by efforts of LLC “JC “RUSVIETPETRO” over 800 thousand juveniles of valuable fish species have been released into the Pechora River basin.

Starting from 2014, Zarubezhneft JSC has undergone an independent Ecological Openness assessment, according to the World Wildlife Fund (WWF) rating criteria. Among the 22 largest oil and gas companies in 2018, Zarubezhneft JSC landed second, rising from the 5th place awarded in 2017.

As per the Search and Valuation of New Projects Standard, the Company pays special attention to environmental aspects and environmental risk assessment. All projects undergo Environmental Audit, the main criterion of which is the absence of specially protected natural territories within the contract area. During the project implementation, an environmental impact assessment is carried out, measures are developed to reduce landscape fragmentation and disturbed areas.

Zarubezhneft JSC has uniform HSE requirements to contractors. The regulations establish similar requirements for compliance with environmental standards both for contractors operating in the Company, and Zarubezhneft JSC subsidiaries. Collecting mushrooms and berries, hunting and fishing in the area of the Company’s projects is prohibited.

The subsidiaries of Zarubezhneft Group of Companies monitor the integrity of interfield oil pipelines on a monthly basis that is one of the priorities of the Company’s Environmental Policy.

In 2018, the level of current financing of environmental protection activities in subsidiaries located in the Russian Federation amounted to about RUB 163.8 million, which is something like the level of 2017.

One of the most important environmental challenges facing the Company is minimizing the effects of drilling waste through their disposal and use followed by the elimination of sludge pits. In 2018, 4 drilling mud pits were reclaimed. There are no oil-contaminated soils on Zarubezhneft JSC balance sheet.

In general, regular measurements of the air environment, soil and snow, surface water and bottom sediments were carried out in the territory of all licensed sites of Zarubezhneft Group of Companies enterprises, as part of local environmental monitoring and industrial environmental management.

Observation data are compared with the background values of natural indicators.

During the reporting period, the maximum permissible concentrations (MPC) in the territory of the Russian Federation were not exceeded.
The priority area in 2018 was the implementation of the Gas Program for rational use of associated petroleum gas (APG) for the period 2018-2022 relative to Zarubezhneft Group of Companies. As part of the program implementation to reduce emissions of pollutants into the atmosphere, LLC “JC “RUSVIEPETRO” implemented the following activities:
- construction of the oil-gas gathering pipeline from the North-Oshkotynskoye oil field to Sikhoreyskoye field was completed; the pipeline was commissioned on July 31, 2018.
- This gave an opportunity to completely eliminate APG flaring at the flare unit of this field;
- construction of a compressor station for gas supply from separation “low side” to main compressors of the North-Khosedayu Central Production Facility was completed; commissioning works have begun.

In 2018, at ZARUBEZHNEFT-Dobycha Samara LLC, the mobile Preliminary Water Discharge Unit was put into operation at Kirsanovskoye field with an incorporated line heater.

Owing to the action items completed as part of the Gas Program 2018, the use of APG for own needs for the generation of heat and electric energy increased. The volume of production and use of APG is accomplished based on indications of gas metering units. The level of APG use in the Russian segment in 2018 was 87.5% (the case of 2017 – 84.7%).

<table>
<thead>
<tr>
<th>atmospheric emissions</th>
<th>2017</th>
<th>2018</th>
<th>+ / –</th>
</tr>
</thead>
<tbody>
<tr>
<td>solids</td>
<td>0.549</td>
<td>0.437</td>
<td>–0.112</td>
</tr>
<tr>
<td>sulphur dioxide</td>
<td>7.507</td>
<td>6.909</td>
<td>–0.598</td>
</tr>
<tr>
<td>carbonic oxide</td>
<td>8.874</td>
<td>7.914</td>
<td>–0.960</td>
</tr>
<tr>
<td>nitrogen oxide</td>
<td>1.391</td>
<td>1.213</td>
<td>–0.178</td>
</tr>
<tr>
<td>hydrocarbons (without volatile organic components)</td>
<td>10.115</td>
<td>8.804</td>
<td>–1.311</td>
</tr>
<tr>
<td>volatile organic components</td>
<td>4.069</td>
<td>3.900</td>
<td>–0.169</td>
</tr>
<tr>
<td>other gaseous and liquid</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>gross atmospheric emissions</td>
<td>32.50</td>
<td>29.18</td>
<td>-3.33</td>
</tr>
</tbody>
</table>

Associated gas production and utilization for Zarubezhneft Group of Companies in 2017, MM m³

<table>
<thead>
<tr>
<th>Company</th>
<th>APG production</th>
<th>APG usage for own needs</th>
<th>% of APG usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>LLC “JC “RUSVIEPETRO”</td>
<td>122.20</td>
<td>107.00</td>
<td>87.6</td>
</tr>
<tr>
<td>Orenburgnefteotdacha JSC</td>
<td>2.12</td>
<td>1.76</td>
<td>82.9</td>
</tr>
<tr>
<td>Ul’yanovskneftegaz LLC</td>
<td>0.54</td>
<td>0.51</td>
<td>93.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>124.86</strong></td>
<td><strong>109.27</strong></td>
<td><strong>87.5</strong></td>
</tr>
<tr>
<td>for reference:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zarubezhneft-Dobycha Kharyaga LLC</td>
<td>210.60</td>
<td>60.00</td>
<td>28.5</td>
</tr>
</tbody>
</table>
Associated petroleum gas produced at Kharyaga field is high-sulfur that encumbers its value-added use. According to Kharyaga field design infrastructure, for further development of the fourth stage, Zarubezhneft-Dobycha Kharyaga LLC plans to continue construction and commissioning of a comprehensive gas treatment unit. In 2018, the level of APG usage in the Company made 28.5% (the case of 2017 - 24.3%). It is planned to reach the level of 95% by 2022.

In 2018, Brod Refinery A.D. continued implementing the plans for processing acidic sludge into safe inert materials, followed by the use of processing product in storage ponds reclamation. The environmental impact assessment (EIA) of the acidic sludge solidification technology was completed; the technology received a favorable conclusion.

SPECIFIC INDICATORS IN ENVIRONMENTAL CONSERVATION AREA IN TERMS OF GROUP OF COMPANIES IN THE RUSSIAN FEDERATION

Implementation of the gas program in 2018 allowed for decreasing the specific indicators of pollutant emissions that decreased in comparison to 2017 from 6.94 to 6.09 tons per thousand tons of the oil produced, as well as specific emissions of greenhouse gases from 0.2 thousand tons of CO₂ equivalent per thousand tons of the oil produced, up to 0.17 thousand tons of CO₂ equivalent per ton of the oil produced.

Air emissions, tons/thousand tons of oil

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.94</td>
<td>6.09</td>
<td>12%</td>
</tr>
</tbody>
</table>

GHG emissions in the Russian Federation, thousand tons/thousand tons of oil

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.2</td>
<td>0.17</td>
<td>15%</td>
</tr>
</tbody>
</table>

In 2018, in comparison to 2017, drilling volumes increased, which led to an increase in the drilling waste at the fields of LLC “JC “RUSVIETPETRO” and Zarubezhneft-Dobycha Kharyaga LLC. The specific indicators of waste production increased from 5.12 tons per 1 thousand tons of oil produced in 2017 to 7.9 tons in 2018. In the composition of the waste produced, more than 90% by weight are waste of hazard class IV - drill slurry. As per the current Company’s internal regulations, all drill slurry was processed to inert material. Slight increase in drilling volumes had also an impact on the increase in water usage from 1.6 thousand tons per ton of the oil produced in 2017 to 1.67 thousand tons in 2018.

GREENHOUSE GASES EMISSION DECREASE

Zarubezhneft considers the Kyoto Protocol mechanism an important step towards increasing the efficient use of associated gas. The Mechanism of Activities Implemented Jointly (AIJ), provided by the Kyoto Protocol to the UNFCCC, remains one of the most serious incentives for the realization of associated petroleum gas disposal projects, and other projects aimed at the reduction of atmospheric GHG emissions.

As per the “Methodical Recommendations and Guidelines for the Quantitative Calculation of the Volume of GHG Emissions by Enterprises Conducting their Business or Other Activities in the Russian Federation” (approved by the order of the Ministry of the Natural Resources and Ecology of the Russian Federation No.300, dated June 30, 2015, registered with the Ministry of Justice of the Russian Federation on December 15, 2015, registration No.40098), Zarubezhneft JSC determined the atmospheric GHG emission volume for 2018 as a result of the production activities of the enterprises.

The retention of investments into the main environment protection capital in 2018 is associated with
The implementation of the gas program the volume of emissions in 2018 amounted to approximately 0.836 MM tons of CO₂ equivalent, which is 12% lower than the last year.

The scheduled implementation of the gas program measures. The costs for other environment protection measures (necessary technical maintenance of the water treatment systems, environmental monitoring in part of the Biodiversity Conservation Programs implementation) remained unchanged.

Environment protection costs, MM RUB

<table>
<thead>
<tr>
<th>Investments</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>+ / -</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in equity to environment protection</td>
<td>41.36</td>
<td>97.80</td>
<td>270.22</td>
<td>228.21</td>
<td>–42.01</td>
</tr>
<tr>
<td>Negative impact fee</td>
<td>19.89</td>
<td>27.28</td>
<td>28.51</td>
<td>20.38</td>
<td>–8.13</td>
</tr>
<tr>
<td>Pollution fines</td>
<td>0.94</td>
<td>0.09</td>
<td>0.32</td>
<td>0.51</td>
<td>0.19</td>
</tr>
<tr>
<td>Current environmental costs, incl.:</td>
<td>196.95</td>
<td>142.63</td>
<td>154.79</td>
<td>163.80</td>
<td>9.01</td>
</tr>
<tr>
<td>Water bodies protection</td>
<td>3.00</td>
<td>4.58</td>
<td>7.68</td>
<td>23.00</td>
<td>15.32</td>
</tr>
<tr>
<td>Air protection</td>
<td>1.58</td>
<td>1.65</td>
<td>3.50</td>
<td>3.70</td>
<td></td>
</tr>
<tr>
<td>Land resources protection from industrial wastes</td>
<td>155.00</td>
<td>111.66</td>
<td>131.52</td>
<td>118.90</td>
<td>–12.62</td>
</tr>
<tr>
<td>For land reclamation</td>
<td>31.19</td>
<td>12.99</td>
<td>12.09</td>
<td>17.40</td>
<td></td>
</tr>
<tr>
<td>Other environmental protection areas</td>
<td>6.18</td>
<td>11.75</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>259.14</td>
<td>267.80</td>
<td>453.84</td>
<td>412.90</td>
<td>–40.94</td>
</tr>
</tbody>
</table>

INTERACTION WITH THE STAKEHOLDERS

To maintain and establish constructive relations in project implementation, Zarubezhneft JSC strives for interaction with all stakeholders.

Since 2009, a cooperation agreement between LLC “RUSVIETPETRO” and the Administration of the Nenets Autonomous District has been in force on the issue of interaction with indigenous small-numbered peoples of the North. Since 2017, Guidelines on behavior in the territories of traditional environmental management of indigenous small-numbered peoples of the North have been in force at Zarubezhneft-Dobycha Kharyaga LLC.

The Company has clearly demonstrated its striving to minimize the risk of oil spills and environmental protection. Representatives of the NAA Union of reindeer herders and the regional social movement “Association of the Nentsy Peoples (Yasavey)” were among the invited.
Industrial safety and occupational health

OCCUPATIONAL HEALTH, INDUSTRIAL SAFETY, ENVIRONMENT PROTECTION AND SOCIAL RESPONSIBILITY POLICY IS THE BASIS FOR STRATEGIC PLANNING AND MANAGEMENT OF CURRENT ACTIVITIES OF ZARUBEZHNEFT JSC, SETTING AND ACHIEVING GOALS, CARRYING OUT EFFICIENT MONITORING AND CONTROL, CONSTANT IMPROVEMENT OF ACTIVITIES.

In 2018, a supervisory audit of CC Zarubezhneft JSC, LLC “JС “RUSVIETPETRO””, Zarubezhneft-Dobycha Kharyaga LLC was successfully conducted on confirmation of the Certification for compliance with international standards OHSAS 18001:2007. The subsidiaries RMNTK Nefteotdacha JSC and Zarubezhneftestroymontazh LLC were introduced into HSE Management System certification perimeter. A diagnostic audit of ZARUBEZHNEFT-Dobycha Samara LLC was conducted for compliance with the requirements of international standards OHSAS 18001:2007 for introduction into the certification perimeter in 2019.

Recognizing its responsibility for the favorable environment, preservation of life, health and wellness of people, Zarubezhneft JSC undertakes the following obligations:

- To pursue the “Zero Goal”, prevent injuries and deterioration of the peoples’ health and environment contamination;
- To use the natural resources, materials and power in a reasonable and rational manner;
- To respect the interests and the rights of the local population in its regions of presence;
- To comply with the Russian and international laws, to fulfill the undertaken obligations before the local communities, state authorities, foreign and Russian business partners and other stakeholders;
- To improve its occupational health, industrial safety and environment protection management system constantly.

To increase competitiveness and unconditional priority when entering international projects of Zarubezhneft JSC, on February 17, 2018, General Director S.I. Kudryashov agreed to join Zarubezhneft JSC enterprises the international Vision Zero Concept, developed by the International Social Security Association (ISSA).

On March 1, 2018, Zarubezhneft JSC positioning the state approach to increasing the safety culture and striving for “Vision Zero” became the first international Company in Russia to join the Concept.


The training was conducted following the Vision Zero Concept:

- for the top management of Zarubezhneft JSC and its subsidiaries – on June 14 and 15
- for heads of Corporate Center structural divisions – on June 21
- for employees of subsidiaries – from June 26 to July 20, and on October 25 and 26.

On October 8, 2018, a meeting with the Ministry of Labor of the Russian Federation was held for setting clear goals and taking concrete practical steps, as the result of which the “Unified Program for Implementation of “Zero accident” Concept, Vision Zero at Zarubezhneft Group of Companies 2018-2021” was formed and approved by S.I. Kudryashov, the Director General of Zarubezhneft JSC on November 12, 2018.

To promote the Vision Zero Concept and involve contracting organizations in its implementation, the 1st International Conference with the contracting organizations of Zarubezhneft JSC GC was held on November 23, 2018 on the implementation of the Vision Zero Concept.

Also, there were carried out cascade visiting Strategic sessions “Leadership in the HSE. The goal is Zero. Implementation of the Vision Zero Concept in Contracting Organizations” in subsidiaries and contracting organizations in the regions of presence (Moscow, Samara, Modriča, Usinsk). According to the Sessions results, HSE Road Maps were formed with the key tasks for subsidiaries for 2019 with an emphasis on the implementation of the Vision Zero Concept principles in the contracting organizations.

Since November 30, 2018, Zarubezhneft JSC has been an official member in the International Council for the implementation of the Vision Zero Concept.

Lost Time Injury Frequency Rate (LTIFR) is accepted in the international practice as the main indicator of the company’s efficiency in the area of occupational health and industrial safety. LTIFR has been applied in Zarubezhneft JSC since 2015.
The subsidiaries have regularly held training and examinations in the following categories in the area of the labor safety:
- “Industrial safety”;
- “Labor safety and first pre-medical aid”;
- “Basics of fire safety”;
- “Knowledge of rules and norms of working at electrical units”;
- “Safe operation of electrical units”.

A long-term corporate HSE training program of Zarubezhneft Group of Companies for the period of 2017-2019 was developed and approved by Zarubezhneft JSC. The program is aimed at the development of leadership and safe production culture.

In addition, obligatory employee medical examinations and special evaluations of working conditions (SEWC) at workplaces were carried out.

All personnel of the Company and the subsidiaries is insured under voluntary medical insurance program with SOGAZ LLC.

The relevant reports on labor conditions safety and improvement were submitted to the governmental, supervisory and statistic authorities in due time.

In 2018, the Company’s employees were provided with special footwear, personal breathing protection equipment as well as overalls complying with the unified corporate style of Zarubezhneft GC.

All necessary emergency response and consequences mitigation plans were developed and approved in the subsidiaries (oil spill contingency plan, emergency response plan).

Expert evaluations of industrial safety at hazardous production facilities (HPF) were carried out, Industrial safety statements for the HPF were developed in time.

In-process control is one of the most important elements of efficient HSE management system operation. When carrying out in-process control over occupational health, industrial safety and environment protection, personnel of subsidiaries is guided by the relevant legal and regulatory documents of the Russian Federation and regions of presence as well as internal regulatory documents, including Regulation on performance of in-process control over HSE condition of Zarubezhneft JSC Group of Companies and a procedure of “Occupational health, industrial safety and environment protection risks management”.

This procedure is an integral part of the common corporate risk management system and regulates the order of HSE risk management in relation to:
- Violation of the facilities’ integrity (emergency situations);
- Injury to workers, counter-agents and visitors;
- Negative environmental impact in carrying out works;
- Negative environmental impact as a result of technological processes.

The Company maintains the preparedness for civil defense and emergencies is ensured through an integrated approach by:
- The testing of safety facilities and the training of the people in charge of civil defense and emergencies training centers;
- Timely development and approval from the state supervisory authorities of response plans for oil (OSR) and oil-products spills at the fields;
- Teaching and the attestation of emergency accident rescue teams in the fields;
- The conclusion of agreements to hold drills twice a year with specialized professional units that provide gas rescue and well blowout safety services.
- Training the personnel to act in case of possible emergencies.

In 2018 the rate of accidents index was 0.62 – it more than 2 times lower than that value in 2015 (1.27).
Constant planned interaction with contractor entities carrying out their activities at production facilities of Zarubezhneft JSC as per the laws of the Russian Federation and approved internal requirements of the Company is an integral part of Zarubezhneft JSC personnel operations in the framework of occupational health and industrial safety management system.

The Company pays special attention to enhancing the production culture, leadership and involvement of managers, increase of internal interaction level in the area of HSE, and the actual integration of the target programs at production facilities contributes to this cause:
- “12 life saving rules”;
- “Leadership in area of HSE”;
- “HSE risks management”;
- 5S system in the framework of Zarubezhneft JSC Production system.

The training sessions have been held and in-house trainer groups for 5S have been established both in the Corporate Center and the Subsidiaries (142 persons) in the framework of the 5S System development in Zarubezhneft JSC Group of Companies.

Under the results of 2018 the investment costs for the provision of safe labor conditions in Zarubezhneft Group of Companies amounted to RUB 509,771,043 thousand.
Personnel management and corporate culture

ZARUBEZHNEFT JSC IS IMPLEMENTING ITS PERSONNEL POLICY AS PER THE JSC ZARUBEZHNEFT GROUP OF COMPANIES 2014-2019 PERSONNEL POLICY.

MAIN DIRECTIONS OF PERSONNEL POLICY

- Establishment of an efficient remuneration system and social package;
- Development of a personnel reserve and a personnel rotation system;
- Improvement of personnel selection and adaptation quality;
- Improvement of performance results at all levels, employee training and career development;
- Establishment of an efficient corporate culture and its continuous development.

PERSONNEL STRUCTURE AND HEADCOUNT

In 2018, Zarubezhneft JSC Group of Companies had an employee headcount of 12,681 persons, which was 4% less than in 2017. In general, the average headcount of the Zarubezhneft JSC Group of Companies tends to be decreasing due to the ongoing headcount optimization measures being implemented in the Group of Companies: the headcount decrease was 5.5% in the “Service and Other Assets” segment, 4.5% in the “Upstream” segment and 2.1% in the “Downstream” segment.

The “Upstream” segment remains the priority development direction of Zarubezhneft JSC Group of Companies. In 2018, this segment accounted for 68% of all personnel of the Group.

82% of the Group’s headcount are men. This is because oil production requires carrying out operations at remote fields, rotational work, as well as a significant share of physical labor.

Table: Number of employees

<table>
<thead>
<tr>
<th>Area of activity</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>+ / –</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governing company</td>
<td>320</td>
<td>322</td>
<td>326</td>
<td>317</td>
<td>–9</td>
<td>–3</td>
</tr>
<tr>
<td>Representative offices and branches of</td>
<td>30</td>
<td>26</td>
<td>25</td>
<td>24</td>
<td>–1</td>
<td>–4</td>
</tr>
<tr>
<td>Zarubezhneft JSC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geological exploration and extraction</td>
<td>9,972</td>
<td>9,402</td>
<td>8,813</td>
<td>8,415</td>
<td>–398</td>
<td>–5</td>
</tr>
<tr>
<td>Oil processing and sale</td>
<td>2,356</td>
<td>2,127</td>
<td>2,073</td>
<td>2,029</td>
<td>–44</td>
<td>–2</td>
</tr>
<tr>
<td>Service and other assets</td>
<td>1,853</td>
<td>1,969</td>
<td>2,008</td>
<td>1,896</td>
<td>–112</td>
<td>–6</td>
</tr>
<tr>
<td>Total</td>
<td>14,531</td>
<td>13,846</td>
<td>13,245</td>
<td>12,681</td>
<td>–564</td>
<td>–4</td>
</tr>
</tbody>
</table>

Zarubezhneft Group of Companies personnel structure in 2018

1 As of before, the Geological exploration and extraction segment was considered with the personnel of JV “Vietsovpetro”. It was decided that in 2018 reporting materials on headcount the personnel for other Blocks and Service Project of JV “Vietsovpetro” is considered in this version of the Report.
Personnel structure by job position categories as of, %

Personnel structure by education level as of 31.12.2018, %

Personnel age structure as of December 31, 12.2018, %

Personnel structure by category of positions is formed in such a manner as to ensure balance between managers, experts and operating personnel.

Analysis of the personnel structure by education level shows that more than half of the Group’s employees have higher education – 55%. Employees with secondary and vocational secondary education also comprise a significant part.

The personnel age structure is traditionally formed in such a manner that two-thirds of the personnel fall within the 30-50-years age category to ensure a balanced work experience-to-physical capabilities ration. The youth account for a significant specific weight ratio at 12%.

AVERAGE AGE OF PERSONNEL IN ZARUBEZHNEFT GROUP OF COMPANIES REMAINS AT THE LEVEL OF 42 YEARS FOR THE LAST THREE YEARS

PERSONNEL MOTIVATION AND REVENUE STRUCTURE

One of the priority objectives of the personnel policy of Zarubezhneft JSC is to create an efficient personnel remuneration system that allows to attract, retain and motivate employees with the necessary competencies and level of performance in order to successfully accomplish the business goals of Zarubezhneft JSC Group of Companies at minimum expense.

The Group of Companies is implementing programs for the material and non-material incentivization of its employees:

The size of the fixed and variable part of employee remuneration depends on the following factors:

- position level expressed by the corresponding labor-remuneration grade;
- level of professional competence and labor productivity implemented through the assignment of a certain professional status to an employee;
- work performance and achievement of set goals for the reporting period, reflected to the extent of the variable remuneration part for the period;
- level of remuneration of comparable positions in the labor market at competing companies and the target
Financial Material incentives includes

- fixed part (official salary, allowances and bonuses)
- variable part (monthly and annual bonus payments)
- social payments (mandatory and corporate)

Non-material incentives includes

- state, departmental and corporate awards
- awarding honorary ranks and winning places at competitions.

- position of Zarubezhneft Group of Companies at the labor market for this position level.

In determining the target position of the Group of Companies in the labor market, the following approaches are applied:

- selection of the appropriate labor market for various categories of personnel (Moscow, regional, international);
- singling out key groups of employees and positions for which the Group of Companies is ready to provide an above-average salary level in the relevant labor market;
- for the rest of the employees, the Group of Companies is ready to provide an average-level salary in the relevant labor market.

In this regard, Zarubezhneft JSC consistently undertakes work in the following areas:

- improving the staff remuneration scheme;
- improving and developing the integrated staff planning system.

In 2018, the Unified Labor Remuneration Scheme (ULRS) that Zarubezhneft JSC Group of Companies has been implementing since 2013 continued to operate effectively.

The ULRS defines a unified procedure for setting employee salaries based on a single grade line, reflects the Company’s business interests and priorities, ensures alignment of the size of the annual staff remuneration with the achievement of key performance indicators (KPIs), and constitutes one of the tools for employee performance management for the Company.

To attract and retain key managers, Zarubezhneft JSC has built a comprehensive motivation system that includes the following elements:

- fixed remuneration (official salary, allowances and surcharges as per the legislation);
- year-end bonuses based on KPI achievement results;
- bonuses for achieving strategic goals (Corporate Challenge Business Initiative).

The Group of Companies conducts a regular analysis of the inflation level and the consumer price index, based on which decisions are adopted to revise (index) the staff salary level.

Sole executive authority (general director) remuneration

All payments for the sole executive authority are made as per the Labor Contract and based on the following policies:

- Zarubezhneft JSC Employee Remuneration and Benefit Policy;
- Zarubezhneft JSC General Director Annual Compensation Policy;
- Zarubezhneft JSC Employee and Retiree Social Security Policy.

SOCIAL PROGRAMS

An integral part of the remuneration system in the Group of Companies is a program of social support for employees and their families that is taken into consideration when assessing the overall attractiveness and competitiveness of the proposed remuneration.

Zarubezhneft JSC Group of Companies has approved the Unified Concept of one-time payments and social policy aimed at a decent medical care standard, employee aid depending on various circumstances, reimbursement of lost earnings upon retirement, as well as supporting the Group’s retirees.

To maintain its staff’s health, the Company organized recreation packages at health resorts in the Republic of Crimea. Employees are allowed to purchase vouchers for themselves and their families that are partially compensated by Zarubezhneft JSC; preference is given to large families and families with children under 14 years of age.

The Company continues to operate a parity corporate program providing non-state pension benefits to its employees.

The size of social benefits per employee of the Group decreased in 2018 compared to 2017 by 21%, which was caused by a significant share of allowances in 2017 after work completion due to the early retirement of JV “Vietsovpetro” employees. Exclusive of these payments, the increase in social benefits per employee in 2018 compared to 2017 amounted to 16%.

Non-financial motivation also occupies an important place in our personnel motivation system. To reward its employees and work teams for their significant contribution to the development of Zarubezhneft JSC, their achievements of high production, as well as high financial and economic performance, and to improve its corporate culture, the Company has established...
the following awards and ranks: “Honorary Worker of Zarubezhneft JSC”, “Veteran of Zarubezhneft JSC”, the Zarubezhneft Diploma and the Zarubezhneft JSC Certificate of Acknowledgement.

Over the past year, 302 employees of Zarubezhneft JSC Group of Companies were awarded state and corporate awards:

Employees awarded in 2018

<table>
<thead>
<tr>
<th>Awards</th>
<th>Number of awarded, pers.</th>
<th>incl. Foreign citizens</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>4</td>
<td>–</td>
</tr>
<tr>
<td>Departmental</td>
<td>48</td>
<td>1</td>
</tr>
<tr>
<td>Corporate</td>
<td>250</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>302</td>
<td>1</td>
</tr>
</tbody>
</table>

INTEGRATION OF PROFESSIONAL STANDARDS


All planned targets for 2017 were achieved: a list of applicable professional standards was defined; information on the need for the professional education and training of employees obtained from analysis of qualification requirements specified in professional standards was included in the employee training plans; changes were made to the Company’s local regulations, and a list of documents subject to change as per the applicable professional standards was prepared.

Zarubezhneft JSC is a member of the Council for Workforce Skills in Oil and Gas Industry that was formed by the Resolution of the National Council on Vocational Qualifications under the President of the Russian Federation dated March 27, 2015 to form and support a workforce professional skills system for the oil and gas industry.

Zarubezhneft JSC Corporate Center has launched the introduction of the professional standards in the subsidiaries.

By the end of 2018, the Group had adopted ninety-nine (99) professional standards stipulating requirements that are mandatory in terms of properly describing job titles, trading professions and qualification requirements and that are applied within the Group based on the employers’ decisions. Of these, 18 are standards to be applied in the production, refining and transportation of oil and gas.

All compensation, benefits or restrictions specified in the Labor Code of the Russian Federation or other Russian federal legislation requires application of Zarubezhneft JSC’s professional standards.

Qualification characteristics contained in the professional standards that are not deemed to be mandatory are applied within the Group of Companies as a basis for defining the requirements for the qualification of the employees with consideration of the labor functions that they are to perform determined by the applied technologies and the adopted production and labor arrangement.

PERSONNEL SELECTION AND ADAPTATION

The priority task in the area of staff recruitment in the Group of Companies is to ensure the business need for highly qualified specialists by maximizing internal candidate allocation and through staff rotation.
The following types of appraisal are used when selecting personnel:
- appraisal of individual abilities and personal qualities using certified testing procedures as per international standards, as well as determining the proficiency in the English language of all candidates for positions at the Corporate Center and candidates for individual positions within subsidiaries;
- appraisal of the level of professional and related knowledge, as well as skills in the field of activity.

Zarubezhneft JSC has introduced and is operating a transparent annual personnel appraisal system based on uniform requirements for the performance appraisal and professional development of personnel for objective financial and non-financial remuneration based on the degree of the employee’s involvement in achieving the Group’s strategic objectives.

The Company conducts annual staff appraisal on a regular basis, which allows systematically and objectively evaluating the staff performance indicators, identifying high-potential employees and stimulating them for positive work results and high professionalism, as well as determining the directions of both professional and personal development of employees. Employees are evaluated as per the following indicators:
- achievement of employees’ individual goals / objectives for the past year;
- level of development of professional competencies;
- level of development of corporate and managerial competencies;
- completion of the development map / individual development plan for the past year;
- level of employee’s potential for further career growth and development;
- overall employee performance.

The annual appraisal results are used to provide the employees with detailed and balanced information on the employees’ performance and their competencies development level over the past year; proposals are made and a decision is adopted on the upward mobility of professional status, changing the grade / position shifting, employee transfer to a senior position and including an employee to the personnel reserve; finally, priorities in the development of employees’ key competencies and individual targets for the next year are identified.

The Company implements external assessment measures such as the Assessment Center, evaluation by the 180/360 degree method, various types of testing to identify the level of development of professional knowledge and skills, business and personal qualities, as well as verbal and numerical abilities.

In the reporting year, as part of the annual employee appraisal, an additional survey of managers and supervisors was carried out using the 360-degree method to identify the current situation regarding compliance with the principles of corporate interaction and further development of an action plan for the development and promotion of these principles.

To implement a uniform personnel policy in the area of personnel appraisal, appraisals are carried out throughout the Zarubezhneft JSC Group of Companies.

The Company’s employees training and development system is designed to ensure not only an increase in the required level of employees’ professional and technical competences, but also the fulfillment of mandatory state requirements for the training of personnel of the oil and gas sector in the area of industrial safety, occupational safety, anti-corruption and fraud management.

The Company utilizes a full range of modern training types, forms and methods carried out based on the best Russian and foreign training institutions, corporate training centers for retraining. The employees are given opportunity for long-term, short-term, full-time, part-time and remote training, including specialized courses conducted on the automated system Web Tutor.

PERFORMANCE APPRAISAL, TRAINING AND DEVELOPMENT

As per the Company’s Personnel Policy, the appraisal system is a flexible, transparent staff-performance management system that is used to promote the timely, high-quality achievement of strategic objectives through objective evaluation and ensuring the efficient performance and professional growth of the employees’ business competencies.
As part of the implementation of the Zarubezhneft JSC development strategy, the following become the key areas of personnel training and development in the reporting year:

- Implementation of individual training programs aimed at improving the professional level as per the current and strategic objectives, varied legislation requirements;
- Joint implementation of the learning process with the leading universities of the Russian Federation and foreign universities for training specialists in areas highly-demanded in the Company;
- Implementation of the corporate program of training and development of high-potential employees, aimed at improving their knowledge in the field of developing the managerial potential;
- Implementation of the Lean Six Sigma corporate training program for production system and lean manufacturing;
- Implementation of a corporate English language training program;
- Implementation of corporate training and development programs for key technical specialists of the Group.

For the planning and implementation of corporate training, a single menu of corporate programs for top managers, middle managers and specialists, employee pool and young specialists has been formed and is being applied. It includes programs of strategic management, managerial, technical, remote teaching and English language learning.

The priority direction of the employee training system is the development of key vocational and technical competences in the field of geology, development, drilling, oil and gas production and project management.

Vocational and technical training is conducted under the internal Oil Engineering School. Both external and internal lecturers of the Zarubezhneft JSC Group of Companies were involved within the Oil Engineering School.

In 2018, the Oil Engineering School successfully trained 196 people. These included employees of the Corporate Center, subsidiaries and JV “Vietsovpetro”; the corporate knowledge base is permanently being updated with new materials from recently-held courses.

Training on project competencies development is conducted as part of the internal Project Management School under the International Business School of the Gubkin Oil and Gas Russian State University on the educational program of further vocational education “Master of Business Administration (MBA)” “Oil and Gas Business Management. Project Management”.

Within the Project Management School, a training program has been developed jointly with the university taking into account the current and future tasks of the Company's business, including the requirements of strategic projects. In 2017-2018, eighteen people were trained under the Project Management School, including employees of the Corporate Center and the subsidiaries. Both visiting and resident lecturers were engaged in implementing the training program. After successfully defending their project theses, the students were accorded MBA state diplomas.

Zarubezhneft JSC is particularly focusing on training talented and purpose-driven specialists equipped with high professional and managerial...
competencies that they will use to develop and expand new and current projects of the Company. The winners of the Nestro Lead Competition, the first open competition for the employees of Zarubezhneft JSC Group of Companies, which was the start of a common corporate personnel development program, were sent for training on a comprehensive program called “Modern Leader in the International Environment” under the International Business School of the Gubkin Oil and Gas Russian State University and the Moscow School of Management SKOLKOVO. The winners’ development agenda also includes an international internship.

The goal of the training and development programs for the Nestro Lead winners and finalists is to form an efficient and solid team to handle foreign assets taking into account the Company’s strategic interests, to assess and develop each team member’s personal potential, as well as to improve communication skills in the international environment.

As part of the training program for the competition finalists, unique developmental trainings based on the Efficient Leader Program have been developed under the Leadership and Management Capacity Development School.

The winners and finalists of the competition are also required to take remote courses on improving their personal effectiveness in the WebTutor Training Portal and vocational training at various advanced training centers in Russia.

The company is taking great strides to keep pace with the times, and has already begun applying modern automated HR-technologies. Personnel appraisal, training and development tools have been automated and integrated into a unified system and on a single logic using the WebTutor software. Implementation of the system has resulted in a significant reduction of labor costs and less time being required for training, appraisal and result evaluation, while distance courses have upped the share of trained employees within the Company. In the reporting year, this system was integrated into almost all of the Company’s subsidiaries, ensuring implementation of the appraisal procedures in the online mode and organizing remote training. An educational portal covering all types of training implemented within the Company was developed to facilitate the employees’ professional and personal development. The online submission of applications for training has been introduced to enhance the operational planning of staff training, a move that has resulted in lower costs of labor for the formation and analysis of the proposals on the organization of training activities submitted by the employees. In 2019, it is planned to further develop the WebTutor automated personnel management system for the implementation of a new module – Talent Management and Career Development.
ROTATION PROGRAM AND EMPLOYEE POOL

To retain and motivate key employees, as well as to develop necessary competencies and reduce the expenditures for recruiting and adapting personnel, the Company has formed the Employee Pool. It also actively implements an internal rotations program.

To promptly set up teams for new international and Russian projects, Zarubezhneft JSC has formed a mobile employee pool. This employee pool has more than two hundred employees of the Group on key positions of Zarubezhneft JSC; a mentor-supervisor from among the managers is assigned to each personnel reserve member. Throughout the year, the personnel reserve is trained as per the approved Individual Development Plans (IDPs) for the development of professional and managerial competencies. To assess the dynamics of development of the personnel reserve members, semi-annual monitoring of IDP implementation is carried out. The degree of the personnel reserve’s readiness for appointment is determined at Expert Groups led by the Company’s top management and revised based on the results of enrichment activities and implementation of tasks that are important for the Company.

To continuously develop the structure and composition of its personnel reserve, the concept of modular training of personnel reserve members is implemented under the Company’s own Leadership and Management Capacity Development School. The school’s main objectives are:
- Development of key high-potential employees;
- Enhancing the management culture and management;
- Improvement of business and personal qualities;
- Enhancing leadership capacity and teamwork.

Dynamics of rotations 2017-2018 via cumulative result, people

In the reporting year, 62 internal staff shifts were carried out, incl. on the Company’s international projects.

In the reporting year, under the Leadership and Management Capacity Development School, 117 personnel reserve members have taken part in the following training programs:
- Innovation in the company management system,
- Systems thinking,
- Cross-functional management,
- Leader’s core values,
- Performance management aimed at developing management skills and personal qualities.

For the additional development of personnel reserve members and the implementation of individual development plans, programs for the local development of managerial and corporate competencies have been elaborated; an electronic library has been created to facilitate self-education and self-development through viewing books online and having the opportunity to download materials of interest.

WORK WITH YOUNG EXPERTS AND INTERACTION WITH EDUCATIONAL INSTITUTIONS

To implement the Program for Innovation Development and a policy for young experts, Zarubezhneft JSC is actively interacting with the Russian Federation’s leading higher education institutions in terms of recruiting and selecting high-potential students, moving students into production practice and organizing employee retraining and advanced training. The Company has concluded cooperation agreements and organized scientific and technical interaction with each higher-education institution, thus enabling to quickly resolve issues to do with the training of Zarubezhneft JSC Group’s employees and young experts. This cooperation is implemented across various fields of activity, including professional training, scientific and technical, as well as social and cultural.

Graduates of the following universities are top requested:
- Gubkin Oil and Gas Russian State University (fields: oil and gas engineering, oil and gas field development and operation, oil and gas production physical processes, geology, economics and management at oil and gas sector enterprises);
- Lomonosov Moscow State University (field: economics, Vietnamese and English translators);
MGIMO University (field: international economic relations);
- Tomsk Polytechnic University (field: development and operation of oil and gas fields, studying at Heriot-Watt);
- Ukhta State Technical University (field: development and exploitation of oil and gas fields);
- Samara State Technical University (fields: development and operation of oil and gas fields, machinery and equipment of oil and gas production fields, economics and company management);
- Lomonosov Moscow State University (fields: geology, jurisprudence, economics, mathematics, physics);
- Moscow Technological University (MIREA) (field: chemistry);
- Moscow Institute of Physics and Technology (field: mathematics, physics).

The Group conducts work on attracting students from leading universities for practical training and internship on a regular basis. The number of students admitted for internship at the Corporate Center and its subsidiaries in 2018 was 195 people.

In 2017-2018, Zarubezhneft JSC funded 43 students (children of JV Vietsovpetro’s Russian specialists) to be trained at Russian higher educational institutions.

Since 2015, the Group has been running a program aimed at recruiting students into paid internships. The principles and conditions for student recruitment into paid internships at the Company have been developed and approved; the Student Admission Plan is redeveloped and approved annually. In 2018, a total of 45 students completed their paid internships at the Corporate Center and subsidiaries.

Zarubezhneft JSC actively cooperates with leading technical universities.
of the Russian Federation, such as the Gubkin Oil and Gas Russian State University, Ufa State Petroleum Technological University, Tomsk Polytechnic University, Bauman Moscow State Technical University and others. The Group constantly rolls out staff training programs for the fuel and energy complex:

- at the Gubkin Oil and Gas Russian State University in Moscow, young Serbian engineering specialists from among the children of employees of the Group’s enterprises in Bosnia and Herzegovina are trained by the Company;
- more than 30 children of Russian specialists working at JV “Vietsovpetro” undergo targeted training at specialized universities of the Russian Federation.

Every year, employees of Zarubezhneft JSC Group of Companies improve their skills at higher education institutions under various training programs in the area of oil and gas production, economics and management, development of oil and gas fields, well work, financial management, budgeting and controlling at oil and gas enterprises, technological processes of oil and gas gathering and treating, and many others.

The Company primarily focuses on working with young specialists of the Group of Companies, which provides for the identification and professional growth of young prospective employees.

The Young Experts Council – a collegial social and professional association of the Company’s active youth, continued its work in 2018. The Council was established in 2013 as one of the tools for implementing the Company’s youth policy.

The Young Experts Council is integrated into the HR-policy of the Company in the area of youth engagement and performs the following main functions:
- Assistance in the adaptation and engagement of young experts in production and community activities;
- Formation of a pro-active attitude and loyalty to the Company;
- Rallying youth and fostering efficient communication between the “generations” of employees;
- Making young employees feel involved in the general activities of the Company, engaging youth in team work;
- Engaging youth in innovative scientific and research project activities;
- Promoting a healthy lifestyle;
- Assistance in arranging conditions for increasing the creative initiative of youth.

In addition to Zarubezhneft JSC, Young Professionals Boards operate in seven companies: LLC “JC “RUSVIETPETRO”, Zarubezhneft-Dobycha Kharyaga LLC, VNIIneft JSC, Giprovostokneft JSC, RMNTK Nefteotdacha JSC, Modriča Motor Oil A.D., OPTIMA Grupa d.o.o. The total number of members of Young Experts Councils is 113 people.

The General Director approves the Council work plan annually. All events are grouped into six areas:
1. Corporate communications and organizational improvements;
2. Scientific and technical development of young experts;
3. Intellectual activities;
4. Corporate sports development;
5. Voluntary movement;
6. Work with young experts.

In 2018, members of the Council held many events, both the traditional ones that are held every year and have become the Board’s hallmark and new ones.

As part of the Corporate Communications and Organizational Improvements field, members of the Board took part in brainstorming, business case decisions, preparing materials for the Youth Technological Forecasting of the Oil & Energy Complex and meetings of the Youth Council under the Russian Ministry of Energy.

The scientific and technical field is primarily presented by the Competition of young specialists’ scientific and technological work, which is described in detail in the “Innovation Activity” block.

Last year became a year of explosive growth for the Company’s intellectual events:
- 6 tournaments were held on the game “What? Where? When?” at the in-house level;
- 3 tournaments on the “Brain Ring” game were organized;
- The “Jeopardy” tournament was held;
- The “Zarubezhneft” team began to play in the top corporate league of Moscow in the game “60 seconds”;
- The corporate team hit the podium in the intellectual game among the youth of the oil and gas industry.

In 2018, corporate sport reached a new level. All employees of the Company received an opportunity to attend volleyball and football training on a regular basis. The training process under professional trainers guidance could not avoid observation and the results were not long in coming. A cross-functional team of young professionals of Zarubezhneft JSC Group of Companies produced excellent results in the Spartakiad among the enterprises of the Oil Refining and Sales segment in the Republic of Srpska (Bosnia and Herzegovina): first place in women’s volleyball and second place in football.

In the reporting year, billiard, beach volleyball and curling tournaments were held, subsequently becoming a good tradition of the Company. Young people also came forward with an initiative to collectively pass the GTO standards and participate in the extreme race “Race of Heroes”.

Athletes defended the Company’s honor at track-and-field events organized by the Ministry of Energy of Russia.

The most striking sporting event in 2018 was the corporate mini-football tournament dedicated to the anniversary of LLC “JC RUSVIETPETRO”, which was held on July 21 at the Cherenkov Academy of FC Spartak Moscow.
In the reporting year, the volunteer movement continued its development as part of the Young Experts Council work. During 2018, as part of the youth initiative, charity events were held that involved the entire Company’s staff.

In March, a charity event was organized at the Odoyevsky Nursing Home (Tver Region).

In May, Young Professionals Board together with the employees of the subsidiaries of VNIneft JSC and LLC “JC “RUSVIETPETRO” congratulated the veterans with Victory Day.

In July, the Company’s youth carried out an Environmental Campaign, which included work on restoring a playground in the history-themed natural park of Bitsevski Park.

In the reporting year, the Young Experts Council performed socially-relevant deeds under campaigns dedicated to the New Year, visiting children in a care home in the city Gagarin of the Smolensk Region, and residents of a nursing home in the Zherekhovo Village of the Tver Region.

**FORMATION OF CORPORATE CULTURE AND ETHICS**

Improvement of the Company’s activity efficiency largely depends not only on the positive dynamics of operational indicators, but also on well-coordinated teamwork, functional interaction and positive communications among employees, both within departments and among structural divisions, as well as on well-coordinated partnership with the external environment.

The Company pays significant attention to its corporate ethics. In this regard, 12 principles of corporate interaction have been developed and implemented in 4 areas, 3 principles in each area, reflecting the desired behavioral indicators affecting the positive dynamics of both the teamwork and effective communication, and the increase in the efficiency of the Company’s activities as a whole:

1. “Company - Employee” – effective interaction in terms of an employee and the Company (“initiative and active life position” / “striving for continuous improvement and professional development” / “fair assessment of the activities and staff motivation”)

2. “Company - External environment” – effective interaction in in terms of the Company and external environment (“outstanding performance for the benefit of the state” / “honesty and openness” / “tolerance and mutual respect”)

3. “Employee - Employee” – effective interaction in terms of employees and among employees (“teamwork” / “constructive discussion of matters” / “business communication”)

4. “Manager - Employee” – effective interaction between the manager and the employee (“sole responsibility” / “panel discussion and unconditional execution of the decision made” / “opened doors”)

To develop and implement the effective interaction principles systematically, the Passport for the Formation and Implementation of Zarubezhneft JSC Corporate Interaction Process improvement project was approved.

As part of this project, the following activities have been implemented:

- The Code of Corporate Conduct has been updated; in particular, the Code now includes effective interaction principles, their detailed description and corrective actions for non-compliance with these principles.
- An Action Plan of implementation of principles within the Group of Companies was developed. This Action Plan was developed based on five change management functions:
  1. involving function;
  2. educational function;
  3. supportive function;
  4. enforcement function;
  5. monitoring function.

Specific activities were provided in each function; below there is a list of activities within each function.

1. Involving – Strategic sessions, team events, video broadcasting and information booklets.
2. Educational – Seminars, trainings, distance courses, training cases and simulators.
3. Supportive – Consultations, feedback, general meetings, explanations and orders.

Additional instruments for control and corrective actions were formed.

The corporate competence model of Zarubezhneft JSC has been updated. A new competence called “Efficient Interaction” has been added that presents the desired model of employee’s behavior depending on
the particular situation where the employee:
- is committed to improvements and pursues professional passions continuously;
- shows creativity and active position in work situations;
- adheres to the principles of teamwork and constructive dispute;
- shows tolerance towards the population of the regions and countries of Company’s activities;
- adheres to the rules of unconditional performance of an assignment on the part of authorities and legal compliance;
- effectively interacts with partners, counterparties, contractors to maintain the Company’s position to the maximum;

This competency has developed an evaluation survey included in the annual staff assessment.

In forming the control and enforcement instruments, the Regulation on the Corporate Ethics Commission was developed and approved, including influence methods in case of non-compliance with the principles. The composition of the Corporate Ethics Commission, which includes the heads of various fields of concern, was approved.

An electronic box has been created for contacting the Corporate Ethics Commission (Kodeks@nestro.ru).

Currently, the project implementation has been on the go. It will be continued with the implementation of these principles in the Company’s corporate life so that they are not only followed and executed statutorily, but become
a good tradition and a helper in achieving common results. This, in turn, will lead to all employees becoming one team of staff with a high cohesion level and commitment to the Company’s common goals and values.

As in previous years, in 2018, the “Best in Profession” competition was again held at the production facilities of Zarubezhneft-Dobycha Kharyaga LLC, in the Komi Republic. The participants from subsidiaries of Zarubezhneft JSC Group of Companies, the winners of competition selection stage at enterprises, showed their knowledge and skills in the theoretical and practical parts of the competition in six nominations:
- “Oil and Gas Production Operator”,
- “Dehydration and Desalting Plant Operator”,
- “Electric and Gas Welder”,
- “Maintenance Man”,
- “Chemistry Lab Technician” (for the first time).

Considering the special significance and importance of the labor protection, industrial safety and environmental protection fields, the best workers in the nominations “Best in the production system” and “Best in the HSE” were additionally selected. Traditionally, foreign workers from the enterprises of the Republic of Srpska, Modriča Motor Oil A.D. and Brod Refinery A.D. and the Socialist Republic of Vietnam, JV “Vietsovpetro” take part in the Competition, instilling internationality to the event. In team contest, employees of Zarubezhneft-Dobycha Kharyaga LLC became the winners for the third time in a row, showing traditionally high training level. The winners were awarded with diplomas, cash prizes and gifts.

Another significant event is the annual review contest “The Best Facility” among the production facilities of Zarubezhneft JSC Group of Companies, claiming the title OF “High Production Culture Facility” in two fields: Treatment, Transportation of Oil, Gas, Water and Oil Production. In the reporting year, an additional field was added to oil refining facilities.

The competition contributes to the development of a responsible attitude to work, increasing efficiency and work quality, improving production discipline,
developing corporate production culture, and protecting the environment. In 2018 the “High Production Culture Facility” title was awarded to the following facilities by right: Treatment, Transportation of Oil, Gas, Water – Mobile installation for preliminary water removal unit at the Kirsanovskoye Field of ZARUBEZHNEFT-Dobycha Samara LLC; in the field Oil production - Cluster pad No. 11 of the West-Khosedayu field of LLC “JC “RUSVIETPETRO”.

Zarubezhneft JSC holds the “Best Employee” contest quarterly, which selects employees with the maximum influence on the result of events that took place in the Company in three focus fields: development of technological competencies, increasing organizational efficiency, meeting shareholder’s requirements and expectations.

To develop the corporate culture, unite the teams of the corporate center and subsidiaries, create a favorable working atmosphere, the Company holds social and cultural events: Children's Drawing Contest, family excursions, intellectual tournaments.
Social policy in the regions of presence

As part of its activities, Zarubezhneft JSC Group of Companies exerts a significant influence on the social and economic development of the regions of its presence. Therefore, the Company adheres to a policy of high social responsibility to local communities and the society.

Zarubezhneft JSC contributes to the sustainable development of the regions of its presence as an employer, taxpayer, as well as a significant participant in local economic activities.

In its interactions with these regions, the Group focuses on the development of local initiatives and social activities. Zarubezhneft JSC Group of Companies maintains constructive cooperation with local governing bodies and public organizations. Its subsidiaries annually conclude agreements with the regional administrations that regulate joint activities in the regions’ development.

The Group of Companies renders support to the socially-disadvantaged and carries out social and charity projects aimed at improving the health, education, living conditions, culture, sport and social infrastructure.

To establish unified approaches in terms of implementing charity and sponsorship activities, Zarubezhneft JSC has a corresponding Regulatory Document in force, in addition to a Commission that holds its regular meetings to consider the social nature of applications received by the Corporate Center and its subsidiaries. These tools are aimed at creating a maximally-efficient, simple and transparent mechanism for rendering help on the part of the Zarubezhneft Group of Companies to those in need.

The areas of charity and sponsorship activities include:
- Support for culture, sport and a healthy way of life for the local population;
- Conservation of cultural and historical heritage, and support for military and patriotic activities and events;
- Assistance to creative teams and artists;
- Support for the poor and financially disadvantaged layers of society, orphaned children, veterans and disabled people;
- Development of scientific and educational programs, as well as advanced vocational training programs;
- The organization of activities on the occasion of significant events in the fuel and energy complex.

In total, Zarubezhneft JSC Group of Companies allocated RUB 188.2 million for charity and sponsorship in 2018 (taking into account social and economic agreements signed with the administrations of the regions of subsidiaries and joint ventures presence).

In 2018, the volunteer movement development continued as part of the Young Experts Council work. Helping children on the eve of Children’s Day and New Year and congratulating the veterans of Zarubezhneft Group of Companies in celebration of Victory Day in the Great Patriotic War, as well as trips to the wards of “The joy of old age” fund have become traditional campaigns.

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Ecology management and rational use of resources is another important area of corporate volunteering. Employees also support such programs. Indeed, young experts of Zarubezhneft JSC and Zarubezhneft-Dobycha Kharyaga LLC managed to participate in an environmental campaign to restore the playground area at the Natural and Historical Park Bitsevski Park, organized jointly with the Directorate of the Park and Zapovedniki Eco Center. Young experts carried out meaningful work on the restoration of land cover on an area of 400 m2 from campfire site consequences: following the thorough cleaning, the volunteers “refreshed” the land by adding earth soil, also sowing it with grass and hedging the territory.

Holding volunteering and charity events helps contribute to forming the employees’ feeling of personal responsibility and encourages them to participate in public events. This is a unique part of the corporate culture that the Company supports and fosters.
Country-specific financial statements

Improvement of the corporate statement transparency in one of the high priority areas of improvement at Zarubezhneft JSC. Zarubezhneft JSC Group of Companies conducts its business in various countries. The financial and economic details by the regions of presence are listed below:

Indicators for the year ended on December 31, 2018, MM RUB

<table>
<thead>
<tr>
<th></th>
<th>TOTAL</th>
<th>Russian Federation</th>
<th>Vietnam</th>
<th>Cuba</th>
<th>Bosnia and Herzegovina</th>
<th>Belarus</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Income disclosure</td>
<td>301,234</td>
<td>176,768</td>
<td>75,053</td>
<td>90</td>
<td>48,987</td>
<td>7</td>
<td>328</td>
</tr>
<tr>
<td>2. CAPEX disclosure</td>
<td>37,914</td>
<td>19,473</td>
<td>17,241</td>
<td>422</td>
<td>779</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4. Income tax costs</td>
<td>18,233</td>
<td>4,865</td>
<td>13,344</td>
<td>4</td>
<td>19</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>5. Amount of community investments/charitable donations</td>
<td>280</td>
<td>185</td>
<td>92</td>
<td>–</td>
<td>3</td>
<td>–</td>
<td>0</td>
</tr>
</tbody>
</table>

Income Disclosure, Profit for Year and Income Tax Expenses indicators were generated considering the country-specific report prepared as per the legislation (Tax Code (Part 1), Chapter 14.4-1).

Capital Expenditure Disclosure and Amount of Social Contributions / Charitable Donations indicators were based on the management reporting.

Indicators for the Russian Federation and Socialist Republic of Vietnam were generated as per the indicators of the joint ventures located in these countries, which were reflected in the consolidated statements by the participation interest method.

Indicators are listed as per the Transparency International recommendations.

1 As of March 25, 2019
Consolidated indicators of Zarubezhneft JSC Group of companies

Total hydrocarbon production at Zarubezhneft Group of Companies (with interest), MTOE.

As per the results of the reporting period, the Company has demonstrated a steady trend in hydrocarbon production dynamics – at the level of more than 5 million tons of oil equivalent. The main production assets are still JV “Vietsovpetro” and LLC “JC “RUSVIETPETRO”, and ZARUBEZHNEFT-Production Kharyaga LLC.

Zarubezhneft Group of Companies reserves (with interest), MTOE

The level of reserves for Zarubezhneft JSC Group of Companies in 2018 was determined taking into account the planned reassessment of hydrocarbon reserves of JV “Vietsovpetro” fields.

Refining output at Zarubezhneft Group, thous. tons

The decrease in the volume of oil refining is stipulated by changes in the JSC Brod Refinery production program as a result of the emergency shutdown of the plant in October, 2018.

Exploration drilling volume, thous. m

By performing exploration works, the Company systematically expands its hydrocarbon resource base.
Indicators by the Company’s segments and assets, which are based on the national accounting data using the management adjustments, are listed below.

**Consolidated revenue trend at Zarubezhneft JSC Group of Companies, bln RUB**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>49.4</td>
<td>56.6</td>
<td>60.9</td>
<td>67.7</td>
<td>98.3</td>
</tr>
</tbody>
</table>

Significant revenue growth in 2018 was achieved due to favorable macroeconomic conditions and an increase in oil sales.

**Consolidated EBITDA trend at Zarubezhneft JSC Group of Companies, bln RUB**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>20.2</td>
<td>15.9</td>
<td>15.2</td>
<td>16.4</td>
<td>35.7</td>
</tr>
</tbody>
</table>

The positive dynamics of the operating efficiency of THE Upstream segment determined the growth of EBITDA consolidated indicator of 2018 by more than 2 times compared to 2017.

**Consolidated FCF trend at Zarubezhneft Group of Companies, bln RUB**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>7.9</td>
<td>8.6</td>
<td>10.2</td>
<td>13.5</td>
<td>25.9</td>
</tr>
</tbody>
</table>

The increase in the consolidated FCF in 2018 was due to receiving an additional income from JV “Vietsovpetro” and partial early repayment of loans and accrued interest of LLC “JC RUSVIETPETRO”.

Indicators by the Company’s segments and assets, which are based on the national accounting data using the management adjustments, are listed below.
Tax liabilities of subsidiaries of the Zarubezhneft JSC Group of companies

Taxation, along with such macroeconomic factors as fluctuations of the oil price and the Ruble exchange rate, significantly influences the performance of the Zarubezhneft JSC Group of Companies. The share of tax and other mandatory charges in the Production segment costs comprises 35% of the revenue.

The calculation and payment of tax and other mandatory charges by the Zarubezhneft JSC Group of Companies is conducted in strict compliance with the current legislation of the Russian Federation, Bosnia and Herzegovina and the Socialist Republic of Vietnam.

The subsidiaries of Zarubezhneft JSC perform their obligations to pay taxes, charges, duties, and insurance contributions to the budgets of all levels and non-budget funds of the Russian Federation in full.

The significant increase in tax payments in 2018 is primarily due to the increase in mineral extraction tax expenses, which occurred mainly as a result of the increase of the Urals price in ruble equivalent.

The structure of tax payments with regards to the Upstream and the Service and Other Assets segments differs significantly due to the presence of sectoral taxes in the Upstream segment (MET, export customs duties on oil, and royalties and state profit oil within Kharyaga PSA).

The total amount of tax and other obligatory payments within the Russian Federation in 2018 amounted to RUB 44,802 million, which is 68% more than the 2017 level, while 70% of all transfers account for the federal budget (FB) of the Russian Federation, 26% for consolidated budgets (COBs) of subjects and 4% for non-budgetary funds (NBFs).

The largest share in the structure of compulsory payments of mining companies is accounted for by the mineral extraction tax, export duty, income tax and state profitable oil according to KhPSA.

Bosnian region subsidiaries of the Zarubezhneft JSC Group of Companies are together the largest payers in the Bosnia and Herzegovina budget system. In 2018, the amount of payments to the budgets of all levels amounted to 252 million euros. The main burden of companies accounts for indirect taxes (excise taxes – 53%, VAT – 37%), social insurance contributions – 3% and other taxes make up 7%.
The main burden of servicing segment enterprises accounts for VAT, social insurance contributions and corporate income tax.

68% was the increase of the amount of tax and other mandatory payments in the Russian Federation increased compared to 2017.

Vietnamese assets of Zarubezhneft JSC make payments to the budget system of the Socialist Republic of Vietnam. In 2018, the amount of payments amounted to USD 1,263 million.
Geologic exploration and production of hydrocarbons (upstream)

The upstream segment is the key segment for the Zarubezhneft JSC Group of Companies. The company’s strategic development is based on improvement of asset performance and development of new prospective projects.

Consolidated indicators for the segment

The 2018 revenue level was 45% higher than for the previous year. The main factor behind the increase of this indicator was the growth of the average oil price (in 2017 – 16 thous. RUB/t, in 2018 – 23.3 thous. RUB/t) and the increase in sales from the main Russian assets – LLC JV RUSVIETPETRO and LLC ZARUBEZHNEFT Dobycha Kharyaga. On the part of JV “Vietsovpetro”, the significant growth of revenues is due to the increase of the contract price to 75 USD/bbl from May to November 2018 which resulted in a decrease of the JV’s share retained for costs recovery and, therefore, in profit growth.

Current portfolio of assets/projects in the segment

In 2018, Zarubezhneft Group of Companies owned 16 licenses, of which 9 were for prospecting and exploration of hydrocarbons, 2 licenses - for prospecting and evaluation of hydrocarbon deposits and 5 licenses - for geological survey, exploration and production of hydrocarbons. In the reporting year, the licenses of ULN 09135 NE of Slavkinskoye, ULN 14582 NE of Kondakovskoye were renewed for 20 years and NRM 16129 NE of Kharyaga field – for 15 years.
<table>
<thead>
<tr>
<th>Operator/mineral developer</th>
<th>Projects</th>
<th>Life cycle stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SOCIALIST REPUBLIC OF VIETNAM</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JV “Vietsovpetro”</td>
<td>Block 09-1, oil fields:</td>
<td>Exploration and Production</td>
</tr>
<tr>
<td></td>
<td>White Tiger, Dragon, White Hare, Polar Bear, White Cat</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Block 04-3,</td>
<td>Production</td>
</tr>
<tr>
<td></td>
<td>oil and gas condensate Thien Yng - Mang Kau Field</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Block 09-3/12</td>
<td>Exploration</td>
</tr>
<tr>
<td></td>
<td>Block 12/11</td>
<td>Exploration</td>
</tr>
<tr>
<td></td>
<td>Block 16-1/15</td>
<td>Exploration</td>
</tr>
<tr>
<td>PVEP</td>
<td>Block 42</td>
<td>Exploration</td>
</tr>
<tr>
<td>VRJ (Block 09-3)</td>
<td>Conjoint Plot of Block 09-3 and 09-1 South Dragon - Sea Turtle</td>
<td>Exploration and Production</td>
</tr>
<tr>
<td><strong>REPUBLIC OF CUBA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zarubezhneft JSC subsidiary</td>
<td>Boca de Jaruco oil field</td>
<td>Enhanced oil recovery</td>
</tr>
<tr>
<td><strong>RUSSIAN FEDERATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LLC “JC “RUSVIETPETRO”</td>
<td>Central Khoreyer Uplift Block 1, North-Khosedayu oil field</td>
<td>Production</td>
</tr>
<tr>
<td></td>
<td>Central Khoreyer Uplift Block 2, oil fields: Visovoye, Verkhnekolvinskoye</td>
<td>Exploration and Production</td>
</tr>
<tr>
<td></td>
<td>Central Khoreyer Uplift Block 3, oil fields: West-Khosedayu, Sikhoreyskoye,East-Sikhoreyskoye</td>
<td>Exploration and Production</td>
</tr>
<tr>
<td></td>
<td>Central Khoreyer Uplift Block 4, oil fields: Syurkharatinskoye, North-Oshkotynskoye, Puseyskoe, South-Syurkharatinskoye, Uremyrdskoye, East-Yanemdeyskoye</td>
<td>Exploration and Production</td>
</tr>
<tr>
<td>Zarubezhneft-Kharyaga production LLC</td>
<td>Kharyaga oil field</td>
<td>Production</td>
</tr>
<tr>
<td>Orenburgnefteotdacha JSC</td>
<td>Pashkinskoye oil field</td>
<td>Exploration and Production</td>
</tr>
<tr>
<td></td>
<td>Chernovskoye oil field</td>
<td>Production</td>
</tr>
<tr>
<td>Ul’yanovskneftegaz LLC</td>
<td>Ruzhevskoye oil field, Slavkinskoye oil field, Kondakovskoye oil field, Sulakskoye oil field</td>
<td>Production</td>
</tr>
<tr>
<td></td>
<td>Radischevskiy plot, Yuzhno-Pcheliniy plot</td>
<td>Exploration</td>
</tr>
<tr>
<td>North-Karasevskoye Petroleum</td>
<td>Lutseyakhskoye oil field</td>
<td>Exploration</td>
</tr>
<tr>
<td>Enterprise LLC</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
STATUS OF THE RESOURCES AND RAW MATERIALS BASE

The total initial geological reserves of hydrocarbons of A+B1+C1 and B2+C2 category of Zarubezhneft Group of Companies in Russia and abroad, excluding the Company’s ownership interest as of January 1, 2019, amount to 1,302.22 million tons of oil equivalent, the total initial recoverable reserves of hydrocarbons 477.1 million tons of oil equivalent. The total recoverable reserves of hydrocarbons, taking into account the Company’s ownership interest at the beginning of 2019, as for AB1+C1 category (for SRV fields, 2P category is taken into account) are 100,193 thousand tons of oil equivalent.


In the structure of reserves of A+B1+C1 category, 39% are the reserves of LLC “JC “RUSVIETPETRO”. The main share of hydrocarbon reserves is concentrated in the North-Khosedayu and the West-Khosedayu fields.

The share of reserves of JV “Vietsovpetro” is 37%, the main concentration is on the White Tiger and Dragon fields.

10.8% was the growth of the recoverable reserves in the Group in 2018 compared to 2017 which also accounts for the over-performance of the value planned for 2018 by 8,046 thousand t.o.e.

Current recoverable reserves (A+B1+C1) trend for Zarubezhneft Group of Companies, including the interest, MTOE

<table>
<thead>
<tr>
<th>Company</th>
<th>Plan 2018</th>
<th>Actual 2018</th>
<th>Deviation plan/actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>52,855</td>
<td>52,914</td>
<td>59</td>
</tr>
<tr>
<td>Vietnam</td>
<td>34,514</td>
<td>47,279</td>
<td>12,765</td>
</tr>
<tr>
<td>Other countries</td>
<td>4,778</td>
<td>–</td>
<td>–4,778</td>
</tr>
<tr>
<td>Total</td>
<td>92,147</td>
<td>100,193</td>
<td>8,046</td>
</tr>
</tbody>
</table>
In 2018, pilot works were carried out at Boca de Jaruco field to implement methods for enhancing reservoir recovery.

As a result of exploratory drilling in 2018, the increase in hydrocarbon reserves, taking into account Zarubezhneft JSC share totaled to:

- 1,011.8 thousand tons of oil equivalent at JV “Vietsovpetro”, based on the results of drilling the appraisal wells VN-1803, VN-49, VN-1903, MTD-2X (South-West section) and exploration wells VN-56 and VN-20V at White Tiger field;
- 83.64 thousand tons of oil equivalent in LLC “JC “RUSVIETPETRO” based on the results of drilling 2 holes of 5R exploration well and testing in lateral well No. 5_1, examination of the core from the previously drilled well No. 14R at South-Syurkharetinskoye field;
- 470 thousand tons of oil equivalent in Orenburgnefteotdacha JSC according to the results of drilling and testing an exploration well No. 3P at Pashkinskoye field.

Based on exploration and production wells drilling data for a period 2012-2017 of JV “Vietsovpetro” fields (White Tiger, Dragon, White Hare, Southern Dragon-Sea Turtle) a planned reassessment of hydrocarbon reserves was performed. According to the reassessment results, hydrocarbon reserves increment in category 2P amounted to 17,499 thousand tons of oil equivalent in total. In general, taking into account the reassessment carried out for East-Yanemdeyskoye and Sikhoreyskoye fields of LLC “JC “RUSVIETPETRO” and Kharyaga PSA, the reserves increment amounted to 12,783 million tons of oil equivalent in the reporting year.
GEOLOGIC EXPLORATION WORKS

The Company’s strategic goal is to carry out exploration operations and to expand its hydrocarbons resource base to ensure the further sustainable growth of hydrocarbon production in the medium and long term.

In 2018, exploration operations were carried out at facilities in the Socialist Republic of Vietnam and in the Russian Federation.

The volume of exploration drilling in 2018 came to 35.7 thousand meters. The main work task was to clarify the structures containing undrilled reserves at the existing fields, and to confirm the estimated reserves at the new blocks.

In the reporting year, the construction of seven exploration wells on the shelf of the Socialist Republic of Vietnam, two wells in the Nenets Autonomous District, and one well in the Orenburg region was completed.

Main Results of Exploration Drilling in 2018

<table>
<thead>
<tr>
<th>Project, operator, Plot Legal form and ownership interest</th>
<th>Project results in 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Socialist republic of vietnam</td>
<td></td>
</tr>
<tr>
<td>Block 09-1, JV “Vietsovpetro” shelf Intergovernmental agreement between Petrovietnam Oil and Gas corporation (51%) and Zarubezhneft JSC (49%)</td>
<td>10 wells were in drilling. Exploration work was carried out on White Tiger, Dragon and White Cat fields. 7 wells were completely constructed. According to the results of the work performed as of December 31, 2018, reserves increment was obtained in the amount of 2.065 million tons of oil in 2P category.</td>
</tr>
<tr>
<td>Block 09-3/12, JV “Vietsovpetro” shelf Oil and gas contract between JV “Vietsovpetro” (55%), PVEP (30%), Bitexco (15%)</td>
<td>CT-6X well was drilled on Ca-Tam structure (the well was completely constructed 2019).</td>
</tr>
<tr>
<td>Block 12-11, JV “Vietsovpetro” shelf Oil and gas contract of Zarubezhneft JSC (100%)</td>
<td>EF-1X well re-testing was performed after hydraulic fracturing. According to the work results, the commercial gas inflow was obtained. According to preliminary estimates, the increment in 2P category will amount to 2.464 million tons of oil equivalent.</td>
</tr>
<tr>
<td>Block 42 PVEP shelf Oil and gas contract between PVEP (51%) and JV “Vietsovpetro” (49%)</td>
<td>Drilling of PQ-1X exploration well has begun (the construction is expected to be completed in 2019).</td>
</tr>
<tr>
<td>Block 16-1/15, JV “Vietsovpetro” shelf Oil and gas contract between JV “Vietsovpetro” (51%), PVEP (29%), Bitexco (10%) and Sovco (10%)</td>
<td>CV-1X well was completely constructed. Of the four tested intervals, oil inflow was obtained only at facility 1 in lower Miocene sediments. Estimation of the reserves increment is underway (reserves are planned to be calculated in 2019). The work has begun on processing and interpretation of 3D PrSTM and PrSDM (1,710 km2) seismic data.</td>
</tr>
<tr>
<td>Russian Federation</td>
<td></td>
</tr>
<tr>
<td>Pashkinskoye Orenburgnefteotdacha JSC land License of Zarubezhneft JSC (100%)</td>
<td>Testing of 3p Pashkinskaya well was carried out. All facilities produced commercial oil inflows. The reserves were calculated, the increment of AB1C1 oil made 470 thousand tons.</td>
</tr>
<tr>
<td>Lutseyakhskoye, North-Karasevskoye Petroleum Enterprise LLC land License of Zarubezhneft JSC (100%)</td>
<td>Re-testing of well No. 70-Lutseyakhskaya was performed applying the HFF (200 tons of proppant) to reservoir Ah3-2 with further test operation until the end of the winter season, by the close of work, flow rate on a 18 mm choke was: 91.2 m3/day for liquid, 20.1 m3/day for oil.</td>
</tr>
</tbody>
</table>
HYDROCARBONS PRODUCTION

In 2018, the Company was still focused on supporting the production stabilization through the implementation of geological and technological, administrative and technical measures as per the production program.

Two fields of LLC "JC "RUSVIETPETRO" – Urernyrdskoye and South-Syurkharatinskoye were put into year-round operation. In general, 29 new wells were put into operation at Russian segment fields, a number of successful geological and technological measures were taken.

Production portion trend as per Zarubezhneft JSC geographic reach, %

Hydrocarbon production at Zarubezhneft Group of Companies (including interest), MTOE

Taking into account the share of Zarubezhneft JSC, hydrocarbon production in 2018 amounted to 5,149 thousand tons of oil equivalent (3.6% decrease against 2017). Whereby, the plan figure (5,054 thousand tons of oil equivalent) was exceeded by 1.9%. The decline in production was caused by the entry of large deposits of JV “Vietsovpetro”, White Tiger and Dragon into complex final development stage.

In 2018, JV “Vietsovpetro”, LLC “JC “RUSVIETPETRO”, and ZARUBEZHNEFT-Production Kharyaga LLC were still the main segment assets in the production structure.

Oil and gas condensate production, including Zarubezhneft’s interest, thous. tons

<table>
<thead>
<tr>
<th>Name</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>+ / -</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>2,035</td>
<td>2,075</td>
<td>2,209</td>
<td>2,299</td>
<td>2,357</td>
<td>58</td>
<td>1.2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2,691</td>
<td>2,612</td>
<td>2,520</td>
<td>2,441</td>
<td>2,109</td>
<td>-332</td>
<td>-18</td>
</tr>
<tr>
<td>Other countries</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>174</td>
<td>174</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>4,726</td>
<td>4,687</td>
<td>4,729</td>
<td>4,740</td>
<td>4,640</td>
<td>-100</td>
<td>-2</td>
</tr>
</tbody>
</table>
Socialist Republic of Vietnam

**BLOCK 09-1**

The development of Block 09-1 is carried out as per the Intergovernmental agreement dated December 27, 2010. The White Tiger and Dragon fields, as well as White Rabbit and White Bear developed by JV “Vietsovpetro”, are located 150 km from the shore of southern Vietnam.

The depletion rate of the Block 09-1 reserves is 83% with the average water-cut of 60%. The active stock comprises of 337 producers and 61 injectors.

**Development and production**

To maintain production levels in 2018, an extensive geotechnical jobs program was implemented, with additional production of 467.7 thousand tons of oil. The start-up increment as for well 7010 of White Tiger field has been a record during the entire history of hydraulic formation fracturing and is 141 tons/day. Measures for the development of the formation-pressure maintenance system have been developed and implemented. The integrated program includes both the transfer of wells to the injection well stock, and the use of non-stationary flooding.

In 2018, the commercial production of the Dragon field gas condensate reservoir continued. Natural gas production amounted to 179.8 million m³, with the planned value of 125.2 million m³. The overfulfillment of the natural gas extraction plan is due to the increase in production to maintain pressure in the gas-lift system of Dragon field.

In 2018, 9 new wells were drilled at Block 09-1 fields, 14 sidetrackings were performed. The accomplished production and exploratory drilling scope comply with the approved production program.

**Ownership structure, %**

- Zarubezhneft JSC: 51%
- Petrovietnam OGC: 49%

**Capital construction**

In 2018, capital construction work was mainly related to piping of X-trees of new wells and installation of additional slots at WHP. A number of desired operations were performed: modernization of the oil and gas accounting system at WHP-5 and WHP-8/17, reconstruction of CPP-2 to get an offing to use WHP-TNG natural gas as fuel (for FPM-40000 (stage II)) and other works envisaged by the approved capital construction plan.

**Hydrocarbons production, MTOE**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>5,968</td>
<td>5,809</td>
<td>5,871</td>
<td>5,745</td>
<td>4,847</td>
</tr>
</tbody>
</table>

Actual hydrocarbon production at Block 09-1 in 2018 amounted to 4,847 thousand tons of oil equivalent (16% decrease against 2017). The decline was due to a drop in production at the base stock owing to the entry of White Tiger and Dragon fields into the final development stage.
In the reporting period, the implementation of improving efficiency and cost optimization program did not fully restrain the increase in expenses due to the increase in fuel and lubricant materials costs owing to changes in the world oil price.

Most of capital expenses were presented by the expenditures for production and exploratory drilling.

According to the results of 2018, Zarubezhneft JSC profitability increased by 40% compared to the previous period and amounted to USD 197 million. The main factor of profitability increase is associated with an increase in oil prices in the reporting period compared with 2017 (+35% or USD 19.3 per barrel).

Prospects
The implementation of measures to reduce the production decline rate at Block’s fields and maintaining the annual oil and condensate production level within 3,000 thousand tons are the main tasks of the asset for the medium term. To compensate for the reduction in base production, 51 geological and technical measures are prearranged, including the drilling and commissioning of wells at the existing facilities of White Tiger field; drilling of sidetrackings to involve residual reserves of White Tiger, Dragon, White Bear, and White Rabbit fields. As part of the work with the base fund, it is planned to carry out hydraulic fracturing increasing the proppant load for enhancing oil recovery of low-productivity terrigenous reservoirs; to continue work on optimizing the formation-pressure maintenance system. It is planned to introduce electric centrifugal pumps (ESP) as part of Pilot Development Planning, which will allow reducing the gas-lift consumption and increasing the flow rate of existing wells in the future.
The work at Block 09-3 is being carried out as per the petroleum contract for the operation and development of Block 09-3’s reserves offshore SRV dated January 19, 2002 and the Nam Rong- Doi Moi (NR-DM) field Joint Development Agreement dated June 26, 2009. As per the terms of JDA, the participation share and production allocation from Blocks 09-1 and 09-3 in the NR-DM field unitization area amounts to 50% and 50% in each case.

In 2017 Idemitsu (15%) and PVEP (35%) withdrew from the Petroleum Contract and transferred their participating interests to Zarubezhneft JSC starting January 1, 2017. On September 6, 2018, the Government of Vietnam issues the investment certificate for the Block 09-3 authorizing the petroleum activities as per which Zarubezhneft JSC is the Contractor with 100% participating interest starting January 1, 012017.

Development and production
The main production at the Block is carried out from the crystalline basement fractured rocks. In June 2018, after a decrease in baseline oil production rate and testing of terrigenous sediments, well No. 423 was put into operation at the upper Oligocene. The total oil production since the operations commencement amounted to 1,078.09 thousand tons (in terms of VRJ). Reserves production is 56% with an average water cut of 59.6%. The producing stock - 17 production wells and 1 injection well.

In 2018, VRJ produced hydrocarbons to the extent of 94.3 thousand tons of oil equivalent. The decreasing trend in production at Southern Dragon - Sea Turtle field is mainly associated with a decrease in reservoir pressure. Despite this, the implementation of measures on optimizing the exploratory fund operation allowed exceeding the planned production (+13 thousand tons of oil equivalent).

Ownership Structure, %

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>131</td>
<td>124</td>
<td>104</td>
<td>99</td>
<td>94</td>
<td>5%</td>
</tr>
</tbody>
</table>

Hydrocarbons production, MTOE

+13 THOUSAND T.O.E.
was the over-performance of the planned production under results of 2018
Financial indicators
In 2018, as a result of controlling the expenses for workovers, purchasing chemicals, administrative and management costs, as well as owing to the performed work on reducing the rates for tariff operations (operation and maintenance, oil treatment, gas-lift and reservoir pressure maintenance) there was a decrease in operating costs in absolute terms. The specific figure for the actual value of 2018 amounted to 106.5 dollars per ton with 109.5 dollars per ton in 2017 (-2.7%).

Taking into account the increase in the world oil price and the work being conducted on cost optimization, the profitability of Zarubezhneft JSC increased by 3.1 million USD compared to the previous year.

Prospects
For the purpose of production stabilization, work is planned for a year of 2019 on equipping ESP units of two wells (well No. 3X RCDM, No. 422 RC-4), candidates have been selected for carrying out squeeze cementing technology (well No. 25, No. 406, and No. 407). In addition, as part of terrigenous sediments commingling program, an option is provided for conducting hydraulic fracturing in well No. 423. In case of a positive result, it is planned to increase the category of reserves of terrigenous reservoirs and to start the program for their commercial development.

OPEX, MM USD

<table>
<thead>
<tr>
<th>Year</th>
<th>OPEX, MM USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>20.2</td>
</tr>
<tr>
<td>2015</td>
<td>16.8</td>
</tr>
<tr>
<td>2016</td>
<td>11.7</td>
</tr>
<tr>
<td>2017</td>
<td>10.5</td>
</tr>
<tr>
<td>2018</td>
<td>9.8</td>
</tr>
</tbody>
</table>

△ 6 %
**BLOCK 04-3**

Block 04-3 is located in the northern part of the South Con Son basin offshore SRV, 280 km southeast of Vung Tau. The Thien Ung-Mang Cau structure is located within the bounds of Block 04-3.

A petroleum contract for Block 04-3 offshore the Socialist Republic of Vietnam between PetroVietnam OGC and Zarubezhneft JSC was signed on June 26, 2009. JV “Vietsovpetro” is the operator of this project.

Thien Ung WHP was commissioned on December 20, 2016, after the completion of drilling and testing of the gas condensate well 6-TU.

**Development and production**

The total gas production from the date of operation amounted to 267,430 million m³, gas condensate – 77,317 thousand tons. The producing stock is 3 production wells.

As part of the work program implementation in 2018, oil and gas contract participants agreed on “Regulation on the procedure for collecting and distributing the expenses of Block 04-3 in provision of gas treatment services at Dai Hung field at WHP Thien Ung, which makes it possible to fully present the expenses incurred for reimbursement.

The selling price of gas and condensate from Thien Ung field is determined by the executed oil and gas contract and amounts to 6.8 USD/MM BTU (+ 2% annual indexation). Taking into account the increase in gas sales volumes, Zarubezhneft JSC profitability on the project in the reporting year amounted to 5.6 million USD (49% share), which is higher than the previous year level by 0.4 million USD.

**Prospects**

In 2019, the new completion of well No. TU-8 and drilling the wells No. TU-10, TU-12 are planned to increase project efficiency and to obtain additional information for developing FDP of Thien Ung field, as well as to ensure the arranged levels of hydrocarbon production as per the Early Field Operation Project.
**BLOCK 12/11**

Block 12/11 is located within the South Con Son oil and gas basin, 350 km south-east of Vung Tau, with an area of 6,534 km². The sea depth is within a range of 70-120 m. A production sharing agreement between PetroVietnam OGC and Zarubezhneft JSC was signed on December 19, 2012; an investment certificate was issued on December 28.

**Prospects**

Drilling and testing of the fourth exploratory well at Block 12/11, interpretation of PSDM data of Thien Nga - Hai Au - E structure group, recalculation of hydrocarbon reserves after drilling is planned for 2019. The work is planned on drawing up a general development plan for ODP and pre-FEED fields for block arrangement to select cost-effective development scenarios and an optimal scheme for transporting the products of Block 12/11.

**Exploration and development**

**Capital investment, MM USD**

In 2018, as a result of testing the prospecting and exploratory well No. EF-1X with hydraulic fracturing at block 12/11, a commercial gas-condensate mixture inflow was obtained and the EF structure reserves were confirmed. As per PSA provisions for Block 12/11, all the work commitments of Phase I of prospecting and exploration stage have been fulfilled.
Republic of Cuba

The Boca de Jaruco field is located on northern coast of Cuba, 30 km from Havana. The 37 km² contract area is located in the northwest part of the field, 3.7 km west of the Boca de Jaruco village. It was discovered in 1969 and is operated by the Cuban state oil company CubaPetroleo.

Zarubezhneft JSC functions as a Contractor for the project as per the Agreement of International Economic Association (AIEA) dated June 24, 2011. The agreement will be valid 25 years and includes two stages: a period for pilot works set for 4 years (with the possibility of a 4 year extension) and the operation period. The return on investment for Zarubezhneft JSC is provided for by the terms of the AIEA.

On August 2018, Addendum No. 4 to AIEA entered into force, providing for the financing of local services and material and technical resources when conducting the pilot development at reservoir M for 2 years using the funds of the Special Account - the non-written off part of the debt of the Republic of Cuba as per the Agreement between the Government of the Russian Federation and the Government of the Republic of Cuba on settlement of the Republic of Cuba debt to the Russian Federation on loans given in the period of the former USSR dated October 25, 2013. In December 2018, the first payment was made for the services of Cuban contractors involved in project implementation, at the expense of the Special Account.

During 2018, a project was developed for the construction of wells on M formation with a horizontal end, laboratory studies were carried out and technologies for the treatment of M formation oil were selected.
Exploration and operation of facilities
In the reporting year, as part of the project scientific support, the work was completed on selection of an aquathermolysis catalyst to intensify on-site oil treatment and an experimental catalyst batch was produced for conducting the Pilot Development Planning.

In December 2018, the Work Program and the Budget for 2019 were approved for the project in the context of sources of financing - Zarubezhneft JSC own funds and of the Special Account funds.

Prospects
In 2018, a Memorandum of Understanding was signed between Zarubezhneft JSC and CubaPetroleo on the Assessment of Geological Resources and Prospects for the Development of Bituminous Oil Paleogene Deposits and Bitumen of Northern Cuba. The priority area of the production program for the nearest future is the start of drilling three horizontal wells and drilling completion in 2020. In addition, pilot projects are planned for catalytic on-site aquathermolysis using catalysts for on-site oil treatment.
Russian Federation

**LLC “JC “RUSVIETPETRO”**

LLC “JC “RUSVIETPETRO” is the major Russian production asset held by Zarubezhneft JSC.

Hydrocarbon production activities have been carried out from the assets in the Central Khoreyver Uplift in the Nenets Autonomous Area since September 2010.

**Development and production**

In 2018, hydrocarbon production by LLC “JC “RUSVIETPETRO” amounted to 3,202 thousand tons of oil equivalent, which is higher than the previous year level by 3% and the planned level by 0.3%. The production was carried out at Central Khoreyver Uplift fields: North-Khosedayu, Visovoye, Verkhnekolovinskoye, West-Khosedayu, Sikhoreyskoye, East-Sikhoreyskoye, North-Sikhoreyskoye, North-Oshkotynskoye, Syurkharatinskoye, South-Syrkharatinskoye, Urernyrdskoye, and East-Yanemdeyskoye.

To fulfill the production plan in the reporting period, geotechnical jobs program was implemented with additional production of 397 thousand tons; incl. 23 new wells were put into operation. The production drilling volume amounted to 73.6 thous. m. 20 wells were drilled, 19 wells were completely constructed, and 1 well was reconstructed.

**Financial indicators**

LLC “JC “RUSVIETPETRO” sells the extracted oil in the domestic and foreign markets through commission contracts, and also supplies oil for the in-field process needs under direct contracts. Due to constant monitoring of the market condition in the international and domestic oil markets, the Company is receptive to changes in demand, increasing its profitability.
The Company moved to completion phase of drilling the fields of Block No. 4, therefore the costs for drilling and geological exploration increased while the costs for the development of new fields of the western and north-western directions reduced.

In 2018, LLC “JC “RUSVIETPETRO” revenue amounted to RUB 72,717 million. (excluding the export duties), which is higher than in 2017 due to the positive influence of macroparameters, extension of export duty privileges, increase in turnover (+3%). The increase in EBITDA was preconditioned by the same factors.

Traditionally, the implementation of LLC “JC “RUSVIETPETRO” production program is carried out in close relation to the companies in “Service and other assets” segment: RMNTK Nefteotdacha JSC covers the demand for integrated services in drilling wells and the workover at Central Khoreyver Uplift fields, Zarubezhnefte stroymontazh LLC performs construction and installation work on the arrangement of oil fields, VNIIneft JSC and Giprovostokneft JSC carry out R&D works on searching for new technologies and reagents to improve the efficiency and reservoir recovery in Central Khoreyver Uplift conditions.

**Prospects**

In the medium term, the Company is mainly focused on reserves increment and increase in oil recovery, reliability of power supply to production facilities.

The goal of maintaining the production at the level of over 3 million tons is planned to be achieved through the implementation of an extensive geotechnical jobs program, which in 2019 includes 51 activities at the production well stock, including the commissioning of 13 new wells. It is also planned to conduct pilot works on testing new technologies for reservoir recovery enhancement.
KHARYAGA PSA

Zarubezhneft JSC entered into the Kharyaga PSA project with a 20% participating interest on January 1, 2010.

As per the Addendum No. 3 to the Agreement on development and oil production at the Kharyaga field under production sharing terms dated August 1, 2016, the Total E&P Russia has assigned 20% of its participating interest and operatorship in the project to a subsidiary of Zarubezhneft JSC – ZARUBEZHNEFT-Production Kharyaga LLC. As a result, the participants of Kharyaga PSA are as follows: Statoil Kharyaga AS (30%), Zarubezhneft JSC (20%), ZARUBEZHNEFT-Production Kharyaga LLC (20%), Total E&P Russia (20%), Nenets Oil Company JSC (10%).

Development and production

In 2018, ZARUBEZHNEFT-Production Kharyaga LLC reached its maximum production over the past five years - 1,564 thousand tons of oil equivalent. The result obtained is higher than the level of 2017 by 1.4% and higher than the planned figure by 5%. High results are a consequence of the performed work on optimization of the flooding system, which allowed reducing the rate of well watering, the integrated management of the formation-pressure maintenance system, and using enhanced oil recovery technology (EOR) for pumping polymer compositions to increase the sweep ratio.

In the reporting year, 4 new wells were put into operation with an additional production of 51 thousand tons and the first stage of EOR technology implementation for the injection of polymer compositions was completed to increase the sweep ratio with an additional production of 55 thousand tons.

Reserves production at the end of the reporting year was 45%, with an average water cut of 50%.
Commissioning
In 2018, ZARUBEZHNEFT-Production Kharyaga LLC completed the construction, installation and commissioning works and the main capital construction objects were put into operation:
- well pad EP-2;
- high-pressure water conduit Central Production Facility-pad EP-2, DU 200;
- HL (CL) 6kV "Central Production Facility-New shift camp".

In addition, work was completed on further assembling the facility “Substation 35/6 kW”, the cable rack was installed throughout the substation territory, Chemical and Analytical Laboratory building and the reagent warehouse were assembled.

AGGREGATE OF POSITIVE FACTORS (PRODUCTION VOLUME INCREASE, OIL PRICES GROWTH, EXPENSES DECREASE) ALLOWED INCREASING THE STATE’S PROCEEDS FROM THIS ASSET SIGNIFICANTLY,
**Financial indicators**

At the end of 2018, an improvement was recorded in all economic indicators.

Taking into account the increase in sales volumes (+71 thousand tons) and the increase in oil prices, the revenue for the reporting period was higher than that of the previous year by RUB 14.4 billion. Taking into account the continuation of the successful implementation of improving efficiency and cost optimization program in terms of EBITDA, a high result was also obtained (+6.4 billion RUB):

**Prospects**

One of the main tasks of the Company for the medium term is the maintenance of production levels above 1,400 thousand tons. To this end, a corresponding geotechnical jobs program has been developed, it is planned to continue work on the optimization of the flooding system and the use of EOR technologies.

The work has been under way on the implementation of the Gas Program, it is planned to achieve the level of APG usage of 95% by 2022.

**Total revenues of the state, MM RUB**

The actual level of capital expenditures amounted to RUB 8.5 billion, which generally corresponds to the approved 2018 Production Program. The main factors of cost escalation in the reporting period in relation to the level of 2017 are an increase in the rate of infrastructure facilities construction, as well as the implementation of the well drilling and reconstruction program using the sidetracking method.

Specific operating expenses in 2018 amounted to 1,795 rubles/ton, which is 8% lower than the previous year’s level. The steady trend towards a gradual indicator decrease has been maintained as a result of an increase in the Russian suppliers’ share after the transfer of ZARUBEZHNEFT-Production Kharyaga LLC functions and obtaining an opportunity to constantly work on improving efficiency and cost optimization program.

**Structure of the state’s revenues, MM RUB**

<table>
<thead>
<tr>
<th>State revenues</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalties</td>
<td>2,076</td>
<td>3,749</td>
</tr>
<tr>
<td>State profitable oil</td>
<td>10,391</td>
<td>16,383</td>
</tr>
<tr>
<td>Profit tax</td>
<td>2,099</td>
<td>3,310</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14,566</td>
<td>23,442</td>
</tr>
</tbody>
</table>
UL’YANOVSKNEFTEGAZ LLC

Ul’yanovskneftegaz LLC is an oil-producing asset concerned with prospecting, exploration and production in 5 licensed areas located in the Ul’yanovsk region. The production is conducted from Lower and Medium Carboniferous deposits, predominantly represented by terrigenous reservoirs.

The Ul’yanovskneftegaz LLC reserve recovery rate stands between 4% and 16% at the Kondakovskoye and Sulakskoye fields and is between 45% and 95% at the Slavkinskoye and Ruzhevskoye fields; the average oil water-cut from the fields ranges from 33.6 to 87%.

ACTUAL HYDROCARBONS PRODUCTION BY ULYANOVSKNEFTEGAZ LLC IN 2018 AMOUNTED TO 51.8 THOUSAND T.O.E. WHICH 20.6% HIGHER THAN IN THE PREVIOUS YEAR AND 22% HIGHER THAN THE PLANNED VALUE.

The achievement of the indicated production volume was ensured by stable operation of 2 new wells commissioned at the end of 2017, putting into operation the 1st well at Kondakovskoye field in March 2018, and commissioning the 1st new well at the Nizhnemazinskoye field in August 2018.
Financial indicators
The Company’s revenue for 2018 amounted to RUB 1,196 million, which is RUB 466 million higher than in 2017 due to an increase in sales and in oil price. EBITDA for the reporting period is 2 times higher than in 2017.

Program implementation to improve the efficiency and optimize costs in the reporting year was carried out by optimizing the staff number, reducing the time needed for production plants repair, reducing the cost of materials used in repairs, and reducing the cost of chemicals, fuel and lubricant materials.

Prospects
The main Company’s task is to implement measures aimed at keeping the achieved hydrocarbon production volumes and further work to reduce the operating costs.

Revenue, MM RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>365</td>
<td>600</td>
<td>597</td>
<td>730</td>
<td>1,196</td>
</tr>
</tbody>
</table>

EBITDA, MM RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>57</td>
<td>137</td>
<td>142</td>
<td>200</td>
<td>435</td>
</tr>
</tbody>
</table>

OPEX, RUB/t

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>2,979</td>
<td>2,847</td>
<td>3,806</td>
<td>3,312</td>
<td>3,227</td>
</tr>
</tbody>
</table>

According to the results of the Company’s activities in 2018, the unit operating costs decreased by 3% compared to 2017.
ORENBURGNEFTEOTDACHA JSC

Orenburgnefteotdacha JSC is an oil-producing asset that is engaged in prospecting, exploration and production at 3 license areas located in the Orenburg region. The production is conducted from Lower Carboniferous and Upper Devonian deposits represented predominantly by carbonate reservoirs.

The reserve recovery rates of Orenburgnefteotdacha JSC’s fields vary from 7% in the Chernovskoye field to 23% in the Kirsanovskoye field and 46% in the Pashkinskoye fields, with an average oil water-cut of 3–50%.

ACTUAL HYDROCARBONS PRODUCTION BY ORENBURGNEFTEOTDACHA JSC IN 2018 AMOUNTED TO 112.8 THOUSAND T.O.E. WHICH 3% HIGHER THAN IN THE PREVIOUS YEAR AND 14% HIGHER THAN THE PLANNED VALUE.

The main factors of increasing the production in 2018 were the commissioning of the first new well at Pashkinskoye field (by the end of the year, oil production made 6.9 thousand tons), as well as the performance of 4 geotechnical jobs programs on the wells of Pashkinskoye and Kirsanovskoye fields.
Financial indicators
The Company’s revenue in 2018 amounted to 2,505 million RUB, which is 49% higher compared to 2017. The main factors contributing to the increase are sales volume and oil prices growth.

Taking into account improving efficiency and cost optimization program, the EBITDA for 2018 is higher than the previous year by RUB 241 million.

Prospects
The main Company’s task is to implement measures aimed at keeping the achieved hydrocarbon production volumes and further work to reduce the operating costs.

Due to the commissioning of the Preliminary Water Discharge Unit at Pashkinskoye field and the increase in expenditures for maintenance, the specific OPEX for 2018 increased by 14% compared to the previous period.
SEVERO-KARASEVSKOYE PETROLEUM ENTERPRISE LLC

The Lutseyakhskoye oil field, with an area of 360.8 km², is located in the Nadym district of the Yamal-Nenets Autonomous Area in the Tyumen Region. The field was discovered in 2011 as a result of drilling of prospecting and appraisal well No. 70-Lutseyakhskaya.

A subsoil use license dated March 1, 2013, belongs to the Severo-Karasevskoye Petroleum Enterprise LLC. A Sales Agreement was signed between Dedaci Enterprises Limited and Zarubezhneft JSC (Zarubezhneft – Dobycha Samara LLC) in June 2016 to sell 100% participating interest in the Severo-Karasevskoye Petroleum Enterprise LLC.

Ownership Structure, %

<table>
<thead>
<tr>
<th>Year</th>
<th>SEVERO-KARASEVSKOYE PETROLEUM ENTERPRISE</th>
<th>Zarubezhneft LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2015</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2016</td>
<td>8</td>
<td>–</td>
</tr>
<tr>
<td>2017</td>
<td>69</td>
<td>–</td>
</tr>
<tr>
<td>2018</td>
<td>205</td>
<td>–</td>
</tr>
</tbody>
</table>

Capital investments, MM RUB

- 2014: –
- 2015: –
- 2016: 8
- 2017: 69
- 2018: 205

In 2018, 70-Lutseyakhskaya well was re-tested using the hydraulic fracturing (200 tons) on Ah3-2 formation with further trial operation until the end of the winter season. According to the work results, a decision was made to preserve the well.

A seismic survey was initiated to the extent of 270 km² in 2019.

Prospects

A further work program provides for geological exploration to clarify the geological structure of Lutseyakhskoye field, including CDPM 3D seismic exploration to the extent of 270 km² and drilling of 2 exploration wells (No. 71, 72), as well as the work on the preparation of an arrangement project for the trial operation period, drilling wells during the pilot production period.
Oil refining and marketing (downstream)

CONSOLIDATED RESULTS OF THE SEGMENT

According to the results of the segment operation in 2018, the segment revenue increased by 17% compared to the level of last year due to the increase in the average selling price of petroleum products sales against the rising global oil prices.

The growth of the investment program in 2018 amounted to 33% compared with 2017 due to the implementation of the priority project at Modriča Motor Oil A.D. on replacement of dewaxing plant filters.

SEGEMENT STRUCTURE

The project of Zarubezhneft JSC on reconstruction and modernization of enterprises in Oil Refining and Sales segment in Bosnia and Herzegovina started on February 2, 2007, in signing an agreement with the Government of the Republika of Srpska (Bosnia and Herzegovina) to acquire Bosanski Brod Refinery producing engine oil in Modriča city and a retail network of Nestro Petrol A.D., which owned 79 fuel stations at the time of purchasing.

The number of employees in the segment as a whole is optimized by 0.5% relative to the level of the previous year and made up 2020 people at the end of the reporting year. As for the level of 2014, the number of employees decreased by 18%.

The consolidated figure of segment operating efficiency for the reporting period amounted to +4.6 million euros. The positive figure value has been achieved during the last 3 years.

The segment includes the following companies:

<table>
<thead>
<tr>
<th>Company name</th>
<th>Main characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bosnia and Herzegovina, Republic of Srpska</td>
<td></td>
</tr>
<tr>
<td>OPTIMA Grupa d.o.o.</td>
<td>Purchasing oil, raw materials for motor oil production, wholesale and small-scale wholesale of petroleum products, motor oils and lubricants in the domestic and export markets</td>
</tr>
<tr>
<td>Brod Refinery A.D.</td>
<td>Oil refining, production of petroleum products</td>
</tr>
<tr>
<td>Modriča Motor Oil Plant A.D.</td>
<td>Production of base oils and paraffins, motor oils and lubricants</td>
</tr>
<tr>
<td>Nestro Petrol A.D.</td>
<td>Retail sales of petroleum products and related products</td>
</tr>
<tr>
<td>Russian Federation</td>
<td></td>
</tr>
<tr>
<td>Neftegazincor JSC</td>
<td>The main borrower of loan proceeds for the Project implementation, the owner of a controlling stake in BiH companies</td>
</tr>
</tbody>
</table>
THE OIL PRODUCTS MARKET, PRICING, AND COMPETITIVE ENVIRONMENT

This segment’s companies located in the Republic of Srpska produce oil products using their own capacities and sell them to the wholesale markets of Bosnia and Herzegovina and adjoining countries, as well as in the retail segment of the Republic of Srpska, Bosnia and Herzegovina.

The marketing of oil products through major distributors (traders) is a characteristic feature of the main marginal market of the segment production sale – market of Bosnia and Herzegovina (BiH). Along with the Optima Grupa d.o.o., such companies as INA, NIS, Petrol BH that supply oil products from the cross-border regions carry out their activities in BiH. Therefore, the BiH market is open to foreign (alternative) products. The background for the current situation is the absence of legal restrictions on the supply of imported fuel, which involves a simple procedure of company registration for the purpose of selling and purchasing oil products and does not require any licensing.

In addition to oil products produced by its neighboring countries (Croatia and Serbia), there is a significant quantity of products (Eurodiesel-5 and Gasoline-95) imported from distant countries, including small traders, in the BiH market. This creates an additional competitive environment in the south and southeast of BiH, where the main demand for oil products is concentrated.

The major wholesale suppliers in the market are: OPTIMA Group (26%), INA (39%), Petrol BH (13%) and NIS (11%). 12% belong to the other suppliers.

The volume of oil product sales by the OPTIMA Grupa d.o.o. in 2018 comprised 26% of the BiH market, which is 7% less than in the previous period. This decrease of the OPTIMA Grupa d.o.o.’s market share was caused by the absence of products for sale due to emergency shut-down of the Brod Refinery on October 10, 2018, as well as the high level of prices compared to those of the rivals and a focus on the cream skimming strategy for the purpose of increasing the profit from sales. Apart from this, the decrease of the market share is also influenced by the absence of protectionist measures regarding foreign rival companies in BiH, as well as significant logistics issues of the OPTIMA Grupa d.o.o.
The main factors of the wholesale oil products price in the market of Bosnia and Herzegovina and in the region as whole are:

- Oil product quotations as announced by Platt’s European Market scan;
- Price premiums for each type of oil product.

The dynamics of Platt’s quotation is highly dependent on the price of crude oil. The difference between the crude oil price and the oil product price (market spread) provides the refining margin.

In 2017, the increase of the average spread calculated for by the standard quoted basket oil products decreased in comparison to the previous period was 5%.

Price premiums in the oil product market are defined by the supply and demand, and alternative possibilities for the buyer amid stiff competition between several producers and traders in Bosnia and Herzegovina. Unlike Russia, the BiH and regional market is a buyer’s, not a seller’s market; therefore, the possibilities to form prices by producers/sellers are significantly lower.

In 2018, the average price of premiums by basket of oil products sold by the OPTIMA Grupa d.o.o. increased by 8%, compared to 2017. The increase of premiums occurred both in the domestic market and in the export sale of oil products.

The domestic market of Bosnia and Herzegovina provides a positive premium value for sold oil products and this is the main outlet for marketing the products of this segment. The export market had a negative premium value for oil products during the entire period of this segment’s activity in the region.

In the reporting year OPTIMA Grupa d.o.o. and NIS (Gaspromneft Serbia PJSC) signed a contract for the delivery of light oil products. In the framework of the contract performance 60 500 tons of oil products were sold additionally. The revenue amounted to approximately 62.6 MM EUR. Considering the positive dynamics under the results of 2018, it is planned to develop this area of activities further: in 2019 the planes volume of oil products trading amounts to 130 000 thousand tons of light oil products and 45 000 tons of bitumen. The estimated revenue from the contract is planned to reach 98 MM EUR, income – around 1 MM EUR.

![Oil Product Premiums for Export, USD/t](chart)

### Market Spread for the Basket of Quoted Oil Products, USD/t

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums</td>
<td>55</td>
<td>53</td>
<td>50</td>
<td>43</td>
<td>47</td>
</tr>
</tbody>
</table>

▲ 6 %

### Premiums for the Basket of Oil Products in the Reporting Period, USD/t

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums</td>
<td>47</td>
<td>58</td>
<td>42</td>
<td>54</td>
<td>56</td>
</tr>
</tbody>
</table>

▲ 5 %

### Oil Product Premiums in the Domestic Market, USD/t

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums</td>
<td>33</td>
<td>35</td>
<td>32</td>
<td>24</td>
<td>26</td>
</tr>
</tbody>
</table>

▲ 8 %
**BROD REFINERY A.D.**

The Brod Refinery A.D. is the main production asset in the Downstream segment.

The Brod Refinery A.D. started its refining activity in Bosnia and Herzegovina in 1968. It has been a member of the Zarubezhneft Group of Companies since 2007.

The Brod Refinery A.D. is the only oil-refining complex in Bosnia and Herzegovina.

The products produced by the Refinery include the following types of oil products:
- Motor gasoline;
- Diesel fuel;
- Bitumen;
- Fuel oil;
- Heating oil;
- Liquefied gas;
- Raw materials for base oils and paraffin production.

**Operational indicators**

The volume of oil refining in 2018 amounted to 675 thousand tons, which is 23% below the level of 2017.

The decrease in oil refining is stipulated by changes in the plant production program due to an emergency shutdown in early October 2018.

The yield of light oil products is 1.4% lower compared to the previous period due to a decrease in the actual volume of oil refining, and a high density of oil grades processed at the plant.

Single index of fuel consumption for own needs and technological losses in 2018 was 1.1% more than the previous period due to a decrease in the oil refining volume.

**Financial performance**

The main part of investments in 2018 aimed to the workover and replacement of equipment. The total investments amounted to 7.2 million euros.
As part of the implementation of 2018 Investment Program, the following activities were performed:

- the design of “Replacement of Burners at Oil Refinery furnaces” facility was completed, burners have been delivered to section 06, tender procedures have been started for burners for section 31 and section 04;
- the design of “Modernization of the raw materials supply system at the vacuum gasoil hydro cracking plant (section 05)” facility was completed; equipment (charging pump) was delivered;
- the fabrication of equipment for the facility “Replacing the internal devices of 31C07 column on section 31” has begun (an advance has been paid);
- the construction of the facility “Construction of fencing and pallets for tank basin (B-27, T-01)” was completed;
- the audit of the design documentation for the facility “Automated System of Level Measurement in the Tank Battery” was completed;
- the design of “System of Drainage from Reservoirs”, “Modernization of a floating boom of the quay on the Sava river”, “Installation of a backup pump at section 61” facilities was completed;
- the facility “Modernization of oil sludge treatment unit at section 65” was placed into operation;
- equipment for the Mineral Fertilizer Plant was procured and refinery technological plants and auxiliary facilities were repaired as per the production program;
- energy audit of refinery plants has been completed;
- catalysts at units of sections 05 and 35 were regenerated, the main catalyst for the plant of section 35 was purchased;
- the development of design documentation for the project “Update of Hydrogen Scheme of Refinery Plants” has begun;
- the development of technical and financial viability on the facility “Flare Reconstruction” has started.
MODRIČA MOTOR OIL A.D.

The Modriča Motor Oil A.D. is an asset engaged in oil distillate processing and motor oil and lubricant production.

The Modriča Motor Oil A.D. started its production activity in the territory of Bosnia and Herzegovina in 1957. It has been a member of the Zarubezhneft Group of Companies since 2007.

The Modriča Motor Oil A.D. is the only oil and lubricant production plant in Bosnia and Herzegovina.

The range of the oil refinery’s products amounts to over 220 items. Currently, the Modriča Motor Oil A.D. is producing the following types of products:

- Base oils;
- Paraffin;
- Lubricants and liquids for motor vehicle equipment;
- Lubricants and liquids for industrial units;
- Motor oils for gasoline and diesel engines;
- Industrial oils and liquids for metal working;
- Lubricant greases.

The Modriča Motor Oil A.D.’s products are certified by major motor vehicle and industrial machinery producers (such as Audi, Volkswagen, BMW, Daimler-Chrysler, Opel, Scania, Volvo, MAN, Caterpillar, John Deere, etc.), as well as by South Korean companies such as Hyundai and KIA Motors that are actively operating in the European market, which helps increasing the competitiveness of its products.

Operational Indicators

In 2018, the volume of oil distillate processing made 32.9 thousand tons, which is 29% lower than the level of 2017. The decrease in refining volume is due to the reduction in oil refining at Brod Refinery A.D.

The volume of production of motor oils and lubricants in 2018 also declined relative to 2017 and amounted to 11.8 thousand tons (-9%) due to the refusal from manufacture of oils on specific orders based on BBU.

In 2018, the Company continued the implementation of measures aimed at improving the reliability of equipment operation and the efficiency of production activities. Projects have been implemented on replacing vacuum filters on the base oil dewaxing plant and repairing three filling and packaging lines.
Financial performance
The main indicators of Modriča Motor Oil A.D. operating efficiency in 2018 reflect an objective change in activity conditions.

As part of the Investment Program implementation in 2018:
- vacuum filters on the oil dewaxing unit were replaced;
- the work on replacing physically worn-out equipment on three packing lines (in 1 L bottles and 4 L cans) was performed;
- worn-out equipment at production facilities was regularly replaced.

A decrease in revenue is due to the reduction in the volume of oil distillate processing.

The reduction in operating expenses in 2018 was due to a decrease in the cost of electricity and fuel due to a reduction in oil distillate processing.

IN 2018 THE COMPANY CARRIED ON IMPLEMENTING THE MEASURES AIMED AT IMPROVING THE EFFICIENCY OF PRODUCTION ACTIVITIES.

1 For a purpose of data comparability, OPEX in 2012–2014 did not include the cost of raw materials and supplies for production of motor oils and lubricants (since July 2014, the refinery switched over to processing).
OPTIMA GRUPA D.O.O.

The OPTIMA Grupa d.o.o. is a commercial asset in the Downstream segment that is engaged in the purchase of hydrocarbon raw materials for processing at refineries, raw materials for motor oil production at oil and lube plants, and further wholesale distribution of finished products from oil production plants and refineries within the territory of Bosnia and Herzegovina, as well as in adjoining countries.

Operational indicators
In 2018, OPTIMA Grupa d.o.o. continued to implement the policy of petroleum product sales aimed at increasing the end customer segment and maintaining the share of fuel sales in the domestic market.

Oil product wholesale volume, thous. t

The total volume of petroleum products wholesale in 2018 amounted to 674 thousand tons, which is 7% lower than the level of 2017 due to a change in the sales schedule owing to an unplanned shutdown of Brod Refinery A.D. in October 2018.

The structure of petroleum product sales by target markets in the reporting year shows an increase in domestic sales (71%) compared to the previous period (70%).

According to the results of commercial activities in 2018, the share of refinery products sold by OPTIMA Grupa d.o.o. in the market of Bosnia and Herzegovina amounted to 26%.

Ownership Structure, %

In the domestic market
For export

Oil product market share in Bosnia and Herzegovina, %
The volume of sales of base oils and paraffins amounted to 31.2 thousand tons, which is 9% lower than 2017 level. The main reason for the deviation is a decrease in demand in the Serbian market and a lack of finished products with a decrease in the volume of raw material processing at oil refineries.

Sales volume of motor oils and lubricants in 2018 decreased by 7% compared to the level of 2017, which is a consequence of a decrease in demand for seasonal products. The share of motor oils and lubricants sold in the market of Bosnia and Herzegovina was 38% in 2018, which is 2% less than in 2017 due to a decrease in sales of products to buyers on a tender basis against a decline in commercial production. Moreover, the sales volume of the product "Permant" was reduced in 2018, which was a result of frequent adverse weather conditions and lower competitive pricing.

Financial performance
The key performance indicators of OPTIMA Grupa d.o.o. in 2018 reflect the impact of macroeconomic conditions.

OPTIMA Grupa d.o.o. revenue in 2018 was 23% higher than the level of 2017 due to the growth in average selling prices due to the world oil price dynamics, as well as additional sales of petroleum products via the trading channel.

In the reporting year, the amount of the general business expenses of the Company is 18% lower than the level of 2017 due to a decrease in expenses for certain items of expenditure - payroll, banking services, consulting services.
Nestro Petrol A.D. is a commercial asset of the Downstream segment that is engaged in the retail sale of basic types of products produced by the Brod Refinery A.D. and the Modriča Motor Oil A.D.

The Company owns production assets in the territory of Republic of Srpska, Bosnia and Herzegovina. A retail fuel station network was established in 1945, which operates as a member of Zarubezhneft Group of Companies since 2007.

The retail sale of oil products, as well as additional items, is carried out through the retail chain, which made up of 86 currently operating fuel stations.

The volume of sales of petroleum products through gas station network in 2018 was 1% lower than the level of 2017 due to the adaptation of the market to the increase in retail fuel prices associated with an increase in excise taxes since February 1, 2018.

The number of functioning gas stations at the end of 2018 decreased by 1 station compared to the previous period.

### Operational indicators

#### Number of fuel stations, pcs.

<table>
<thead>
<tr>
<th>Year</th>
<th>In operation</th>
<th>On lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>84</td>
<td>9</td>
</tr>
<tr>
<td>2015</td>
<td>87</td>
<td>9</td>
</tr>
<tr>
<td>2016</td>
<td>87</td>
<td>9</td>
</tr>
<tr>
<td>2017</td>
<td>87</td>
<td>9</td>
</tr>
<tr>
<td>2018</td>
<td>86</td>
<td>9</td>
</tr>
</tbody>
</table>

#### Oil product retail sales, thous. t

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>98.7</td>
<td>100.3</td>
<td>100.9</td>
<td>98.5</td>
<td>97.4</td>
</tr>
</tbody>
</table>

\[1\%\]
The main indicators of the operating efficiency of Nestro Petrol A.D. in 2018 demonstrate a positive trend relative to the level of 2017.

The sales revenue in 2018 exceeded the 2017 level by 15%; the increase was due to a growth in the average retail fuel price.

The absolute amount of operating expenses in 2018 increased by 2% compared to 2017 due to an increase in maintenance expenditures for gas stations.

Revenues from the sale of additional goods at gas stations increased in comparison to the previous period by 3%, which had a positive impact on the Company’s operating efficiency.

The net cash flow of Nestro Petrol A.D. in 2018 was slightly higher than that of the previous year (+13%).

The main areas of investment financing in 2018:
- fuel station reconstruction;
- fuel station equipment with double-walled tanks (2 fuel stations);
- substitution of filling station dispenser by fuel station (3 fuel stations);
- installation of gas equipment at fuel stations;
- installation of commercial equipment in stores and cafes at fuel stations.

The sales revenue in 2018 exceeded the 2017 level by 15%; the increase was due to a growth in the average retail fuel price.
The absolute amount of operating expenses in 2018 increased by 2% compared to 2017 due to an increase in maintenance expenditures for gas stations.
Service and other assets

CONSOLIDATED SEGMENT INDICATORS

Consolidated segment indicators were formed based on the actual financial statements.

Revenue, MM RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>5,310</td>
<td>8,675</td>
<td>11,920</td>
<td>13,437</td>
<td>15,572</td>
</tr>
</tbody>
</table>

EBITDA, MM RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>286</td>
<td>556</td>
<td>855</td>
<td>1,290</td>
<td>988</td>
</tr>
</tbody>
</table>

Average headcount, persons

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1,898</td>
<td>1,853</td>
<td>1,969</td>
<td>2,008</td>
<td>1,896</td>
</tr>
</tbody>
</table>
Arktikmorneftegazrazvedka JSC is a Company that renders services in the oil and gas sector.

Activities
The priority region of the Company’s activities is in South-East Asia where it participates in prospective projects for drilling the wells offshore the Socialist Republic of Vietnam.

The main line of AMNGR JSC’s development is the implementation of Zarubezhneft JSC’s projects for offshore wells construction as a drilling contractor.
Performance in 2018
In 2018, Arktikmorneftegazrazvedka JSC obtained the following performance results:
- Ensuring the operation of the jack-up "Murmanskaya" for 225 days for the construction and testing of exploratory wells 1903 (Block 09-1) and EF-1X (Block 12/11).
- Also the historical name for the drilling vessel "Valentin Shashin" was returned under the RF colors.
- Optimization of operating expenses by reducing the costs for the personnel of the jack-up, transport costs and other production expenses;
- Development of the Industrial Engineering Education School business stream: 4,418 people were trained (30% of growth compared to 2017), including 972 people on remote courses (71% growth compared to 2017), an increase in the remote courses base from 13 to 19 disciplines, entry into the international market has been done, two courses for foreign customers were held.

<table>
<thead>
<tr>
<th>Arktikmorneftegazrazvedka JSC assets</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. “Murmanskaya” jack-up</td>
<td>Year made/modernization      1991/2013</td>
</tr>
<tr>
<td>Self-elevating drilling rig, capable of drilling wells up to 6,000 m deep with a maximum sea depth of 100 m</td>
<td>Dimensions               109 x 68 м</td>
</tr>
<tr>
<td></td>
<td>Accommodations         84</td>
</tr>
<tr>
<td>2. Valentin Shashin DV</td>
<td>Year made/modernization  1982/2014</td>
</tr>
<tr>
<td>Drilling vessel (DV) capable of drilling wells up to 7,000 m deep with a maximum sea depth of 1,715 m</td>
<td>Dimensions               149 x 28 м</td>
</tr>
<tr>
<td></td>
<td>Accommodations         116</td>
</tr>
</tbody>
</table>

3. The coastal infrastructure of Arktikmorneftegazrazvedka JSC includes:
- Maintenance engineering area - (Kola City, Kildinskoe highway, 2),
- Industrial Engineering Education School.
The decrease in revenue in 2018 in regards to the previous period is due to the early repair of “Murmanskaya” jack-up to obtain a Grade to fulfill the relevant requirements of supervisory authorities and an earlier need for the jack-up to work on Block 12/11.

The reduction in operating expenses is due to changes in schedules of “Murmanskaya” jack-up and the down time of V.Shashin DV.

In 2018, Arktikmorneftegazrazvedka JSC retained Company’s headcount target value set by the Corporate Center.
GIPROVOSTOKNEFT JSC

Giprovostokneft JSC is an industry-level design and engineering company focused on integrated survey and general design of facilities at all field development stages (exploration, development, facilities construction and production) to ensure the most efficient hydrocarbon resource recovery.

Activities
The main activity of Giprovostokneft JSC is designing and engineering surveys of oil production, treatment and transportation facilities. The Company has plenty of experience in various areas - developing concepts for elaboration of oil and gas companies assets (individual fields and clusters of raw hydrocarbon fields), research practice in the area of drilling and developing projects for well construction, consulting services on construction project management, and also is a scientific and technical center of Zarubezhneft Group of Companies competences in the following areas:
- drilling engineering,
- integrated design,
- arrangement of technically complex facilities,
- development of regulatory and procedural guidelines in the field of oil and gas production,
- pricing and rating in design and construction.

Performance in 2018
In 2018, the total revenue from survey and design works, academic research work, designer supervision and other works (services) on primary activities of Giprovostokneft JSC amounted to RUB 1,609 million, including the work carried out using its own resources in the amount of RUB 1,229 million, by subcontractors in the amount of RUB 380 million.

Ownership Structure, %

1,609 MM RUB

is the revenue in 2018, which is 7% higher than in 2017 owing to the increase of the operations’ scope performed with in-house capacities.

The increase in EBITDA compared to 2017 was due to an increase in the amount of work performed in-house. The increase in operating expenses is due to the reflection of irrelevant costs in accountancy 2018.
VNIINEFT JSC

VNIIneft JSC is a leading industrial institute specializing in oil fields development.

Activities

The primary activities of VNIIneft JSC are scientific and technical support of Zarubezhneft JSC projects, R&D aimed at overcoming the current technical and economic thresholds up to displ. ratio and sweep ratio in hydrophobic carbonate reservoirs, creating and improving modern methods of enhancing oil recovery, laboratory studies of core and formation fluids, elimination of the Company’s licensing risks, work in the field of oil and gas reserves calculation and designing Oil and Gas Field Development, training on further vocational education program.

Performance in 2018

In 2018, the following strategic tasks and projects were completed:

- research and development works (R&D) on studying the structure of pore spaces was completed;
- compounds of surfactant-polymer flooding were tested (in collaboration with BASF, Solvay, RSU of Oil and Gas, and KFU);
- gas pumping was performed to assess the effectiveness of use at LLC “JC “RUSVIETPETRO” fields;
- the potential effectiveness of ion-modified water for optimizing the injection to carbonate reservoirs was experimentally confirmed;
- three-phase filtration tests were carried out, a linear model was adjusted, the combustion characteristic were determined;
- a program was drawn up with polymer injection at Kharyaga field;
- high rates of oil recovery by steam at the core of M formation at Boca de Jaruco field were experimentally obtained;
- support of innovation activities and innovative development program (IDP) of Zarubezhneft JSC was carried out;
- a new focus area on studying the reagents for chemicalization of the fields of Zarubezhneft Group of Companies was organized;
- the work was performed on calculating the geological reserves of oil, dissolved gas and related components and the Process scheme for the development of East-Yanemdeyskoye field was developed;
- the work was performed on calculating the geological reserves of oil, dissolved gas and related components and a Supplement to the process scheme for the development of the Sikhoreyskoye and Kharyaga fields of LLC “JC “RUSVIETPETRO” was drawn up;
- on-going calculation of oil and dissolved gas reserves of South-Syurkharatinskoye field of LLC “JC “RUSVIETPETRO” was carried out;
the prospecting survey unit of the technical research center performed an operational assessment of reserves increment for exploratory drilling, in particular, the prospecting survey program of Block 09-1 was prepared taking into account seismic inversion results;

- the project groups on the projects JV “Vietsovpetro”, ZARUBEZHNEFT-Production Kharyaga LLC, LLC “JC “RUSVIETPETRO” are staffed by 95%. The main tasks include the analysis and optimization of the current development state, the construction of operational geological and hydrodynamic models, as well as the formation of a geological and technical measures rating;

- assessment and development of the Middle East projects was performed, which ensured the accession into these assets;

- the institute development strategy was prepared and approved (including, as part of the 75th anniversary celebration, a series of events was carried out to shape the image of VNIIneft JSC);

- more than 10 students undertook an internship, followed by employment.

In the structure of income received from the implementation of all types of activities, the greater relative weight traditionally accounts for income from R&D deliverables.

**Prospects**

In 2018, VNIIneft JSC Development Strategy was developed and approved for the period of 2018-2022. The main goal of the Company in the medium term is to create the leading sectoral research institute of the Russian Federation in the sphere of enhanced oil recovery methods (EOR) and carbonate fields, forming an ideology of elaboration in these fields and being the main expert. The focal point is focused on the development of the infrastructure and technical potential of the Company.

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Revenue, MM RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>426</td>
</tr>
<tr>
<td>2015</td>
<td>379</td>
</tr>
<tr>
<td>2016</td>
<td>475</td>
</tr>
<tr>
<td>2017</td>
<td>623</td>
</tr>
<tr>
<td>2018</td>
<td>712</td>
</tr>
</tbody>
</table>

The increase in revenue in 2018 compared to 2017 was due to an increase in the scope of work of the technical research center owing to changes in the structure and volume of filling the stock of orders, including in Zarubezhneft Group of Companies.

OPEX, MM RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>OPEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>241</td>
</tr>
<tr>
<td>2015</td>
<td>249</td>
</tr>
<tr>
<td>2016</td>
<td>279</td>
</tr>
<tr>
<td>2017</td>
<td>396</td>
</tr>
<tr>
<td>2018</td>
<td>471</td>
</tr>
</tbody>
</table>

The increase in operating expenses in the reporting year is associated with an increase in the scope of subcontracting services.

Average headcount, persons

<table>
<thead>
<tr>
<th>Year</th>
<th>Headcount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>165</td>
</tr>
<tr>
<td>2015</td>
<td>166</td>
</tr>
<tr>
<td>2016</td>
<td>173</td>
</tr>
<tr>
<td>2017</td>
<td>167</td>
</tr>
<tr>
<td>2018</td>
<td>161</td>
</tr>
</tbody>
</table>

Taking into account the Company’s objectives, in 2018, the production staff was redistributed towards the staff increase in the field “Scientific and Technological Center”. In general, the average headcount corresponds to the existing business processes.

---

712 MM RUB

is the revenue in 2018, which is 14% higher than in 2017 owing to the increase of the work scope.
RMNTK NEFTEOTDACHA JSC

RMNTK Neftohtdacha JSC is an enterprise that performs a wide range of oilfield services (well workover and maintenance, integrated drilling services, geological engineering studies, hydrodynamic studies, etc.), including technical and personnel support for service work.

In addition, the Company performs a function of an operator in terms of pilot projects and introducing steam-thermal methods of increasing oil recovery at the fields of Zarubezhneft Group of Companies and beyond.

Activities

The production activities of RMNTK Neftohtdacha JSC are performed in the following fields:

Zarubezhneft JSC Group of Companies:

- On the territory of the Arkhangelsk region (Nenets Autonomous District), at the fields of LLC “JC “RUSVIETPETRO”, and on the territory of Kharyaga PSA, on the facilities of ZARUBEZHNEFT-Production Kharyaga LLC, the oilfield services are being carried out:
  - integrated service in drilling,
  - production well maintenance and well workover,
  - geological and technological research,
  - reservoir testing,
  - hydrodynamic well research,
  - drilling supervision,
  - repair and insulation works,
  - implementation of enhanced oil recovery methods

External customers:

- The facilities of RN-Yuganskneftegaz LLC are supervised during the construction of production and exploratory wells under separate service conditions.

Ownership Structure, %

<table>
<thead>
<tr>
<th>RMNTK</th>
<th>Zarubezhneft JSC</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>121%</td>
</tr>
</tbody>
</table>
Performance in 2018

Revenue, MM RUB

- 5% growth in revenue compared with the previous year was due to an increase in the scope of work on the well workover and maintenance, well intervention works by using the cable technology, and an increase in the scope of work on drilling supervising.

OPEX, MM RUB

- The increase in operating expenses is stipulated by the commissioning of the 2nd wells servicing and workover brigade (March 2018) and the 2nd cable work brigade (June 2018) at the facilities of ZARUBEZHNEFT-Production Kharyaga LLC, and also due to the arrangements for the drilling rig start. The scope of work was carried out as per the approved plan for 2018.

Prospects

- In the medium term, the main scope of work of RMNTK Nefteotdacha JSC is related to the provision of integrated services in drilling and workover at the fields of LLC “JC RUSVIETPETRO” and ZARUBEZHNEFT-Production Kharyaga LLC.

- The Company’s focal point is focused on the load of its own production facilities, increase in the development coefficient of wells servicing and workover teams, reduction of unproductive time, operational efficiency control, and access to foreign markets.
ZARUBEZHNEFTESTROYMONTAZH LLC

Zarubezhneftestroymontazh LLC is a Company that performs the organization of construction, reconstruction, overhaul, construction control, and preparation of design documentation, engaged by developers or customers, based on a general contractor agreement.

Activities
The main activities of Zarubezhneftestroymontazh LLC in 2018:
- arrangement of the fields of LLC “JC “RUSVIETPETRO” of the Central Khoreyver Uplift and Kharyaga field of ZARUBEZHNEFT-Production Kharyaga LLC;
- construction of a preliminary water discharge unit for formation pressure increasing system at Pashkinaskoye field of Orenburgnefteotdacha JSC;
- provision of engineering services and performance of work on supply of materials at the Boca de Jaruco field, the Republic of Cuba, as part of the arrangement of the pilot works site.

Performance in 2018
Compared to 2017, in the reporting year, the scope of work performed with Company’s own efforts was expanded: the work started on anticorrosion treatment, heat insulation and thermal treatment of welded joints, a station for admission testing of welders was organized.
The main stock of orders of Zarubezhneftestroymontazh LLC is focused on customers within the Zarubezhneft Group of Companies. The total revenue amount for the reporting year amounted to RUB 3,977 million. The decline of 6% compared to last year was due to a change in the scope of capital construction for the main customers (LLC “JC “RUSVIETPETRO” and ZARUBEZHNEFT-Production Kharyaga LLC), incl. on dumping sites and roads, construction of oil and gas pipelines and water conduits, construction of high voltage power lines and winter roads.

The decrease in operating expenses in 2018 made 4%, or RUB 121 million, including subcontracting services.

A part of the construction and installation work was carried out solely by Zarubezhneftestroymontazh LLC, the management organ for construction and installation work and the radiographic and visual-measuring control laboratory. The work was carried out in-house at the Central Khoreyver Uplift and Kharyaga Field facilities.

In 2018, the Company constructed 26 km of pipelines and 18 km of high-voltage lines, and also performed works on dumping sites and roads covering 377 thousand m³. The Company built 125 km of winter roads using its own resources.

Prospects
In the medium term, the main focus of Zarubezhneftestroymontazh LLC is increasing the competences for development of the fields of LLC “JC “RUSVIETPETRO” of the Central Khoreyver Uplift and Kharyaga Field of ZARUBEZHNEFT-Production Kharyaga LLC. Possible options for entering the work performance market at construction facilities outside Zarubezhneft Group of Companies have been worked out.
ZARNESTSERVICE LLC

Zarnestservice LLC is engaged in marketing the crude oil produced by the Zarubezhneft Group of Companies on domestic and foreign markets, supplying materials and equipment, as well as rendering services for JV “Vietsovpetro” requirements.

Activities
The order portfolio of Zarnestservice LLC has a focus on the Zarubezhneft Group of Companies.

Its areas of activity include:
- Supplying Russian goods to JV “Vietsovpetro”;
- Commission operations for the oil sales of Zarubezhneft JSC’s subsidiaries on domestic and foreign markets;
- Oil sales under sale and purchase contracts with calendar risks hedging;
- Commission operations for chartering a supply and tug vessel for the needs of JV “Vietsovpetro”;
- Supplying goods to Zarubezhneft JSC’s subsidiaries.

Performance in 2018
Zarnestservice LLC is a commissioner for oil sales from the resources of subsidiaries engaged in oil production in the Russian Federation. In 2018, 3,290,631 tons of oil were sold under the commission agreements, of which 1,885,101 tons were distributed to the domestic market and 1,405,530 tons were exported.

Sales of additional oil volume under sales contracts with calendar risks amounted to 812,132 tons.

10 transactions were performed on calendar risks hedging; the total actual volume of deliveries was 5,869,295 barrels of oil. The total financial result on hedging transactions using production and financial instruments (PFI) amounted to more than 6 million USD.
The actual proceeds from inventory delivery to LLC “JC “RUSVIETPETRO”, ZARUBEZHNEFT-Production Kharyaga LLC and other subsidiaries of Zarubezhneft JSC GC in 2018 amounted to RUB 1,289 million, incl. RUB 374 million – cable and wire products delivery (delivery was carried out for the first time). The increase is also due to the development of a new line of activity for the supply of petroleum products (PPs) ≈ 500 tons, with revenue amounting to RUB 60 million.

The actual proceeds from inventory supply and provision of services for JV “Vietsovpetro” requirements in 2018 amounted to RUB 1,644 million.

The total revenue in 2018 amounted to 6,501 million tons of oil equivalent (including transactions on hedging terms – RUB- 37,781 million), which is higher than 2017 level. The revenue growth is stipulated by gaining a high cumulative financial result from supply transactions using hedging tools, as well as an increase in the range and volume of supplies of inventory to subsidiaries of Zarubezhneft JSC.

The increase in operating expenses is associated with additional volumes of third-party oil resources under sales contracts, as well as an increase in staff costs due to changes in the organizational structure and an increase in headcount (in May 2018, 13 employees of the Competitive Tendering Organization Office were transferred).

### Oil sales, thous. t

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>3,247</td>
<td>3,380</td>
<td>3,479</td>
<td>4,251</td>
<td>4,190</td>
</tr>
</tbody>
</table>

### Tubing deliveries, t

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliveries</td>
<td>11,609</td>
<td>9,050</td>
<td>12,000</td>
<td>15,639</td>
<td></td>
</tr>
</tbody>
</table>

### Revenue, MM RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,323</td>
<td>4,036</td>
<td>4,175</td>
<td>4,153</td>
<td>6,501</td>
</tr>
</tbody>
</table>

### OPEX, MM RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPEX</td>
<td>1,255</td>
<td>2,340</td>
<td>3,128</td>
<td>3,887</td>
<td>6,108</td>
</tr>
</tbody>
</table>
Zarubezhneft JSC has wide experience in implementing international oil and gas projects. The Company has maintained long-term relationships with Russia’s leading oil companies and global oil firms. The Company has created a structure of research and development organizations. Well-established competences in shelf development during the long-term work experience of Zarubezhneft JSC in foreign countries are the most important competitive advantage of the Company.

Zarubezhneft JSC is the Corporate Center – the head organization performing the effective management and interaction of more than 30 subsidiaries and 2 joint ventures in the interests of the state. Zarubezhneft JSC transfers the accumulated management experience to its subsidiaries by providing them with consulting services in all fields of activity.

In addition to managing subsidiary operations at all life stages, the Corporate Center also supervises several foreign projects (Block 09-1, 09-3, 04-3) and one Russian project (Kharyaga PSA) at the production stage. There are also three foreign projects at the geological exploration stage (Block 12/11, North-Karasevskoye Petroleum Enterprise LLC, and Boca de Jaruco).

The priority field of Corporate Center’s activities is searching for new oil and gas assets, boosting the efficiency of existing projects, as well as increasing the existing technological competencies by concentrating on small size fields with an unbalanced development system. Thus, Zarubezhneft JSC has actively implemented research projects to increase the efficiency of working with attenuated resource base, identifying ways to maximize the involvement of hydrocarbon reserves in the development, applying new technologies and innovative programs.

In 2018, Zarubezhneft JSC demonstrated high production and financial performance indicators. According to RAS, Zarubezhneft JSC’s 2018 net profit amounted to RUB 10.7 billion, which exceeds the 2017 figure by 27%.

Joint ventures with the Petrovietnam Corporation show excellent results: LLC “JC RUSVIETPETRO” in the Nenets Autonomous District and JV “Vietsovpetro” on the Vietnam shelf; revenues from participation in these enterprises increased by 1.4 times compared to the last year.

Kharyaga PSA completed the reporting year worthily, the Company has controlled this field from the middle of 2016, revenues from the sale of fractional oil content from KhPSA also increased 1.4 times compared to 2017. The Company’s gas project on the Vietnamese shelf has developed dynamically - Block 04-3.

The achieved financial result fully ensures dividend payments to the state budget in the amount established by a Company’s shareholder - the Federal Property Management Agency.

In improving efficiency and implementing the cost optimization program, Zarubezhneft JSC continuously monitors the level of administrative and management costs. Cost estimations are costs made under comparable conditions, taking into account the consumer price index, and aimed at annual reduction of expenses relative to the previous year by at least 2%. The calculation is made as per the “Guidelines for the Operating Expenses operating expenses and Defines the Operating Expenses Reduction Indexoperating expenses reduction index” (approved by a decision of the Zarubezhneft JSC Board of Directors, Minutes No. 127 dated September 14, 2016, and No. 163 dated January 28, 2019).

The costs in 2018 decreased compared to the previous year under comparable conditions by 3.4%.

The main areas of optimization of administrative and management expenses are: ○ staff expenditures; ○ consulting, auditing and legal services; ○ maintenance and repair of buildings, vehicles, rental of premises, representation and other expenses.
Labor efficiency

Labor Productivity indicator is included in the Group’s key performance indicator (KPI) system.

Labor Productivity Indicator (LPI) Passport was approved by the Company’s Board of Directors (Minutes No. 131 dated November 25, 2016) and is based on the calculation procedure established by Order No. 576 of the Federal State Statistics Service dated September 23, 2014 – Concerning Approval of Statistical Tools for Arrangement by the Federal Agency for State Property Management of Federal Statistical Observation over Labor Productivity at State-Owned Non-Financial Corporation Companies. The order requires the revenue used for indicator achievement analysis to be calculated using the income accepted for accounting as per the Russian Accounting Standards (RAS). To calculate the labor productivity trend index, the revenue is represented in the previous year prices.

As per OrderInstruction No. 1250-p dated July 9, 2014, a labor productivity growth rate of at least 108% was established for oil production companies in 2017.

The target LPI for 2018 as part of KPI was equal to 48.6. Actual labor productivity calculated as Zarubezhneft’s revenue per RAS calculated in conditions comparable to 2017 and correlated with man-hours worked by the Company’s employees was equal to 63.0 thous. RUB/man-hours.

The actual labor efficiency rate amounted to 111% and evidences of the efficient use of the labor resources:

Zarubezhneft JSC carries out labor productivity monitoring on a monthly basis; indicator improvement measures are promptly developed; a payroll management system was established and is successfully being used; there is continuous business-process re-engineering; appropriate analyses are analysis carried out; optimization and improvement areas are identified.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Line No.</th>
<th>2017</th>
<th>2018 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue, MM RUB</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In current prices</td>
<td>1</td>
<td>X</td>
<td>44,348</td>
</tr>
<tr>
<td>In prices of 2017</td>
<td>2</td>
<td>30,425</td>
<td>32,493</td>
</tr>
<tr>
<td>Number of man-hours worked by the payroll employees and external part-timers, thousand man-hours</td>
<td>3</td>
<td>536</td>
<td>516</td>
</tr>
<tr>
<td>Labor efficiency, thousand RUB / man-hours</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In current prices (page 1 / page 3)</td>
<td>4</td>
<td>X</td>
<td>86.0</td>
</tr>
<tr>
<td>In prices of 2017 (page 2 / page 3)</td>
<td>5</td>
<td>56.8</td>
<td>63.0</td>
</tr>
<tr>
<td>Labor efficiency dynamics</td>
<td></td>
<td></td>
<td>111%</td>
</tr>
</tbody>
</table>
Investment activities of Zarubezhneft JSC

Project financing is carried out as per the adopted investment decisions and aimed at providing Company development as per the approved Long-term Development Program. In 2018, Zarubezhneft JSC’s investment activity was associated with the continuation of the implementation of previously started investment projects – search and development of fields in the Socialist Republic of Vietnam, Cuba, modernization of assets in Russia. The 2018 Investment Program was approved by the Zarubezhneft JSC Board of Directors (Minutes No. 148 dated December 22, 2017).

The actual financing of the Investment Program amounted to RUB 1.2 billion (8% of the plan). Including the amount of funding for exploration projects of Zarubezhneft JSC amounted to RUB 0.9 billion (24%), Corporate Center investments (expansion of the area of activity and modernization of fixed assets of the CC) – RUB 0.3 billion (3%). The volume of intra-group borrowing is RUB 0.8 billion, which is 46% of the total volume of planned intra-group borrowings. Investment Program financing in the reporting year was made taking into account the optimization measures and the current needs of subsidiaries.

The reduction of intra-group borrowing was due to both the optimization of subsidiaries’ budgets to release funds for investment projects without borrowing on the part of Zarubezhneft JSC, and increase in the possibility of reinvestment due to the favorable macroeconomic situation existing in 2018.
Project 12/11 – in 2018, all operational obligations of Phase I on prospecting and exploration following the testing of prospecting and exploration well No. EF-1X with hydraulic fracturing at Block 12/11 were completed. As for the well, the industrial inflow of gas-condensate mixture was obtained and the reserves of the EF structure were confirmed.

Boca de Jaruco project – in the reporting year, as part of the project scientific support, the work was completed on selection of an aquathermolysis catalyst to intensify on-site oil treatment and an experimental catalyst batch was produced for conducting the Pilot Development Planning. To optimize the project, the financing of local services and material and technical resources was organized at the expense of the Special Account during the pilot development at reservoir M for 2 years.

Brod Refinery A.D. – investment decisions are financed to implement the Investment Program. The main part of investments in 2018 aimed to the workover and replacement of equipment.

KhPSA – in the framework of direct participation in the PSA for the development of Kharyaga field, Zarubezhneft JSC fulfills its obligations financing the KhPSA Investment Program. In 2018, the volume of financing the investment activities amounted to RUB 6,915 million, while the share of Zarubezhneft JSC (20%) was RUB 1,376 million.
Innovational activities

The updated Innovation Development Program (hereinafter IDP) of Zarubezhneft JSC for 2016–2020 (with a perspective up to 2030) was developed in the framework of execution of Orders/Instructions of the Government of the Russian Federation and approved by the Board of Directors on September 14, 2016 (Minutes No. 127).

According to the results of an independent expert assessment of the quality of development and implementation of IDP, the Company consistently received superior merits among oil and gas and energy companies with state participation – for IDP in 2016 and for the implementation of IDP in 2016 and 2017.

In 2018, as part of IDP implementation, 22 projects were implemented within the Zarubezhneft Group of Companies. Intended outcomes were achieved for all projects, the established milestones were successfully passed.

The main contractors involved in the implementation of innovative projects in 2018 were design and research organizations:
- including those falling under Zarubezhneft Group of Companies (VNIIneft JSC, Giprovostokneft JSC);
- Leading Higher Educational Institutions of the Russian Federation (Gubkin Oil and Gas Russian State University (RDU), Kazan (Volga Region) Federal University (KFU), Skolkovo Institute of Science and Technology (hereinafter – Skoltech), etc.);
- small and medium businesses and other scientific and industrial organizations.

INNOVATIVE PROJECTS OF 2018 AND RESULTS REACHED AS PART OF THEIR IMPLEMENTATION

Development of a mobile preliminary water discharge unit (MPWDU) – NESTRO-KSI for small deposits.
In 2018, pilot testing of the preliminary water removal unit (NESTRO-KSI) was carried out at LLC ZARUBEZHNEFT-Dobycha Samara. According to the test results, the plant demonstrated its efficiency, capital expenditures for creating the plant are on average 2 times lower than those of a similar capital object.

The NESTRO-KSI plant may be commissioned on average 4 times faster than a similar capital construction project (6 and 24 months, respectively).

Creating oil-fired power plant using all types of Russian-sourced oil

An innovative project was initiated due to the significant expenditures for purchasing diesel fuel for electricity generation for the fields of LLC “JC “RUSVIETPETRO” and difficulties in its delivery. The project aims at using Russian-sourced equipment (Kolomna Plant internal combustion engines) for oil up to class 3 inclusively (high viscosity and sulfur) and increasing the operating life of energy-converting machines.

As part of implementation of the innovation project in 2017–2018, research, development and testing & engineering work was carried out on refining units of equipment of the power plant operated by means of class 3 oil, elaboration of design documentation, adaptation of the power plant to the oil industry norms and rules and carrying out pilot testing at LLC “JC “RUSVIETPETRO”.

The diesel and oil power plant was manufactured and delivered to LLC “JC “RUSVIETPETRO” field. The power plant underwent pilot-scale testing (PST) operated by diesel fuel and was made oil-fired to carry out oil-fired PST and further testing of upgraded equipment and components as part of research and development.

In December 2018, the Zarubezhneft JSC project – oil-fuelled power station using oil of all classes, was recognized as the “Project of the Year” by the Expert Council of “Time of Innovations” award in the category “Oil and Gas Industry”.
Technology for increasing the oil recovery of high-viscosity oil fields by the catalytic aquathermolysis method

Since 2017, the Company, together with KFU, has been carrying out research and development works to develop a technology for enhancing oil recovery at high-viscosity oil fields using catalytic aquathermolysis. The technology allows intensifying the on-site treatment of heavy oil in the process of steam-heat treatments, which leads to an increase in the quality of oil and a decrease in its viscosity. Improving the properties of oil in reservoir conditions will increase the energy and economic efficiency of the development of Boca de Jaruco field (potentially - other similar fields in the heavy oil area in Cuba and in other countries).

In 2017-2018, a series of experiments was carried out based on the KFU to select the most efficient catalyst using a reactor. The selected nickel catalyst provides maximum oil conversion, a significant reduction in viscosity; an additional advantage of the nickel catalyst is its low cost compared to the cobalt catalyst.

In 2018, the second stage of research was completed. In this stage, the remaining R&D tasks were solved: evaluation of the catalytic activity and coking of the catalyst in the processes of aquathermolysis, the adsorption of the catalyst on the rock (displacement in the combustion tube), solubility study, thermal stability and filtration characteristics of the developed catalyst solution.

At present, an experimental catalyst batch has been manufactured for Pilot Development Planning. Catalytic injection in the course of Pilot Development Planning for testing the catalytic aqua-thermolysis technology at Boca de Jaruco field is planned to be performed in 2019.

Testing and implementation of new technologies system (nts)

In 2018, Zarubezhneft Group of Companies continued active work on developing a system for testing and implementing new technologies (NTS) existing on the market, but that were not previously used within the Group of Companies. Pilot-scale testing of new equipment and technologies was performed at LLC “JC “RUSVIETPETRO””, LLC ZARUBEZHNEFT-Dobycha Samara, ZARUBEZHNEFT-Production Kharyaga LLC and at the branch of Zarubezhneft JSC in the Republic of Cuba.

In 2018, more than 25 tests were conducted at LLC “JC “RUSVIETPETRO”” in the following main areas: optimization of ESP unit selection method, taking into account the theological properties of the liquid, testing the gas burner unit of gas valve type, testing the oil leakage detection system, which operates on cost imbalance principle.

At LLC ZARUBEZHNEFT-Dobycha Samara the work was carried out on studying, applicability assessment and testing of such technologies as energy-saving transformers, hydraulic drive, under-driven progressive cavity pump, submersible flow meters.

In 2018, ZARUBEZHNEFT-Production Kharyaga LLC continued active participation in the implementation of activities of NTS program of Zarubezhneft Group of Companies. The work was carried out on assessing the potential efficiency and testing the production string with coating that prevents the formation of asphaltene deposits, wellhead equipment for dual injection, sealing end on the pumping unit for coolant transferring, dynamic power compensators, bridge plugs in preparing wells for side-tracking, using plasma tubing cutter.

In 2018, the branch of Zarubezhneft JSC in the Republic of Cuba continued testing the heat-resistant rod screw-type pump units has been carried out, as per the plan.

In 2018, the Company carried out systematic work to improve innovation management processes. Pursuant to the requirements of the Government of the Russian Federation, an analysis of the management of rights to intellectual activity results (hereinafter – IARs)

Research and development expenditure trend vs. the revenue from 2014 to 2018, %

was conducted in Zarubezhneft Group of Companies. According to the results of the work performed, the Policy of management of the rights to the IARs in the Zarubezhneft JSC Group of Companies was developed and approved by the Zarubezhneft JSC Board of Directors along with the Plan of Measures for Policy Implementation.

In 2018, Zarubezhneft Group of Companies received 4 patents for inventions, 1 useful model patent and 11 software certificates; 12 applications were filed to Rospatent for registration of intellectual activity results.

Zarubezhneft JSC continues to develop and expand the format of interaction with the innovative environment. In December 2018, between Zarubezhneft JSC and Kazan (Volga Region) Federal
University an Agreement was concluded on cooperation in the field of innovation and scientific and technological development. This Agreement confirms the mutual interest of Zarubezhneft JSC and KFU to continue and actively develop cooperation in the field of personnel training and re-skilling and in the field of science and innovation activities, mainly in areas related to the development and improvement of innovative methods for increasing the oil recovery and improving the efficiency of developing unconventional hydrocarbon reserves.

As part of the development of cooperation of Carbonate Consortium created in 2017 on the initiative of Zarubezhneft JSC with Gazprom Neft PJSC and Tatneft JSC, in the reporting year, a number of joint scientific and technical events were held to exchange the experience and develop competencies in carbonate reservoirs exploitation area:
- Scientific and technical meeting in the framework of the Carbonate Consortium in Kazan, April 27, 2018;
- Seminar on modeling technologies in the framework of the Carbonate Consortium in St. Petersburg, July 31-August 1, 2018;

In addition, as part of the Carbonate Consortium, a joint research and development "Digital Core" was initiated and launched jointly with PJSC Gazprom Neft.

As part of the Innovation Development Program, Zarubezhneft JSC has actively developed mutually-beneficial cooperation with higher education institutions in planning plans for the joint implementation of innovative projects and performance of joint work in the field of scientific and technological development forecasting, training and reskilling. Currently, the most active interaction is occurring with the Gubkin Oil and Gas Russian State University, Skoltech and KFU.

**STW competition**

VI Competition of Scientific and Technological Works of Young Experts of the Group of Companies, which in 2018 was timed to the 75th anniversary of VNIIneft JSC, became a traditional event of a reporting year. The competition program was held in five sections with the participation of 60 projects of young employees of the Corporate Center, subsidiaries of the Russian segment, and young people from subsidiaries located in Vietnam and the Republic of Srpska.

The competition has become one of the tools the Company is using to improve the efficiency of technical and process decisions by unlocking the potential of young people in preparing their own projects. Every year, the number of works and participants also grows, and consequently – the results achieved through the implementation of young people’s proposals.
Between 2014 and 2018, more than 270 young employees took part in the competition. They presented more than 240 innovative projects aimed at solving the key production and organizational tasks of Zarubezhneft Group of Companies; more than 80% of these projects were successfully introduced into production activities with positive results.

The positive dynamics of the results and the high efficiency of the field of unlocking the potential of young people is stipulated, in particular, by systematic approach to the full cycle of work of young employees with own projects - from selecting the projects of practical importance for the Company to their implementation into production activities.

An increase in a share of successfully implemented works is annually observed; currently, 83% of the works presented at the Competition last year have been implemented, and more than 80% of them have already been replicated in Zarubezhneft Group of Companies.

Knowledge management system
In 2018, Zarubezhneft JSC decided to revise the existing processes of managing the unique competencies and optimizing the approaches to the accumulation, use and dissemination of knowledge for transformation of its own intellectual assets into a higher productivity, efficiency and new value.

In the reporting year, large-scale work was carried out to analyze current trends in the field of building and developing the knowledge management, optimizing the Company’s current model of working with knowledge in terms of changing the approach to their systematization and searching for technologies to distribute them more efficiently. This resulted in the development of a private Knowledge Management System, which takes into account the best practices and specific features of the Company. At the end of 2018, the System's pilot operation began.

The revision of the model of working with knowledge is determined by both the growth of technological and organizational development level, specific features, and the strategic orientations of the Company; today, within the adopted Strategy, replication of the accumulated experience and using unique corporate knowledge grow in importance for quick implementation and effective adaptation of business processes and structures, and active involvement of new employees in production and innovation processes, carefully sharing the experience of Zarubezhneft JSC experts generation for complex problems solving. The key top-level tasks of the Knowledge Management System of Zarubezhneft JSC are the creation of "correct" solutions standard by eliminating the repeated and incorrect performance of production tasks, and the formation of a platform for creating new ideas and tools for their quickest possible and effective implementation into processes.

The main System capabilities as of today are the following:
- Creating a material library in the line of the technological focus
- Crowdsourcing Tool - identifying and collecting the employees’ knowledge
- Smart search
- Collecting the technological ideas and suggestions for improving the production processes
- Expert support, communication platforms, discussions, considerations

Throughout the entire pilot operation period, the system has continuous been improved by continuing to study the best practices and users' suggestions for development. The system is focused on the preservation and dissemination of unique process knowledge and the creation of new technologies. Today, the system comprises six knowledge areas – Geology and Development, Production, Well Operations, Industrial Safety, Innovations and Digitization, and is already available to the target audience of users within the corporate contour.

1 Submitted applications.
Procurement activities

Zarubezhneft’s purchasing activities are carried out as per Federal Law No. 223–FZ – Concerning the Purchase of Goods, Work and Services by Certain Types of Legal Entities, and with the Purchasing Policy. In 2017, Zarubezhneft arranged the review by the Tender Committee of 386 goods, work and service purchasing procedures in the total amount of more than 57 bln RUB.

To improve purchasing openness and transparency, the online trading platform system was used, and the purchasing information was published in the Unified State Information System and corporate information resources, and as a result the number of bidders was increased and the Company’s bid selection capabilities were enhanced under the best conditions.

The Company interacts with potential suppliers / contactors to ensure cost optimization and saving. According to the bidders’ technical and commercial offer analysis, when possible reduction of goods and service cost were identified, the bidders were given an opportunity to improve the commercial offers to provide a maximum possible discount. Thus, in 2018, a significant cash saving of RUB 1.4 bln was achieved.

The following results were achieved as a result of measures taken to provide a wider purchasing access for small and medium business at Zarubezhneft JSC in 2018:
- The share of purchasing by small and medium business entities was equal to 62.24% with the current established target value of 18% (Decree of The Government of the Russian Federation No. 1352 dated December 11, 2014 – Concerning the Aspects of Participation of Small and Medium Business Entities in Purchasing of Goods, Work and Services by Certain Types of Legal Entities);
- The share of purchasing carried out as a result of participation of only small and medium business entities has reached 34.25% during the period under review with the target value of 15%;
- Zarubezhneft’s Partnership Program, which involved small and medium business entities, was joined by 26 companies.

While doing its business, Zarubezhneft follows the import substitution policy adopted by the Government of the Russian Federation, which is one of the strategic focus areas for state-owned companies for the next few years. Therefore, the Company carries out planned and gradual substitution of foreign products with Russian ones on a continuous basis. As a result, the share of purchased products, work and services of foreign origin is consistently decreasing in projects implemented in the Russian Federation and currently does not exceed 1.03%.
Prospects and operational presence expansion

Entry into new oil projects is the basis for the Company’s long-term growth as per the Zarubezhneft JSC Corporate Strategy.

During the reporting period, the Company implemented a number of measures to develop this business line:
- Zarubezhneft JSC policy in the field of business development in the UPSTREAM sector has been developed and approved;
- a new version of the Standard for Search and Evaluation of New Assets business process was prepared;
- The IT-system for monitoring the evaluation process and entering to new projects was launched into pilot operation;
- The Benchmarking concept has been developed; a comparative analysis of the activities of Russian and foreign companies on entering new projects has been underway.

In 2018, more than 30 projects were reviewed in the Russian Federation and abroad; investment Committee meeting were held on 22 projects. Experts of the corporate center and subsidiaries carried out 4 process audits of new fields. In addition the countries of presence (Vietnam and Cuba), traditional to the Company, the activities focused on searching, evaluating and developing projects in the following regions:
- Middle East and Africa (Iraq, Egypt, Gabon);
- South America (Ecuador, Colombia, Argentina);
- Southeast Asia (Indonesia, Brunei).

During the reporting period, a number of documents were signed with foreign partners that laid the legal foundation for future cooperation: Confidentiality agreements were signed with the Ministry of Oil and Ore Mining of Sudan, Sudapet Sudan National Oil and Gas Company, Stream Oil (Gabon) and Pura Vida (Australia) private companies, a Memorandum of Understanding was signed with the Ministry of Oil of South Sudan.

In 2018, more than 30 projects were reviewed in the Russian Federation and abroad; investment Committee meeting were held on 22 projects. Experts of the corporate center and subsidiaries carried out 4 process audits of new fields. In addition the countries of presence (Vietnam and Cuba), traditional to the Company, the activities focused on searching, evaluating and developing projects in the following regions:
- Middle East and Africa (Iraq, Egypt, Gabon);
- South America (Ecuador, Colombia, Argentina);
- Southeast Asia (Indonesia, Brunei).

MAIN COMPANY’S ACCOMPLISHMENTS IN 2018 TOWARDS THE EXPANSION OF THE AREA OF OPERATIONS

Iraq
Contacts were established and negotiations were held with representatives of the Ministry of Petroleum of Iraq, government agencies responsible for the implementation of projects in Upstream segment. The information was analyzed about the fields under the jurisdiction of the Ministry of Petroleum of Iraq, which can be entered through direct negotiations.

Ecuador
In 2018, the Company continued the analysis and evaluation of the proposed new projects in the framework of international tenders. In particular, Zarubezhneft JSC passed the qualification successfully at the national oil and gas company Petroamazonas under the Ronda Campos 2018 tender and prepared a package of qualification documents for participation in the Secretariat tender for Intracampos hydrocarbons.

Argentina
Negotiations were held with representatives of the Federal Ministry of Energy of Argentina, the regional Ministry of Energy of Rio Negro province, with representatives of YPF state oil and gas company and a number of private operators. Potential projects for joint implementation have been identified.

Gabon
At the suggestion of the Ministry of Oil and Hydrocarbons, several offshore projects were studied in detail. Participation in a tender planned for 2019 for marine geological survey blocks was prepared.

Egypt
The Company’s activities in Egypt were focused on exploring blocks in the Sinai Gulf, awarded to private Egyptian companies. In particular, the main terms of the Agreement with the operator of Pacific Oil Limited project were agreed on SE Ras El Ush field, and the option of involving Murmanskaya jack-up to work on the project was worked out. A letter was sent to the Egyptian state oil company Ganope about Zarubezhneft JSC readiness to join the PSA in the South East Ras El Ush block in a consortium with Pacific.
Assets of the Russian Federation

In terms of the new assets in the Russian Federation and the CIS, Zarubezhneft JSC has also actively conducted an assessment of new projects, considering potential assets under the allocated and unallocated subsoil fund. In 2018, projects were considered in the most priority regions of the Russian Federation - Western Siberia, Timan-Pechora, Saratov and Orenburg regions, as well as in Kazakhstan and Uzbekistan.

To digitize the search and analysis of new projects, the Company has developed an Information System for monitoring the entry into new projects. The information system will allow visualizing the processes of entering the projects, reviewing technical and economic indicators, total indicators on the project portfolio, terms and stages of implementation, as well as monitoring key performance indicators at various stages of investment projects. The implementation of such a decision will make it possible to have constant access to all the necessary information on the estimated sites for making a decision on entering the project.

It should be noted that in 2018, Zarubezhneft JSC began the development of a new promising business segment – renewable energy sources (RESs). Initially, in cooperation with domestic manufacturers of equipment for solar power plants, it is planned to equip the Company’s own oil and gas projects, and then, to transfer RESs to an independent activity while gaining the necessary experience.
Information on holding the general shareholders’ meeting

The only shareholder of Zarubezhneft JSC is the Russian Federation, represented by the Federal State Property Management Agency. As per Clause 3, Article 47 of the Federal law No 208-FZ dated December 26, 1995 – Concerning Joint-Stock Companies, at a Company where all voting shares belong to a single shareholder, all decisions regarding issues related to the competencies of the general shareholders’ meeting are made solely by this shareholder and are formalized in writing.

In 2018, two Orders were issued by the Federal Property Management Agency.

1. A meeting was held on June 30, 2018 No. 499-r – Concerning the Decisions of the Annual General Shareholders’ Meeting of Zarubezhneft Joint Stock Company, where the following decisions were made:
   - The annual report of Zarubezhneft JSC for 2017 was approved.
   - The annual accounting (financial) statements of Zarubezhneft JSC for 2017 was approved.
   - Zarubezhneft JSC profit distribution for 2017 in the amount of RUB 8,442,807,012 was approved as follows:
     - RUB 4,469,329,000 was allocated for dividend payment;
     - RUB 844,280,701 was allocated for the formation of a reserve fund Zarubezhneft JSC;
     - RUB 38,600,000 was allocated to pay remuneration to members of the Zarubezhneft JSC Board of Directors;
     - RUB 280,000 was allocated to pay remuneration to members of the audit committee of Zarubezhneft JSC;
     - RUB 3,090,317,311 was allocated to finance the investment plan of Zarubezhneft JSC for 2018, approved by the decision of the Board of Directors (Minutes No. 148 dated December 22, 2017).
   - Decisions were made to pay remuneration to members of the Board of Directors and the Inspection Committee of Zarubezhneft JSC.
   - The Zarubezhneft JSC Board of Directors was elected as follows: Gladkov A.A., Kudryashov S.I., Murov E.A., Sokolov M.Yu., Tikhonov A.V., Sentyurin Yu.P., Simonyan R.R.
   - The Inspection Committee of Zarubezhneft JSC was elected as follows: Annikova N.N., Bogashov A.E., Mozhaeva A.I.
   - Nexia Pacioli LLC was approved as Zarubezhneft JSC auditor for 2018.
   - The charter of Zarubezhneft JSC was approved in a new edition.
   - The Regulation on remuneration and compensation to members of the Revision Commission of Zarubezhneft JSC was approved in a new edition.

2. A meeting was held on November 29, 2018 No. 822-p – Concerning the Decisions of the Extraordinary General Shareholders’ Meeting of Zarubezhneft Joint-Stock Company, where it was decided to terminate the powers of the current composition of the Board of Directors and elect the Zarubezhneft JSC Board of Directors as follows: Gladkov A.A., Karapetyan K.V., Kudryashov S.I., Murov E.A., Sokolov M.Yu., Teksler A.L., Tikhonov A.V.
The company’s board of directors, committees of the board of directors

**BOARD OF DIRECTORS**

Prior to the holding of the Annual General Shareholders’ Meeting, the following persons were members of the Company’s Board of Directors in 2017.

<table>
<thead>
<tr>
<th>Full name</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexei Valentinovich Arkhipov</td>
<td>Assistant of Deputy Chairman of the Government of the Russian Federation; Born in 1969; Not a shareholder.</td>
</tr>
<tr>
<td>Alexander Alexeyevich Gladkov</td>
<td>Director of Oil and Gas Production and Transport Department of Ministry of Energy of the Russian Federation; Born in 1969; Not a shareholder.</td>
</tr>
<tr>
<td>Pavel Anatolyevich Kadochnikov</td>
<td>Pro-Rector for Research at the All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia; Born in 1978; Not a shareholder.</td>
</tr>
<tr>
<td>Sergey Ivanovich Kudryashov</td>
<td>General Director of Zarubezhneft JSC; Born in 1967; Not a shareholder.</td>
</tr>
<tr>
<td>Evgeniy Alexeyevich Murov</td>
<td>Born in 1945; Not a shareholder.</td>
</tr>
<tr>
<td>Rair Rairovich Simonyan</td>
<td>Councilor to the Chairman of the Management board of Inter RAO UES PJSC; Born in 1947; Not a shareholder.</td>
</tr>
<tr>
<td>Anatoliy Vladimirovich Tikhonov</td>
<td>General Director FSBI Russian Energy Agency at the Ministry of Energy of the Russian Federation; Born in 1969; Not a shareholder.</td>
</tr>
</tbody>
</table>
As per the decision of the Zarubezhneft JSC Board of Directors dated August 21, 2017, (Minutes of Meeting No. 141), Evgeniy Alexeyevich Murov was elected Chairman of the Zarubezhneft JSC Board of Directors.

The following members of the Board of Directors were elected by the order of the Federal State Property Management Agency No. 499-p, dated June 30, 2018 – Concerning the Decisions of the Zarubezhneft Joint Stock Company Annual General Shareholders’ Meeting:

<table>
<thead>
<tr>
<th>Full name</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexander Alexeyevich Gladkov</td>
<td>Director of Oil and Gas Production and Transport Department of Ministry of Energy of the Russian Federation; Born in 1969; Not a shareholder.</td>
</tr>
<tr>
<td>Karen Vilgelmovich Karapetyan</td>
<td>Born in 1963; Not a shareholder.</td>
</tr>
<tr>
<td>Sergey Ivanovich Kudryashov</td>
<td>General Director of Zarubezhneft JSC; Born in 1967; Not a shareholder.</td>
</tr>
<tr>
<td>Maxim Yurievich Sokolov</td>
<td>General Director of LSR Group PJSC; Born in 1968; Not a shareholder.</td>
</tr>
<tr>
<td>Evgeniy Alexeyevich Murov</td>
<td>Born in 1945; Not a shareholder.</td>
</tr>
<tr>
<td>Alexei Leonodovich Teksler</td>
<td>First Deputy Minister of Energy of the Russian Federation; Born in 1973; Not a shareholder.</td>
</tr>
<tr>
<td>Anatoliy Vladimirovich Tikhonov</td>
<td>General Director FSBI Russian Energy Agency at the Ministry of Energy of the Russian Federation; Born in 1969; Not a shareholder.</td>
</tr>
</tbody>
</table>

As per the decision of the Zarubezhneft JSC Board of Directors dated December 6, 2018, (Minutes of Meeting No. 161), Evgeniy Alexeyevich Murov was elected Chairman of the Zarubezhneft JSC Board of Directors.

Regulations on the Zarubezhneft JSC Board of Directors were approved by the resolution of the extraordinary general meeting of Zarubezhneft JSC's shareholders (by Decree of the Federal State Property Management Agency No. 2253-p, dated October 12, 2005).

As per the Orders of the Federal Property Management Agency, the Company annually sends proposals to nominees to the Zarubezhneft JSC Board of Directors. When preparing proposals on candidates to independent members of the Board of Directors, the Company proceeds from the requirements specified in paragraph 8 (1) of the Regulation – Concerning the Management of Federally Owned Shares of Joint Stock Companies and the Use of a Special Right to the Russian Federation Participating in the Management of Joint Stock Companies (Golden Share), approved by the Decree of the Government of the Russian Federation No. 738, dated December 3, 2004, and the Bank of Russia, specified in Appendix No. 4 of the Regulation on the Admission of Securities to On-exchange Trading, approved by the Bank of Russia dated February 24, 2016 No. 534-P.

The Regulation on remuneration of members of the Zarubezhneft JSC Board of Directors was approved by the Decree of the Federal Property Management Agency No. 243-p dated May 18, 2017. As per the Regulation, the remuneration of members of the Board of Directors depends on the achievement of target values of key performance indicators by the Company determined taking into account the methodological recommendations of federal executive bodies and aimed at implementing the strategic goals of Zarubezhneft JSC.

In 2018, the total amount of payments to remuneration of 4 members of the Zarubezhneft JSC Board of Directors based on the work results in 2017-2018, as per the decree of the Federal Property Management Agency No. 499-r dated June 30, 2018 – Concerning the Decisions of the Annual General Shareholders’ Meeting of the Zarubezhneft Joint Stock Company, amounted to RUB 38,600 thousand, including the remuneration of E.Murov – RUB 10,000 thousand, Kadochnikov P.A. – RUB 9,600 thousand, Simonyan R.R. – RUB 9,600 thousand, Tikhonov A.V. – RUB 9,400 thousand.

In 2017, 14 meetings of the Company's Board of Directors were held, at which 78 issues were considered, including 10 issues as per directives of the Government of the Russian Federation and Orders of the Federal Property Management Agency, received by the Company in 2018.
In 2018, in the framework of measures on updating the Long-term Company's Development Program, the Board of Directors, taking into account the recommendations based on the results of the Long-term Development Program audit, the applications Nos. 2, 3, 5, 6, 7, 9, 10 were updated related to the activities of the Group of Companies in a sphere of innovations, development of the need for labor resources, implementation of a program on increasing the labor productivity, measures on increasing the efficiency and transparency of Zarubezhneft JSC activities, reduction of operating expenses, implementation of program activities for both the achievement of the KPIs of the Long-term Development Programs.

<table>
<thead>
<tr>
<th>Ser. No.</th>
<th>Number and Date of Government Directives/Orders of the Federal Property Management Agency</th>
<th>Number and date of the Minutes of the Board of Directors’ meeting</th>
<th>Topics</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>No.9177p-P13 dated December 12, 2017</td>
<td>No. 149 dated February 8, 2018</td>
<td>On implementation of recommendations on the management of intellectual deliverables rights</td>
</tr>
<tr>
<td>2</td>
<td>Orders of the Government of the Russian Federation dated December 26, 2017 No. ISH-P13-8690</td>
<td>No. 150 dated February 22, 2018</td>
<td>On making changes in the statutory documents providing for the possibility of creating all-Russian industry specific fitness and sports societies and corporate fitness and sports societies.</td>
</tr>
<tr>
<td>3</td>
<td>No.2302p-P13 dated March 26, 2018</td>
<td>No. 153 dated April 27, 2018</td>
<td>On termination of Zarubezhneft JSC participation in EAST WEST OIL Limited Company (hereinafter referred to as EWOL).</td>
</tr>
<tr>
<td>4</td>
<td>No.3262p-P13 dated April 27, 2018</td>
<td>No. 155 dated May 30, 2018</td>
<td>On innovative development.</td>
</tr>
<tr>
<td>5</td>
<td>No. 3396p-P13 dated May 4, 2018</td>
<td>No. 154 dated May 29, 2018</td>
<td>On the size, form and procedure of payment of annual dividends on Zarubezhneft JSC shares.</td>
</tr>
<tr>
<td>6</td>
<td>No.7050p-P13 dated August 30, 2018</td>
<td>No. 159 dated October 3, 2018</td>
<td>On performing an inventory of rights to intellectual deliverables rights with a view to subsequent organization of measures on providing the identified results owned by the joint-stock company by rights, with legal protection, entry the rights for them in the books as intangible assets for subsequent introduction into economic circulation and, if necessary, on estimating their cost.</td>
</tr>
<tr>
<td>7</td>
<td>No. 5277p-P13 dated July 12, 2018</td>
<td>No. 156 dated August 3, 2018</td>
<td>On election of the Zarubezhneft JSC Board Chairman.</td>
</tr>
<tr>
<td>8</td>
<td>No. 7923p-P13 dated September 26, 2018</td>
<td>No. 160 dated November 20, 2018</td>
<td>On submission of the annual reporting on purchasing civilian products for the Fuel &amp; Energy Complex from defense contractors.</td>
</tr>
<tr>
<td>9</td>
<td>No. 9633p-P13 dated November 26, 2018</td>
<td>No. 161 dated December 6, 2018</td>
<td>On election of the Zarubezhneft JSC Board Chairman.</td>
</tr>
<tr>
<td>10</td>
<td>No.10068p-P113 dated December 6, 2018</td>
<td>No. 163 dated January 28, 2019</td>
<td>On transition of Zarubezhneft JSC to the prior use of domestic software.</td>
</tr>
</tbody>
</table>


Also, at the meetings of the Board of Directors, the following issues were considered, among others, aimed at the implementation of strategic goals of the Company's activities:

- Preliminary approval of the Annual Report of Zarubezhneft JSC for 2017;
- On approval of target values of Zarubezhneft JSC KPIs for 2019;

The full list of issues considered at the meetings of the Company's Board of Directors in 2018 is given in the Appendix.
COMMITTEES AT THE BOARD OF DIRECTORS

Three committees were established at the Zarubezhneft JSC Board of Directors’ meeting:

**Strategic Planning Committee**

<table>
<thead>
<tr>
<th>Members of the Strategic planning committee at the Zarubezhneft JSC Board of Directors in 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Members of the Committee before the Annual General Shareholders’ Meeting of Zarubezhneft JSC:</strong></td>
</tr>
<tr>
<td>• Anatoliy Vladimirovich Tikhonov – General Director of FSBI Russian Energy Agency at the Ministry of Energy of the Russian Federation (Chairman of the Committee);</td>
</tr>
<tr>
<td>• Alexander Alexeyevich Gladkov – Director of Oil and Gas Production and the Transportation Department of the Ministry of Energy of the Russian Federation;</td>
</tr>
<tr>
<td>• Sergey Ivanovich Kudryashov – General Director of Zarubezhneft JSC;</td>
</tr>
<tr>
<td>• Rair Rairovich Simonyan (Independent Director) – Councilor to the Chairman of the Management board of Inter RAO UES PJSC.</td>
</tr>
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<td><strong>Members of the Committee after the Annual General Shareholders’ Meeting of Zarubezhneft JSC:</strong></td>
</tr>
<tr>
<td>• Anatoliy Vladimirovich Tikhonov – General Director of FSBI Russian Energy Agency at the Ministry of Energy of the Russian Federation (Chairman of the Committee);</td>
</tr>
<tr>
<td>• Alexander Alexeyevich Gladkov – Director of Oil and Gas Production and the Transportation Department of the Ministry of Energy of the Russian Federation;</td>
</tr>
<tr>
<td>• Sergey Ivanovich Kudryashov – General Director of Zarubezhneft JSC;</td>
</tr>
<tr>
<td>• Rair Rairovich Simonyan (Independent Director) – Councilor to the Chairman of the Management board of Inter RAO UES PJSC.</td>
</tr>
<tr>
<td><strong>Members of the Committee after the Extraordinary General Shareholders’ Meeting of Zarubezhneft JSC:</strong></td>
</tr>
<tr>
<td>• Alexei Leonodovich Teksler – First Deputy of the Minister of Energy of the Russian Federation (Chairman of the Committee);</td>
</tr>
<tr>
<td>• Karen Vilgelmovich Karapetyan;</td>
</tr>
<tr>
<td>• Sergey Ivanovich Kudryashov – General Director of Zarubezhneft JSC;</td>
</tr>
<tr>
<td>• Anatoliy Vladimirovich Tikhonov – General Director of FSBI Russian Energy Agency at the Ministry of Energy of the Russian Federation</td>
</tr>
</tbody>
</table>

The current revision of the Regulation on the Strategic Planning Committee approved by decision of the Zarubezhneft JSC Board of Directors on September 30, 2015, (Minutes of Meeting No. 110) was developed taking into consideration the recommendations of the Corporate Management Code, recommended by the letter from the Bank of Russia (No.06-52/2463, dated April 10, 2014 – Concerning the Corporate Management Code) and the Methodical Recommendations of the Federal State Property Management Agency on the organization of the Board of Directors’ work in a joint stock company.

As per the Regulations on the Strategic Planning Committee at the Zarubezhneft JSC Board of Directors, the following matters refer to the Committee’s competence:

- Determination of the priority directions, strategic goals and main principles of the Company's strategic development;
- Improvement of policy in the area of business planning and the Company’s budgeting;
- The development of recommendations in relation to the Company’s dividend policy;
- The evaluation of the efficiency of the Company’s activity in the long-term;
- Consideration of LDPs and the reports on their implementation;
- Improvement of the Company’s KPIs system;
- The development of recommendations for strategic documents in the area of innovative development.

In 2018, 16 meetings of the Strategic Planning Committee were held, with each of them attended by all of the elected members of the Committee.
<table>
<thead>
<tr>
<th>Meeting/Holding form</th>
<th>Meeting date</th>
<th>Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>via teleconferencing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>via teleconferencing</td>
<td></td>
<td>2. Consideration of the Program for Improving the Efficiency and Optimizing the Costs of Zarubezhneft Group of Companies for 2018.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Updating the Zarubezhneft JSC Long-term Development Program.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Coordination of the Terms of Reference for Comparing the Level of Process Development and the Values of Key Performance Indicators of Zarubezhneft JSC with the level of development and indicators of leading counterparts.</td>
</tr>
<tr>
<td>via teleconferencing</td>
<td></td>
<td>2. Consideration of the updated Register of non-core assets of Zarubezhneft JSC.</td>
</tr>
<tr>
<td>via teleconferencing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meeting of the Strategic Planning Committee/</td>
<td>04/10/2018</td>
<td>1. Consideration of information on the amount of Zarubezhneft JSC dividends following the results of 2017 and the procedure for their payment.</td>
</tr>
<tr>
<td>via teleconferencing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meeting of the Strategic Planning Committee/</td>
<td>04/23/2018</td>
<td>1. Consideration of the Report on the Comparison of the Level of Process Development and the Values of the Key Performance Indicators of Zarubezhneft JSC with the Level of Development and Indicators of Leading Counterparts;</td>
</tr>
<tr>
<td>Joint Meeting of the Strategic Planning Committee and the Human Resources and Compensation Committee/</td>
<td>05/21/2015</td>
<td>1. Consideration of the Report on the Achievement of Target Values of Zarubezhneft JSC Corporate KPIs in 2017.</td>
</tr>
<tr>
<td>via teleconferencing</td>
<td></td>
<td>2. Consideration of the Action Plan for the implementation of proposals on improving the performance of Zarubezhneft Group of Companies developed as per the recommendations of an auditor based on an audit of the Long-term Development Program in 2017.</td>
</tr>
<tr>
<td>via teleconferencing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint Meeting of the Strategic Planning Committee and the Human Resources and Compensation Committee/</td>
<td>09/14/2018</td>
<td>1. Consideration of the Report on the Achievement of Target Values of Zarubezhneft JSC Corporate KPIs according to forecasts until the end of 2018 taking into account the actual values in the first half of the year.</td>
</tr>
</tbody>
</table>
Meeting/Holding form | Meeting date | Agenda
---|---|---
3. On the liquidation of Zarubezhneft JSC branch in Ashgabat, Turkmenistan.


Joint Meeting of the Strategic Planning Committee and the Human Resources and Compensation Committee/ via teleconferencing | 11/15/2018 | 1. Consideration of the Report on the Achievement of Target Values of Corporate KPIs of Zarubezhneft JSC as per the 2018 year-end forecast, taking into account the actual values of 9 months.


Joint meeting of the Strategic Planning Committee and Human Resources and Compensation Committee | 12/18/2018 | 1. On updating of target values of Zarubezhneft JSC Corporate KPIs for 2019.

Consideration of the Zarubezhneft JSC 2019 Business Plan.

In 2018, the Strategic Planning Committee gave recommendations to the Board of Directors on the following issues:
- regarding the approval of the Report on the Achievement of KPI Target Values in 2017 and the Establishment of Target Values for 2019;
- regarding the approval of the 2018 Efficiency Improvement and Cost Optimization Program;
- regarding the approval of the Report on the Implementation of the Innovation Development Program for Zarubezhneft JSC (hereinafter referred to as the IDP) in 2017 and the Report on the Comparison of the Level of Technological Development and the Values of the Key Performance Indicators of Zarubezhneft JSC with the Level of Development and Indicators of Leading Counterparts;
- on issues regulating the sale of non-core assets of Zarubezhneft JSC (NCA), including on the approval of the NCA Register and NCA Implementation Plan for 2018;
- regarding the implementation of Zarubezhneft JSC Long-term Development Program (LTDP) as part of consideration of the Report on Implementation of the LTDP, the audit opinion based on the results of the verification of LTDP implementation in 2017;
- on the approval of the Zarubezhneft JSC 2019 Business Plan.

Following the consideration results, at the Committee meeting, the Zarubezhneft JSC Zarubezhneft JSC Board of Directors also recommended for approval the Policy of controlling the rights for intellectual deliverables in Zarubezhneft Group of Companies and the Action Plan for its implementation prepared in pursuance of the directives of the Government of the Russian Federation No.9177p-P13 dated December 12, 2017.
The current revision of the Regulation on the Audit Committee approved by decision of the Zarubezhneft JSC Board of Directors on March 30, 2015, (Minutes of Meeting No. 116) was developed by taking into consideration the recommendations of Rosimuschestvo (Letter No. OD-02-1574 dated January 21, 2016) and the Methodical Recommendations of the Federal State Property Management Agency on the audit of joint stock companies with the participating interest of the Russian Federation by the Board of Directors (approved by order No. 86 of Rosimuschestvo dated March 20, 2016).

As per the Regulation on the Audit Committee at the Zarubezhneft JSC Board of Directors, revision of the following matters is in the Committee’s competence:

- Annual report and financial statements;
- Results of the achievement of the target values of financial indicators and causes for deviation;
- Arrangement of the risk management system;
- Auditor selection procedures;
- Results of the external auditor’s work;
- Plans and results of the Company’s internal audit service activities.

8 meetings of the Audit Committee took place in 2018, and all of the elected members of the Committee participated in each of them.
### Meeting/Holding form | Meeting date | Agenda
--- | --- | ---
Audit Committee Meeting/ via teleconferencing | 01/30/2018 | 1. Consideration of the Terms of Reference for Performance of an Audit of the Zarubezhneft JSC Long-term Development Program.  
2. On coordination of the composition of the Tender Commission on the selection of an external auditor to conduct a mandatory audit of Zarubezhneft JSC accounting (financial) statements.


Audit Committee Meeting/ by personal attendance | 04/05/2018 | 1. On the results of the external auditor’s work further to the audit of the accounting (financial) statements according to RAS of Zarubezhneft JSC in 2017.  
2. On the results of the external auditor’s work further to the audit of the consolidated financial statements according to IFRS of Zarubezhneft Group of Companies in 2017.

Audit Committee Meeting/ via teleconferencing | 04/23/2018 | 1. On the results of internal and external risk management system assessment.

3. Consideration of the Audit Commission findings further to the audit of the financial and economic activities of Zarubezhneft JSC in 2017.

Audit Committee Meeting/ via teleconferencing | 05/24/2018 | 1. On determining the amount of remuneration for the services of the open tender winner for selection of an auditing organization to perform a mandatory audit of the accounting (financial) statements of Zarubezhneft JSC in 2018-2019.  
2. Consideration of the new version of the Code of Corporate Conduct of Zarubezhneft JSC.  
4. Consideration of information on the results of processing the most significant messages of security hotline.

Audit Committee Meeting/ via teleconferencing | 09/06/2018 | 1. Consideration of the results of testing the effectiveness of procedures for organizing a risk management and internal control system in the field of anti-corruption management.  
2. Consideration of changes to the Audit Plan for Zarubezhneft Group of Companies for 2018.

2. Consideration of the new version of the Regulation on Internal Audit in Zarubezhneft JSC.
Following the results of the Committee meetings, the Zarubezhneft JSC Board of Directors, were in particular given recommendations:

- on preliminary approval of the Annual Report of Zarubezhneft JSC for 2017;
- on approval of the Report on the Achievement of Target Values of Zarubezhneft JSC KPIs in 2017;
- on determining the remuneration for the services of the winner of a tender for selection of an auditing organization to perform a mandatory audit of the accounting (financial) statements of Zarubezhneft JSC in 2018-2019;
- on payment of remuneration to members of the Board of Directors, Audit Commission and the General Director of Zarubezhneft JSC.

As part of interaction with an external auditor, taking into account Clause 2.1 of the Guidelines for the organization and carrying out of a mandatory audit of financial (accounting) statements (approved by the Order of the Federal Property Management Agency No. 12 dated January 21, 2016), p.2.5 Guidelines for the organization of the work of the Audit Committees of the Board of Directors (approved by the Order of the Federal Property Management Agency No. 86 dated March 20, 2014) in April 2018, the Audit Committee of the Zarubezhneft JSC Board of Directors reviewed the results of the external auditor work following the audit of the accounting (financial) statements of Zarubezhneft JSC under RAS and consolidated financial statements according to IFRS for 2017 (Minutes No. 32 dated April 5, 2018).

The external auditor presented to the audit committee the main areas and fields of the audit in 2017, as per the Terms of Reference, the existing accounting principles and essential financial statements estimates were indicated, an assessment of the Company's control procedures aimed at reducing the risk of unreliability of the accounting (financial) statements was provided. Audit opinions on the reliability of the accounting (financial) and consolidated financial statements of Zarubezhneft JSC for 2017 were also reviewed.

The external auditor presented the main areas and fields of the audit in 2017 as per the terms of reference, the essential financial statements estimates were identified, an assessment of the Company's control procedures aimed at reducing the risk of unreliability of the accounting (financial) statements were provided.

External auditors also presented to the Audit Committee positive audit reports on the reliability of the financial statements and certified accounting (financial) statements of Zarubezhneft JSC for 2017.

Based on the “Policy of Interaction of the Audit Committee of the Zarubezhneft JSC Board of Directors with External Auditors”, approved by the Company as per the requirements of the guidelines of the Federal Property Management Agency on the organization and performance of a mandatory audit of financial (accounting) statements, the cooperation between the internal audit (Internal Audit Department) and Company's external auditors was carried out.

In the process of interaction between internal and external auditors, the main attention was paid to the improvement of the internal control system, control methods, control procedures aimed at reducing the risk of unreliability in the accounting (financial) statements.

The Internal Audit Department performed and submitted for the consideration by the Audit Committee an assessment of cooperation between the Company and the external auditor based on criteria recommended by the Federal Property Management Agency. The members of the Audit Committee were also questioned for assessment of the quality of the Company’s interaction with external auditors, based on which the quality of interaction between the Company and external auditors is rated as “effective”.

In 2018, the Audit Committee was fully engaged in resolving key issues related to the Company's financial and business activities; two face-to-face meetings were held, one of which was attended by the Chairman of the Inspection Committee of Zarubezhneft JSC, where, in particular, the following was discussed:

- accounting (financial) statements of Zarubezhneft JSC for 2017;
- Zarubezhneft JSC annual report for 2016;
- Report on the Achievement of Target KPI Values of Zarubezhneft JSC in 2017;
- Report on the Status of Implementation of Recommendations Issued by the Audit Commission of Zarubezhneft JSC Based on the 2016 Audit Results.
The current revision of the Regulation on the Personnel and Remuneration Committee approved by decision of the Zarubezhneft JSC Board of Directors on April 30, 2015, (Minutes of Meeting No. 101) was developed by taking into consideration the recommendations of the Corporate Management Code, recommended by Letter No.06-52/2463 from the Bank of Russia (dated April 10, 2014 – Concerning the Corporate Management Code).

As per the Regulations on the Personnel and Remuneration Committee of the Zarubezhneft JSC Board of Directors, the following matters are in the Committee’s competence:

- Development of recommendations for the matters of a personnel policy and the Company’s motivation of personnel;
- Supervision over the integration and implementation of the Remuneration policy of Zarubezhneft JSC and various motivation programs;
- Development of recommendations regarding the amount of remuneration of the members of the Board of Directors and the management of Zarubezhneft JSC;
- Improvement of the Company’s key performance indicators system;
- Consideration of reports on the achievement of the target values of the key performance indicators by the Company.

8 meetings of the Personnel and Remuneration Committee took place in 2018, and all of the elected members of the Committee participated in each of them.

Members of the Personnel and remuneration committee at the Zarubezhneft JSC Board of Directors in 2018

Members of the Committee before the Annual Shareholders’ Meeting of Zarubezhneft JSC:

- Rair Rairovich Simonyan (independent director) – Councilor to the Chairman of the Management board of Inter RAO UES PJSC (Chairman of the Committee);
- Alexei Valentinovich Arkhipov – Assistant of Deputy Chairman of the Government of the Russian Federation;
- Pavel Anatolyevich Kadochnikov (independent director) – Pro-Rector for Research at the All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia.

Members of the Committee after the Annual Shareholders’ Meeting of Zarubezhneft JSC:

- Rair Rairovich Simonyan (independent director) – Councilor to the Chairman of the Management board of Inter RAO UES PJSC (Chairman of the Committee);
- Alexander Alexeyevich Gladkov – Director of Oil and Gas Production and the Transportation Department of the Ministry of Energy of the Russian Federation;
- Maxim Yurievich Sokolov – General Director of LSR Group JSC.

Members of the Committee after the Extraordinary General Shareholders’ Meeting of Zarubezhneft JSC:

- Anatoliy Vladimirovich Tikhonov – General Director of FSBI Russian Energy Agency at the Ministry of Energy of the Russian Federation (Chairman of the Committee);
- Alexander Alexeyevich Gladkov – Director of Oil and Gas Production and the Transportation Department of the Ministry of Energy of the Russian Federation;
- Maxim Yurievich Sokolov – General Director of LSR Group JSC.
<table>
<thead>
<tr>
<th>Meeting/Holding form</th>
<th>Meeting date</th>
<th>Agenda</th>
</tr>
</thead>
</table>
| Meeting of Human Resources and Compensation Committee/ by personal attendance | 05/17/2018   | 1. Consideration of a new version of the annual remuneration to the Director General of Zarubezhneft JSC.  
2. Consideration of the passport of the Challenge Corporate Business Initiative. |
| Joint meeting of the Strategic Planning Committee and Human Resources and Compensation Committee/ via teleconferencing | 05/21/2018   | 1. Consideration of the Report on the Achievement of Target Values of Zarubezhneft JSC Corporate KPIs in 2017.  
| Meeting of Human Resources and Compensation Committee/ via teleconferencing | 05/25/2018   | 1. Consideration of proposals on the amount of remuneration to members of the Zarubezhneft JSC Board of Directors following the results of the corporate year.  
2. Consideration of proposals on the amount of remuneration to the members of the Inspection Committee of Zarubezhneft JSC.  
3. On payment of annual remuneration to the General Director of the Company based on the results of achieving corporate KPIs. |
| Joint meeting of the Strategic Planning Committee and Human Resources and Compensation Committee/ via teleconferencing | 09/14/2018   | 1. Consideration of the Report on the Achievement of the Target Values of Corporate KPIs of Zarubezhneft JSC As Per the 2018 Year-end Forecast, taking into account the actual values of the first half of the year.  
| Joint Meeting of the Strategic Planning Committee and the Human Resources and Compensation Committee/ via teleconferencing | 11/15/2018   | 1. Consideration of the Report on the Achievement of Target Values of Corporate KPIs of Zarubezhneft JSC As Per the 2018 Year-end Forecast, taking into account the actual values of 9 months.  
| Joint Meeting of the Strategic Planning Committee and the Human Resources and Compensation Committee/ via teleconferencing | 12/18/2018   | 1. On updating of target values of Zarubezhneft JSC corporate KPIs for 2019.  
2. on payment of remuneration to the General Director;  
3. on the amount of remuneration to the members of the Zarubezhneft JSC Board of Directors;  
4. on the amount of remuneration to the members of the Inspection Committee of Zarubezhneft JSC;  
5. on approval of KPI target values for 2019;  
Also, the Human Resources and Compensation Committee recommended for approval a new version of the Regulation on remuneration of the Company’s Director General and the passport of Challenge Corporate Business Initiative. |
Information on the holding of the Board of directors’ meetings

In the year 2018 14 meetings of the Zarubezhneft JSC Board of Directors were held:

<table>
<thead>
<tr>
<th>Board of Directors’ meeting (date, minutes number, form of holding)</th>
<th>Addressed questions</th>
<th>Members of the Board of Directors participating in the meeting of the Board of Directors</th>
</tr>
</thead>
</table>
| February 08, 2018 Minutes No. 149/ via teleconferencing       | 1. On implementation of recommendations on the management of rights for intellectual deliverables at Zarubezhneft JSC.  
2. Approval of the Terms of Reference for Performance of an Audit of the Zarubezhneft JSC Long-term Development Program.  
Gladkov A.A.  
Kadochnikov P.A.  
Kudryashov S.I.  
Murov E.A.  
Symonyan R.R.  
Tikhonov A.V. |
2. Approval of the Program for improving the efficiency and optimizing the costs of Zarubezhneft Group of Companies for 2018.  
3. Updating the Zarubezhneft JSC Long-term Development Program.  
4. On making changes in the statutory documents providing for the possibility of creating all-Russian industry specific fitness and sports societies and corporate fitness and sports societies. | Arkhipov A.V.  
Gladkov A.A.  
Kadochnikov P.A.  
Kudryashov S.I.  
Murov E.A.  
Symonyan R.R.  
Tikhonov A.V. |
5. Updating of the Register of Non-core Assets of Zarubezhneft JSC.  
Gladkov A.A.  
Kadochnikov P.A.  
Kudryashov S.I.  
Murov E.A.  
Symonyan R.R.  
Tikhonov A.V. |
Gladkov A.A.  
Kadochnikov P.A.  
Kudryashov S.I.  
Murov E.A.  
Symonyan R.R.  
Tikhonov A.V. |
| April 27, 2018 Minutes No. 153/ via teleconferencing           | 1. Concerning Approval of the Report on Comparing the Level of Process Development and the Values of the Key Performance indicators of Zarubezhneft JSC with the Level of Development and Indicators of Leading Counterparts;  
2. Concerning consideration of the Reports on the Work of the Zarubezhneft JSC Board of Directors’ Committees for 2017;  
4. Concerning the results of the work of auditors on the audit of Zarubezhneft JSC financial statements as per RAS and consolidated financial statements of Zarubezhneft Group of Companies as per IFRS in 2017.  
5. Concerning termination of Zarubezhneft JSC participation in EAST WEST OIL Limited Company.  
6. Concerning approval of a new version of Zarubezhneft JSC Procurement policy. | Arkhipov A.V.  
Gladkov A.A.  
Kadochnikov P.A.  
Kudryashov S.I.  
Murov E.A.  
Symonyan R.R.  
Tikhonov A.V. |
<table>
<thead>
<tr>
<th>Board of Directors’ meeting (date, minutes number, form of holding)</th>
<th>Addressed questions</th>
<th>Members of the Board of Directors participating in the meeting of the Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Addressed questions</td>
<td>Members of the Board of Directors participating in the meeting of the Board of Directors</td>
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<tr>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>2. Concerning consideration of the Report on the Achievement of the Target Values of Zarubezhneft JSC Corporate KPIs as per the 2018 Year-end Forecast, taking into account the actual values of the first half of the year.</td>
<td>Kudryashov S.I.</td>
<td></td>
</tr>
<tr>
<td>3. VNIIneft JSC developing concept.</td>
<td>Murov E. A.</td>
<td></td>
</tr>
<tr>
<td>4. Concerning approval of a new version of Zarubezhneft JSC Procurement policy.</td>
<td>Symonyan R.R.</td>
<td></td>
</tr>
<tr>
<td>5. Concerning performing an inventory of rights to intellectual deliverables with a view to subsequent organization of measures on providing the identified results owned by the joint-stock company by rights, with legal protection, entry the rights for them in the books as intangible assets for subsequent introduction into economic circulation and, if necessary, on estimating the cost of rights for them.</td>
<td>Sokolov M. Yu.</td>
<td></td>
</tr>
<tr>
<td>October 3, 2018</td>
<td>Tikhonov A.V.</td>
<td></td>
</tr>
<tr>
<td>Minutes No. 159/ via teleconferencing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Concerning approval of the Policy of controlling the rights for intellectual deliverables in Zarubezhneft Group of Companies and the Action Plan for its implementation.</td>
<td>Murov E. A.</td>
<td></td>
</tr>
<tr>
<td>4. Concerning the removal of the Orders on directives No. 8583п-P1 dated November 24, 2017 from control.</td>
<td>Symonyan R.R.</td>
<td></td>
</tr>
<tr>
<td>5. Concerning approval of a new version of Zarubezhneft JSC Procurement policy.</td>
<td>Sokolov M. Yu.</td>
<td></td>
</tr>
<tr>
<td>6. Concerning performing an inventory of rights to intellectual deliverables with a view to subsequent organization of measures on providing the identified results owned by the joint-stock company by rights, with legal protection, entry the rights for them in the books as intangible assets for subsequent introduction into economic circulation and, if necessary, on estimating the cost of rights for them.</td>
<td>Tikhonov A.V.</td>
<td></td>
</tr>
<tr>
<td>November 20, 2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minutes No. 160/ via teleconferencing</td>
<td>Gladkov A.A.</td>
<td></td>
</tr>
<tr>
<td>3. Concerning consideration of the Report on the Achievement of Target Values of Zarubezhneft JSC Corporate KPIs as per the 2018 Year-end Forecast, taking into account the actual values for 9 months.</td>
<td>Symonyan R.R.</td>
<td></td>
</tr>
<tr>
<td>6. Concerning consideration of the new version of the Regulation on Internal Audit at Zarubezhneft JSC.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Concerning the annual provision of information to the relevant federal executive bodies and the Government of the Russian Federation on the volume of contracts with defense contractors for the purchase of civilian products for the fuel and energy complex (job execution, service provision) not related to the state defense order.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Concerning approval of a new version of Zarubezhneft JSC Procurement policy.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 6, 2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minutes No. 161/ via teleconferencing</td>
<td>Gladkov A.A.</td>
<td></td>
</tr>
<tr>
<td>1. Concerning election of the Chairman of the Zarubezhneft JSC Board of Directors.</td>
<td>Karapetyan K.V.</td>
<td></td>
</tr>
<tr>
<td>2. Concerning election of the members of Committees of the Zarubezhneft JSC Board of Directors.</td>
<td>Kudryashov S.I.</td>
<td></td>
</tr>
<tr>
<td>December 20, 2018</td>
<td>Murov E.A.</td>
<td></td>
</tr>
<tr>
<td>Minutes No. 162/ by personal attendance</td>
<td>Sokolov M.Yu.</td>
<td></td>
</tr>
<tr>
<td>2. Concerning approval of the Zarubezhneft JSC 2019 Business Plan.</td>
<td>Tikhonov A.V.</td>
<td></td>
</tr>
<tr>
<td>3. Concerning updating the values of the Zarubezhneft JSC 2019 corporate KPIs;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 20, 2018</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Revision commission of Zarubezhneft JSC

As per the Order of the Federal Property Management Agency No. 391-p dated June 30, 2017 – Concerning Resolutions of the Zarubezhneft Joint Stock Company Annual General Shareholders’ Meeting, the following members of the Revision Commission of Zarubezhneft JSC were elected in 2017:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>N.N. Anninkova</td>
<td>Director of Economics, Ortus Management Company (from November 1, 2017). First Deputy General Director, Stroitelnoye Upravleniye No. 308 Open Joint Stock Company (until November 1, 2017).</td>
</tr>
<tr>
<td>T.V.Zobkova</td>
<td>Head of the Corporate Management Department, Directorate of Corporate Management, Pricing Environment and Auditing in Fuel and Energy Industry of the Ministry of Energy</td>
</tr>
<tr>
<td>V.A.Stepanova</td>
<td>Head of the Innovation Development Institutions Department, Project Funding and Investment Policy Directorate of the Ministry of Finance of the Russian Federation</td>
</tr>
</tbody>
</table>

The Revision Commission audited the Company’s financial and operating performance in 2017. Upon completion of the audit, opinions on data validity were prepared on the data contained in Zarubezhneft JSC’s accounting (financial) statements and 2017 the Annual Report. After the audits, recommendations to the Company were prepared and documented in the certificate and findings of the Revision Commission for 2017.

In addition, the Revision Commission carried out audits of fulfilment of the Orders of the President and Government of the Russian Federation by the Company regarding the following:
- Non-core assets disposal;
- Procurement activities in part of import replacement;
- OPEX of the subsidiaries;
- Performance of the Long-term Development Program.

As per Order of the Federal Property Management Agency No. 499-p dated June 30, 2018 – Concerning Resolutions of the Zarubezhneft Joint Stock Company Annual General Shareholders’ Meeting, the following members of the Revision Commission of Zarubezhneft JSC were elected:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bogashov A.E.</td>
<td>Head of the Department of corporate governance, pricing environment and control and revision work in the fuel and energy complex of the Ministry of Energy</td>
</tr>
<tr>
<td>Annikova N.N.</td>
<td>Independent expert</td>
</tr>
<tr>
<td>Mozhayeva A.I.</td>
<td>Administrative assistant in the oil and gas industry development division of the Department of state regulation of tariffs, infrastructure reforms and energy efficiency of the Ministry of economic development</td>
</tr>
</tbody>
</table>

Four meetings of the Company’s Revision Commission were held during the period from January 1, 2018 to December 31, 2018, at which, among others, the following issues were considered:
- Concerning the discussion of the Company’s Preliminary Import Replacement Report;
- Concerning the discussion of the Company’s Preliminary Accounting Statements Analysis Report;
- Concerning the approval of the Act and Summary of the Revision Commission under the results of the Company’s activities in 2017;
- Concerning the election of the Chairman and the Secretary of the Revision Commission for the corporate year 2018-2019;

The Company performed all recommendations of the Revision Commission given under the results of the revision.

Provision of internal control at Zarubezhneft Group of companies

An Internal Audit Department comprising of six persons operates at Zarubezhneft JSC in the framework of the existing corporate governance system. In its activities the Department is guided by the Regulation on the internal audit of Zarubezhneft JSC, Audit inspection planning and holding methodology and the Regulation on the Internal audit department.

The main task of the internal audit of Zarubezhneft JSC, which is assessing and expressing an opinion regarding the reliability and efficiency of the systems of risk management, internal control and corporate governance in the Group of Companies.

The Internal Audit Directorate is reporting to the Zarubezhneft JSC Board of Directors. The existing subordination of the internal audit to the Board of Directors and the Company's executive bodies ensures the independence, which is sufficient for performance of the internal audit functions.

The annual plan of internal audit and the results of the management activities are reviewed by the Audit Committee and approved by the Zarubezhneft JSC Board of Directors.

The key areas for internal audit in 2018 were identified as follows:

- Audit of the formation of corporate KPIs (on a quarterly basis);
- Audit of sales of non-core assets of Zarubezhneft JSC (on a quarterly basis);
- Audit of the risk management process in Zarubezhneft Group of Companies;
- Audit of the internal control and risk management system in the field of anti-corruption management.
- Audit of compliance with the corporate governance matrix;
- Audit of “Investment Planning” business process;
- Audit of “Workover” process;
- Audit of “Working Capital Management (Material and Technical Resources Inventory Turnover)”;
- The Audit “Search, Assessment of New Projects, Increasing Zarubezhneft JSC Asset Portfolio”.

All scheduled inspections have been performed as per the approved Plan.

In addition to the scheduled audits, the Internal Audit Department conducted a number of unscheduled inspection activities on the Orders of the General Director of Zarubezhneft JSC.

The Internal Audit Department is the owner of the business process “Audits of Subsidiaries”. As per the “Regulations for the Inspection of Subsidiaries”, the Department coordinates the processes of performing audits, forming audit acts and conclusions. The Department carries out continuous monitoring of the implementation of recommendations based on the results of internal audit and audit activities aimed at improving the internal control, risk management and corporate governance systems.

As part of the expert function implementation, the employees of the Department carried out the examination of documents in BD/GSM of subsidiaries and materials of investment committees, participated in the work of expert groups of Zarubezhneft JSC.

During the reporting year, to improve the regulatory framework of internal audit, the following regulatory documents were updated:

- a new version of “Regulation on Internal Audit” was approved;
- a new version of “Procedure for Planning and Conducting Internal Audits” was approved;
- the Regulation of the Audit of Subsidiaries was updated;

As part of the development and improvement of the internal audit function, in compliance with the best international practices, the Department implemented the following activities:

- an external evaluation of Zarubezhneft JSC’s internal audit function was conducted. According to the evaluation results, the conformity of the Departments’ activities with the best international practices was determined, the main directions for further improvement of the function were outlined;
- as per the requirements of the International Internal Audit Standards, the Department has implemented a procedure for confirming the independence and absence of a conflict of interest among employees;
- a unified system of recording violations detected as a result of inspections and monitoring measures for their eliminate has been developed and implemented;
- a matrix of areas requiring the increased management attention has been developed and introduced into the control process;
- a quality management system for internal audits was developed and implemented (taking into account the requirements of ISO 9001:2015).

During the year, to develop professional competencies, all employees of the Internal Audit Department participated in training activities in the field of activity: trainings, conferences, seminars, and strategic sessions.
Management of Zarubezhneft JSC

GENERAL DIRECTOR

Kudryashov Sergey Ivanovich

- Sergey Ivanovich Kudryashov has extensive experience in top management positions at companies in the fuel and energy industries.
- In 1991, he graduated from the Kuibyshev Polytechnic Institute. In 2006, he received an Executive MBA degree from the Stockholm School of Economics.
- He began his working career in 1991 at Nizhnevartovskneft, rising from the post of Production Operator to Deputy General Director, Head of the Unitized Oil Field.
- From 2002 to 2003, he worked as Deputy Manager of Tomskneft VNK, and Head of the Strezhevoyneft Oil and Gas Production Directorate.
- From 2003 to 2004, he was Manager of Yuganskneftegaz JSC, and Vice-President of YUKOS-EP CJSC.
- Since 2005, he has been First Vice-President of OC Rosneft JSC and is in charge of the company’s production sector.
- From 2008 to July 11, 2012, he held the position of Deputy Minister of Energy of the Russian Federation and was in charge of issues connected with the activity of the Russian oil and gas complex.
- Since July 12, 2012, he has held the position of First Deputy General Director of Zarubezhneft JSC.
- Since December 28, 2012, he has been the General Director of Zarubezhneft JSC.
- Mr. Kudryashov is also the Head of the Working Group of the Commission under the President of the Russian Federation for the issues of the Fuel and Energy Complex (FEC) and the development strategy for ecological safety.
- He does not own any shares of Zarubezhneft JSC.
DEPUTY GENERAL DIRECTOR FOR PRODUCTION

Dashevskiy Alexander Vladimirovich

- In 1990, A.V. Dashevskiy graduated from the Grozny Oil Institute with a specialization in Mining Engineering; in 2003, he graduated from the Gubkin Oil and Gas Russian State University with the specialization of Engineer-Economist.
- For approximately 10 years, he has worked for oil companies in the city of Gubkinskiy in the Yamal-Nenets Autonomous Area, rising from the post of Oil & Gas Production Operator to the Head of the Department.
- Since 2000, he has worked at Tomskneft VNK.
- In 2005, he moved to OC Rosneft JSC, where he held the positions of the Director of Department of Prospective Planning and the Preparation of Investment Projects, as well as the Director of Oil and Gas Production Department.
- Since 2010, he has held the position of Senior Vice-President for oil and gas production at OC Bashneft JSC.
- From 2013 to 2014, he served as First Deputy General Director at JV “Vietsovpetro”.
- Since July 2014, he has been Deputy General Director for Production at Zarubezhneft JSC.
- He does not own any shares of Zarubezhneft JSC.

DEPUTY GENERAL DIRECTOR FOR ECONOMICS AND FINANCE

Maximov Denis Nikolayevich

- In 2006, he obtained higher education with specialization in Accounting, Analysis and Auditing; in 2011, he obtained a second higher education with specialization in Law. He holds an international accounting diploma (DiplFR) from ACCA (The Association of Chartered Certified Accountants).
- From 2004 to 2013, he occupied various positions in the finance and economic block of Orenburgneft PJSC.
- From 2013 to 2016, he occupied the position of Deputy General Director of Economics and Finance of LLC “JC “RUSVIETPETRO” (a joint company of Zarubezhneft JSC and Petrovietnam OGC).
- Since May 2016, he has been Deputy General Director for Economics and Finance of Zarubezhneft JSC.
- He was also awarded with an Honorary Certificate of the Ministry of Trade and Industry of the Socialist Republic of Vietnam.
- He does not own any shares of Zarubezhneft JSC.
DEPUTY GENERAL DIRECTOR FOR PROJECT DEVELOPMENT AND WELL OPERATIONS

Zaikin Igor Petrovich

- In 1991, he graduated from the Kuibyshev Polytechnic Institute with the specialization of Mining Engineer. Has a certificate of completion from the Russian-Norway module MBA program at the Moscow State University of Foreign Affairs.
- He began his career as an assistant driller at the state oil and gas well drilling enterprise VAN-EGAN in Nizhnevartovsk city.
- Since 1996, he has worked at Lukoil Drilling LLC in Samara city and Lukoil Overseas in Kazakhstan.
- Since 2003, he has been Head of the Drilling Technology Section at LUKOIL (Moscow).
- From 2005 to 2012, he worked at OC Rosneft JSC as Director of the Drilling, Well Technologies and Supervising Department.
- Since 2012, he has been Director of the Drilling Department at ANK Bashneft.
- Since July 2013, he has been Deputy General Director for Project Development and Well Operations of Zarubezhneft JSC.
- He does not own any shares of Zarubezhneft JSC.

DEPUTY GENERAL DIRECTOR FOR GEOLOGY AND FIELD DEVELOPMENT

Afanasiev Igor Semyonovich

- In 1994, Mr. Afanasiev graduated from Novosibirsk State University.
- From 2002 to 2004, he worked at YuganskNIPIneft (Ufa).
- From 2005 to 2006, he held the position of Head of the Department for the development of technologies for the Corporate Research Center at OC Rosneft JSC.
- In 2006, he moved to the position of Deputy Director of the Corporate Research Center at OC Rosneft JSC.
- Since 2007, he has held the position of Director of the Department of field development at OC Rosneft JSC.
- Since August 2014, he has been Deputy General Director for Geology and Field Development at Zarubezhneft JSC.
- He does not own any shares of Zarubezhneft JSC.
DEPUTY GENERAL DIRECTOR FOR CORPORATE COMMUNICATIONS,
STRATEGY AND DEVELOPMENT

Ulitin Denis Borisovich

- In 2000, he graduated from the Novosibirsk State Academy of Economics and Management with a specialization in Financing and Credit. In 2009, he completed the Executive Education program for the managers of Russia’s oil and gas industry named “Oil and Gas Industry: Management of Major Projects” at the Moscow SKOLKOVO school.
- From 2001 to 2005, he worked in Yuganskneftegaz at various positions.
- From 2005 to 2010, he served as the Assistant to the First Vice-President of OC Rosneft JSC.
- From 2011 to 2012, he held the position of Deputy Director of the Oil and Gas Production and Transportation Department of the Ministry of Energy of the Russian Federation.
- Since January 2013, he has been appointed Head of the Administrative Office of the General Director of Zarubezhneft.
- Since February 2015, he has been Deputy General Director for corporate communications, strategies and development at Zarubezhneft JSC.
- He has been honored with official awards from the Ministry of Energy of the Russian Federation.
- He does not own any shares of Zarubezhneft JSC.

DEPUTY GENERAL DIRECTOR FOR BUSINESS DEVELOPMENT

Ismagilov Azamat Faritovich

- In 2000, he graduated with honors from the Ufa State Petroleum Technical University with a specialization in Economics and Management at Enterprises of the Fuel and Energy Complex. In 2003, he received an MBA degree in Plekhanov REA. Candidate of economic sciences.
- He began his career in 1998 from the position of Chief Accountant at the Ufa branch of the Dortransservice Agency LLC.
- In 2000, he worked in Ufa occupying various positions at the Ufa branch of YuganskNIPIneft LLC of Yukos EP CJSC.
- In 2003, he continued his career in Moscow, going all the way from Chief Expert at Yukos EP CJSC, where he worked from 2003 to 2005, to the Deputy Director of the Corporate Scientific and Technical Center of OC Rosneft JSC (2005-2008).
- From 2008 to 2016, he occupied the position of General Director of SamaraNIPIneft LLC (2008-2016) and General Director of Giprovostokneft JSC (2014-2016) in Samara.
- Since May 2016, he has been Deputy General Director of Zarubezhneft JSC for Business Development.
- He also has scientific publications and monographs.
- He does not own any shares of Zarubezhneft JSC.
DEPUTY GENERAL DIRECTOR FOR LEGAL AND CORPORATE AFFAIRS

Kochetkov Kirill Alexandrovich

- In 1994, he graduated with honors from the Sergo Ordzhonikidze Moscow Aviation Institute with specialization in “Automated Information Processing and Management Systems”. In 2003 graduated from the Moscow State Legal Academy with specialization in “Law”. Fluent in English.
- Since 1994, he has been occupying managerial positions, including those in the companies of the fuel and energy complex.
- In 2010-2015, he was the Head of Legal Department of “Stockman Development AG”, a joint venture of Gazprom PJSC, Total S.A. (France) and Statoil ASA (Norway) established for the construction and operation of the Stockman gas condensate field development facilities construction and operation.
- Starting 2015, he has commenced his career in Zarubezhneft Group of Companies.
- In 2016-2018, he was the Deputy General Director of ZARUBEZHNEFT – Dobycha Kharyaga LLC, was responsible for the legal and corporate affairs.
- In July 2018, he was appointed the Deputy General Director for Legal and Corporate Affairs of Zarubezhneft JSC.
- Has the letters of appreciation issued by the Russian Ministry of Energy and Zarubezhneft JSC. In 2017 he was included into the list of top 100 lawyers made by Legal 500.
- Does not own any shares of Zarubezhneft JSC.

DEPUTY GENERAL DIRECTOR FOR CORPORATE SECURITY

Matveyev Evgeniy Alexeyevich

- Graduated from the Bauman Moscow Higher Technical School, Russian Presidential Academy of Public Administration
- From 1984 to 2015 he was working in various positions in government authorities
- From 2015 to 2016 he was the Councilor-adviser of the Governor of the Tula region in the Central Office of the Tula region Government.
- In June 2016 he was appointed to the position of the Head of Corporate Security Department of Zarubezhneft JSC.
- Since December 2017 he has been the Deputy General Director for Corporate Security of Zarubezhneft JSC.
- Honored with State and Ministerial awards of the Russian Federation.
- Does not own any shares of Zarubezhneft JSC.
DEPUTY GENERAL DIRECTOR FOR DOWNSTREAM OPERATIONS

DEPUTY GENERAL DIRECTOR FOR GENERAL AND HUMAN RESOURCES MANAGEMENT ISSUES

Schelkunov Igor Viktorovich

- In 1992, he graduated from the Tyumen Industrial Institute, Oil & gas industry department. Specialization: Oil and gas fields development process and complex mechanization. Qualification: mining engineer
- In 2007-2009, he studied in the Academy of National Economy under the Government of the Russian Federation Joint program with the Kingston University, London Master of Business Administration (MBA)
- In 1988-1997, he was the oil & gas production operator, 3RD grade technologist, 1ST grade geologist – deputy shop foreman, foreman of the scientific and research and production workshop of the Yuganskneft oil & gas production department, Yuganskneft PA
- In 1997-2005, he occupied the position of the deputy head of HR department, head of HR department, HR director of Yuganskneftegaz JSC
- In 2005-2007, he was the head of HR department of MHK EuroChem JSC
- In 2007-2017, he was the administrative director of MHK EuroChem JSC, member of the board of MHK EuroChem JSC
- In 2017-2018, he was the head of Oil & Gas division, member of the board of EuroChem Group AG (Zug, Switzerland), member of the MHK EuroChem JSC Board of Directors (Moscow)
- Since December 2018, he has been appointed to the position of the Deputy General Director for Internal Operations & Personnel and for Downstream Operations of Zarubezhneft JSC
- Has been given state awards of USSR and the Russian Federation
- Does not own any shares of Zarubezhneft JSC
Dividend policy and information on the profit distribution of Zarubezhneft JSC

The Regulation on Zarubezhneft JSC’s Dividend Policy was approved by the Board of Directors at the meeting on January 30, 2015 (Minutes of meeting No. 96). A new revision of the Dividend policy was approved by the Board of Directors at the meeting on February 16, 2017 (Minutes of meeting No 134).

The dividend policy of Zarubezhneft JSC is aimed at ensuring the greatest transparency of the decision-making process for the Company’s shareholder on dividend payment, determining the amount of dividends and the procedure for their payment as per the requirements of the Russian Federation legislation. To ensure the transparency of the dividend policy, the Company places the Policy and any amendments to it on the Company’s official website at: www.nestro.ru.

As per the Dividend Policy, Zarubezhneft JSC strives for ensuring the annual growth of dividends paid in favor of the Russian Federation, with an optimal combination of shareholder’s interests with the need for sufficient funding of the Company, respect and strict observance of shareholder’s rights stipulated by the current legislation of the Russian Federation, and successful implementation of Zarubezhneft JSC investment projects, carried out as per the Company’s Business Plan approved by the Board of Directors. The growth rate of dividends of the Company is determined by the growth rate of the Company’s net profit, its financial condition and implemented investment projects.

During several years, Zarubezhneft JSC has been one of the leading Russian companies by the total amount of dividends paid in the budget of the Russian Federation.

Net profit generated by the Zarubezhneft JSC results for 2017 for RUB 8,442,807 thousand as per the order of the Federal Agency for State Property Management dated June 30, 2018 No. 499-r – Concerning the Decisions of the Annual General Shareholders’ Meeting of Zarubezhneft Joint Stock Company was sent:

- for payment of remuneration to members of the Inspection Committee – RUB 280 thousand, or 0.003% of the net profit;
- to finance Zarubezhneft JSC investment plan, approved by the decision of the Board of Directors (Minutes No. 148 of December 22, 2017) – RUB 3,090,317 thousand, or 36.6% of the net profit.

The basic dividend policy principles of Zarubezhneft JSC are as follows:

- observance of the applicable legislation of the Russian Federation, Company’s charter and internal documents, including compliance of the Company’s dividend distribution and payment practice with the laws of the Russian Federation;
- observance of shareholders rights and interests;
- commitment to the highest corporate management standards;
- commitment of the management and shareholders to increase the Company’s profitability;
- improvement of the Company’s investment attractiveness;
- positive dividend payout trend subject to the Company’s net profit growth;
- commitment to the most shareholder-friendly dividend receipt method;
- commitment to dividend payment in within the shortest possible time;
- maximum transparency of dividend rate determination mechanism.

Share to be paid out in dividends vs. net profit in 2014-2018, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Share to be Paid</th>
<th>Net Profit in 2014-2018, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>48</td>
<td>71</td>
</tr>
<tr>
<td>2015</td>
<td>48</td>
<td>3.4</td>
</tr>
<tr>
<td>2016</td>
<td>50</td>
<td>4.1</td>
</tr>
<tr>
<td>2017</td>
<td>52.5</td>
<td>4.5</td>
</tr>
<tr>
<td>2018</td>
<td>52.9</td>
<td>8.4</td>
</tr>
</tbody>
</table>

Net profit for the previous year vs. Accrued dividends in 2014-2018, bln RUB

- for payment of remuneration to members of the Inspection Committee – RUB 280 thousand, or 0.003% of the net profit;
- to finance Zarubezhneft JSC investment plan, approved by the decision of the Board of Directors (Minutes No. 148 of December 22, 2017) – RUB 3,090,317 thousand, or 36.6% of the net profit.
## Official information about Zarubezhneft JSC

<table>
<thead>
<tr>
<th><strong>Full company name</strong></th>
<th><strong>Zarubezhneft Joint Stock Company</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number and date of issue of state registration certificate</td>
<td>Certification Series 77, No.003280973, dated October 22, 2004, PSRN 1047708046870</td>
</tr>
<tr>
<td>Entity of the Russian Federation</td>
<td>Moscow</td>
</tr>
<tr>
<td>Location</td>
<td>101990, Moscow, Armianskiy per., 9/1/1, building 1</td>
</tr>
<tr>
<td>Telephone (fax)</td>
<td>+7 (495) 748-65-00</td>
</tr>
<tr>
<td>E-mail</td>
<td><a href="mailto:nestro@nestro.ru">nestro@nestro.ru</a></td>
</tr>
<tr>
<td>Information on inclusion in the Strategic Joint-stock Companies List</td>
<td>Yes</td>
</tr>
<tr>
<td>Full name and address of the registrar</td>
<td>“Registrator R.O.S.T.” JSC, 107996, Moscow, Staromynka st., 18, building 13</td>
</tr>
<tr>
<td>Registered Charter Capital as of December 31, 2016, in RUB</td>
<td>50,729,067,000</td>
</tr>
<tr>
<td>Total issued shares</td>
<td>50,729,067</td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>50,729,067</td>
</tr>
<tr>
<td>Stocks at par, RUB</td>
<td>1,000</td>
</tr>
<tr>
<td>State registration number of ordinary (preferred) share and state registration date</td>
<td>1-01-65072-D, dated December 9, 2004.</td>
</tr>
<tr>
<td>State registration number of the additional issue of ordinary (preferred) shares and the state registration date – in case, by the date of preliminary approval of the annual company report by the Board of Directors (supervisory authority), the registration authority had not performed the abolition of the company’s ordinary (preferred) shares with an additional issue individual number (code)</td>
<td>1-01-65072-D, dated April 19, 2005, 1-01-65072-D, dated July 10, 2007, 1-01-65072-D, dated September 25, 2007, 1-01-65072-D-004D, dated April 24, 2012.</td>
</tr>
<tr>
<td>Full company name</td>
<td>Zarubezhneft Joint Stock Company</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Preferred shares</td>
<td>None</td>
</tr>
<tr>
<td>Preferred shares at par, RUB</td>
<td>None</td>
</tr>
<tr>
<td>Shares in possession of the Russian Federation</td>
<td>50,729,067</td>
</tr>
<tr>
<td>Russian Federation’s interest in the charter capital</td>
<td>100%</td>
</tr>
<tr>
<td>Company shareholders whose interest in the charter capital is more than 2 per cent</td>
<td>The Russian Federation, represented by the Federal State Assets Managements Agency</td>
</tr>
<tr>
<td>Availability of special rights for the Russian Federation to take part in a joint-stock company’s management (“golden share”)</td>
<td>None</td>
</tr>
<tr>
<td>Company auditor full name and address</td>
<td>Nexia Pacioli LLC 115184, Moscow, Bol’shaya Tatarskaya st., 7, bld. 2</td>
</tr>
</tbody>
</table>
History of establishment of the Company


- Zarubezhneft is the main external policy agent of USSR in the petroleum industry abroad. The main regions of presence: Iraq, Angola, Algeria, Vietnam, India, Yemen, Libya, Syria, Cuba (the presence was maintained in 33 countries).

- Zarubezhneft is transformed into a joint stock company. The state assigns RMNTK Nefteotdacha, VNIIneft JSC and Giprovostokneft JSC to be part of Zarubezhneft.

- Signing of an Agreement between the Governments of the Russian Federation and the Socialist Republic of Vietnam on further cooperation.

- Zarubezhneft commences a joint project with SPIMEX to commence stock trading of crude oil produced by the entities of Zarubezhneft Group of Companies at the domestic Russian market.
Zarubezhneft celebrates its semicentenary anniversary.

The Russian Government issues decree on inclusion of the Russian participant’s share in JV “Vietsovpetro” into the equity capital of Zarubezhneft JSC.

Zarubezhneft enters a project for the development of 13 fields of CKU in NAA and establishes JC “RUSVIETPETRO”.

Zarubezhneft enters a project for oil refining and oil products marketing in the Republic of Srpska (BiH).

An Addendum to the Agreement on development and production of oil at the Kharyaga field under production sharing terms was signed in July, in accordance with it the Agreement’s validity period was extended till December 31, 2031.

Signing of a PSC with CubaPetroleo for four license blocks in the Republic of Cuba.

Zarubezhneft receives 20% participating interest and operatorship in the Kharyaga field development project from the French Total.
### Information on the participation of Zarubezhneft JSC in other entities (as of December 31, 2018)

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Entity name</th>
<th>Participating interest of Zarubezhneft JSC</th>
<th>Participating Interest of the Subsidiaries of Zarubezhneft JSC</th>
<th>Company's location of activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>JV “Vietsovpetro” (SRV)</td>
<td>49 %</td>
<td>–</td>
<td>Vietnam</td>
</tr>
<tr>
<td>2</td>
<td>VRJ Petroleum Co (SRV)</td>
<td>50 %</td>
<td>–</td>
<td>Vietnam</td>
</tr>
<tr>
<td>3</td>
<td>LLC “JC “RUVIETPETRO”</td>
<td>51 %</td>
<td>–</td>
<td>Russia</td>
</tr>
<tr>
<td>4</td>
<td>Arktikmoreftegazrazvedka JSC</td>
<td>100 % – 1 share</td>
<td>–</td>
<td>Russia</td>
</tr>
<tr>
<td>5</td>
<td>RMNTK Nefteotdacha JSC</td>
<td>100 % – 1 share</td>
<td>–</td>
<td>Russia</td>
</tr>
<tr>
<td>6</td>
<td>Ul’yanovskneftegaz LLC</td>
<td>99.9 %</td>
<td>RMNTK Nefteotdacha JSC – 0.1 %</td>
<td>Russia</td>
</tr>
<tr>
<td>7</td>
<td>Orenburgnefteotdacha JSC</td>
<td>100 % – 1 share</td>
<td>RMNTK Nefteotdacha JSC – 1 share</td>
<td>Russia</td>
</tr>
<tr>
<td>8</td>
<td>Neftegazincor JSC</td>
<td>95 %</td>
<td>–</td>
<td>Russia</td>
</tr>
<tr>
<td>9</td>
<td>Giprovostokneft JSC</td>
<td>22.09 %</td>
<td>RMNTK Nefteotdacha JSC – 38 %</td>
<td>Russia</td>
</tr>
<tr>
<td>10</td>
<td>VNIIneft JSC</td>
<td>32.27 %</td>
<td>RMNTK Nefteotdacha JSC – 38 %</td>
<td>Russia</td>
</tr>
<tr>
<td>11</td>
<td>VNIIneft-WestSiberia JSC</td>
<td>–</td>
<td>VNIIneft JSC – 51 %</td>
<td>Russia</td>
</tr>
<tr>
<td>12</td>
<td>Neftyanoye Khozaystvo CSJC</td>
<td>–</td>
<td>RMNTK Nefteotdacha JSC – 15 %</td>
<td>Russia</td>
</tr>
<tr>
<td>13</td>
<td>ZARUBEZHNEFT-Dobycha LLC</td>
<td>99.9 %</td>
<td>Oil and Gas Innovation Corporation JSC – 0.1 %</td>
<td>Russia</td>
</tr>
<tr>
<td>14</td>
<td>Zarnestservice LLC</td>
<td>80 %</td>
<td>Zarubezhneftestroymontazh LLC – 20 %</td>
<td>Russia</td>
</tr>
<tr>
<td>15</td>
<td>Zarubezhneftestroymontazh LLC</td>
<td>80 %</td>
<td>Zarnestservice LLC – 20 %</td>
<td>Russia</td>
</tr>
<tr>
<td>16</td>
<td>Zarubezhneft Holding&amp;Services AG (Швейцария)</td>
<td>100 %</td>
<td>–</td>
<td>Switzerland</td>
</tr>
<tr>
<td>17</td>
<td>EXPLON LLC</td>
<td>80 %</td>
<td>Zarubezhneftestroymontazh LLC – 20 %</td>
<td>Russia</td>
</tr>
<tr>
<td>18</td>
<td>SPIMEX CJSC</td>
<td>10 %</td>
<td>–</td>
<td>Russia</td>
</tr>
<tr>
<td>Item No.</td>
<td>Entity name</td>
<td>Participating interest of Zarubezhneft JSC</td>
<td>Participating Interest of the Subsidiaries of Zarubezhneft JSC</td>
<td>Company's location of activities</td>
</tr>
<tr>
<td>---------</td>
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<td>-------------------------------------------</td>
<td>-------------------------------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>19</td>
<td>OPTIMA Grupa d.o.o. (Republic of Srpska)</td>
<td>–</td>
<td>Neftegazincor JSC – 100 %</td>
<td>Republic of Srpska</td>
</tr>
<tr>
<td>20</td>
<td>Brod Refinery A.D. (Republic of Srpska)</td>
<td>–</td>
<td>Neftegazincor JSC – 79.99 %</td>
<td>Republic of Srpska</td>
</tr>
<tr>
<td>21</td>
<td>Modriča Motor Oil A.D. (Republic of Srpska)</td>
<td>–</td>
<td>Neftegazincor JSC – 75.65 %, Nestro Petrol A.D. – 16.27 %</td>
<td>Republic of Srpska</td>
</tr>
<tr>
<td>22</td>
<td>Nestro Petrol A.D. (Republic of Srpska)</td>
<td>–</td>
<td>Neftegazincor JSC – 80 %</td>
<td>Republic of Srpska</td>
</tr>
<tr>
<td>23</td>
<td>Jadran-Naftagas d.o.o. (Republic of Srpska)</td>
<td>–</td>
<td>Neftegazincor JSC – 34 %</td>
<td>Republic of Srpska</td>
</tr>
<tr>
<td>24</td>
<td>OPTIMA-Modriča d.o.o. (Republic of Serbia)</td>
<td>–</td>
<td>Modriča Motor Oil A.D. – 100 %</td>
<td>Republic of Serbia</td>
</tr>
<tr>
<td>25</td>
<td>ZARUBEZHNEFT-Dobycha Samara LLC</td>
<td>–</td>
<td>ZARUBEZHNEFT-Dobycha LLC – 100 %</td>
<td>Russia</td>
</tr>
<tr>
<td>26</td>
<td>JV “Arctic Drilling Limited”</td>
<td>–</td>
<td>Arktikmorneftegazrazvedka JSC – 18 %</td>
<td>Bahamas</td>
</tr>
<tr>
<td>27</td>
<td>Zarubezhneft-Dobycha Kharyaga LLC</td>
<td>99.9832%</td>
<td>ZARUBEZHNEFT-Dobycha LLC – 0.0168 %</td>
<td>Russia</td>
</tr>
<tr>
<td>28</td>
<td>North-Karasyevskoye Petroleum Enterprise LLC</td>
<td>–</td>
<td>ZARUBEZHNEFT-Dobycha Samara LLC – 99.9 %, Ul’yanovskneftegaz LLC – 0.1 %</td>
<td>Russia</td>
</tr>
<tr>
<td>29</td>
<td>ZN LA Ltd.</td>
<td>–</td>
<td>ZARUBEZHNEFT-Dobycha LLC – 100 %</td>
<td>Russia</td>
</tr>
<tr>
<td>30</td>
<td>ZN BV Ltd.</td>
<td>–</td>
<td>ZARUBEZHNEFT-Dobycha LLC – 100 %</td>
<td>Russia</td>
</tr>
</tbody>
</table>

In 2018, the following changes occurred in the Zarubezhneft Group of Companies’ corporate structure:
- as part of the implementation of the Program for Disposal of Non-Core Assets of Zarubezhneft JSC, as per the directives of the Government of the Russian Federation No. 1753p-P13 dated March 17, 2017, ZarIT CJSC (Russia) was liquidated;
- as part of implementation of the Program for Disposal of Non-Core Assets of Zarubezhneft JSC, Zarubezhneft Exploration and Production limited liability company for oil and gas projects (the Republic of Croatia) and Nestro Sava LLC (the Republic of Croatia) were liquidated;
- a 100% stake in the authorized capital of ZN Vostok LLC (Russia) was sold;
- 3.22% of the shares of Modriča Motor Oil A.D. (the Republic of Srpska) were sold;
- to implement projects in Russia and abroad, ZN LA Ltd. and ZN BV Ltd. were established.
List of licenses of Zarubezhneft Group of companies in the Russian Federation

In 2018, Zarubezhneft Group of Companies possessed the following licenses in the Russian Federation:
- 9 licenses for the production of hydrocarbons;
- 5 licenses for the geologic study, exploration and production of hydrocarbons;
- 2 licenses for the search and appraisal of hydrocarbon deposits.

<table>
<thead>
<tr>
<th>No.</th>
<th>License No.</th>
<th>Project Operator</th>
<th>Blocks, Areas, Fields</th>
<th>License Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ОРБ 00896 НЭ</td>
<td>Orenburgnefteotdacha JSC</td>
<td>Kirsanovskoye</td>
<td>09/23/2009 – 05/31/2033</td>
</tr>
<tr>
<td>2</td>
<td>ОРБ 00898 НЭ</td>
<td></td>
<td>Pashkinskoye</td>
<td>09/23/2009 – 05/31/2033</td>
</tr>
<tr>
<td>3</td>
<td>ОРБ 03072 НЭ</td>
<td></td>
<td>Chernovskoye</td>
<td>09/14/2017 – 05/31/2033</td>
</tr>
<tr>
<td>4</td>
<td>УЛН 09132 НЭ</td>
<td>Ul’yanovskneftegaz LLC</td>
<td>Radischevskiy</td>
<td>04/30/2008 – 08/03/2030</td>
</tr>
<tr>
<td>5</td>
<td>УЛН 09135 НЭ</td>
<td></td>
<td>Slavkinskoye</td>
<td>04/30/2008 – 06/01/2018</td>
</tr>
<tr>
<td>6</td>
<td>УЛН 14582 НЭ</td>
<td></td>
<td>Kondakovskoye</td>
<td>10/01/2008 – 07/01/2018</td>
</tr>
<tr>
<td>7</td>
<td>УЛН 09133 НЭ</td>
<td></td>
<td>Ruzhevskoye</td>
<td>04/30/2008 - 09/10/2026</td>
</tr>
<tr>
<td>8</td>
<td>УЛН 09134 НЭ</td>
<td></td>
<td>Sulakskoye</td>
<td>04/30/2008 – 09/10/2026</td>
</tr>
<tr>
<td>9</td>
<td>УЛН 09223 НП</td>
<td>Zarubezhneft-Dobycha Samara LLC</td>
<td>Yuzhno-Pcheliniy</td>
<td>05/10/2017 – 05/10/2022</td>
</tr>
<tr>
<td>10</td>
<td>НРМ 00688 НР</td>
<td>LLC “JC “RUSVIETPETRO”</td>
<td>CKU-1, North-KhosedayunamedafterA.A. Slivka</td>
<td>08.09/08/2008 – 06/10/2033</td>
</tr>
<tr>
<td>11</td>
<td>НРМ 00689 НР</td>
<td></td>
<td>CKU-2, Visovoye</td>
<td>09/08/2008 – 06/10/2033</td>
</tr>
<tr>
<td>12</td>
<td>НРМ 16167 НП</td>
<td></td>
<td>CKU-2, Verkhnekolvinskoye</td>
<td>10/13/2016 – 10/02/2023</td>
</tr>
<tr>
<td>13</td>
<td>НРМ 00690 НР</td>
<td></td>
<td>CKU-3, West-Khosedayunamedafter D.I. Sadetskiy</td>
<td>09/08/2008 – 06/10/2033</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CKU-3, SIKhoreyskoye</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>CKU-3, East-SIKhoreyskoye</td>
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<td></td>
<td></td>
<td></td>
<td>CKU-3, North-SIKhoreyskoye</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>НРМ 00691 НР</td>
<td></td>
<td>CKU-4, North-Oshkotynskoye</td>
<td>09/08/2008 – 06/10/2033</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CKU-4, Syurkharatinskoye</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>CKU-4, Pyuseyskoye</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CKU-4, South-Syurkharatinskoye</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CKU-4, Uremnyrdskoye</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CKU-4, East-Yanemdeyskoye</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>НРМ 16129 НЭ</td>
<td>Zarubezhneft-Dobycha Kharyaga LLC</td>
<td>Kharyaga</td>
<td>08/01/2016 – 12/31/2018</td>
</tr>
<tr>
<td>16</td>
<td>СЛХ 15508 НЭ</td>
<td>North Karasyevskoye Petroleum Enterprise LLC</td>
<td>Lutseyakhskoye</td>
<td>03/01/2013 -02/15/2033</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Orders of the President of the Russian Federation and Directives of the Government of the Russian Federation</th>
<th>Information on the Performance of Relevant Orders and Directives by Zarubezhneft JSC</th>
</tr>
</thead>
<tbody>
<tr>
<td>On transition of the JSC to the prior use of domestic software. In pursuance of the directives of the Government of the Russian Federation No. 10068p-P13 dated December 6, 2018</td>
<td>• Decisions as per the directives were made by the Company’s Board of Directors on January 28, 2019 (Minutes No. 163 dated January 28, 2019). The Company has approved the Action Plan for the Implementation of Directives, and measures have been taken under the approved Plan.</td>
</tr>
<tr>
<td>On the annual provision of information to the relevant federal executive bodies and the Government of the Russian Federation on the volume of contracts with defense contractors for the purchase of civilian products for the fuel and energy complex (job execution, service provision) not related to the state defense order (hereinafter – purchasing civilian products for the Fuel &amp; Energy Complex from defense contractors). In pursuance of the directives of the Government of the Russian Federation No. 7923p-P13 dated September 26, 2018</td>
<td>• The Company’s Board of Directors adopted decisions as per the directives (Minutes No. 160 dated November 20, 2017). The Company has approved the Action Plan for the Implementation of Directives, and measures have been taken under the approved Plan. • A report on purchasing civilian products for the Fuel &amp; Energy Complex from defense contractors in 2017 was sent to the Government of the Russian Federation, the Ministry of Economic Development, the Ministry of Industry and Trade and the Ministry of Energy of Russia (letters from SK-25-5349 dated November 1, 2018).</td>
</tr>
<tr>
<td>Orders of the President of the Russian Federation and Directives of the Government of the Russian Federation</td>
<td>Information on the Performance of Relevant Orders and Directives by Zarubezhneft JSC</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>On performing an inventory of rights to intellectual deliverables rights with a view to subsequent organization of measures on providing the identified results owned by the joint-stock company by rights, with legal protection, entry the rights for them in the books as intangible assets for subsequent introduction into economic circulation and, if necessary, on estimating their cost.</td>
<td>• Decisions as per the directives were taken by the Company’s Board of Directors (Minutes No. 159 dated October 3, 2018). The Company has approved the Action Plan for the Implementation of Directives, and measures have been taken under the approved Plan.</td>
</tr>
<tr>
<td>In pursuance of the directives of the Government of the Russian Federation No.7050p-P13 dated August 30, 2018</td>
<td></td>
</tr>
<tr>
<td>On innovative development.</td>
<td>• Decisions as per the directives were taken by the Company’s Board of Directors (Minutes No. 155 dated May 30, 2018). The Company has approved the Action Plan for the Implementation of Directives, and measures have been taken under the approved Plan.</td>
</tr>
<tr>
<td>In pursuance of the directives of the Government of the Russian Federation No.3262p-P13 dated April 27, 2018</td>
<td>• Pursuant to the directives of the Government of the Russian Federation No. 3262p-P13 dated April 27, 2017 and as per the Letter of the Ministry of Economic Development of Russia No. 14587-OF/D01 dated May 29, 2018, on reviewing the draft Comparison of process development level and the values of key performance indicators (hereinafter referred to as KPIs) of Zarubezhneft JSC with the level of development and indicators of leading counterparts (hereinafter referred to as the Comparison), as well as in response to letters from the Ministry of Energy of Russia No. AT-7264/02 dated July 25, 2018 on providing the information and No. AT-8184/02 dated August 16, 2018 on examination of the Comparison Report, the draft Report adjusted as per the comments and proposals of the federal executive bodies was sent to the Ministry of Energy and the Ministry of Economic Development of Russia on the results of the Comparison and proposals on the composition and values of the integral KPI of innovative activities of Zarubezhneft JSC (hereinafter referred to as IPKE) for 2019, generated based on the Comparison, with the attached detailed answers to the comments and suggestions of the Ministry of Energy of Russia (Letter dated August 16, 2018 No. AT-8184/02) and the Ministry of Economic Development of Russia (Letter dated May 29, 2018 No. 14587-OF/D01i), prepared with the involvement of the developers of the Comparison Report.</td>
</tr>
<tr>
<td>On making changes in the statutory documents providing for the possibility of creating all-Russian industry specific fitness and sports societies and corporate fitness and sports societies.</td>
<td>• In pursuance of the Orders, the Company’s Board of Directors considered the issue – Concerning Amendments to the Charter Documents Providing for the Possibility of Creating All-Russian Industry Specific Fitness and Sports Societies and Corporate Fitness and Sports Societies (Minutes No. 150 dated February 22, 2018).</td>
</tr>
<tr>
<td>In pursuance of the Orders of the Government of the Russian Federation dated December 26, 2017 No.ISH-P13-8690</td>
<td>• The new version of the Charter of Zarubezhneft JSC, taking into account the mentioned changes, was approved by the decision of the General Shareholders’ Meeting of Zarubezhneft JSC (the order of Federal Property Management Agency No. 499-r dated June 30, 2018).</td>
</tr>
<tr>
<td>Orders of the President of the Russian Federation and Directives of the Government of the Russian Federation</td>
<td>Information on the Performance of Relevant Orders and Directives by Zarubezhneft JSC</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>On implementation of recommendations on the management of intellectual deliverables rights</td>
<td>• By the decision of the Company’s Board of Directors (Minutes No. 159 dated October 3, 2018), the Policy of management of the rights to the IARs in the Zarubezhneft JSC Group of Companies was developed and approved along with the Action Plan for policy implementation (posted at the LC of Zarubezhneft JSC on the MV portal of the Federal Property Management Agency on October 4, 2018).</td>
</tr>
<tr>
<td>In pursuance of the directives of the Government of the Russian Federation No. 9177p-P13 dated December 12, 2017</td>
<td>• Decisions as per the directives were taken by the Company’s Board of Directors on February 8, 2018 (Minutes No. 149).</td>
</tr>
<tr>
<td>On practicability of implementation of recommendations on the management of intellectual deliverables rights. As per the Orders of the Government of the Russian Federation dated February 4, 2014 No. ISH-P8-800</td>
<td>• An issue On practicability of implementation of recommendations on the management of intellectual deliverables rights was considered at the meeting of the Zarubezhneft JSC Board of Directors on March 31, 2014 (Minutes No. 81 dated March 31, 2014). Pursuant to the Orders given at the meeting of the Board of Directors on March 31, 2014 (Minutes No. 81), the Main Provisions on the management of intellectual deliverables rights and the Action Plan for the implementation of the Regulations on the management of intellectual deliverables rights in Zarubezhneft Group of Companies were approved by the decision of Board of Directors (Minutes No. 86 dated August 11, 2014).</td>
</tr>
<tr>
<td>• The Regulation on the management of intellectual deliverables rights was approved by the Company’s order No. 545 on December 1, 2014, updated by the Company’s order No. 117 dated March 31, 2016.</td>
<td>• The Regulation on the management of intellectual deliverables rights was approved by the Company’s Board of Directors on October 27, 2017 (Minutes No. 144).</td>
</tr>
<tr>
<td>On amending the employment contract together with the head of the JSC and on the practicability of amending the existing program and registry of non-core assets disposal. In pursuance of the directives of the Government of the Russian Federation No. 6604p-P13 dated September 18, 2017</td>
<td>• The Company has approved an Action Plan for the Implementation of Directives.</td>
</tr>
<tr>
<td></td>
<td>• As per the approved Plan:</td>
</tr>
<tr>
<td></td>
<td>• Supplementary Agreement dated October 27, 2017 was signed to the Employment Contract with the General Director of Zarubezhneft JSC No. 764 dated December 28, 2012.</td>
</tr>
<tr>
<td></td>
<td>• The updated Program for the disposal of non-core assets of Zarubezhneft JSC was approved (Minutes of the BD No. 145 dated November 27, 2017).</td>
</tr>
<tr>
<td>On submission by Zarubezhneft JSC of information to the Ministry of Economic Development of Russia on the ownership of assets located in the Russian Federation through foreign legal entities. In pursuance of the directives of the Government of the Russian Federation No. 5945p-P13 dated August 25, 2017</td>
<td>• Decisions as per the directives were taken by the Company’s Board of Directors on October 27, 2017 (Minutes No. 144).</td>
</tr>
<tr>
<td>On approval of the procedure for coordination with the Ministry for Development of Russian Far East of investment programs and other plans for the development of infrastructure implemented by joint stock companies with state participation in the Far Eastern Federal District. In pursuance of the directives of the Government of the Russian Federation No. 3538p-P13 dated May 25, 2017</td>
<td>• Decisions as per the directives were taken by the Company’s Board of Directors on June 23, 2017 (Minutes No. 140).</td>
</tr>
<tr>
<td></td>
<td>• The procedure of consideration of investment programs (plans) for the development of infrastructure implemented in the Far Eastern Federal District with the Ministry of the Russian Federation on the development of the Far East was approved by the Board of Directors on June 23, 2017 (Minutes No. 140). The procedure is placed in the Personal Cabinet of Zarubezhneft JSC on the Interagency portal of the Federal Property Management Agency on June 26, 2017.</td>
</tr>
<tr>
<td></td>
<td>• The Zarubezhneft JSC Long-term Development Program has a lack of funding for the tasks of socio-economic development in the Far Eastern Federal District. In 2017, the activities of the Zarubezhneft Group of Companies did not included expenses aimed at measures for outstripping development of the priority territory of the Far Eastern Federal District, the relevant information was sent to the Ministry of Energy of Russia (letters No. SK-25-2675 dated June 5, 2017, No. SK-25-468 dated January 31, 2018).</td>
</tr>
</tbody>
</table>
Orders of the President of the Russian Federation and Directives of the Government of the Russian Federation

Information on the Performance of Relevant Orders and Directives by Zarubezhneft JSC

On the development and implementation of import substitution plans.
In pursuance of the directives of the Government of the Russian Federation No. 830p-P13 dated February 6, 2017

- Decisions as per the directives were taken at a meeting of the Board of Directors on March 17, 2017 (Minutes No. 135).
- The Company has approved an Action Plan for the Implementation of Directives.
- As per the approved Plan:
  - changes were made to the Procurement Regulations, the new version of the Regulation on Procurement of Zarubezhneft JSC was approved by the decision of the Board of Directors on May 23, 2017 (Minutes No. 138);
  - an employee of the Production Department responsible for entering information into the automated information system “Technologies and Import Substitution Projects” was appointed by Order No. 125 dated May 17, 2017;
  - The Board of Directors has approved a new version of Appendix No. 8 – Measures Aimed at the Planned and Gradual Replacement of the Purchase of Foreign Products, Works and Services with Equivalent Domestic Products, Works and Services under the Zarubezhneft JSC Long-term Development Program (Minutes No. 147 dated December 19, 2017)
- The Company has developed and approved a regulatory document “Guidelines for the procedure of mandatory analysis of the possibility of replacing foreign products with domestic products equal by technical characteristics and consumer properties in the Russian segment of Zarubezhneft Group of Companies” – has been developed and approved by the Order No. 426 dated December 19, 2018.

On expansion of the practice of using factoring in performance of contracts for the supply of goods (performance of works, rendering of services).
In pursuance of the directives of the Government of the Russian Federation No. 7704p-P13 dated October 11, 2016

- Decisions as per the directives were taken at a meeting of the Board of Directors on November 11, 2016 (Minutes No. 129).
- In 2018, the subjects of small and medium-sized business did not establish requirements for the use of factoring in performance of contracts for the supply of goods (performance of works, rendering services).
- As per the approved Plan:
  - changes were made to the Procurement Regulations, the new version of the Regulation on Procurement of Zarubezhneft JSC was approved by the decision of the Board of Directors on December 27, 2016 (Minutes No. 133);
  - a new version of the Unified Provision on the procurement of goods, works, services for the needs of Zarubezhneft JSC subsidiaries was approved by Order No. 485 dated November 17, 2016;
  - the methodology of factoring by a counterparty was approved by Order No. 501 dated November 29, 2016
- A regulating document – Methodological guidelines for the procedure of mandatory analysis of the possibility for substitution of foreign products with the domestic products having similar technical characteristics and consumer properties in the Russian segment of Zarubezhneft Group of Companies – has been developed and approved by the Order No. 426 dated 19.12.2018.

On making changes in the company’s procurement policy in terms of innovative building materials.

- Decisions as per the directives were taken at a meeting of the Board of Directors on October 14, 2016 (Minutes No. 128).
- The Company has approved the Action Plan for the Implementation of Directives, and measures have been taken under the Plan.
- Including, as per the approved Plan:
  - changes were made to the Procurement Regulations, the new version of the Regulation on Procurement of Zarubezhneft JSC was approved by the decision of the Board of Directors on December 27, 2016 (Minutes No. 133);
  - a new version of the Unified Provision on the procurement of goods, works, services for the needs of Zarubezhneft JSC subsidiaries was approved by Order No. 485 dated November 17, 2016;
- In 2018, the procurement of innovative building materials was not carried out.

On conclusion of agreements on the priority attraction of vessels built at Russian shipyards.

- Decisions as per the directives were taken at a meeting of the Board of Directors on August 8, 2016 (Minutes No. 126).
- The Company has approved an Action Plan for the Implementation of Directives.
- As per the approved Plan:
  - a Standard contractual stipulation was developed on the priority engagement of vessels built at Russian shipyards for export deliveries of goods (cargos) using water transport;
  - Order No. 354 of August 19, 2016 approved the Standard contractual stipulation on the priority engagement of vessels built at Russian shipyards for the export of goods (cargos) using water transport;
  - there has been monitoring of conclusion of contracts of Zarubezhneft JSC and its subsidiaries for the supply of oil, containing a standard contractual condition on the priority engagement of vessels built at Russian shipyards for export of goods (cargos) using water transport.
- In 2018, 6 contracts were concluded using the Standard contractual stipulation.
<table>
<thead>
<tr>
<th>Orders of the President of the Russian Federation and Directives of the Government of the Russian Federation</th>
<th>Information on the Performance of Relevant Orders and Directives by Zarubezhneft JSC</th>
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</table>
| On the implementation of professional standards in the Company's activities. In pursuance of the directives of the Government of the Russian Federation No. 5119p-P13 dated July 14, 2016 | • Decisions as per the directives were taken at a meeting of the Board of Directors on August 8, 2016 (Minutes No. 126).  
• The Company has approved an Action Plan for the Implementation of Directives.  
• As per the approved Plan, the Company carried out a number of events to implement professional standards.  
• The report on the measures taken to implement professional standards was reviewed at a meeting of the Zarubezhneft JSC Board of Directors (Minutes No. 133 dated December 27, 2016).  
• In 2018, pursuant to the directives, Reports on the activities undertaken to introduce professional standards in Zarubezhneft JSC were considered at the Board of Directors on March 30, 2018 and October 3, 2017 (Minutes No. 151 dated March 3, 2018, No. 159 dated October 3, 2018)  
See the section "Information on the non-core asset disposal program". |
| On the procurement of domestic competitive software necessary for JSC activities. In pursuance of the directives of the Government of the Russian Federation No. 6604p-P13 dated September 18, 2017 | • Decisions as per the directives were taken at a meeting of the Board of Directors on August 8, 2016 (Minutes No. 126).  
• The Company has approved an Action Plan for the Implementation of Directives.  
• As per the approved Plan:  
  • changes were made to the Procurement Regulations, the new version of the Regulation on Procurement of Zarubezhneft JSC was approved by the decision of the Board of Directors on October 14, 2016 (Minutes No. 128);  
  • a new version of the Unified Provision on the procurement of goods, works, services for the needs of Zarubezhneft JSC subsidiaries was approved by Order No. 397 dated September 20, 2016.  
See the section "Information on the non-core asset disposal program". |
| On the implementation of non-core asset disposal programs. In pursuance of the directives of the Government of the Russian Federation No. 4863p-P13 dated July 7, 2016 | • Decisions as per the directives were taken at a meeting of the Board of Directors on August 8, 2016 (Minutes No. 126).  
• The Company has approved an Action Plan for the Implementation of Directives.  
• As per the approved Plan:  
  • quarterly reports on the sale of non-core assets of Zarubezhneft JSC were reviewed: for the 4th quarter of 2017 was reviewed at the meeting of the BD February 8, 2018. (Minutes No.149), for the 1st quarter 2018 at the BD dated April 27, 2018 (Minutes No. 153), for the 2nd quarter 2018 at the BD dated August 3, 2018 (Minutes No. 156), for the 3rd quarter 2018 at the BD dated October 3, 2018 (Minutes No. 159).  
  • at the meeting of the Board of Directors on March 30, 2018 (Minutes No. 151), the updated Register of non-core assets of Zarubezhneft JSC and the Sale Plan of non-core assets of Zarubezhneft JSC for 2018 were approved.  
  • In pursuance of the directives, an Additional Agreement to the Employment Agreement dated October 27, 2017 was signed with the General Director of Zarubezhneft JSC No. 764 dated December 28, 2012.  
  • The updated Program for the disposal of non-core assets of Zarubezhneft JSC was approved by the Zarubezhneft JSC Board of Directors (Minutes No. 145 dated November 27, 2017).  
See the section "Information on the non-core asset disposal program". |
| On the regulatory acts of the Company establishing the rationing of purchases of certain types of goods, works, and services. In pursuance of the directives of the Government of the Russian Federation No. 2793p-P13 dated April 19, 2016 | Decisions as per the directives were taken at a meeting of the Board of Directors on May 31, 2016 (Minutes No. 124).  
In 2018, the procurement standards for the mandatory list of certain types of goods, works and services were updated by Order No. 182 dated June 22, 2018. Procurement standards are placed on the Company's official website.  
The procurement standards are applied in the Company from the moment of their approval. |
| On approval of the investment projects accounting. In pursuance of the directives of the Government of the Russian Federation No. 1659p-P13 dated March 15, 2016 | • Decisions as per the directives were taken at a meeting of the Board of Directors on March 30, 2016 (Minutes No. 120).  
• The procedure for accounting high-priority investment projects of Zarubezhneft Group of Companies was approved by a decision of the Board of Directors on May 13, 2016 (Minutes No. 122).  
See the section "Information on the non-core asset disposal program". |
| On innovative development. In pursuance of the directives of the Government of the Russian Federation No. 1471p-P13 dated March 3, 2016 | • Decisions as per the directives were taken at a meeting of the Board of Directors on March 15, 2016 (Minutes No. 119).  
• By the decision of the Board of Directors of September 14, 2016 (Minutes No. 127), the updated Innovative Development Program of Zarubezhneft JSC for 2016–2020 was approved (with a view to 2030).  
In 2018:  
• The Report on the Results of the Implementation of the Innovative Development Program of Zarubezhneft JSC for 2017 was approved at a meeting of the Board of Directors on April 5, 2018 (Minutes No. 152)  
See the section "Information on the non-core asset disposal program". |
Orders of the President of the Russian Federation and Directives of the Government of the Russian Federation


- Decisions as per the directives were taken at a meeting of the Board of Directors on March 15, 2016 (Minutes No. 119), where:
  - the passport and target values of the integral KPI of innovation activities were approved, the weights of corporate KPIs for 2016–2018 were re-approved
  - Appendix No. 7 to the LTDP was updated, taking into account the inclusion in the KPIs of the Long-term Development Programs of the integral key indicator of innovation activity effectiveness.

On optimizing and increasing the effectiveness of expenditures on charity and sponsorship. In pursuance of the directives of the Government of the Russian Federation No. 5024p-P13 dated July 31, 2015

- Decisions as per the directives were taken at a meeting of the Board of Directors on September 4, 2015 (Minutes No. 109).
- At the Zarubezhneft JSC Board of Directors’ meeting on January 14, 2016 (Minutes No. 116), Regulations of Charity and Sponsorship of Zarubezhneft JSC were approved.
- LC of Zarubezhneft JSC in 2018 quarterly posted information on charity and sponsorship activities.
- At the meeting of the Board of Directors on November 27, 2017 (Minutes No. 145), pursuant to recommendations based on the results of testing the effectiveness of procedures for organizing a risk management and internal control system in the area of preventing and combating corruption, the Rules for Charitable and Sponsorship Activities of the Zarubezhneft JSC Group of Companies were approved in a new version.
- The budget for sponsorship and charitable activities of Zarubezhneft Group of Companies for 2019 was approved by the Board of Directors on December 20, 2018 (Protocol No. 162) as part of the 2019 Business Plan.


- Decisions as per the directives were taken at a meeting of the Board of Directors on September 4, 2015 (Minutes No. 109).
- As per the approved Plan:
  - a standard contractual clause has been developed for export contracts on the possibility of settlements in rubles;
  - the minimum share of calculations on export settlements made in Russian rubles was determined;
  - a new standard form of a contract for supply of oil for export, containing a standard contractual condition on the possibility of making settlements in rubles was approved by Order No. 497 of October 12, 2015;
  - in 2018, 6 contracts for oil supply were concluded, containing a standard contractual condition on the possibility of settlements in rubles.

On the implementation of a bonus system for managers based on key performance indicators of their activities based on the need to reduce operating expenses (costs) by 2-3% annually. In pursuance of the directives of the Government of the Russian Federation No. 2303p-P13 dated April 16, 2015.

- At the meeting of the Board of Directors on May 29, 2018 (Minutes No. 139), a Report on the Achievement of Target Values of Corporate KPIs was approved, including the “Decrease in Operating Expenses” indicator for 2017 (amounted to 3.7%).
- At the meeting of the Board of Directors on May 29, 2017 (Minutes No. 139), a decision was made to pay remuneration to the General Director of Zarubezhneft JSC based on the results of achieving corporate KPIs in 2017.


- From July 01, 2015, the United Treasury of the Zarubezhneft Group of Companies has been operated.
- To create a single treasury the following was approved:
  - Regulations for making payments in Zarubezhneft Group of Companies (order No. 270 dated September 18, 2017);
  - Regulations for the attraction and placement of funds in Zarubezhneft Group of Companies (Order No. 231 dated May 20, 2015);
  - Unified financial and credit policy in the Group of Companies
  - Zarubezhneft JSC in a new version (order No. 58 dated March 31, 2017);
  - Regulations for intra-group financing in the Group of Companies
- The report Economic Effect of the Creation of the Single Treasury at Zarubezhneft JSC Group of Companies was sent to the Financial Services Authority and the Ministry of Finance of Russia (letters ref. Nos. SK-24-4557 and SK-24-4558 dated September 14, 2018).


- Decisions as per the directives were taken at a meeting of the Board of Directors on April 15, 2015 (Minutes No. 100).
- The annual report prepared in compliance with the requirements of the directives was preliminarily approved by the Zarubezhneft JSC Board of Directors (Minutes No. 154 dated May 29, 2017), approved by the decision of the annual General Shareholders’ Meeting (Federal Property Management Order No. 499-r dated June 30, 2017).
- A Report on the LTDP Implementation and Achievement of the KPIs of 2017 was sent to the Federal Property Management Agency (Letter dated May 21, 2018 ref. No. SK-46-2426).
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<tr>
<td>On approval by the JSC of Long-term Development Programs and the audit of such programs. In pursuance of the directives of the Government of the Russian Federation No. 4955p-P13 dated July 17, 2014</td>
<td>The LTDP was approved by the decision of the Zarubezhneft JSC Board of Directors (No. 91 dated November 20, 2014). • The procedure for conducting an audit of LTDP implementation is approved by the order of Zarubezhneft JSC (No. 507 dated November 11, 2014). • The Terms of Reference for Auditing the Implementation of the LTDP was approved by the Board of Directors (Minutes No. 134 dated February 16, 2017). • An audit of LTDP implementation for 2016 was conducted, an audit report on LTDP implementation for 2016 was reviewed by the Board of Directors (Minutes No. 138 dated May 23, 2017), preliminarily reviewed at a joint meeting of the Strategic Planning Committee and the Human Resources and Compensation Committee of the Zarubezhneft JSC Board of Directors dated May 22, 2017 (Minutes No. 24). • To update the LTDP at meetings of the Zarubezhneft JSC Board of Directors, the following was approved: • Appendices Nos. 5,6,7,8,9 to LTDP (protocols No. 97 dated February 27, 2015, № 101 dated April 30, 2015, No. 111 dated October 29, 2015). • Section 1 of Appendix No. 7 to the LTDP (Minutes No. 119 March 15, 2016) in a new version; new version of Appendix No. 9 “Reduction of Operating Expenses” to LTDP (Minutes No. 127 dated September 14, 2016). • Appendix No. 71 (Minutes No. 132 dated December 22, 2016); • In 2017, the Zarubezhneft JSC Board of Directors approved: • Appendix No. 10 – Actualization of Measures to Ensure the Implementation of the Zarubezhneft JSC Long-term Development Program (Minutes No. 135 dated March 17, 2017); • Appendix No. 11 – Long-term Forecast of the Development of the Oil Refining and Sales Segment and Appendix No. 12 – Long-term Forecast of Development of AMNGR JSC (Minutes No. 140 of June 23, 2017); • a new version of Appendix No. 8 – Measures Aimed at the Planned and Gradual Replacement of the Purchase of Foreign Products, Works and Services with Equivalent Domestic products, Works and Services (Minutes No. 147 dated December 19, 2017); • new versions of Appendices Nos. 2, 3, 5, 6, 7, 9, 10 (Minutes No. 150 dated February 22, 2018).</td>
</tr>
<tr>
<td>On the level of net foreign exchange assets. In pursuance of the directives of the Government of the Russian Federation No. 8495p-P13 dated December 17, 2014</td>
<td>• Guidelines for the calculation and monitoring of net foreign exchange assets in the Group of Companies were approved by Order No. 280 of July 5, 2016. Zarubezhneft JSC. • At a meeting of the Board of Directors on August 8, 2016 (Minutes No. 126), a decision was made on providing a monthly reporting form to the Bank of Russia. • In 2018, the responsible structural unit of the Company sent monthly information to the Bank of Russia. B 2018 hygoy: • the updated Guidelines for the calculation and monitoring of net foreign currency assets in Zarubezhneft Group of Companies were approved by Order No. 32 dated March 1, 2017; • In 2018, the responsible structural unit of the Company sent monthly information to the Bank of Russia on the amount of net foreign currency assets of Zarubezhneft JSC.</td>
</tr>
<tr>
<td>On increasing productivity, creating and upgrading high-performance jobs. In pursuance of the directives of the Government of the Russian Federation No. 7385p-P13 dated October 31, 2014</td>
<td>• Annex No. 6 to the LTDP “Program for Increasing Labor Productivity for 2015–2018” was drawn up, approved by a decision of the Zarubezhneft JSC Board of Directors (Minutes No. 9 dated February 27, 2015). • Amendments have been made provided in the directives to the employment contract with the General Director (supplement to the employment contract dated December 26, 2014). • In Zarubezhneft JSC Personal Cabinet on the Interagency portal of the Federal Agency for State Property Management, information on increasing labor productivity is annually filled out. For 2017, the information was posted on March 19, 2018.</td>
</tr>
<tr>
<td>On ensuring the adoption of key performance indicators by the JSC. In pursuance of the directives of the Government of the Russian Federation No. 2579p-P13 dated April 25, 2014</td>
<td>• Pursuant to the recommendations of the Inspection Committee, following the results of the audit of the Company's financial and economic activities in 2015, the Regulations on the KPI system and corporate KPIs of Zarubezhneft JSC were developed and agreed with the Federal Property Management Agency (Letter No. DP-05/44755 dated October 28, 2016). • By the decision of the Zarubezhneft JSC Board of Directors dated November 25, 2016 (Minutes No. 131), the updated version of the Regulation on key performance indicators of Zarubezhneft JSC, updated corporate KPI passports were approved by the Federal Property Management Agency (Letter No. DP-05/44755 dated October 28, 2016). • By the decision of the Zarubezhneft JSC Board of Directors (Minutes No. 162 dated December 20, 2017), KPI target values for 2019 were approved.</td>
</tr>
<tr>
<td>On the implementation of process and price audit of investment projects. In pursuance of the directives of the Government of the Russian Federation No. 2988p-P13 dated May 30, 2013</td>
<td>• By the decision of the Zarubezhneft JSC Board of Directors (Minutes No. 110 of September 30, 2015) the Standard for Process and Price Audit of Investment Projects of Zarubezhneft Group of Companies was approved. The standard for process and price audit of investment projects of the Zarubezhneft Group of Companies takes into account the recommendations of the Expert Council of the Government of the Russian Federation, and also the updated regulatory framework in terms of investment and project activities. • In 2018, investment projects that fall under the criteria included in the process and price audit (worth more than 1.5 billion rubles) were not identified.</td>
</tr>
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On the implementation of investment programs (Orders made by the First Deputy Prime Minister of the Russian Federation No. ISH-P13-5361 dated September 18, 2009, fax report of the Federal Property Management Agency No. GN-13/8809 dated April 1, 2011)


Information on the implementation of investment programs
Zarubezhneft JSC was quarterly updated in the Personal Cabinet of Zarubezhneft JSC on the MV Portal of Federal Property Management Agency.

See the section “Report on Procurement Activities of Zarubezhneft Group of Companies”.


• The innovation development program is integrated and form an integral part of the Company's key strategic programs, which were approved by the Board of Directors and agreed by the government of the Russian Federation: “Long-term Company Development Program” and “Zarubezhneft JSC Development Strategy”.

• The Report on the Implementation of the Innovative Development Program of Zarubezhneft JSC in 2016 was approved at a meeting of the Board of Directors on April 7, 2017 (Minutes No. 136).

• At the meeting of the Board of Directors on June 23, 2017 (Minutes No. 140) the rating of joint-stock companies with state participation was reviewed, prepared based on the results of an independent assessment of the quality of updating the innovative development programs (Zarubezhneft JSC - first place in the Rating), as well as proposals for improving the quality of preparation and implementation of the Innovative Development Program of Zarubezhneft JSC.
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<tr>
<td>On implementation of company’s joint-stock strategy in the field of energy saving and energy efficiency as per Clause 8 of the Orders of the Government of the Russian Federation dated June 18, 2008 No. ISH-P9-3772 on the implementation of the Decree of the President of the Russian Federation No. 889 dated June 4, 2008 – Concerning Some Measures on Increasing the Energy and Ecological Efficiency of the Russian Economy.</td>
<td>See “Energy Efficiency” section.</td>
</tr>
<tr>
<td>On proposals and recommendations aimed at stimulating the development of environmental responsibility mechanisms based on international standards, including non-financial reporting and voluntary certification and labeling systems that are subject to independent verification and certification (paragraphs “L” p. 1 of the list of Orders issued by the President of the Russian Federation No. Pr-1640 dated June 6, 2010, letter of the Federal Property Management Agency No. ON-13/37524 dated December 5, 2011).</td>
<td>See the “Environmental Protection” section.</td>
</tr>
<tr>
<td>The decree of the Government of the Russian Federation of December No. 1214 dated December 31, 2010 – Concerning Improvement of the Procedure for Management of Open Joint Stock Companies With Shares in Federal Ownership and Federal State Enterprises</td>
<td>At the meeting of the Company’s Board of Directors on June 10, 2013 (Minutes No. 72), the “Regulation of Zarubezhneft OJSC” on the organization of information interaction through the Interagency Portal on State Property Management on the Internet” was approved in a new version. As per this Regulation in 2018, Zarubezhneft JSC regularly posted relevant information in the Personal Cabinet on the Interagency Portal.</td>
</tr>
<tr>
<td>On implementation of recommendations on the management of intellectual deliverables rights In pursuance of the directives of the Government of the Russian Federation No. 9177p-P13 dated December 12, 2017</td>
<td>• Decisions as per Directives No. 9177p-P13 dated December 12, 2017 – Concerning the Implementation of Recommendations on the Management of Intellectual Deliverables Rights were adopted at a meeting of the Board of Directors on February 8, 2017 (Minutes No. 149). • According to the decision of the Board of Directors dated October 3, 2018 (Minutes No. 159) the Policy of controlling the rights for intellectual deliverables in Zarubezhneft Group of Companies and the Action Plan for its implementation were approved.</td>
</tr>
</tbody>
</table>
Orders of the President of the Russian Federation and Directives of the Government of the Russian Federation

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<th>Information on the Performance of Relevant Orders and Directives by Zarubezhneft JSC</th>
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<tr>
<td>On the implementation of the provisions of the Corporate Governance Code in the activities of joint stock companies as per the Orders of the Government of the Russian Federation No. ISH-P13-5859 dated July 31, 2014.</td>
</tr>
<tr>
<td>As part of the implementation of the provisions of the Corporate Governance Code as per the directives of the Government of the Russian Federation No. 225p-P13 dated January 21, 2015:</td>
</tr>
<tr>
<td>• The Corporate Governance Code of Zarubezhneft JSC was approved (Order No. 385 dated August 29, 2014).</td>
</tr>
<tr>
<td>• The company has developed a draft Roadmap for review by the Federal Property Management Agency (No. SK-46-1442 of March 25, 2015) and the Ministry of Energy (No. SK-46-1441 of March 25, 2015). The plan of measures aimed at improving the efficiency of corporate governance was approved by the decision of the Zarubezhneft JSC Board of Directors as part of Appendix No. 7 “Measures on Improving the Efficiency and Transparency of Zarubezhneft JSC Activities” to LTDP (Minutes No. 97 dated February 27, 2015). As part of the implementation of the measures provided for in Appendix No. 7 to the LTDP of Zarubezhneft JSC:</td>
</tr>
<tr>
<td>• the Standard for the business process “Corporate Governance of Subsidiaries of Zarubezhneft JSC” was approved and implemented (Order No. 520 dated October 12, 2017);</td>
</tr>
<tr>
<td>• a new version of the Regulation on the Corporate Secretary of Zarubezhneft OJSC was approved (Order No. 126 dated March 25, 2015);</td>
</tr>
<tr>
<td>• the Risk Management Policy of Zarubezhneft JSC was approved (by a decision of the Zarubezhneft JSC Board of Directors, Minutes No. 125 dated June 27, 2016, previous versions – Minutes No. 117 dated January 29, 2016, Minutes No. 112 dated November 11, 2015);</td>
</tr>
<tr>
<td>• the competence of the Board of Directors of was expanded (Order of the Federal Property Management Agency No. 522-p dated June 30, 2016);</td>
</tr>
<tr>
<td>• the Regulation on an individual executive body (General Director) of Zarubezhneft JSC was approved (Order of the Federal Property Management Agency No. 522-p June 30, 2016);</td>
</tr>
<tr>
<td>• a new version of the Regulation on Internal Audit at Zarubezhneft JSC was approved (by decision of the Zarubezhneft JSC Board of Directors, Minutes No. 128 dated October 14, 2016).</td>
</tr>
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</table>

On the development and approval of the list of internal regulatory documents regulating the activities of the company, as well as provision of submission of reports on the execution of Long-term Development Programs and on the achievement of the approved key performance indicators as per paragraphs 2 and 3 of the assignment of the President of the Russian Federation No. Pr-3013 dated December 27, 2014

1. After the preliminary approval of the Strategic Planning Committee under the Board of Directors (Minutes No. 1 dated September 19, 2014), the Zarubezhneft JSC Long-term Development Program was agreed with the Expert Council under the Government of the Russian Federation (letters No. ES-2909/02 dated September 29, 2014 and EC-1211/02 dated November 12, 2014) and approved by the decision of the Company’s Board of Directors. (Minutes No. 91 dated November 20, 2014) see the Section “Long-term Development Program”. The Regulation on key performance indicators and passports of corporate KPIs was approved by a decision of the Board of Directors (Minutes No. 94 dated December 24, 2014).

2. In 2016, after coordination with the Federal Property Management Agency (Letter No. DP-05/44755 dated October 28, 2016), the updated versions of the Regulation on key performance indicators and passports of corporate KPIs were approved by the decision of the Company’s Board of Directors. In 2017, at the meeting of the Board of Directors on August 21, 2017 (Minutes No. 141), a new version of the Passport of the integral key indicator of the efficiency of innovation activities of Zarubezhneft JSC was approved.

3. The Regulation on increasing investment and operating efficiency and reducing costs was approved by the decision of the Zarubezhneft JSC Board of Directors (Minutes No. 117 dated January 29, 2016, previous edition dated November 11, 2015, Minutes No. 112).

4. The Regulation on Internal Audit was approved by a decision of the Board of Directors (Minutes No. 97 dated February 27, 2015). As per the Guidelines for the preparation of the Regulations on Internal Audit, the Company developed a new version of the Regulations on Internal Audit at Zarubezhneft JSC (approved by a decision of the Board of Directors (Minutes No. 110 of September 30, 2015)). In 2016, the Regulation on Internal Audit in Zarubezhneft JSC was updated taking into account the Methodological Recommendations on the organization of risk management and internal control in the field of anti-corruption management and approved by the decision of the Zarubezhneft JSC Board of Directors on October 14, 2016 (Protocol No. 128 dated October 14, 2016).

5. The Regulation on the quality management system of Zarubezhneft JSC was approved by the decision of the Zarubezhneft JSC Board of Directors (Minutes No. 112 dated November 11, 2015). In 2016, an updated version of the Regulations on the Quality Management System of Zarubezhneft JSC was approved (Protocol No. 133 dated December 27, 2016).

6. The risk management policy of Zarubezhneft JSC was approved by the decision of the Zarubezhneft JSC Board of Directors (Minutes No. 112 dated November 11, 2015). In 2016, the Risk Policy of Zarubezhneft JSC was approved taking into account the Guidelines in the field of anti-corruption management and was approved by the decision of the Zarubezhneft JSC Board of Directors (Protocol No. 125 dated June 27, 2016).

7. The Regulation on the procedure for the development and implementation of the innovation development program of Zarubezhneft JSC was approved by the order of Zarubezhneft JSC No. 262 dated September 6, 2017 (previous versions dated December 30, 2015, Order No. 623, dated November 16, 2015, Order No. 541).
On inclusion in the Company’s Long-term Development Program of the list of measures aimed at the planned and gradual replacement of the purchase of foreign products (works, services) with the purchase of Russian products (works, services) equal in technical characteristics and consumer properties, as per the Orders dated December 8, 2014 No. AD-P9-9176

Concerning the Development and Implementation of Import Substitution Plans.

In pursuance of the directives of the Government of the Russian Federation No. 830p-P13 dated February 6, 2017

See “Procurement”.

- Pursuant to Directives of the Government of the Russian Federation No. 1346P-P13 dated March 5, 2015, by the decision of the Zarubezhneft JSC Board of Directors on April 30, 2015 (Minutes No. 101), an Appendix to the Zarubezhneft JSC Long-term Development Program No. 8 was approved — Activities Aimed at Planned and Gradual Replacement of the Purchase of Foreign Products, Work and Services with Equivalent Russian Products, Work and Services.
- Decisions as per the directives No. 830p-P13 dated February 6, 2017 were taken at a meeting of the Board of Directors on March 17, 2017 (Minutes No. 135).
- The Company has approved an Action Plan for the Implementation of Directives.
- As per the approved Plan:
  - changes were made to the Procurement Regulations, the new version of the Regulation on Procurement of Zarubezhneft JSC was approved by the decision of the Board of Directors on May 23, 2017 (Minutes No. 138);
  - an employee of the Production Department responsible for entering information into the AIDS “Technologies and Import Substitution Projects” was appointed by Order No. 125 dated May 17, 2017;
  - The Board of Directors has approved a new version of Appendix No. 8 “Measures aimed at the planned and gradual replacement of the purchase of foreign products, works and services with equivalent domestic products, works and services” under the Zarubezhneft JSC Long-term Development Program (Minutes No. 147 dated December 19, 2017)
Information on the non-core assets disposal program of Zarubezhneft JSC


Non-core asset sales measures were carried out as per the following documents approved by the Zarubezhneft JSC Board of Directors:
- Non-Core Asset Disposal Program (Minutes of the Board of Directors No. 145 dated November 27, 2017);

### Информация о реализации непрофильных активов за 2018 год

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Asset Description</th>
<th>Inventory Number (where applicable)</th>
<th>Balance sheet line code under which the asset was recorded as of the date preceding the asset sales</th>
<th>Bookkeeping accounts (including analytics), where asset retirement income and expenditure were recorded (91.1xxx/91.2xxx)</th>
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<td>Chevrolet-Niva C494AC 73</td>
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In total, at the end of 2018, 49 non-core assets were sold (45 assets were sold through competitive procedures at open auctions, 4 non-core assets were liquidated) for a total of RUB 71,259 thousand, with a book value of RUB 52,374 thousand.

The positive economic effect from the sale of non-core assets amounted to RUB 18,885 thousand.

<table>
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<tr>
<th>Book value of asset (th. RUB.)</th>
<th>Actual realizable value (th. RUB.)</th>
<th>Actual realizable value deviation from the book value of asset (th. RUB.)</th>
<th>Cause of actual realizable value deviation from the book value of asset</th>
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<td>Item No.</td>
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<td>Zarubezhneft Exploration &amp; Production (Croatia)</td>
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| Total: | 52,374 | 71,259.1 | +18,885.1 |

To structure the non-core assets’ sales process, Zarubezhneft JSC has approved the Non-Core Asset Sales Management Regulation of the Zarubezhneft Group of Companies (Order No. 127 dated May 17, 2017) stipulating a detailed and gradual non-core asset sales procedure with bidding as per the laws of the Russian Federation:

- Stage 1: holding auctions / competitive tenders;
- Stage 2: selling by public offering;
- Stage 3: selling with no price declared;
- Stage 4: preparation of further proposals for non-core asset sales (when no purchaser was identified at the above mentioned three stages, various proposals for potential lease or pledge, transfer without charge, etc. will be prepared).
<table>
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<tr>
<th>Item</th>
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<th>Book value of asset (th. RUB.)</th>
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<th>Cause of actual realizable value deviation from the book value of asset</th>
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<td>143100</td>
<td>601502</td>
<td>N/a</td>
<td>N/a</td>
<td>N/a</td>
<td>Non-core asset liquidated</td>
<td></td>
</tr>
</tbody>
</table>

Total: 52 338,8

52 338,8

52 374

71 259,1

18 885,1

Reports on non-core asset sales across the Zarubezhneft Group of Companies were discussed at the meetings of the Zarubezhneft JSC Board of Directors on a quarterly basis.
Information on claims related to Zarubezhneft JSC’s operations

In 2018, Zarubezhneft JSC participated as a defendant in two legal procedures involving claims of former employees for the recovery of wages and material remuneration totaling RUB 3,744,708. The claims of the plaintiffs to Zarubezhneft JSC in these cases were denied in full. There were no economic disputes involving Zarubezhneft JSC during the reporting period.

The outcomes of several court cases for large sums should also be noted, where in 2018, the subsidiaries of the Zarubezhneft Group of Companies participated:

- The decision of the Arbitration Court of the Samara Region dated July 18, 2018 refused to satisfy the claims of Zempromproekt LLC (claimant) to Giprovostokneft LLC (defendant) for recovery of debt and a penalty under a contracting agreement and a penalty in an amount of RUB 38,004,721.38 of the agreement (Case No. A55-3510/2018). The decision came into force.

- By the decision of the Arbitration Court of the city of Moscow dated June 22, 2019, a decision of the Ninth Arbitration Court of Appeal dated September 04, 2018, which left unchanged, and the decision of the Arbitration Court of the Moscow District dated December 18, 2017, the claims of ZNSM LLC (claimant) to recover from GRASYS LLC (defendant) arrears and penalties under the construction contract in the amount of RUB 44,816,708 (RUB 35,337,098 from the stated claims were satisfied, the rest of the claim was rejected) were partially satisfied. The judicial acts in case A40-223945/2016 entered into legal force, the case was completed, the satisfied requirements were fulfilled.

Also worth noting are the litigations in the field of corporate relations conducted with the participation of the BiH Group Subsidiaries, continuing since 2013 and currently not considered factually. In particular, the District Economic Court and the Main Court of Banja Luka dealt with 7 claims of minority shareholders (legal entities and natural persons) to Nestro-Petrol JSC and Neftegazinkor LLC for the compulsory redemption of shares of Modriča Motor Oil A.D. for the total amount 2,444,538.97 KM. The reason for the filing of such claims was the fact that at the time of their filing, Nestro Petrol JSC and Neftegazinkor LLC (as affiliates) jointly owned more than 90% of shares of Modriča Motor Oil A.D.

In addition, in 2018, with the participation of subsidiaries of the Zarubezhneft Group of Companies, measures were taken for out-of-court settlement of disputes, including claims filed against commercial organizations and administratively disputed acts of state bodies.

Thus, as a result of appeals in October 2019, Zarnestservis LLC (supplier) with claim letters to Neftegazindustriya LLC (buyer), in favor of the Subsidiary Company the debts were recovered on oil payments for September and October 2019 and a penalty for late payment in a total amount of RUB 348,261,975.17.

As a result of the objections of AMNGR JSC to the field tax audit report for 2014–2015 dated February 27, 2018 to the Interdistrict Inspectorate for the largest taxpayers of the Murmansk Region, the decision dated May 25, 2018 removed the original tax payment claims in the amount of RUB 191,615,628.

Court cases involving the Zarubezhneft Group of Companies’ enterprises are mainly related to ordinary business activities and do not pose a significant risk to the financial and economic activities of the Zarubezhneft Group of Companies.
Information on major deals made by Zarubezhneft JSC in the reporting year

As per the Zarubezhneft JSC Charter, with consideration of the data from the Company’s accounting (financial) statements, any deal concluded in 2018 could be deemed to be a major deal if its value exceeded RUB 41.88 billion.

No deals that could be classified as major were made in 2018.

Information on the interested parties’ transactions made by Zarubezhneft JSC in the reporting year

In 2018, the Company made no deals to which the provisions of the law on interested parties’ transactions could be applied.
List of programs implemented by Zarubezhneft JSC under the Zarubezhneft JSC long-term development program

- The updated Zarubezhneft JSC Innovative Development Program for 2016-2020 (with an outlook until 2030) was approved by the Zarubezhneft JSC Board of Directors (Minutes of Meeting No. 127, dated September 14, 2016).
- The Zarubezhneft JSC Occupational Health, Industrial Safety, Environment Protection and Social Responsibility Policy (Minutes of Meeting of the Zarubezhneft JSC Board of Directors No. 133 dated December 27, 2016).
- Zarubezhneft Group of Companies’ Efficiency Increase and Cost Optimization Program was approved by the Zarubezhneft JSC Board of Directors (Minutes of Meeting No. 127, dated September 14, 2016, No. 134, dated February 16, 2017, No. 150 dated February 22, 2018).
- The Labor Efficiency Increase Program was formulated and included into the LDP of Zarubezhneft JSC based on Order No 7389п – П13 dated October 31, 2014, and approved by the Board of Directors (Minutes of Meeting No. 97, dated February 27, 2015, No. 150 dated February 22, 2018).
- A series of Measures aimed at scheduled and gradual replacement of procurement of foreign goods, works and services with procurement of equivalent Russian goods, works and services was approved as part of Appendix No. 8 to the LDP of Zarubezhneft JSC by decision of the Zarubezhneft JSC Board of Directors (Minutes of Meeting No. 147, dated December 19, 2017, No. 150 dated February 22, 2018).
- Regulation on Inspections of the Subsidiaries of Zarubezhneft JSC (Approved by Order dated December 21, 2017 No.409).
- Regulation on the Audit Committee (Approved by Decision of the Zarubezhneft JSC Board of Directors, Minutes of Meeting No. 120 Dated March 30, 2016).

List of internal regulatory documents governing the preparation of the Annual Report

- Regulation on Zarubezhneft JSC’s Internal Audit (Approved by Decision of the Zarubezhneft JSC Board of Directors, Minutes of Meeting No. 160 dated November 20, 2018).
- Policy of Interaction Between the Audit Committee at the Zarubezhneft JSC Board of Directors and the External Auditor (Approved by Decision of the Zarubezhneft JSC Board of Directors, Minutes of Meeting No. 131 dated November 24, 2016).
- Policy of Internal Control in Zarubezhneft JSC (Approved by Decision of the Zarubezhneft JSC Board of Directors, Minutes of Meeting No. 125 dated June 26, 2016).
Information on the auditor of the accounting statements of Zarubezhneft JSC for the reporting year

Zarubezhneft JSC annually engages external auditors for the audit of its accounting (financial) statements under Russian accounting reporting standards.

The audit firm for performing a mandatory audit of Zarubezhneft JSC’s 2018-2019 accounting (financial) statements under RAS was selected by holding an open tender as per the requirements of the Russian Federal Law dated April 5, 2013, No 44-FZ – Concerning the Contractual System for the Procurement of


Nexia Pacioli LLC won the 2018 tender and was the auditor of the statements under RAS. Nexia Pacioli LLC quoted a total amount of RUB 708,000 for the 2017 accounting (financial) statements’ audit. The company also provided auditor services for Zarubezhneft JSC’s special purpose statements for 2015-2017 audit at RUB 531,000 and services for the audit of the implementation of the Zarubezhneft JSC Long-term Development Program in 2017 for RUB 1,103,600.

The Russian Federal Treasury and the Self-Regulating Organization of Auditors in which the auditor is a member regularly monitor the auditor’s activities.

Consolidated financial statements of the Zarubezhneft Group of companies and information on the auditor for the reporting year

Zarubezhneft JSC annually engages external auditors to audit its consolidated financial statements made under IFRS. The selection of an audit firm to perform the mandatory audit of Zarubezhneft JSC’s 2017-2018 accounting (financial) statements under IFRS through holding an open invitation to tender as per the requirements of the Federal law dated July 18, 2011, No 223-FZ – Concerning the Procurement of

Goods, Performance of works and the Provision of Services for the Specific Types of Legal Entities.

ZAO Deloitte & Touche CIS won the tender and was the auditor of consolidated financial statements of Zarubezhneft JSC for 2017-2018. ZAO Deloitte & Touche CIS performs annual assessment reviews of the audit’s quality, as of and before the auditor’s opinion issue date, as well as inspects and monitors the audit’s paperwork regarding completed audits. The cost of ZAO Deloitte & Touche CIS’s services for the audit of consolidated financial statements for 2018 was RUB 13,134 thousand.

The auditors’ independence is annually confirmed by regular inspections of the Federal Treasury and self-regulating organizations to which the listed auditors belong.
EXTRACT FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF ZARUBEZHNEFT JSC GROUP OF COMPANIES COMPILED UNDER IFRS FOR THE YEAR ENDING DECEMBER 31, 2018, MM RUB.

Consolidated statement of profit and loss and other comprehensive income for the year ending december 31, 2018

<table>
<thead>
<tr>
<th>In millions of Russian Rubles</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue from sales and income from joint operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of oil, gas and oil products</td>
<td>58 521</td>
<td>41 950</td>
</tr>
<tr>
<td>Auxiliary services and other sales</td>
<td>10 996</td>
<td>9 221</td>
</tr>
<tr>
<td>Income from joint ventures</td>
<td>22 526</td>
<td>18 878</td>
</tr>
<tr>
<td><strong>Total revenue from sales and income from joint operations</strong></td>
<td>92 043</td>
<td>70 049</td>
</tr>
<tr>
<td><strong>Expenses and costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of purchased oil, gas and oil products</td>
<td>–35 953</td>
<td>–27 697</td>
</tr>
<tr>
<td>Production and operational costs</td>
<td>–15 715</td>
<td>–9 034</td>
</tr>
<tr>
<td>Commercial, general and administrative costs</td>
<td>–6 188</td>
<td>–5 383</td>
</tr>
<tr>
<td>Taxes, excluding profit tax</td>
<td>–5 336</td>
<td>–3 674</td>
</tr>
<tr>
<td>Wear, depletion and amortization</td>
<td>–3 525</td>
<td>–2 686</td>
</tr>
<tr>
<td>Transportation costs</td>
<td>–2 244</td>
<td>–2 087</td>
</tr>
<tr>
<td>Geologic exploration costs</td>
<td>–118</td>
<td>–124</td>
</tr>
<tr>
<td>Export duty</td>
<td>–655</td>
<td>–480</td>
</tr>
<tr>
<td>Other revenue/(costs), net</td>
<td>–544</td>
<td>–9</td>
</tr>
<tr>
<td>Profit from operational activities</td>
<td>21 765</td>
<td>18 875</td>
</tr>
<tr>
<td>Assets depreciation costs, net</td>
<td>–6 977</td>
<td>–3 756</td>
</tr>
<tr>
<td>Financial income</td>
<td>595</td>
<td>956</td>
</tr>
<tr>
<td>Financial costs</td>
<td>–1 862</td>
<td>–1 744</td>
</tr>
<tr>
<td>In millions of Russian Rubles</td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>Exchange differences, net</td>
<td>4 042</td>
<td>–2 724</td>
</tr>
<tr>
<td>Profit before profit tax</td>
<td>17 563</td>
<td>11 607</td>
</tr>
<tr>
<td>Current profit tax</td>
<td>–4 030</td>
<td>–1 831</td>
</tr>
<tr>
<td>Deferred profit tax</td>
<td>–1 943</td>
<td>–838</td>
</tr>
<tr>
<td><strong>NET ANNUAL PROFIT</strong></td>
<td>11 590</td>
<td>8 938</td>
</tr>
<tr>
<td>Net annual profit / (loss) belonging to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders of the parent company</td>
<td>11 837</td>
<td>9 297</td>
</tr>
<tr>
<td>Minority ownership interest</td>
<td>(247)</td>
<td>(359)</td>
</tr>
<tr>
<td><strong>11 590</strong></td>
<td>8 938</td>
<td></td>
</tr>
<tr>
<td><strong>OTHER AGGREGATE REVENUE / (COSTS)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Articles subject to subsequent reclassification to profits and losses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect from conversion to the presentation currency</td>
<td>12 246</td>
<td>–4 902</td>
</tr>
<tr>
<td>Result of the cash flows hedging</td>
<td>323</td>
<td>–323</td>
</tr>
<tr>
<td>Other aggregate revenue/(costs) for the year excluding profit tax</td>
<td>12 569</td>
<td>–5 225</td>
</tr>
<tr>
<td><strong>TOTAL AGGREGATE REVENUE FOR THE YEAR</strong></td>
<td>24 159</td>
<td>3 713</td>
</tr>
<tr>
<td>Aggregate (costs)/revenues for the year belonging to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders of the parent company</td>
<td>24 960</td>
<td>4 349</td>
</tr>
<tr>
<td>Minority ownership interest</td>
<td>–801</td>
<td>–636</td>
</tr>
<tr>
<td><strong>24 159</strong></td>
<td>3 713</td>
<td></td>
</tr>
</tbody>
</table>
## Consolidated statement of financial position as of December 31, 2018

<table>
<thead>
<tr>
<th>In millions of Russian Rubles</th>
<th>December 31, 2018</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>38,583</td>
<td>39,707</td>
</tr>
<tr>
<td>Investments in joint ventures</td>
<td>87,653</td>
<td>81,842</td>
</tr>
<tr>
<td>Loans granted</td>
<td>173</td>
<td>4,435</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>1,629</td>
<td>4,622</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>2,123</td>
<td>1,648</td>
</tr>
<tr>
<td></td>
<td>130,161</td>
<td>132,254</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td>8,943</td>
<td>9,455</td>
</tr>
<tr>
<td>Trade and other accounts receivable</td>
<td>4,773</td>
<td>6,039</td>
</tr>
<tr>
<td>Dividends debt</td>
<td>9,383</td>
<td>6,680</td>
</tr>
<tr>
<td>Loans granted</td>
<td>4,458</td>
<td>362</td>
</tr>
<tr>
<td>Deposits</td>
<td>27,354</td>
<td>4,992</td>
</tr>
<tr>
<td>Taxes for recovery and pre-payment of taxes</td>
<td>1,139</td>
<td>1,087</td>
</tr>
<tr>
<td>Cash and cash equivalent</td>
<td>5,482</td>
<td>15,879</td>
</tr>
<tr>
<td>Other current assets</td>
<td>2,148</td>
<td>1,979</td>
</tr>
<tr>
<td></td>
<td>63,680</td>
<td>46,473</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>193,841</td>
<td>178,727</td>
</tr>
<tr>
<td><strong>EQUITY CAPITAL AND LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital and reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity capital</td>
<td>50,729</td>
<td>50,729</td>
</tr>
<tr>
<td>Other reserves</td>
<td>13,243</td>
<td>12,076</td>
</tr>
<tr>
<td>Reserves for conversion to the presentation currency</td>
<td>30,168</td>
<td>17,368</td>
</tr>
<tr>
<td>In millions of Russian Rubles</td>
<td>December 31, 2018</td>
<td>December 31, 2017</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Undistributed profit</td>
<td>51,873</td>
<td>46,450</td>
</tr>
<tr>
<td>Parent company’s shareholders capital</td>
<td>146,013</td>
<td>126,623</td>
</tr>
<tr>
<td>Minority ownership interest</td>
<td>-9,485</td>
<td>-8,571</td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL AND RESERVES</strong></td>
<td><strong>136,528</strong></td>
<td><strong>118,052</strong></td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term credit liabilities</td>
<td>15,231</td>
<td>19,087</td>
</tr>
<tr>
<td>Long-term estimated liabilities</td>
<td>10,195</td>
<td>5,598</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>5,320</td>
<td>6,735</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>22</td>
<td>465</td>
</tr>
<tr>
<td></td>
<td>30,768</td>
<td>31,885</td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term credit liabilities</td>
<td>10,975</td>
<td>10,744</td>
</tr>
<tr>
<td>Trade and other accounts payable</td>
<td>8,555</td>
<td>11,564</td>
</tr>
<tr>
<td>Short-term estimated liabilities</td>
<td>1,448</td>
<td>1,643</td>
</tr>
<tr>
<td>Tax liabilities</td>
<td>2,871</td>
<td>2,186</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>1,327</td>
<td>232</td>
</tr>
<tr>
<td>Other short-term liabilities</td>
<td>1,369</td>
<td>2,421</td>
</tr>
<tr>
<td></td>
<td>26,545</td>
<td>28,790</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td><strong>57,313</strong></td>
<td><strong>60,675</strong></td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL AND LIABILITIES</strong></td>
<td><strong>193,841</strong></td>
<td><strong>178,727</strong></td>
</tr>
</tbody>
</table>
**Glossary**

**AIS** – Automated information system

**FS** – Fuel Station

**JSC** – Joint Stock Company

**AWPD** – Asphalt, wax and paraffin deposits

**WHP** – Wellhead platform

**IRD** – Internal regulatory documents

**HFF** – Hydraulic formation fracturing

**GEW** – Geologic exploration works

**AIR** – Additional items range

**VMI** – Voluntary medical insurance

**SE** – Subsidiary entity

**LDP** – Long-term Development Program

**ORF** – Oil Recovery Factor

**KPI** – Key performance indexes

**WWO** – Well workover

**KFU** – Kazan Federal University

**Russian Development Ministry** – Ministry of Economic Development of the Russian Federation

**MOP** – Motor oil plant

**IFRS** – International Financial Reporting Standards

**MTR** – Material and technical resources

**MPWDU** – Modular preliminary water discharge unit

**MET** – Minerals extraction tax

**VAT** – Value-added tax

**PIT** – Personal income tax

**R&D** – Research and development works

**OP** – Oil products

**ORF** – Oil refinery

**STP** – Scientific and technical products

**STC** – Scientific and technical center

**UN** – United Nations

**EP** – Environmental protection

**HPF** – Hazardous production facilities

**PPW** – Pilot production works

**DIO** – Dual injection operations

**IS** – Industrial safety

**MODU** – Mobile offshore drilling unit

**MPC** – Maximum permissible concentrations

**IDP** – Innovative development program

**APG** – Associated petroleum gas

**FPI** – Formation pressure increase

**OSCP** – Oil spill contingency plan

**ERP** – Emergency response plan

**RMNTK** – Russian Inter-industry Scientific and Technical Complex

**Rosimuschestvo** – Federal State Property Management Agency

**RAS** – Russian Accounting Standards

**JU** – Jack-up MODU

**Oil products spread** – Difference between the quotation of the oil product and the quotation of oil for the relevant period.

**SRV** – Socialist Republic of Vietnam

**SRE** – Self-regulating organization (of auditors)

**PSA** – Production sharing agreement
## Contacts

<table>
<thead>
<tr>
<th>Representative Offices Of Zarubezhneft JSC in the Republic Of Cuba</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regional Office in Havana</strong></td>
</tr>
<tr>
<td>Casa 4021, calle 5-ta Avenida y 248, Marina Hemingway, Santa Fe, ciudad Habana, Cuba</td>
</tr>
<tr>
<td><strong>Branch in Havana</strong></td>
</tr>
<tr>
<td>Avenida 3-ra entre calles 78 y 80, Miramar Trade Centre, Edificio Habana, piso #5, Miramar, Municipio Playa, ciudad Habana, Cuba</td>
</tr>
<tr>
<td>Tel. (537) 204-01-33 /36/38 E-mail: <a href="mailto:habana@nestro.ru">habana@nestro.ru</a></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Representative Offices Of Zarubezhneft JSC in the Socialist Republic Of Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Representative Office in Vungtau</strong></td>
</tr>
<tr>
<td>Vung Tau, Le Quy Don St., 3 Tel. (84-64-3) 85-2920 Fax (84-64-3) 85-2387 E-mail: <a href="mailto:nestrovn@hcm.vnn.vn">nestrovn@hcm.vnn.vn</a></td>
</tr>
<tr>
<td><strong>Representative Office in Hanoi</strong></td>
</tr>
<tr>
<td>Ha Noi, Kim Ma St., 360, DAEHA Business Center, Hanoi DAEWOO Hotel, office 302 Tel. (84-43) 771-9990 Fax (84-43) 771-9993 E-mail: <a href="mailto:nestrohn@viettel.vn">nestrohn@viettel.vn</a></td>
</tr>
</tbody>
</table>