2019
annual report
Competent for success
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STATEMENT FROM THE GENERAL DIRECTOR

DEAR COLLEAGUES,

THE PRECEDING YEAR 2019 WAS A PERIOD OF SIGNIFICANT CHANGES, NEW PROJECTS AND CHALLENGES FOR ZARUBEZHNEFT JSC. ON THE WHOLE, WE MAY CALL IT SUCCESSFUL, BECAUSE THE MAIN BUSINESS GOALS WERE ACHIEVED, MODERATE OIL PRICE FLUCTUATIONS WITHIN THE RANGE OF $55.7-71.4 USD/BBL AND THE ABSENCE OF HIGH MARKET VOLATILITY PREDETERMINED HIGH REVENUE AND OPERATING PERFORMANCE INDICATORS. THE COMPANY’S DEVELOPMENT, IN THIS REGARD, WAS BASED ON THREE STRATEGIC FOCUSES: “EXPANSION”, “TECHNOLOGICAL LEADERSHIP” AND “CORPORATE EVOLUTION”.

PRODUCTION AND FINANCIAL INDICATORS

The total production volume in the efficient ownership share of Zarubezhneft JSC at the end of 2019 amounted to 4,777 MM t.o.e., which exceeded the planned figure by 5.6%. This effect was achieved through efficient well interventions (WI) carried out in accordance with the approved production program.

This laid the foundation for the Company’s high financial performance. Thus, Zarubezhneft JSC’s RAS-based net profit for 2019 amounted to 12 billion rubles, which is 12.5% higher than in 2018. Consolidated IFRS-based revenue amounted to 92.9 billion, which is 9.9% more than in 2018.

Speaking about the success of our companies, I would like to note that JC RUSVIEPETRO LLC, a joint venture with PetroVietnam Corporation, showed excellent results in the Nenets Autonomous Area - revenues from participation in the Company increased by 23% compared to 2018. The JC’s production level was 3.3 MM t.o.e., which is 1.7% higher than in 2018. In 2020, the Company plans to maintain production at the level of 2019 in the amount of more than 3 MM t.o.e.

Despite the late life cycle of the Company’s main field, JV Vietsovpetro exceeded the plan for oil production by 15% and gas production by 12% over 12 months. At the same time, the Company remains the foundation of the Russian-Vietnamese energy cooperation that is the largest production asset in Vietnam, accounting for about 30% of the country’s total production.

In addition, Zarubezhneft JSC ensures a stable level of profitability from production sharing agreements both in the Russian Federation and the Socialist Republic of Vietnam. In 2019, the first income from participation in the Vietnamese Block 09-3/12 in the amount of RUB 0.4 billion was received.

All the results achieved by Zarubezhneft JSC fully secure growing dividend payments to the state budget established by the shareholder of the Company - the Federal Agency for State Property Management (Rosimushchestvo).

In 2019, the Company paid dividends to the state in the amount of RUB 5.9 billion, which is 31% more than in 2018 at RUB 4.5 billion.

EXPANSION

For Zarubezhneft JSC, this focus implies, first of all, a development strategy in foreign markets. Until recently, the Company was represented in countries such as Vietnam, Bosnia and Herzegovina and the Republic of Cuba, as well as Russia. Last year, the Company entered new markets in Uzbekistan and Egypt.

Zarubezhneft JSC is implementing a project to introduce enhanced oil recovery methods at the Boca de Januco heavy high-viscosity bituminous oil field in Cuba. Bitumen resources amounting to about 3 billion tons have been discovered here.

Owing to the application of unique technologies and innovative approaches, the Company has achieved very good results: production infrastructure for oil production and steam injection has been created, for the first time ever heavy oil inflows with starting flow rates exceeding 20 tons/day have been received from the M formation; the steam-oil factor has decreased 7 times.

These results have made it possible to start the next stage of the Boca de Januco field project - drilling horizontal wells and testing our developed in-house technology for “catalytic aquathermolysis”. Drilling started in October 2019 in the presence of the then Prime Minister of the Russian Federation Dmitry Medvedev.

In March 2019, JV ANDIJANPETRO LLC was established in Uzbekistan in cooperation with the enterprise Uzbekneftegaz. The enterprise operates in the territory of the Republic of Uzbekistan with production at three operating oil fields - Southern Alamyshyk, Khartoum and East Khartoum. ANDIJANPETRO LLC aims to more than triple current oil production levels at the fields. In addition, the specialists involved are currently undergoing professional development.

Project development in Egypt has become one of the key areas of Zarubezhneft JSC’s international activity. On December 24, 2019, a production sharing agreement for the South East Ras El Ush and East Gebel El Zeit blocks was signed in Cairo between Zarubezhneft JSC, the Ministry of Oil and Mineral Resources of Egypt, the Egyptian state oil holding company GANOPE and Pacific Oil Limited. The blocks are situated in the Gulf of Suez with a distance of 10 km between them. The estimated geological resources at both blocks are over 200 MM barrels.

With regard to South East Ras El Ush, Zarubezhneft JSC aims to drill an exploration well and construct a pilot, main and side hole, as well as to perform reprocessing and complex reinterpretation of the previously conducted 2D and 3D seismic survey. At the East Gebel El Zeit block, it is planned to carry out works in the exploration and production sites, including drilling an exploration well in 2020.
TECHNOLOGICAL LEADERSHIP

This focus entails the creation and development of new advanced technological expertise. It’s of paramount importance both when Zarubezhneft JSC enters new projects and when the Company expands into regions where it is necessary to level out the possible advantages of major players and local market representatives.

The Company’s technological advantage also lies in the fact that Zarubezhneft JSC often takes on projects that other market players have refused to participate in because they considered them unprofitable. These projects achieve economic results owing to the application of advanced solutions and innovative approaches.

According to the results of the international audit conducted by Miller and Lent Ltd, consulting company, the 1P (proved) category reserves of Zarubezhneft JSC increased by 13.7 MM tons to 74,800 thous. Tons by the end of 2019, which took new fields into development while maintaining financial stability.

In terms of data transmission, the audit also confirmed the high projected-economic profitability of field development and the availability of hydrocarbon reserves at the adopted production levels until 2034.

At the same time, Zarubezhneft JSC focuses not only on innovations in the oil segment. In spring 2019, the Board of Directors of Zarubezhneft JSC considered the development of renewable energy sources (RES) as a new business direction.

As for improvement of corporate communications, the most significant event was the establishment of the Global Info project, under which all employees, including those working at the most remote regional locations, have the opportunity to learn about the Company’s global initiatives, new projects, key achievements, and current results. This adjustment of the communications system means a transition to a more efficient way of conveying corporate ideas, which, in turn, positively impacts the organization of all business processes.

Overall in 2019, Zarubezhneft JSC demonstrated a high performance level, and in 2020 the Company intends to continue moving towards the goals stated in the Strategy, focusing on qualitative transformation, best practices and market trends. The Company’s aim is not only to maintain its leading positions among Russian state companies, but also to reach a fundamentally new level of development.

Sergey Kudryashov
General Director of Zarubezhneft JSC

CORPORATE EVOLUTION

Digitalization is a key area of innovation of Zarubezhneft JSC. In the near future, the Company’s Digital Transformation Strategy will allow for integrated planning and quick adoption of optimal managerial, technological and operational decisions.

In terms of data transmission, digitalization ensures transparency and reliability of the information provided. In 2019, the Company became the first organization to obtain a comprehensive environmental permit in this area (CEP, a single permit that approves all environmental impact regulations).

The CEP project is implemented by the Federal Service for Supervision of Natural Resource Usage (Rosprirodnadzor) within the framework of the “Implementation of the best available technologies” federal project, which is part of the “Ecology” national project. It includes online transmission of the indicators showing negative environmental impact from production to the Federal Service for Supervision of Natural Resource Usage.

As for improvement of corporate communications, the most significant event was the establishment of the Global Info project, under which all employees, including those working at the most remote regional locations, have the opportunity to learn about the Company’s global initiatives, new projects, key achievements, and current results. This adjustment of the communications system means a transition to a more efficient way of conveying corporate ideas, which, in turn, positively impacts the organization of all business processes.

The Company is also optimistic about its expansion prospects, and its development strategy includes entering markets in other countries and continents. The Middle East, North Africa and CIS countries sector are of particular interest to Zarubezhneft JSC; preparatory work is already underway for the successful implementation of activities, including the establishment of a production center and development of the service.

Sergey Kudryashov
General Director of Zarubezhneft JSC
Sustainable development and rich history

01 ABOUT THE COMPANY

RANKED 2-ND IN THE ENVIRONMENTAL RESPONSIBILITY RATING OF RUSSIAN OIL & GAS COMPANIES
THE COMPANY AND ITS MAIN AREAS OF ACTIVITY

Zarubezhneft JSC is a diversified state oil and gas holding company serving the interests of the state. The Company has a rich history and unique experience in foreign economic activity.

The assets and projects of Zarubezhneft Group are located in the Russian Federation, the Socialist Republic of Vietnam, Bosnia and Herzegovina, the Republic of Cuba, Uzbekistan, and Egypt.

Zarubezhneft Group is a sustainably developing Russian oil and gas company of strategic importance with more than 30 subsidiaries and joint ventures in various segments of the oil and gas industry:

- Exploration, development and operation of oil and gas fields in the Russian Federation and abroad, onshore and offshore.
- Rich experience in developing complex reservoirs.
- Refining capacities, wholesale and retail sales of petroleum products, network of fuel stations.
- Application of advanced domestic technologies in oil and gas field development.
- Testing of modern methods to increase oil recovery in order to expand exports of high-tech services.

CONSOLIDATED CORPORATE AND PROJECT STRUCTURE OF ZARUBEZHNEFT GROUP

- **Exploration and Production Segment**
  - JV Vietsovpetro (Block 09-1)
  - Block 04-3
  - VRJ Petroleum Co (Block 09-3)
  - Block 09-2/09
  - JV ANDIJANPETRO LLC
  - JC RUSVIETPETRO LLC
  - Kharyaga PSA
  - Ulyanovskneftegaz LLC
  - Orenburgnefteotdacha JSC
- **Oil Refining and Sales Segment**
  - OPTIMA Group LLC
  - Brod Refinery JSC
  - Oil refinery Modnica JSC
  - Nestro Petrol JSC
  - Neftegazincor JSC
- **Service and Other Assets Segment**
  - RNMTK Nefteotdacha JSC
  - Zametservice LLC
  - Zarubezhneftestroumontazh LLC
  - VNineft JSC – A.P. Krylov All-Russian Oil and Gas Research Institute
  - Giprovostokneft JSC
  - Explon JSC
  - Arktikmorneftegazrazvedka JSC

Exploration projects
- Block 12/11
- Boca de Januco
- Severo-Karasevskoe Petroleum Enterprise LLC
- SEREU block
- EGZ block
In 2019 the Company entered the new markets of Uzbekistan and Egypt.

Hydrocarbons reserves increase in 2019 +3,6 MM t.o.e.

Map of Zarubezhneft Group Activity

“Expansion” Program
The foundation of the company’s prospective growth is the continuous effort to expand the assets portfolio and to search for new assets abroad.

Reserves structure as of January 1, 2020

16
5
9
37
31
5

About the Company
Strategy Report
Company Performance in 2019
Corporate Governance
Appendices

ANNUAL REPORT 2019
2019

Zarubezhneft JSC and Uzbekneftegaz JSC established a joint venture called ANDIJANPETRO LLC for operation at currently active fields South Alamyshyk, Khartoum and East Khartoum in Uzbekistan.

The General Director of Zarubezhneft JSC Sergey Kudryavtsov took part in the meeting of two presidents: Vladimir Putin (the Russian Federation) and João Lourenço (the Republic of Angola), that was held in Moscow. The first persons of the two countries discussed the future of relationship between Russia and Angola and international and regional sensitive agenda, as well as encouraged Zarubezhneft’s interest in building bridges with Angolan partners.

On the sidelines of The first Russia-Africa Summit and Economic Forum in Sochi, Sergey Kudryavtsov, Director General of Zarubezhneft JSC, took part in the meetings of Vladimir Putin, President of the Russian Federation, with Abdel Fattah el-Sisi, President of the Arab Republic of Egypt and Materemela and Cyril Ramaphosa, President of the South African Republic.

Zarubezhneft JSC management participate in the visit of Russian Premier Minister to Cuba. During the visit, Russian Premier Minister visited the Boca de Januco fields.

Drilling on the first horizontal well at the Boca de Januco field in Cuba was launched in the presence of Russian Premier Minister. This is one of three horizontal wells where steam-cycling treatment and steam-gravity drainage technologies, which have already proved themselves in the world practice in the deposits of extra-viscous oils and bitumen are tested. It is currently planned to use advanced Russian technology of catalytic water thermolysis, which will increase the performance of the Boca da Januco field.

2020

2019 January February March April May June July August September October November December

Start-up of the Beluga field offshore Vietnam. This start-up became possible thanks to the commissioning of the STS-1 wellhead platform. In the end of December 2018, JV Vietsovpetro completed its organizational and technical activities related to the reconstruction of the RP-2 wellhead platform at the Dragon field, which made it possible to connect to the STS-1 wellhead platform in due time and start it up.

At the meeting with President of Croatia Kolinda Grabar-Kitarović, a Cooperation Agreement was signed between Croatian company LLC Crodux Plin, Zarubezhneft JSC, and Oil refinery Brod JSC as part of the project aimed at supplying gas to Oil refinery Brod.

At top level, strategic documents were signed for the continuous operation of Zarubezhneft JSC in Vietnam, including the Agreement for the Transfer of PVEP Corporation’s 30% participation interest to Zarubezhneft JSC regarding the production sharing agreement (PSA) for oil and gas Block 09-2/09 offshore Vietnam, the Agreement of Intest between Zarubezhneft JSC and PVEP Corporation in respect of their further cooperation in the implementation of joint oil and gas projects in Russia, Vietnam and other countries.

The Zarubezhneft JSC management participated in a number of meetings with President of Congo Denis Sassou Nguesso, where the parties discussed the potential cooperation in the oil and gas industry.

Zarubezhneft JSC, NOVATEK PJSC, Total Gas & Power Business Services S.A.S, and Siemens Aktiengesellschaft signed a Memorandum of Understanding (MOU) on cooperation in Vietnam. The MOU envisages the development of an integrated electricity-generation project with the use of liquefied natural gas (LNG) in the country.

At Kharyaga field, the first cubic meters of associated petroleum gas (APG) under the Kharyaga PSA passed through the custody transfer meter and were directed to the gas processing plant of LLC LUKOIL-Komi. The delivery of gas began ahead of schedule. According to the business plan, it was supposed that the implementation would take place in 2022.

JV Vietsovpetro launched wellhead platform No. 20, which is located in the southwestern part of Block 09-17 The White Tiger field. Drilling and development of exploration wells MTD-1X and MTD-2X resulted in the discovery of an oil deposit associated with rocks of Lower Miocene age. In total, there are 17 oil deposits at the site.

Zarubezhneft was ranked second in the rating of environmental responsibility of oil and gas companies in Russia.

On December 1, Andijanneft JSC actually transferred its operatorship to JV ANDIJANPETROL LLC. The objectives set for JV ANDIJANPETROL LLC to operate in Uzbekistan are production from the existing of fields – South Alamyshyk, Khartoum and Eastern Khartoum.

A production sharing agreement for South East Ras El Ush and East Gebel EL Zel blocks was signed in Cairo between Zarubezhneft JSC, the Ministry of Oil and Mineral Resources of Egypt, the Egyptian state oil holding company GANOPE and Pacific Oil Limited.

Zarubezhneft was the first Russian company to obtain a comprehensive environmental permit from the Federal Service for Supervision of Natural Resources Usage (Rosprirodnadzor).
Building up expertise in complex areas

02

STRATEGY REPORT
MARTKET CONDITIONS

The average price of Urals grade oil as of January-December 2019 amounted to 63.9 USD/bbl. In addition to the extension of the OPEC+ deal on July 2, 2019, the price stabilization factors in 2019 included the deterioration of the political situation in a number of oil-exporting countries and increased pressure from sanctions.

The peak in Urals grade oil prices was reached on April 25 at 75.05 USD/bbl.  Oil quotations in 2019 ranged from 60 to 65 USD/bbl, and lows were recorded at 54.31 USD/bbl in January.

In 2019, the average price of Urals grade oil turned out to be 9% lower than the average value in 2018. During the decline in global prices by 9%, the price in ruble equivalent decreased by 6%.

The OPEC+ agreement and the U.S. sanctions policy against Iran and Venezuela contained the oil supply in the market in 2019.

Oil prices were highly volatile in 2019. At the beginning of the year, the barrel of Brent went up from 55 USD/bbl in January to 75 USD/bbl in April owing to the OPEC+ agreement to cut oil production by 1.2 million barrels per day since the beginning of the year. However, the market experienced a downward pressure on prices throughout the summer, and the price fell to below 60 USD/bbl by early autumn. In mid-September, Saudi oil infrastructure was attacked by drones, which resulted in a sharp price increase, which was completely offset during subsequent weeks. In December, the oil price again exceeded 65 USD/bbl, when OPEC+ participants agreed to a further reduction in production.

The end of 2019 was marked by conservative forecasts based on expectations for the oversupply of liquid hydrocarbons.

### Oil prices dynamics by year

<table>
<thead>
<tr>
<th>Name</th>
<th>2017</th>
<th>2018</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Total</th>
<th>+/-%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brent (Dtd) (USD/bbl)</td>
<td>54.2</td>
<td>71.3</td>
<td>63.2</td>
<td>68.8</td>
<td>61.9</td>
<td>63.3</td>
<td>64.3</td>
<td>-7.0</td>
<td>-10</td>
</tr>
<tr>
<td>Urals (Rdam) (USD/bbl)</td>
<td>52.9</td>
<td>69.9</td>
<td>63.0</td>
<td>67.6</td>
<td>60.8</td>
<td>60.9</td>
<td>63.0</td>
<td>-6.8</td>
<td>-10</td>
</tr>
<tr>
<td>Urals (MED) (USD/bbl)</td>
<td>53.3</td>
<td>70.2</td>
<td>63.5</td>
<td>68.1</td>
<td>61.8</td>
<td>62.1</td>
<td>63.9</td>
<td>-6.4</td>
<td>-9</td>
</tr>
<tr>
<td>USD rate (RUB)</td>
<td>58.4</td>
<td>62.6</td>
<td>65.8</td>
<td>64.5</td>
<td>65.0</td>
<td>63.7</td>
<td>64.7</td>
<td>+2.0</td>
<td>+3</td>
</tr>
<tr>
<td>Urals (Rdam) price (RUB/bbl)</td>
<td>3,086</td>
<td>4,377</td>
<td>4,143</td>
<td>4,361</td>
<td>3,947</td>
<td>3,879</td>
<td>4,083</td>
<td>-294.3</td>
<td>-7</td>
</tr>
<tr>
<td>Urals (MED) price (RUB/bbl)</td>
<td>3,109</td>
<td>4,398</td>
<td>4,177</td>
<td>4,394</td>
<td>4,013</td>
<td>3,959</td>
<td>4,136</td>
<td>-262.1</td>
<td>-6</td>
</tr>
</tbody>
</table>

### Oil prices dynamics by year in dependence to duties and taxes

<table>
<thead>
<tr>
<th>Name</th>
<th>2017</th>
<th>2018</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Total</th>
<th>+/-%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urals (MED) (USD/bbl)</td>
<td>53.3</td>
<td>70.2</td>
<td>63.5</td>
<td>68.1</td>
<td>61.8</td>
<td>62.1</td>
<td>63.9</td>
<td>-6.4</td>
<td>-9</td>
</tr>
<tr>
<td>USD rate (RUB)</td>
<td>58.4</td>
<td>62.6</td>
<td>65.8</td>
<td>64.5</td>
<td>65.0</td>
<td>63.7</td>
<td>64.7</td>
<td>+2.0</td>
<td>+3</td>
</tr>
<tr>
<td>Export duty (USD/t)</td>
<td>86.7</td>
<td>128.5</td>
<td>87.0</td>
<td>104.1</td>
<td>95.0</td>
<td>88.7</td>
<td>93.7</td>
<td>-34.8</td>
<td>-27</td>
</tr>
<tr>
<td>Mineral extraction tax (RUB/t)</td>
<td>8,134</td>
<td>12,455</td>
<td>12,053</td>
<td>14,160</td>
<td>12,404</td>
<td>12,638</td>
<td>13,039</td>
<td>+584</td>
<td>+9</td>
</tr>
<tr>
<td>Price net of duties and taxes (RUB/t)</td>
<td>9,282</td>
<td>11,294</td>
<td>11,521</td>
<td>10,889</td>
<td>10,440</td>
<td>10,331</td>
<td>10,758</td>
<td>-536</td>
<td>5</td>
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</tbody>
</table>

The increase in the tax burden relative to 2018 is mainly related to the introduction of an additional multiplying factor in calculating the mineral extraction tax ($K_{ext}$) – a factor characterizing premiums to motor gasoline and diesel fuel, which averaged to 252 RUB/t in 2019.
The decrease in furnace fuel oil spread in the 4th quarter of 2019 was predetermined by the introduction of the 0.5% limit on the sulfur content in fuel consumed by ships as of January 1, 2020 by the International Maritime Organization (IMO).

It is worth noting that the marginality of petroleum refiner in the region of Zarubezhneft JSC’s presence remains at one of the lowest levels compared to other areas. Meanwhile, the gap with the North American market, which was reduced in the first quarter of 2019, climbed again to the level of 2018 by the end of the year.

In general, the 2019 results demonstrate Zarubezhneft Group’s efficient use of dynamically changing macroeconomic conditions with a view to maximize its financial performance.

The Zarubezhneft JSC Corporate Development Strategy until 2030 was approved by the Board of Directors in 2014 (Minutes No. 85 dated June 26, 2014). According to the strategy, the Company is mainly focused on the Geological Exploration and Production segment, in which Zarubezhneft JSC focuses on the fields where the Company can expand existing competencies. Primarily, this refers to fields with an out-of-balance development system and fields with complex reservoirs similar to those developed in the regions of presence.

### Quotations for oil and petroleum products, USD/t

<table>
<thead>
<tr>
<th></th>
<th>Q1 2018</th>
<th>Q2 2018</th>
<th>Q3 2018</th>
<th>Q4 2018</th>
<th>Q1 2019</th>
<th>Q2 2019</th>
<th>Q3 2019</th>
<th>Q4 2019</th>
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<tbody>
<tr>
<td>Euro-5 diesel fuel</td>
<td>50</td>
<td>150</td>
<td>250</td>
<td>350</td>
<td>450</td>
<td>550</td>
<td>650</td>
<td>750</td>
</tr>
<tr>
<td>Euro-5 petrol</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Fuel oil 3.5%</td>
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### Marginality of petroleum refiner, USD/t

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<th>Q1 2018</th>
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FOUR STRATEGIC PROGRAMS

Taking into account the objectives set for Stage 2 of the Corporate Strategy, the management determined 4 strategic focus points of the Company’s development and elaborated Strategy Development Programs:

- The Technological Leadership Program represents a set of projects and initiatives aimed at developing key technological expertise to improve the performance of current assets and implement international expansion.
- The Expansion Program includes a set of project objectives for searching, evaluating and entering new projects, as well as creating efficient tools for searching for and evaluating projects, and mechanisms for conducting efficient work in new countries and regions.
- The Corporate Evolution Program is aimed at creating a flexible, adaptive business system to ensure efficient work with underlying assets and quick integration of new assets, providing maximum speed and flexibility in the management, execution and decision-making processes.
- The Talent Management Program includes objectives for creating a personnel reserve (talent pool) and rotation programs for key positions to staff new international projects.

FOUR STRATEGIC PROGRAMS

1. TECHNOLOGICAL LEADERSHIP PROGRAM
2. EXPANSION PROGRAM
3. CORPORATE EVOLUTION PROGRAM
4. TALENT MANAGEMENT PROGRAM

- The Corporate Evolution Program is aimed at creating a flexible, adaptive business system to ensure efficient work with underlying assets and quick integration of new assets, providing maximum speed and flexibility in the management, execution and decision-making processes.
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THE COMPANY

GOVERNANCE

APPENDICES

THE COMPANY STRATEGY REPORT COMPANY PERFORMANCE IN 2019 CORPORATE GOVERNANCE APPENDICES

KEY OBJECTIVES OF THE SECOND STAGE OF CORPORATE STRATEGY

1. FURTHER TECHNOLOGICAL EXPERTISE DEVELOPMENT
2. ENTERING NEW PROJECTS ABROAD
3. CONTINUOUS MANAGEMENT IMPROVEMENT
4. COMPLETION OF COMPETENT PERSONNEL TRAINING

4 STRATEGIC FOCUSES OF ZARUBEZHNEFT DEVELOPMENT

1. TECHNOLOGICAL LEADERSHIP PROGRAM
2. EXPANSION PROGRAM
3. CORPORATE EVOLUTION PROGRAM
4. TALENT MANAGEMENT PROGRAM

- The program consolidates and synchronizes key milestones and KPIs of the developed and tested technologies portfolio: Catalytic water-steam (CWS) technologies (for informational oil upgrating);
- Chemical methods of oil recovery enhancement (beginning of pilot works);
- Development of mobile solutions for remote field development;
- Production digitalization projects.

- The program provides flexible, adaptive business environment to work effectively with current underlying assets, quickly integrate new assets and improve the efficiency of expansion processes, including the target:
- Maximum speed of decision making processes automation with parallel re-engineering of advanced technologies for comprehensive interpretation of seismic materials and well-logging data (neural networks, machine learning, artificial intelligence), geological and basin modeling, automation of repetitive manual labor while improving performance standards – all these rank high in the Company’s activities related to geology and exploration.

- The purpose of the project is to ramp up the resource base and to transform it into commercial reserves in order to achieve a production level of more than 15 MM t.o.e. by 2030, in accordance with Zarubezhneft JSC’s Corporate Strategy.

- A high-priority objective of the Opening Project for the period until 2025 is to create and automate a continuous chain from digital core, petrophysics, well-logging data, seismic survey, and regional and basin modeling to digital field appraisal, localization and development of residual reserves through innovative methods for exploration works.

- By performance gains in searching for promising features at the existing assets as well as in complex traps, detailed field appraisal, localization and development of residual reserves through innovative methods for exploration works.

- Technologies for efficient development of small fields.
geological models, as well as to update them in an automated fashion based on the new data that are constantly received. Application of Big Data and Data Mining technologies (acquisition of new knowledge based on the data – machine learning, artificial intelligence, etc.) will improve the accuracy of planning and decision-making time.

The experience with application of 3D/4C seismic surveys using seabed recorders on the Vietnamese offshore fields is an example of how the information content of seismic data can be improved. When longitudinal and converted waves are jointly used, not only the lithological composition of rocks can be predicted, but also the fluid saturation of the reservoirs.

INCREASED OIL RECOVERY FACTOR (ORF)
The Company successfully implements technologies to increase the oil recovery factor and maintain the base production levels.

- Application of technologies aimed at developing previously non-drained reserves in the development (Krov).
- Application of technologies aimed at increasing performance of displacement from hydrophobic reservoirs (Kdsip).
- Selection of technologies for efficient development of previously unprofitable reserves.

Positive production dynamics are ensured through implementation of the following measures:

Optimization of formation pressure maintenance (FPMM) system at terrigenous reservoirs of the White Tiger field

In 2019, a successful building of the FPM system at terrigenous reservoirs of Block 09-1 fields on the Vietnamese offshore fields was resumed. Block-by-block development analysis elicited some problem sites and an individual approach to the FPM operation was developed for each of them. Geological and hydrodynamic models are used as a FPM optimization and calculation tool, which makes it possible to assess the impact of each measure and their interaction with the peripheral formation area. One of the solutions is intermittent injection aimed to increase the performance of displacement (when the volume of injected water is decreased) due to a non-steady impact and injected water breakthrough risk minimization.

Also in 2019, a large-scale revision of the formation pressure maintenance (FPFP) system continued on the central arch segment of the Lower Miocene of the White Tiger field while a line-drive water flooding was being developed. Overall, the measures carried out in 2018-2019 allowed to reduce the base production decline rate at terrigenous facilities from 25% to 21%.

Implementation of hydraulic formation fracturing (HFF) program on the offshore field of the Socialist Republic of Vietnam By applying the knowledge and expertise of the Russian Participant in 2019, a program was successfully carried out the application of hydraulic formation fracturing (HFF) at JV Vietsovpetro fields (Blocks 09-1 and 09-3/12). The total actual growth in production at the wells amounted to more than 600 t/day. The successful outcomes allow us to count on development of up to 40 million tons of non-drained geological reserves of the Upper and Lower Oligocene on the offshore field in Vietnam.

Technology development for exploration of low-permeable and unconventional reservoirs. The TIGHT OIL Project

Global trends in recent decades show that oil companies introduce assets with hard-to-recover reserves concentrated in low-permeability reservoirs into production. While understanding the importance of this phenomenon, Zarubezhneft JSC expanded its resource base based on unconventional reservoirs, having acquired the Lutsyakhtskoye field with residual recoverable reserves of 11 million tons.

TECHNOLOGIES FOR EFFICIENT DEVELOPMENT OF SMALL FIELDS. THE NESTRO-TEC PROJECT

The NESTRO-TEC Project includes a set of technological initiatives aimed at developing mobile process solutions and equipment, as well as cutting the cost of existing components, which contributes to the end product recovery at the pilot field operation stage, with the possibility to influence the performance of technological operations.

The objectives of the comprehensive innovation NESTRO-TEC Project are:
- To develop fields with mobile preliminary water discharge units at the early stage of construction and development;
- To generate electric power using oil instead of diesel fuel;
- To cut capital and operating costs of AGU processing associated with electrical power generation;
- To reduce the AGU flared volumes;
- To cut specific energy costs associated with production of oil-containing liquid;
- To cut operating costs associated with energy-consuming equipment;
- To improve the quality of scheduled repair operations involving surface equipment;
- To ensure efficient operation of wells of a complex profile;
- To reduce capital costs associated with field facilities installation.

Within the framework of the NESTRO-TEC Project, it is planned to carry out complete testing and reproduction of technologies developed in 2016-2018, including:
- MWDU for small fields (NESTRO-KS/Kickoff Surface Infrastructure) – Mobile Water Discharge Unit (MWDU) is deployed directly at the field for the period of pilot production and it can be quickly relocated using road and rail transport;
In 2019, the Company continued searching for and assessing new projects within the Russian Federation in the traditional regions of presence in order to achieve maximum synergy. On July 19, 2019, a license was obtained for geological survey, exploration and production of mineral resources at the Zapadno-Yareyaginsky site (Zapadno-Yareyaginskoye field) for 25 years. The site is located in the Nexnet Autonomous Area of the Russian Federation, the nearest fields being developed: the Severo-Khosadaykskoye oil field (15 km NW), the Syamayuskoye field adjacent to it in NE, and the Kolvinskoye field (72 km to the south).

One of the key regions of presence is traditionally Vietnam, where the Company successfully entered new projects in 2019:

- On May 22, 2019, an Agreement was signed in Moscow between PVEP and Zarubezhneft JSC to transfer 30% participating interest regarding the production sharing agreement (PSA) for Block 9-2/09 to Zarubezhneft JSC.
- In May 2019, Zarubezhneft JSC joined a consortium of participants in the Cana Project along with recognized leaders in their areas, international companies NovaTek PJSC, Total and Siemens. The purpose of the project is to meet the growing demand of the Vietnamese market for gas and electricity in an environmentally friendly, reliable and efficient way by creating the necessary infrastructure, including an LNG regasification terminal and a power plant.
- Zarubezhneft JSC considers business development in CIS countries as one of the key areas of its international activities.

In cooperation with Uzbekneftegaz JSC, Zarubezhneft JSC began to actively explore the possibility of joint operation in the Republic of Uzbekistan to pursue these plans. In the course of operation, three fields of the Fergana Valley were identified with an out-of-balance development system at the licensed sites of Andijanneft JSC (a subsidiary of Uzbekneftegaz JSC) to carry out work to increase performance of existing oil fields: South Alamanshyk, Khartoum and East Khartoum.

In 2019, JV ANDJANPETRO LLC (joint venture) was established between Zarubezhneft JSC and Uzbekneftegaz JSC, the state company of Uzbekistan. In December 2019, licenses and production claims for the right to use subsurface mineral resources at the fields of South Alamanshyk, Khartoum and East Khartoum were transferred to the joint venture. At the same time, the Shareholders Agreement, the Participants Agreement, the Oil Supply Contract and other documents necessary for the joint venture were signed.

In 2019, the Company focused on entering projects in Egypt with a view to developing business and establish presence in the Middle East and North Africa.

On December 24, 2019, a production sharing agreement for the South East Ras El Ush and East Gebel El Zeit blocks was signed in Cairo between Zarubezhneft JSC, the Ministry of Oil and Mineral Resources of Egypt, the Egyptian state oil holding company GANOPE and Pacific Oil Limited. The blocks are situated in the Gulf of Suez at a distance of 10 km from each other. Estimated geological resources at both blocks are over 200 MM barrels.

Development of the projects in Egypt is one of the key areas of Zarubezhneft JSC’s international activities.

The beneficial cooperation between the companies and the Egyptian state authorities, which was established through negotiation, contributes not only to achieving high performance of the participants in the framework of production indicators, but also to strengthening Russian-Egyptian cooperation in general.

**RENEWABLE ENERGY SOURCES (RES) IS A NEW AREA OF ACTIVITY FOR ZARUBEZHNEFT JSC**

For the purpose of ensuring sustainable development of the national economy as well as solving escalating climate issues, advanced states are strengthening their energy efficiency policy in production and increasing the share of renewable energy sources in the total energy balance.

When diversifying their businesses, oil and gas companies rely on their unique experience in onshore and offshore drilling, oil and gas refining, transport and installation operations, and trading operations. Oil and gas companies expand the activity area of renewable energy sources through developing their own expertise, purchasing core knowledge maps (reports on lessons learned), and implementing projects.

Knowing the potential of renewable energy resources in the future and their increasing competitiveness versus fossil fuels, the Board of Directors of Zarubezhneft JSC addressed the issue of developing RES projects in March 2019. A few months later, in June 2019, the new Department for Development of Renewable Energy Sources was created as a structural unit of the Company in order to implement stage-by-stage development of its own expertise as a related business, which would be an additional factor in improving the sustainability of its own structures.

**CORPORATE EVOLUTION PROGRAM. CREATION OF ADAPTIVE BUSINESS SYSTEM**

A performance management system has been implemented in Zarubezhneft JSC since 2014, in the past six years, key performance improvement instruments have been gradually integrated into it.

Today, all implemented performance enhancement tools are integrated into a single comprehensive system of continuous improvements and provide a closed loop for continuous improvement of business processes (PDCA cycle).

In 2019, a comprehensive quality and performance management system was patented with the Federal Service for Intellectual Property (Rospatent) of the Russian Federation.

**Zarubezhneft Quality and Performance Management System**

**Implementation Stages of Performance Enhancement Tools at Zarubezhneft JSC**

<table>
<thead>
<tr>
<th>Year</th>
<th>Stage</th>
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<tbody>
<tr>
<td>2014</td>
<td>Improvement project implementation</td>
</tr>
<tr>
<td>2015</td>
<td>Goal setting system implementation</td>
</tr>
<tr>
<td>2016</td>
<td>Business processes system implementation</td>
</tr>
<tr>
<td>2017</td>
<td>Regulation system re-engineering</td>
</tr>
<tr>
<td>2018</td>
<td>Implementation of businesses processes maturity assessment, focus on benchmarking</td>
</tr>
<tr>
<td>2019</td>
<td>Re-engineering and automation of processes: BPM, FAST TRACK</td>
</tr>
</tbody>
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**Diagram: Zarubezhneft change and business processes management system**

- Knowledge maps (reports on lessons learned, best practices)
- Structural charts (structure, functions and responsibility)
- Business processes data sheets
- Analysis of KPIs to improve BP performance
- BP maturity level assessment following changes
- BP performance chart
- KPIs, ratings, BP deadlines
- Authority distribution among processes regulation, job descriptions
- IRD/internal Regulatory Documents (Regulations/techniques)
- Change (improvement) projects (Opportunity day)
- Sessions on lessons learned
- BP maturity level
-BP deadlines
- Performance assessment rating
- Benchmarking
The goal of Zarubezhneft’s JSC strategic development determined the digital project portfolio included in the Digital Transformation Program. These are mainly the key projects that have had the greatest impact on Zarubezhneft’s JSC business due to the introduction of digital solutions and projects in the Company’s priority areas for technological and innovative development.

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A training and development system has been created to prepare personnel to participate in new projects, which includes:

- corporate petroleum engineering school, in which more than 700 participants were trained in 17 production courses;
- corporate project management school, in which 18 specialists were trained;
- corporate leadership school, which trained more than 290 participants in three basic programs: “Modern Management Practices”, “Management Potential Development”, and “Efficient Leader”;
- rotation system, which rotated 62 of the Group’s key employees internally;
- the NestroLead program, in which 756 Group employees expressed their willingness to develop and participate in new projects.

The Digital Transformation Program is implemented according to the following key activity areas:

- creation of adaptive business processes;
- creation and development of digital organizational decisions;
- creation of efficient communication system, tools, and uniform management standards.

Starting from 2020, Zarubezhneft JSC has begun implementing Stage 2 of the Digital Transformation Strategy. Its key objectives will be:

- corporate data management automation;
- ensuring data quality and its compliance with corporate requirements;
- automated formation of corporate reporting based on source data;
- implementation of complex digital projects and pilot testing of digital technologies and solutions available on the market;
- building of a training system for the Group of Companies employees and their involvement in implementing the Digital Transformation Strategy;
- targeted search and use of digital technologies for quick search, identification, and evaluation of new assets;
- transition from predictive to prescriptive analytics.

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LONG-TERM DEVELOPMENT PROGRAM

The Zarubezhneft JSC Long-term Development Program (LDP) was elaborated pursuant to directives from the Government of the Russian Federation dated July 17, 2014, No. 1988-F113. The Zarubezhneft JSC Board of Directors approved the LDP on November 20, 2014 (Minutes of Meeting No. 91).

The LDP was agreed upon with the following supervisory bodies:
1. The Strategic Planning Committee of the Zarubezhneft JSC Board of Directors, Minutes of Meeting No. 1, dated September 19, 2014.
3. The Federal Agency for State Property Management (Rosimushchestvo), Letter No. 05/43392 dated October 10, 2014.

It is envisaged to develop the existing enterprises with an outlook up to 2030 and two perspective development options (upside), with the purpose of a comprehensive evaluation of the Company’s assets under the LDP geological exploration projects in which Zarubezhneft JSC participates, either directly or indirectly, and potentially attractive investment projects.

Zarubezhneft carries out targeted work in several key areas intended to improve performance in the main geological exploration and production segment:
- Maximizing synergy of the Group’s existing assets with new projects.
- Expertise enhancement in efficient development of complex reservoirs through development of scientific assets of the Company, VNImineft LLC, and Giprovostokneft JSC.
- Development of a full cycle service for fields at any development stage by arranging for appropriate full-scale internal construction and drilling contractors based on the service segment. Zarubezhneftstroymontazh LLC has continued operating as a full-scale construction contractor for Zarubezhneft Group, and work on expanding its own capacities is in process. RMNTK Neftestdacha JSC is proceeding with projects to develop services for sidetracking operations, with further replacement of third-party contractors and supervision of JC RUSSVIETPETRO LLC remote fields and other assets of the Group of Companies.

The primary task for the Company’s future development is not only intensive development of current production assets but also active exploration of and joining promising large oil and gas production investment projects.

First of all, potential regions are considered in which the Company has accumulated significant experience in integrated project implementation, namely Southeast Asia, the Russian Federation, and the Middle East. The strong points of existing Company expertise are the considerable experience gained in increasing current assets value by expanding the current assets resource base, enhancing development performance by increasing the oil recovery factor for fractured basement deposits, and active involvement in development of terrigenous block structures of low thickness.

SYSTEM OF KEY PERFORMANCE INDICATORS OF ZARUBEZHNEFT GROUP OF COMPANIES

The System of Zarubezhneft JSC Key Performance Indicators (KPIs) is intended to motivate the management of the Company and subsidiary companies to fulfill the tasks set by the state (as the 100 percent shareholder of the Company), Zarubezhneft strategy, key indicators, the LDP, Zarubezhneft Business Plan Indicators, and ongoing Zarubezhneft JSC investment projects.

Three principal KPI categories can be delineated within the Company’s KPI system:

- **CORPORATE (Financial and industrial indicators)**
  - Main indicators of the Company’s activities are approved and supervised by the Board of Directors, Audit Committee under the Board of Directors.
  - Included into the General Director’s cards and are accounted for when summarizing the KPI results of all Deputies General Director, department heads, and project heads in the KPI of the subsidiaries’ general directors.

- **FUNCTIONAL (Operational indicators for business areas)**
  - The functional business areas indicators are established for the Deputies General Director, department heads, and subsidiaries’ general directors in accordance with the authorities and responsibilities matrix.
  - Approved and supervised by the General Director.

- **PROJECT (Strategic initiatives for business areas)**
  - Top business initiatives and project tasks performance indicators are established for the Deputies General Director, department heads, and subsidiaries’ general directors.
  - Approved and supervised by the General Director.

**MAIN OBJECTIVES OF THE KPI SYSTEM:**
- Monitoring and control over the Company’s Corporate strategy implementation
- Assessment of the strategic goal’ achievement
- Employees’ commitment to the achievement of the Group of Companies’ priority goals
- Development of a tool contributing to the improvement of the managerial decisions’ efficiency
Executive Order of the Government of the Russian Federation dated June 27, 2019, No. 1388-p (“On approval of guidelines for use of key performance indicators in business entities (companies) activities in authorized capitals of which the share of the Russian Federation or a constituent entity of the Russian Federation exceeds 50 percent, and performance indicators of state unitary enterprises in order to determine the amount of remuneration for their senior executives”);


The KPI system indicators are synchronized with the LDP KPIs.

In 2019, the following measures were carried out regarding KPI operation and improvement:

- In accordance with the Guidelines for Use of Key Performance Indicators by State Companies, the Board of Directors approved the Report on Achievement of Corporate KPI Target Values for 2018 (Board of Directors Minutes of Meeting No. 168 dated May 29, 2019), and the corporate KPI values were updated for 2020 (Board of Directors Minutes of Meeting No. 175 dated December 26, 2019);

- In accordance with the Guidelines of the Russian Federation No. 7389 (“P-13”) dated October 2, 2019, Zarubezhneft JSC analyzed the internal regulatory documents related to formation of KPIs and remuneration for the Company’s senior executives based on the results of their achievement for compliance with the Guidelines on use of key performance indicators in business entities activities in authorized capitals in which the share of the Russian Federation or a constituent entity of the Russian Federation exceeds 50 percent, and performance indicators of state unitary enterprises in order to determine the amount of remuneration for their senior executives” (hereinafter referred to as the Guidelines).

The Zarubezhneft JSC Board of Directors reviewed and took note of the Analytical Report. In order to comply with the Guidelines, weights were redistributed between the Zarubezhneft corporate KPIs. In addition, in 2019 the registration certificates of Zarubezhneft corporate KPIs were updated (Minutes of Meeting No. 175 dated December 26, 2019).

The KPI system has been transferred to the level of Deputy General Directors of subsidiaries, a production contract has been developed (a single set of indicators for top managers of the subsidiary);

- In accordance with the Rules and Regulations of the Zarubezhneft JSC KPIs implementation, by Zarubezhneft management (Deputy General Directors, department heads) and general directors of subsidiaries was defended before the General Director on a semi-annual and annual basis.

Therefore, the Company’s KPI system covers all key management levels of the Group of Companies in 2019:

- Corporate center management (Deputy General Directors and heads of directorates/departments) – 38 persons;
- General Directors of subsidiaries – 16 persons;
- Deputy General Directors of subsidiaries – 71 persons.

Total amount of controlled indicators – over 405.

KPI performance is monitored on a quarterly, semiannual, and annual basis.

To summarize, the planned indicators were normalized taking into account changes in external macroeconomic conditions, such as exchange rates and global prices for oil and petroleum products. Normalization was carried out according to the approved procedure for normalization of the Zarubezhneft Group activities’ key indicators (Order No. 402 approved on September 21, 2016).

In terms of the Consolidated Revenue indicator, the actual value amounted to 97.508 MM RUB, which corresponds to 120% achievement of the KPI. Zarubezhneft Group operating efficiency is traditionally ensured by positive results in the Exploration and Production segment, which is mainly due to the performance of JC RUSVIEPETRO LLC and JV Vietsovpetro during the fiscal year.

As per Zarubezhneft JSC Dividend Policy approved by the Board of Directors (Minutes of Meeting No. 134 dated February 16, 2017), the amount of dividends is at least 25% of the highest of two values: net profit as per the RAS adjusted to reflect income/expenditures from revaluation of the subsidiaries’ publicly traded securities and the associated income tax, and net profit as per the IFRS. In terms of the Dividends Amounts indicator, the actual indicator value was equal to 26.433 MM RUB, which corresponds to 120% achievement of the KPI. Zarubezhneft Group operating efficiency is traditionally ensured by positive results in the Exploration and Production segment, which is mainly due to the performance of JC RUSVIEPETRO LLC and JV Vietsovpetro during the fiscal year.

In terms of the EBITDA indicator, the actual value amounted to 21,748 MM RUB, which corresponds to 120% achievement of the KPI. Zarubezhneft Group operating efficiency is traditionally ensured by positive results in the Exploration and Production segment, which is mainly due to the performance of JC RUSVIEPETRO LLC and JV Vietsovpetro during the fiscal year.

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The overall final degree of the KPIs achieved for 2019 is estimated at 113.9%. Each achieved indicator of the chart exceeded the established target levels; most of the indicators reached ambitious values (six of the nine main indicators).

Excluding normalization of the planned indicators, the overall achievement of all KPIs is also estimated at 113.9%.

The bonus reduction includes two indicators: Non-Exceedance of NetDebt/EBITDA Limit and Revenue Target Achievement. Both indicators have been achieved and the bonus reduction factor is equal to one. The NetDebt/EBITDA indicator in the financial year is equal to zero, which is due to the decrease of the debt burden and the efficient management of the liquidity of Zarubezhneft Group.

For actual calculation of integral KPIs for innovations, a 100% limit was established for each indicator component; the overall indicator achievement was fixed at 100%.

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Operating costs reduction was approved with the target value of –2% (Directives No. 2303п-П13 dated April 16, 2015). As per the Cost Performance Improvement and Optimization Report for 2019, the actual value of the Operating Expenses Reduction indicator at the year-end made up 3.1%, which exceeded the value established by the Directive of the Government of the Russian Federation. The primary factor for normalization in the amount of 16.4 bln RUB was the emergence of a new type of activity, trading oil and petroleum products with Zarnestservice LLC in 2019.

Zarubezhneft Group’s gross hydrocarbon production in 2019 amounted to 4.77 t.o.e. with a target value of 4.515 t.o.e. The growth in the actual value was provided by an increase in the production of JV Vietsovpetro.

As a result of efficient geological exploration, the actual amount of reserves by the end of the reporting period amounted to 103,815 t.o.e. with a target value of 99,071 t.o.e. In 2019, the hydrocarbon reserves were increased mainly due to geological exploration and reassessment of the existing assets in Vietnam and the Kharyaga field, as well as due to entering new projects in Vietnam, Egypt, and Uzbekistan.

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As a result of efficient geological exploration, the actual amount of reserves by the end of the reporting period amounted to 103,815 t.o.e. with a target value of 99,071 t.o.e. In 2019, the hydrocarbon reserves were increased mainly due to geological exploration and reassessment of the existing assets in Vietnam and the Kharyaga field, as well as due to entering new projects in Vietnam, Egypt, and Uzbekistan.

For actual calculation of integral KPIs for innovations, a 100% limit was established for each indicator component; the overall indicator achievement was fixed at 100%.

The bonus reduction includes two indicators: Non-Exceedance of NetDebt/EBITDA Limit and Revenue Target Achievement. Both indicators have been achieved and the bonus reduction factor is equal to one. The NetDebt/EBITDA indicator in the financial year is equal to zero, which is due to the decrease of the debt burden and the efficient management of the liquidity of Zarubezhneft Group.
INVESTMENT PORTFOLIO MANAGEMENT SYSTEM

IN 2019, THE DEVELOPMENT OF THE INVESTMENT PLANNING SYSTEM WAS MAINLY FOCUSED ON OPTIMIZING PROCESSES TO IMPROVE THE QUALITY AND SPEED OF DECISION-MAKING AMID THE CONSTANTLY INCREASING VOLUME OF INFORMATION.

A separate area of development is to optimize the comprehensive appraisal process within the context of monitoring existing projects and entering into new ones. In 2019, vectors for further elaboration of project appraisal tools were identified.

The ELMA BPM system was introduced in the corporate center to increase the efficiency of the investment process. This system enables continuous optimization of the business process along with its automation, using a single information field for operation, monitoring execution, and receiving the necessary analytics.

As part of updating and monitoring processes, high results were achieved in terms of reducing process effort and increasing the level of automation.

The sphere diameter demonstrates the level of labor intensity of the process, FTE

<table>
<thead>
<tr>
<th>Automation level</th>
<th>High</th>
<th>Average</th>
<th>Low</th>
</tr>
</thead>
</table>
| Share of support activities        | 14 FTE | 7 FTE | 0%

Based on the results in the corporate center, the decision was made to replicate the system for the subsidiaries of the Group.

Monitoring is the main tool for investment portfolio management during elaboration and implementation of investment projects. It is mainly intended to obtain accurate information on investment projects’ results and prospects for justified and timely management decisions. All projects approved by the Company’s Investment Committee are subject to monitoring.

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

The results of updated investment projects within the framework of a forecast for implementing the Zarubezhneft LDP show that the positive dynamics of the net present value in the current Zarubezhneft Group investment portfolio are maintained.

Apart from investment project monitoring, the Company carries out regular implementation control of well interventions (WI) on a monthly basis. Each WI is subject to rapid evaluation according to the investment analysis principles. The specified interventions provide for mandatory determination of the minimum viable oil price for a zero economic outcome for each project and initial screening out of projects not capable of positive implementation under the targeted macroeconomic conditions.

Additionally, the exchange rate and oil prices are regularly monitored, compared with approved indicators, and assessed on how they impact the investment project portfolio in order to manage the macroeconomic parameter rate risk.

Combined application of the tools presented allows for achieving the maximum performance of the Company’s investment activities at each stage of the investment planning process.
RISK MANAGEMENT SYSTEM OF ZARUBEZHNEFT GROUP

Zarubezhneft Group intends to maximize its shareholder value and works to improve its activities' performance by ensuring its sustainable development and enhancing its competitiveness while meeting state interests. Zarubezhneft pursues long-term objectives; analyzes current issues, threats, and opportunities across all areas of activities, and considers potential risks when making decisions.

Zarubezhneft Group has developed and is constantly improving a unified approach to the risk management process, which, together with the unified tools and methods of risks analysis, forms a risk management system integrated with management processes.

Internal regulatory documents that govern the risks management system:

- Zarubezhneft Group Risks Management Policy dated June 27, 2016 (approved by Board of Directors Minutes of Meeting No. 125);
- Zarubezhneft Group Procedure for Risks Management Business Process dated May 24, 2019 (Order No. 147);
- Zarubezhneft Regulation on Corporate Risks Management dated April 10, 2014 (approved by Board of Directors General for Organization and Development and Corporate Communications Department).

The company's objectives in the risk management field are:

- To ensure the maximum performance of risk management measures during implementation of the decisions made.
- To provide cross-functional review of information on the risks in the Group's structural units and joint development of risk management measures;
- To apply a systemic approach to identification, analysis, and evaluation of the risks specific for the Group's activities;
- To develop a risk management culture in the Group with a view for the management and employees to achieve common understanding of the basic principles and approaches to risk management;
- To provide information to support the decision-making process at all levels of the Group management.

Zarubezhneft Group's risk management system provides for a structured approach to evaluating the opportunities and risks, which allows for making well-considered managerial decisions and represents a set of processes, policies, and procedures integrated into Zarubezhneft Group's 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 Zarubezhneft goals.

Responsibility for risk management and reporting is determined in accordance with the system of linear and functional management: an Owner is assigned for each risk, who is responsible for its management. In each Segment and in all key business processes, risks coordinators are determined among the managers, who distribute and support application of the corporate risk management principles. Terms and objectives for risks analysis take into account the features and requirements of each business process, at the level at which risk management is carried out. Responsibility for methodological support, development, and maintenance of the risk management system is reserved to the Perspective and Organizational Development Department.

This approach allows forming areas of responsibility for risk management and monitoring at all levels of the Company's management as well as ensuring development of targeted plans to respond to significant risks both in each subsidiary and in Zarubezhneft Group as a whole.

RISK MANAGEMENT SYSTEM DEVELOPMENT

The risks management system is improved according to the applicable legal requirements, international standards, and the best risk management practices.

Zarubezhneft Group's risk management system is continually developed and improved. The Group's key risks are addressed systematically. These are used for quantitative evaluation of impact on the Company's key performance indicators, while monitoring is carried out quarterly by the Committee for Risks chaired by the General Director.

According to the Guidelines on Internal Audit Arrangement in a JSC Partially Owned by the Russian Federation approved by Order No. 249 of the Federal Agency for State Property Management dated July 4, 2014, in 2019 the Internal Audit department evaluated the performance of Zarubezhneft Group's risk management system. As part of the audit, the risk management system was positively evaluated related to its maturity and performance (the audit was carried out according to criteria defined in Letter of the Bank of Russia on the Corporate Governance Code, No. 06-52/2463 dated April 10, 2014).

RISK MANAGEMENT SYSTEM PERFORMANCE EVALUATION

Zarubezhneft JSC defines the preferred risk level as acceptable – the maximum acceptable risk level to which the Company and its subsidiaries seek or are ready to maintain (in accordance with the Risks Management Policy of Zarubezhneft Group approved by resolution of the Zarubezhneft JSC Board of Directors, Minutes of Meeting No. 125 dated May 27, 2016).

Zarubezhneft establishes and documents the acceptable risk level and the risk accountability requirements in respect to financial and operating performance indicators.
This approach is governed by the following internal regulatory documents:
• Regulation on the key performance indicators of Zarubezhneft JSC approved by the Zarubezhneft JSC Board of Directors (Minutes of Meeting No. 131 dated November 25, 2016);
• Occupational Health and Safety, Environmental Protection, Security, and Social Responsibility Policy (Minutes of Meeting No. 133 dated December 27, 2016) as part of the Regulation on the Zarubezhneft Quality Management System;

### Description of the Most Significant Risks to the Company’s Activities and Response Measures

<table>
<thead>
<tr>
<th>Risk group</th>
<th>Risk name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production safety risks</td>
<td>Industrial safety risks (including with damage to the environment, human life and health)</td>
</tr>
<tr>
<td></td>
<td>Industrial safety risks due to legal requirements and presence of a large number of hazardous</td>
</tr>
<tr>
<td></td>
<td>production facilities. These include:</td>
</tr>
<tr>
<td></td>
<td>• Accidents involving employees and third parties;</td>
</tr>
<tr>
<td></td>
<td>• Industrial accidents and disasters;</td>
</tr>
<tr>
<td></td>
<td>• Non-compliance with legal requirements for industrial safety;</td>
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<tr>
<td></td>
<td>• Failure to comply with environmental security legislative requirements</td>
</tr>
<tr>
<td></td>
<td>Subsurface uncertainties</td>
</tr>
<tr>
<td></td>
<td>• Risks (uncertainties) associated with insufficient information about geological structure of fields,</td>
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<tr>
<td></td>
<td>reserves volumes, etc.</td>
</tr>
<tr>
<td></td>
<td>• Insecurity of production volume by reserves.</td>
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<td></td>
<td>• Failure to comply with the planned production volume based on the current assets.</td>
</tr>
<tr>
<td></td>
<td>Industrial safety risks (including with damage to the environment, human life and health).</td>
</tr>
<tr>
<td></td>
<td>Occupational Health and Safety, Environmental Protection,</td>
</tr>
<tr>
<td></td>
<td>Security, and Social Responsibility Policy (Minutes of Meeting No. 133 dated December 27, 2016) as</td>
</tr>
<tr>
<td></td>
<td>part of the Regulation on the Zarubezhneft Quality Management System;</td>
</tr>
<tr>
<td></td>
<td>approved on May 24, 2019).</td>
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<tr>
<td></td>
<td>All risks of the Company’s investment projects, including lack of infrastructure ensuring year-round</td>
</tr>
<tr>
<td></td>
<td>activities, lack of experience in implementing similar projects in similar conditions, growth of</td>
</tr>
<tr>
<td></td>
<td>technological complexity level of projects, different vision of the project development strategy</td>
</tr>
<tr>
<td></td>
<td>among participants, etc.</td>
</tr>
<tr>
<td></td>
<td>Reduction in performance of oil and gas projects (new projects and oil and gas exploration projects).</td>
</tr>
<tr>
<td></td>
<td>Exceeding the cost of developing infrastructure facilities in major construction.</td>
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<td></td>
<td>Failure to complete transactions upon entering new projects.</td>
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<td></td>
<td>Disagreements with partners in managing joint projects, where influence is limited.</td>
</tr>
<tr>
<td></td>
<td>License risks</td>
</tr>
<tr>
<td></td>
<td>Risks of claims raised by state regulatory authorities due to infringement of license terms (</td>
</tr>
<tr>
<td></td>
<td>licenses for hydrocarbon exploration and production), up to and including license revocation.</td>
</tr>
<tr>
<td></td>
<td>Failure to comply with license obligations.</td>
</tr>
<tr>
<td></td>
<td>Logical constraints</td>
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<tr>
<td></td>
<td>Breakdowns/disruptions in oil transportation due to infrastructure constraints</td>
</tr>
<tr>
<td></td>
<td>Infrastructure risk;</td>
</tr>
<tr>
<td></td>
<td>Lack of possibility to sell oil.</td>
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<tr>
<td></td>
<td>Change in macroeconomic parameters</td>
</tr>
<tr>
<td></td>
<td>Negative change in macroeconomic parameters: oil price,</td>
</tr>
<tr>
<td></td>
<td>Ruble/USD rate.</td>
</tr>
<tr>
<td></td>
<td>All risks were evaluated, responsible persons were appointed at the level of the Deputy General</td>
</tr>
<tr>
<td></td>
<td>Director; and the persons responsible for the measures and management strategy were defined.</td>
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<tr>
<td></td>
<td>Preventive and response measures were developed and taken into account in the Group’s production</td>
</tr>
<tr>
<td></td>
<td>program.</td>
</tr>
</tbody>
</table>
IMPLEMENTATION OF INTRACORPORATE IMPROVEMENT PROJECTS

THE KEY TOOL FOR INTRODUCING CHANGES WITHIN THE COMPANY IS A SYSTEM FOR IMPROVING PROJECT IMPLEMENTATION SYSTEM THAT HAS BEEN TRIED AND TESTED THROUGH MANY YEARS OF EXPERIENCE.

The portfolio of improvement projects in Zarubezhneft JSC has been formed since 2013, expanding its perimeter, and today it already completed 115 projects (taking into account technological development projects, or TDP).

Annually in the beginning of the year, a project pool is created and vectors for further development of the Company are determined following the results of the Strategic Management Session, annual KPI defense, and adopting decisions on distribution of successful projects. In 2019, the project portfolio was specified and ranked taking into account four strategic focuses aimed at successful implementation of the second stage of the Strategy, and included: 66 change projects: 24 projects were included in 4 strategic focuses, 8 of them were successfully completed in 2019; 42 projects were aimed at supporting existing processes and systems; 21 were completed in 2019.

At all stages of the change projects life cycle, there is:
- Monthly monitoring and reporting of draft revisions;
- Expert support for projects, including encouraging participation of external experts and those of the subsidiaries;
- Polling/feedback for qualitative evaluation and results validation.

Key innovations of 2019

**UPDATED PROJECTS**

**CLASSIFICATION**

As part implementing the Company’s Strategic Objectives, four key focuses were identified: Expansion, Technological Leadership, Corporate Evolution, and Talent Management. Since 2019, special attention has been paid to projects entered or initiated as part of the strategic focuses. Projects continuing from last year were classified as additional initiatives aimed to support the existing processes and systems.

**Technology development projects**

- **Elaboration of PRE-FEED for subssea production system of Block 12/11.**
  - The project goal is to increase the economic performance of gas field development at Block 12/11.
  - **Achievements:**
    - PRE-FEED is done as per the Technical Assignment;
    - The final report on the PRE-FEED elaboration for the maximum permissible concentration (MPC) of Block 12/11 was adopted by the Council for Science and Engineering (CSE);
    - An alternative concept for arranging facilities at Block 12/11 using the MPC was developed;
    - The project team carried out an express evaluation of the project’s economic performance, taking into account the costs of the PRE-FEED with the MPC.

- **Elaboration of concepts on involvement of Block 09-1 marginal sites in the development.**
  - The project goal is to suggest technical and process measures for cost-efficient development of low-margin/marginal fields/sites of JV Vietsovpetro.
  - **Achievements:**
    - The resource base of Block 09-1 marginal sites was analyzed, productivity of previously drilled exploration wells and their technical condition were evaluated;
    - Prospectivity of additional drilling at the marginal sites was evaluated. Development and sites arrangement options have been generated;
    - The proposals on involving Block 09-1 marginal sites in the development were approved by the Company’s Council for Science and Engineering.

**Expansion of the resource base of JV Vietsovpetro’s Block 09-1 based on new 3D/4C drilling and seismic data**

- **The project goal** is to use new data on 3D/4C seismic and exploration drilling results to search for new satellite deposits available at the fields of Block 09-1.

- **Achievements:**
  - The Concept of the program for systematic expansion of the vertical seismic profiling (VSP) resource base has been developed;
  - About 100 hydrocarbon traps with a total of 160 MM tons of PSO resources were prepared for terrigenous deposits of Lower Miocene (LM), Upper Miocene (UM) and Lower Oligocene (LO);
  - The new 3D/4C seismic data and use of neural networks made it possible to substantially refine the fault-block structure of the basement and to distinguish decomposition zones based on new attributes. 33 areas of keen interest on the basement were identified and 5 traps with a total of 13.5 MM tons of resources were prepared;
  - According to the 3D/4C seismic data, 23 facilities were prepared within Block 09-1, both for development of existing deposits and for individual facilities. Ranking by volume of resources and by geological efficiency was performed;

- **Implementation of the target information telemetry program “well repair” at Zarubezhneft-Dobycha Kharyaga facilities**

- **The project goal** is to improve performance of operational management regarding well development, maintenance and workover (DMW). The production time factor was achieved by the DMW teams in 2019 at a rate of not less than 0.95.

- **Achievements:**
  - The DMW planning package was introduced;
  - An accounting and reporting package was introduced;
  - The DMW analysis and management package was introduced;
  - Industrial operation of the Well Repair Telemetry Information System (WRT ITS) started;
  - Based on the system functioning results, a 51% decrease in idle time was recorded, the accident rate was reduced by 45%, and process flow disruptions were reduced from 46 to 36 hours.

**Implementation projects**

**Fast track**

- **The project goal** is to apply a combination of organizational and informational measures at the same time as we perfect workflow algorithms and queries between the Corporate Center and the subsidiaries, with a view to reducing the degree of formalism, identification and elimination of TSP destructors at all reporting levels, reduction of excessive document workflow.

- **Achievements:**
  - Labor costs of development and approval of documents and for routine operations was reduced by 30%;
  - The amount of ancillary documents in the total process workflow was reduced by 15%;
  - The number of reports was reduced by 25%;
  - The qualitative evaluation of the process IT systems was strengthened to ensure consistency of information and the absence of gaps and duplicate data entries.

- **Automation of business processes using bpmn class IT systems**

- **The project goal** is to build an end-to-end process within a unified IT system.

- **Achievements of the investment process automation:**
  - The proportion of non-automated operations was reduced by 40%;
  - Labor costs were reduced by 50%;
  - All documents are generated by the BPM system;
  - Increased transparency and implemented online monitoring of the process;
  - The necessary analytics and automated calculation of indicators for each process node were received;
  - The possibility to build an end-to-end process between the Corporate Center and the subsidiaries has been ensured.

- **Legally relevant electronic document workflow.**

- **The project goal** is to reduce paperwork when executing contracts, improve performance and cut labor costs, and optimize access and storage of original documents.

- **Achievements:**
  - The period of a contract approval and signing was reduced from 11 days to 3;
  - Transition to electronic document workflow between the Group enterprises was achieved;
  - The procedure for access and storage of original documents was optimized.

- **Manager’s work standard (MWS).**

- **The project goal** is to create a uniform operational procedure for managers of different levels and ensure integrity and coherence of managerial actions in all the Company units.

- **Achievements:**
  - A series of Application of practices in the Corporate Center and the subsidiaries were supervised;
  - Annual enquiry on the MWS application was carried out;
  - The growth of the integrated practices application index was 14%;
  - The growth in the quality of the practices application was 9%;
  - The action plan for the MWS implementation in the Corporate Center and the subsidiaries was fully executed.
**IMPROVEMENT PROJECTS STATISTICS**

**2013**
- 13 total projects
- 6 implemented
- 2 in progress
- IFRS implementation
- Audit of international reserves
- Electronic Document Management System introduction
- Internal audit organization
- Risk management process organization
- Procurement activity optimization

**2014**
- 22 total projects
- 19 implemented
- 14 in progress
- Establishment of a comprehensive system of motivation and training
- Improvement of planning and budgeting system
- Establishment of a unified system of financial and tax accounting
- Establishment of “Unified Treasury”
- KPI system improvement
- Improvement of internal regulatory documents regulating corporate management

**2015**
- 33 total projects
- 25 implemented
- 24 in progress
- Establishment of a School of Petroleum Engineering
- Establishment of a School of Project Management
- Establishment of a number management systems
- Establishment of a “Production System”
- Establishment of processes for standardization and optimization of business processes
- Establishment of an information system for remote drilling monitoring

**2016**
- 49 total projects
- 38 implemented
- 31 in progress
- Replication of the “Production System” of Zarubezhneft JSC in subsidiaries
- Establishment of Zarubezhneft JSC regulation system
- Creation and development of unique technological expertise
- Establishment of a process to manage commodity risks of the corporate center
- Establishment of Corporate cooperation principles
- Establishment of an anti-corruption and anti-fraud system
- Development of the “Manager Work Standard”
- Standardization of the process for searching and evaluating new projects
- Optimization of accounting (tax) reporting deadlines

**2017**
- 62 total projects
- 63 implemented
- 27 in progress
- Replication of the “Production System” of Zarubezhneft JSC in subsidiaries
- Establishment of Zarubezhneft JSC regulation system
- Creation and development of unique technological expertise
- Establishment of a process to manage commodity risks of the corporate center
- Establishment of Corporate cooperation principles
- Establishment of an anti-corruption and anti-fraud system
- Development of the “Manager Work Standard”
- Standardization of the process for searching and evaluating new projects
- Optimization of accounting (tax) reporting deadlines

**2018**
- 94 total projects
- 88 implemented
- 27 in progress
- Expansion of the resource base of Block 09-1 (JV Vietsovpetro) based on new 3D 4C drilling and seismic data
- Inclusion of Block 09-1 marginal areas in the development
- Development of Well Repair telemetry system
- Introduction of a unified “Technological Framework” knowledge management system development
- A competitive selection of the most promising Nestrolead employees
- Introduction of the key personnel rotation system
- Increasing the efficiency of interaction with foreign partners
- IT strategy development
- Improvement of the management reporting system in JV Vietsovpetro

**2019**
- 115 total projects
- 88 implemented
- 27 in progress
- Expansion
- Direct search system
- Communications and partnerships when entering new financing
- Technological Leadership
- Smartflooding
- Tight Oil
- Opening
- Entail

**Corporate Evolution**
- Development of the digital transformation Strategy and Program
- Centralization and digitalization of treasury functions
- Automation of business processes using BPM class IT system
- Fast Track
- Global info

**Talent Management**
- Nestrolead development
ENERGY EFFICIENCY

THE ENERGY SAVING AND ENERGY PERFORMANCE IMPROVEMENT PROGRAM FOR 2019 WAS DEVELOPED IN DECEMBER 2018 1.

The following main principles were applied in the development of the program:
- implementation of a lean production policy based on introduction of measures with a 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 of the FPM in the Exploration and Production segment, raw materials refining in the Oil Refining and Sales segment and decrease of annual power resources consumption in the Service and Other Assets segment;
- engagement of all personnel of the enterprises in the power resources saving process;
- inclusion of secondary power resources and production waste (APG, spent oil waste, etc.) in the production process.

This program is a continuation of the Power Saving and Energy Performance Improvement Program that was implemented in Zarubezhneft Group in 2018. The main goal of developing and implementing the program for 2019 is to decrease production costs in the manufacturing (operational) business segments of Zarubezhneft JSC, and consequently enhance competitiveness within the domestic and global markets.

The program provides for a decrease in unit costs for production of oil-containing fluid (OCF) in the oil-producing assets of the Russian segment by at least 4.0% as compared to 2015. The target mileststones of the 2019 Energy Saving Program include development and introduction of new measures (along with the measures introduced in 2016-2018) with due regard to the peculiarities of the segmented activity, organizational structure, and the specifics of Zarubezhneft Group’s activity as a whole.

The energy resource-saving activities and the program measures introduced in all Zarubezhneft JSC subsidiaries in the fiscal year made it possible to reduce OCF production specific energy consumption costs to the level of 2015 in the Exploration and Production segment, and consequently to increase the energy efficiency indicators of each individual subsidiary and of Zarubezhneft Group as a whole.

In 2019, 61 measures were introduced. Due to the shutdown of plants of Modrica Motor Oil Plant A.D. and Brod Refinery A.D. for repairs and due to the lack of raw materials, only organizational measures were implemented in 2019.

The overall economic benefit due to the Energy Saving Program implemented by Zarubezhneft Group in 2019 in equal to 1,908 MM RUB, or 57,983 tons of oil equivalent (toe), including:
- savings in the Russian segment were 1,377 MM RUB (46,692 toe);
- JV Vietsovpetro — 72.2 MM RUB (2,116 toe);
- Brod Refinery A.D. and Modrica Motor Oil Plant A.D. — 18.5 MM RUB (772 toe).

MAIN ENERGY EFFICIENCY MEASURES IMPLEMENTED IN 2019

JC RUSVIENTPETRO LLC:
- industrial implementation of the EPOGE AIS (Energy Performance of Oil and Gas Enterprise analytical information system);
- commissioning of low-pressure compressor station at the Central Production Facility (CPF) “Severnoye Khosedaevy” to use additional gas for power generation;
- implementation of generator equipment overhaul repairs (gas-turbine plant, gas piston generator unit, diesel generator unit), transition of gas piston generator unit to operate on purified gas.

ZARUBEZHNEFT-Dobyba Kharyaga LLC:
- construction of a 6 kV overhead line for a new shift camp with a view to arranging the electrical heating of buildings when gas is supplied to the boiler room;
- optimization of the operating mode of pumping equipment control stations (ground-based electrical equipment (GEE));
- deployment of the EPOGE AIS at the process facilities of the enterprise.

JV Vietsovpetro:
- installation and use of the fuel flow and power generation metering system at the jack-up rig;
- power supply of vessels moored sidewise from the electrical power supply system while docked at a port;
- connection of Tam Dao-1 jack-up to the unified centralized power system.

In general, the activities carried out in 2019 contributed to the stabilization of the enterprises’ energy costs and the further development of energy conservation and the improvement of energy performance within Zarubezhneft Group.

Changes in the specific power resources costs for the development of oil-containing fluid for the oil producing enterprises of Zarubezhneft JSC, refuel t/thous. m³ (Russian segment)

-25 %

In the fiscal year, reduction of unit costs for oil-containing fluid production by the oil production enterprises of the Russian segment equaled 24.8% as compared to 2015.

The decrease in energy resource consumption of the enterprises in the Service and Other Assets segment equalled 6% year-to-year, including: Giprovostokneft JSC = -9%, VNIIneft JSC = -14%. In the fiscal year, reduction of unit costs for oil-containing fluid production by the oil production enterprises of the Russian segment equaled 24.8% as compared to 2015.

Actual values of power resources consumption in 2015–2019, reference fuel tons, “Service and other assets” segment

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>RUSVIENTPETRO</td>
<td>770</td>
<td>748</td>
<td>763</td>
<td>768</td>
<td>765</td>
</tr>
<tr>
<td>Giprovostokneft</td>
<td>636</td>
<td>659</td>
<td>655</td>
<td>601</td>
<td>665</td>
</tr>
</tbody>
</table>

1 Order dated December 18, 2018, No. 424.
ENVIRONMENTAL PROTECTION

The Occupational Health, Safety, Environmental Protection, Security and Social Responsibility Policy of Zarubezhneft JSC defines ecological well-being as the basis for the Company’s economic stability.

In 2019, a supervision audit of the OOO of Zarubezhneft JSC, JSC RUSVIETPETRO LLC, ZARUBEZHNEFT-Dobycha Kharyaga LLC, RMNTK Nefteotdacha JSC, ZARUBEZHNEFT-Dobycha Kharyaga LLC, RMNTK Nefteotdacha JSC, and Modriča Motor Oil Plant A.D. was successfully conducted to confirm the certification for compliance to international standard ISO 14001:2015. The subsidiaries Zarubezhneft-Dobycha Samara LLC, Ulyanovskneftegaz LLC, Orenburgnefteotdacha JSC, and Giprovostokneft JSC were introduced into the HSE Management System certification perimeter.

In 2019, the subsidiaries of Zarubezhneft Group performing their production activities in the Arctic zone of the Russian Federation (ZARUBEZHNEFT-Dobycha Kharyaga LLC and JSC RUSVIETPETRO LLC) continued working on biodiversity preservation as per the approved Programs. In 2019, ZARUBEZHNEFT-Dobycha Kharyaga LLC updated the Program of Biological Diversity Preservation (BDP) at the Kharyaga licensed site based on inventory of biota and identification of the species that are indicators of the sustainable state of ecosystems of the Kharyaga field. Works under the BDP Program are scheduled for 2020-2021. Also, at the end of 2019, a Cooperation Agreement was signed between the Ministry of Natural Resources and Environment of the Russian Federation and Zarubezhneft JSC, providing for joint activities under the federal project on Biodiversity Preservation and Development of Ecotourism in the context of the Ecology National Project.

Caring for the Far North’s fragile ecosystem has traditionally been one of the Company’s priorities: in 2019, JSC RUSVIETPETRO LLC released about a thousand juvenile fish of valuable species into the Uza River (the Pechora River basin). Since 2014, more than 801 thousand juvenile fish of valuable species have been released into the Pechora River basin due to the efforts of JC RUSVIETPETRO LLC.

Starting from 2014, Zarubezhneft JSC has undergone an independent Ecological Openness assessment as per the World Wildlife Fund (WWF) rating criteria. Among the 20 largest oil and gas companies, Zarubezhneft JSC took second place in 2019, maintaining its position from the previous year. The nomination organizers noted Zarubezhneft JSC’s great work in preparing and carrying out tabletop exercises complicated by winter period conditions, with the involvement of the general public, as well as the Company’s initiative of biodiversity preservation programs that will become mandatory in the future.

In accordance with the Standard Procedure for Search and Evaluation of New Projects, the Company pays special attention to environmental aspects and environmental risk evaluation. All projects undergo Environmental Audit, the main criterion of which is the absence of any nature preserves within the contract area. During the project, environmental impact is evaluated and measures are developed to reduce fragmentation of landscapes and the size of the disrupted territories.

Zarubezhneft JSC has uniform HSE requirements to contractor organizations. The regulations adopted within the Company establish similar requirements to compliance with environmental standard norms both by the contractors operating within the Company and Zarubezhneft JSC’s subsidiaries. Collecting mushrooms and berries, hunting and fishing is prohibited in the area where the Company implements its projects.

On a monthly basis, Zarubezhneft Group’s subsidiaries run controls of the integrity of intrafield oil pipelines, which is one of the priorities of the Environmental Policy of the Company.

In 2019, the level of current financing of environmental protection activities in the subsidiaries located in the Russian Federation amounted to about 218.04 MM rubles, which is significantly higher than in 2018.

One of the most important environmental challenges that the Company faces is minimizing the effects of drilling waste through their neutralization and use, followed by elimination of sluice pits. In 2019, two drilling fluid pits were reclaimed. There are no oil-contaminated soils on Zarubezhneft Group’s balance sheet.

In general, regular measurements of the air environment, soil and snow, surface water and bottom sediments were carried out on the territory of all licensed sites of Zarubezhneft Group’s enterprises, as part of local environmental control 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.

Implementation of the Gas Program for rational use of associated petroleum gas (APG) for 2019–2023 was a priority of the Zarubezhneft Group in 2019.

Owing to activities completed as part of the Gas Program of 2019, use of APG for our own needs for heat and electric-energy generation has increased. The volume of production and use of APG is calculated based on readings of gas metering units. The level of APG value-added use in the Russian segment of the Group (JSC RUSVIETPETRO LLC, Zarubezhneft-Dobycha Samara within NO and UNG) in 2019 was 92.5%, which is higher than the planned indicators embodied in the Gas Program for 2019 (actual in 2018 — 87.5%, planned for 2019 — 92.0%).

**Gross atmospheric emissions for Zarubezhneft Group of Companies in the “Upstream” segment for 2015-2019, thousand tons**

<table>
<thead>
<tr>
<th>Air emissions</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solids</td>
<td>0.865</td>
<td>0.549</td>
<td>0.437</td>
<td>0.280</td>
<td>-0.157</td>
</tr>
<tr>
<td>Sulfur dioxide</td>
<td>3.309</td>
<td>7.507</td>
<td>6.909</td>
<td>6.841</td>
<td>-0.068</td>
</tr>
<tr>
<td>Carbon oxide</td>
<td>9.697</td>
<td>8.874</td>
<td>7.914</td>
<td>6.375</td>
<td>-1.539</td>
</tr>
<tr>
<td>Nitrogen oxide</td>
<td>1.138</td>
<td>1.391</td>
<td>1.213</td>
<td>1.225</td>
<td>0.012</td>
</tr>
<tr>
<td>Hydrocarbons (without volatile organic compounds)</td>
<td>8.992</td>
<td>10.115</td>
<td>8.804</td>
<td>7.015</td>
<td>-1.789</td>
</tr>
<tr>
<td>Volatile organic compounds</td>
<td>3.337</td>
<td>4.069</td>
<td>3.900</td>
<td>3.281</td>
<td>-0.649</td>
</tr>
<tr>
<td>其他气体和液态</td>
<td>0.186</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross emission of harmful substances into the atmosphere</td>
<td>27.48</td>
<td>32.51</td>
<td>29.18</td>
<td>24.99</td>
<td>-4.19</td>
</tr>
</tbody>
</table>

**Production and use of associated petroleum gas by the Zarubezhneft Group of Companies in 2019 (the Russian segment), MMM m³**

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>APG produced</th>
<th>APG use for own needs</th>
<th>APG usage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>JC RUSVIETPETRO LLC</td>
<td>120.60</td>
<td>117.54</td>
<td>97.2</td>
</tr>
<tr>
<td>Orenburgnefteotdacha JSC</td>
<td>2.37</td>
<td>2.35</td>
<td>99.4</td>
</tr>
<tr>
<td>Ulyanovskneftegaz LLC</td>
<td>0.53</td>
<td>0.50</td>
<td>94.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>123.70</strong></td>
<td><strong>114.39</strong></td>
<td><strong>92.5</strong></td>
</tr>
</tbody>
</table>
The associated petroleum gas produced at the Kharyaga field is sour, which hinders its value-added use. According to the project to facilities construction at the Kharyaga field, ZARUBEZHNEFT-Dobycha Kharyaga LLC plans to proceed with commissioning of gas desulfurization equipment, a gas-turbine plant, and necessary infrastructure for purified gas compression. Following the results of 2019, the level of APG use in ZARUBEZHNEFT-Dobycha Kharyaga LLC amounted to 41.2%, with target indicators of 43.4%. The level of use increased due to additional measures for advance deliveries of associated gas to the gas transportation network of Lukoil Komli LLC starting from June 6, 2019 and due to the scaling up of electricity generation using APG. By 2023, we plan to reach 95%.

In 2019, Zarubezhneft JSC took part in the pilot project of the Federal Service for Supervision of Natural Resource Use on issuing an environmental permit, as part of the federal project “Implementation of the Best Available Technologies” in the context of the Ecology National Project. Following the results of this project, ZARUBEZHNEFT-Dobycha Kharyaga LLC (subsidiary of Zarubezhneft JSC) received a positive conclusion by the ecological expert commission and became the first company among the Russian companies to receive an e-permit.

As part of automation of environmental protection processes in the group of companies belonging to the Geologic exploration and production segment, a solution for environmental indicators accounting was implemented in the ECOURS automated control system (ACS).

Investment into fixed assets was reduced in 2019 due to the end of construction of the waste landfill at ZARUBEZHNEFT-Dobycha LLC block in 2018.

**INTERACTION WITH THE STAKEHOLDERS**

Zarubezhneft JSC strives for interaction with all stakeholders to maintain and establish constructive relations during projects implementation.

Since 2009, the cooperation agreement between ZARUBEZHNEFT-Dobycha LLC and the Administration of the Nenets Autonomous Area has been in force regarding interaction with indigenous minorities of the North. Since 2017, the Guidelines on Conduct in the Territories of Traditional Use of Natural Resources by Indigenous Minorities of the North have been in force at ZARUBEZHNEFT-Dobycha Kharyaga LLC.

On August 6, tabletop exercises (TE) were held at the Kharyaga Field to check the readiness of ZARUBEZHNEFT-Dobycha Kharyaga LLC’s non-professional emergency response team (NPERT) and to train the field services groups in containing and liquidating a conditional oil spill as a result of depressurization of the export pipeline at segment “Well Cluster ‘108’ – Head Oil Gathering Plant”. More than 50 persons and 10 units of special-purpose vehicles participated in the tabletop exercises. The Company clearly demonstrated its commitment to minimizing the risk of oil spills and protecting the environment.

Among those invited there were representatives of the Reindeer Herders Union of the Nenets Autonomous Area and the regional social movement “Yaasavey Association of the Nenets People”.

**Environmental protection expenses for 2015–2019, MM RUB**

<table>
<thead>
<tr>
<th>Year</th>
<th>Protection of land from industrial waste</th>
<th>Land reclamation</th>
<th>Other environmental protection activities</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>155.00</td>
<td>31.19</td>
<td>6.18</td>
<td>295.97</td>
</tr>
<tr>
<td>2016</td>
<td>111.66</td>
<td>12.99</td>
<td>11.75</td>
<td>246.30</td>
</tr>
<tr>
<td>2017</td>
<td>131.52</td>
<td>12.09</td>
<td>11.75</td>
<td>265.36</td>
</tr>
<tr>
<td>2018</td>
<td>118.90</td>
<td>12.09</td>
<td>11.75</td>
<td>243.74</td>
</tr>
<tr>
<td>2019</td>
<td>181.70</td>
<td>0 0</td>
<td>0</td>
<td>181.70</td>
</tr>
</tbody>
</table>

**GHG emissions in the Russian Federation, thou. t of CO₂ equivalent**

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂</td>
<td>0.954</td>
<td>1.017</td>
<td>0.974</td>
<td>0.769</td>
<td>0.737</td>
</tr>
<tr>
<td>CH₄</td>
<td>1.70</td>
<td>1.67</td>
<td>1.76</td>
<td>1.79</td>
<td>1.87</td>
</tr>
</tbody>
</table>

**Dynamics of GHG emissions, MM t of CO₂ equivalent**

Due to implementation of the gas program, the volume of emissions in 2019 amounted to about 0.79 MM t of CO₂ equivalent, which is 6% lower than last year.

**GHG emissions in the Russian Federation, thou. t of CO₂ equivalent**

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0.954</td>
<td>1.017</td>
<td>0.974</td>
<td>0.769</td>
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<td>1.67</td>
<td>1.76</td>
<td>1.79</td>
<td>1.87</td>
</tr>
</tbody>
</table>

**Environmental protection expenses for 2015–2019, MM RUB**

<table>
<thead>
<tr>
<th>Year</th>
<th>Protection of land from industrial waste</th>
<th>Land reclamation</th>
<th>Other environmental protection activities</th>
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<td>12.09</td>
<td>11.75</td>
<td>243.74</td>
</tr>
<tr>
<td>2019</td>
<td>181.70</td>
<td>0 0</td>
<td>0</td>
<td>181.70</td>
</tr>
</tbody>
</table>

**Water intake, thou. t of oil**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.64</td>
<td>1.47</td>
<td>1.78</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.154</td>
<td>3.025</td>
<td>2.703</td>
<td></td>
</tr>
</tbody>
</table>
THE OCCUPATIONAL HEALTH, INDUSTRIAL SAFETY, ENVIRONMENTAL PROTECTION AND SOCIAL
RESPONSIBILITY POLICY IS THE BASIS FOR STRATEGIC PLANNING AND MANAGEMENT OF CURRENT ACTIVITIES
AT ZARUBEZHNEFT JSC, FOR SETTING AND ACHIEVING GOALS, FOR CARRYING OUT EFFICIENT MONITORING
AND CONTROL, AND FOR CONSTANT IMPROVEMENT.

In 2019, a supervision audit of Zarubezhneft JSC, JC RUSVTIPETRO LLC, ZARUBEZHNEFT-Dobycha
Kharyaga LLC, RMVT FK Neftieotdacha JSC, Zarubezhnefteorgymontazh LLC, and Modrica Motor Oil Plant A.D. was successfully passed. The goal of the audit was to confirm the HSE (Occupational Health, Industrial Safety, Environmental Protection) Management System’s compliance with the international standard OHSAS 18001:2007. The perimeter of the HSE Management System’s Certification includes: Zarubezhneft-Dobycha Samara LLC, Ulyanovskneftegaz LLC, Guburgnfteostachta JSC, and Giprovostokneft JSC.

Recognizing its responsibility for maintaining a healthy environment and sustaining the life, health and wellbeing of people, Zarubezhneft JSC undertakes the following obligations:
• to pursue the “Zero Goal” of preventing injuries and deterioration of human health and environmental contamination;
• to use natural resources, materials and power in a reasonable and rational manner;
• to respect the interests and rights of local populations in regions of its presence;
• to comply with Russian and international laws, and to fulfill the undertaken obligations before local communities, state authorities, foreign and Russian business partners and other stakeholders;
• to constantly improve its Occupational Health, Industrial Safety and Environmental Protection Management System.

In 2019, implementation of the Vision Zero (zero accidents) Concept continued according to the Unified Program for implementation of the Zero Accident Concept, Vision Zero, at Zarubezhneft JSC in 2018–2021, approved by S. I. Kudryashov, General Director of Zarubezhneft JSC.

On March 22, 2019, a strategic session entitled “Responsible Leadership in Development of Safety Culture and Implementation of the Vision Zero Concept at Zarubezhneft JSC” was conducted for Company’s top managers and the Directors General of the subsidiaries. Within the session, the “Their Route” program was presented to the management of the Company and the subsidiaries with a view to empowering managers to develop and maintain others' responsibility in a positive and substantial way (the second part of the “My Route” program).

Following the results of the work, the participants made proposals on the Vision Zero Roadmap for 2019, taking into account arrangement of the School of Safe Production Culture supported by the Company’s internal coaches.

At All-Russian Labor Protection Week V held in Sochi on April 22 to 26, 2019, representatives of Zarubezhneft JSC participated in meetings of the International Council for implementation of the Vision Zero Concept (chair by Hans-Horst Korkoleniski), and also held a meeting on the “Unified Approach to Interaction with Contractors” taking into account the Implementation of Zarubezhneft’s Vision Zero Concept and a round table on the “Best Practices of Development of Safety Culture at Zarubezhneft JSC. Experience Exchange”.

Meetings of the International Council for implementation of the Vision Zero Concept were attended, where the methods of the International Social Security Association on determining the criteria for evaluating sufficiency of preventive measures, as well as the topics of cooperation on the implementation of the Vision Zero Concept in the course of international projects and cooperation with contractors, were discussed.

Conferences on the “Experience in implementing the Vision Zero Concept at Zarubezhneft Group and its Contractors” were held in Ustka, Moscow and Samara to involve contractors in implementing the Vision Zero Concept.

Within the Vision Zero Concept implementation in the course of Zarubezhneft JSC’s international projects, seminars on the “Vision Zero (Zero Accident) Concept. Development of Personal Responsibility” were held at JV VIETSOVPETRO (in the Socialist Republic of Vietnam) and at the enterprises of the downstream segment (Bosnia and Herzegovina).

The project “Industrial Safety Training System. Safety Culture School” was approved by Order No. 286 of S. I. Kudryashov, General Director of Zarubezhneft JSC, dated September 19, 2019, in order to establish a unified corporate system of training in occupational safety for employees of Zarubezhneft Group.

The project envisions training 26 internal coaches from among the employees of the Corporate Center and the subsidiaries, developing 5 corporate courses as part of an educational and methodical complex, and having internal coaches train pilot groups of attendees on the following topics:
• Introduction to the Occupational Health And Safety Management System;
• On-Site Safety (production facilities);
• Vision Zero Concept. Seven Golden Rules;
• Accident Investigation Procedures;
• Managing the Safety of Contractors.

Moreover, 377 people underwent medical examinations (mandatory preliminary and scheduled medical examinations, additional medical examinations as part of wellness checks (screening), medical certifications before traveling abroad), 97 people received vaccination against yellow fever, hepatitis A, hepatitis B, tetanus and diphtheria, meningitis, measles, and tick-borne encephalitis of workers seconded abroad. 79 people received special assessment of working conditions (SAWC) at their places of work. All personnel of the Company and the subsidiaries are insured under the voluntary medical insurance program with SODAGZ LLC.

OCCUPATIONAL HEALTH
AND INDUSTRIAL SAFETY

With an emphasis on implementation of the Vision Zero Concept principles within the contractor organizations.

In 2019, JV VIETSOVPETRO and 24 contractors officially joined the Vision Zero Concept.

The Lost Time Injury Frequency Rate (LTIFR) was accepted by international practice as the main indicator of a company’s performance in the area of occupational health and industrial safety. The LTIFR has been applied in Zarubezhneft JSC since 2015.

The subsidiaries regularly held training and examinations in occupational health and safety according to the following programs:
• Industrial safety;
• Occupational Health and Safety and Premedical First Aid;
• Basics of Fire Safety;
• Knowledge of Regulations and Rules of Work in Electrical Installations;
• Safe Operation of Electrical Installations.

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

Expert evaluations of industrial safety at hazardous production facilities (HFP) were carried out. Industrial safety statements for the HFP were developed within the established deadlines.

In-process control (monitoring) is one of the essential elements of efficient operation of the HSE Management System. When carrying out in-process
control over occupational health and industrial safety, personnel of the subsidiaries was guided by the relevant legislative and regulatory documents of the Russian Federation, and the Company’s regions of presence, as well as internal regulatory documents, including the “Regulation on the procedure for in-process control over the HSE condition of the Zarubezhneft Group” and the Procedure for HSE Risk Management. This procedure is an integral part of the common corporate risk management system and regulates the procedure for HSE risk management in relation to:

• violation of the facilities’ integrity (emergencies);
• injury caused to workers, contractors or visitors;
• environmental harm during works performance;
• environmental harm due to technological processes.

The Company maintains preparedness to abnormal and emergency situations through an integrated approach that includes:

• testing of protective facilities and training of persons in charge of civil defense and emergencies in training centers;
• timely development and approval by the state supervisory authorities of response plans in case of oil and petroleum products spills at the fields;
• training and attestation of non-professional emergency response teams at the fields;
• conclusion of agreements of drills to be carried out twice a year by professional emergency response teams belonging to gas rescue service and well-kill safety service;
• drills on possible emergency response actions conducted for personnel.

Constant and systematic interaction with the contractors 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’s personnel operations in the framework of the Occupational Health and Industrial Safety Management System.

The Company pays special attention to enhancing production culture, leadership and personal involvement of the managers, as well as improvement of internal cooperation in respect to HSE. These are facilitated by practical implementation of target programs in the course of production:

• 12 Life Saving Rules;
• Leadership in HSE;
• HSE Risk Management;
• SS System in the framework of Zarubezhneft JSC’s Production System.

145 people from the Corporate Center and the subsidiaries were trained in the SS System and arranged into groups of internal coaches in the framework of the SS System development at Zarubezhneft Group.

Following the results of 2019, investment costs allocated for provision of safe working conditions at Zarubezhneft Group amounted to 504,235.125 thousand rubles.

The Monitoring HSE Indicators Information System was modified and the Technosphere Safety Information System (TS IS) was introduced over the course of 2019 as part of automation of the occupational health and industrial safety processes. Introduction of the TS IS took place in two stages piloted by ZARUBEZHNEFT-Dobycha Khanyaga LLC, where a third-party organization acted as the contractor, and the remaining subsidiaries of the Russian segment were distributed by the subsidiary Giprovostokneft JSC.

In order to maintain preparedness for emergencies, the Company takes preventive measures aimed at minimizing the risk of natural and man-made emergencies, preparing to protect and actually protecting the Company’s personnel and material assets from hazards arising from or due to military conflicts, as well as in case of emergencies. Tabletop trainings are held on a regular basis as per the approved schedule. These are emergency response drills and drills on interaction between the Emergency and Fire Safety Commissions of Zarubezhneft JSC and its subsidiaries.

### HUMAN RESOURCES POLICIES AND CORPORATE CULTURE

In 2019, the updated Human Resources Policies of Zarubezhneft Group for 2019–2023 were approved.

The Human Resources Policies are based on the Corporate Development Strategy of Zarubezhneft JSC, which determines the primary objectives and areas of development of Zarubezhneft Group, and are aimed at supporting implementation thereof.

The primary objective of the Human Resources Policies is to achieve the maximum return on investment in personnel (talents) through shaping a system to:

• motivate each employee to achieve the objectives set by the Corporate Development Strategy;
• enable an unbiased evaluation of the extent to which results have been achieved;
• provide fair reward and encouragement for the employees’ achievements.

The Human Resources Policies Fundamentals:

• meeting the needs of Zarubezhneft Group’s business lines for high-qualified professionals (both internal and external candidates);
• continuous development and training of the most active and promising employees (Talented Personnel Pool, Nestro Lead, Professional Skill Contests);
• continuous improvement of the compensation system and benefit plan;
• application of an objective and transparent performance evaluation system;
• creation of a favorable Corporate Culture;
• unconditional compliance with the labor legislation of the Russian Federation and the countries of presence.

### PERSONNEL NUMBER AND STRUCTURE

In 2019, the number of employees of Zarubezhneft Group was 12,588 people, 1% lower than in 2018. In general, the average number of employees of Zarubezhneft Group tends to decrease, which is due to measures to enhance business performance. The number of employees in the downstream segment in Bosnia and Herzegovina decreased by 9.4%. Despite the decrease in the personnel of JV Vietsovpetro due to the establishment in August 2019 of JV ANDJANPETRO LLC in the Republic of Uzbekistan, the number within the upstream segment remained substantially unchanged. The growth in the number of employees in the segment “Service and Other Assets” is associated with WMNTK Nerfostach JSC’s and ZarubezhneftRESTROMYNTAZH LLC’s business expansion.

### Personnel composition of Zarubezhneft Group in 2019 by area of activity, people

<table>
<thead>
<tr>
<th>Activity</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>+/-  Dynamics, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management company</td>
<td>322</td>
<td>326</td>
<td>317</td>
<td>315</td>
<td>-2</td>
</tr>
<tr>
<td>Zarubezhneft JSC</td>
<td>26</td>
<td>25</td>
<td>24</td>
<td>24</td>
<td>0</td>
</tr>
<tr>
<td>representative offices and branches</td>
<td>9 402</td>
<td>8 813</td>
<td>8 415</td>
<td>8 408</td>
<td>7</td>
</tr>
<tr>
<td>Exploration and production</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downstream</td>
<td>2 127</td>
<td>2 073</td>
<td>2 029</td>
<td>1 833</td>
<td>-190</td>
</tr>
<tr>
<td>Service and other assets</td>
<td>1 969</td>
<td>2 008</td>
<td>1 896</td>
<td>2 002</td>
<td>106</td>
</tr>
<tr>
<td>TOTAL</td>
<td>13 846</td>
<td>13 245</td>
<td>12 681</td>
<td>12 588</td>
<td>-93</td>
</tr>
</tbody>
</table>

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The upstream segment traditionally remains a priority development area for Zarubezhneft Group, as it makes up 67% of the total personnel.

Oil production activities are associated with heavy physical loads, work at remote fields and shift work; therefore, 82% of the Group’s personnel are male.

PERSONNEL MOTIVATION AND INCOME STRUCTURE

Among the tools of the HR Policies adopted in Zarubezhneft JSC, there is a differentiated approach applied in determining the compensation amount based on the extent of employees’ involvement in achieving the Group’s strategic goals, which allows us to attract, retain and motivate employees with the expertise and performance levels required for Zarubezhneft Group’s business objectives to be achieved with minimal costs.

The Group implements flexible motivation programs covering both tangible and intangible incentives.

The amount of fixed and variable portions of employee compensation depends on the following factors:
- the position level as expressed by the corresponding pay grade;
- the level of professional expertise and labor efficiency as reflected through granting a certain professional status to an employee;
- the work performance and achievement of the objectives set for the reporting period, as reflected in the amount of variable compensation for that period;
- the level of remuneration for comparable positions in the labor market (competitor companies), and Zarubezhneft Group’s target position in the labor market for this position level.

When determining the Group’s target position in the labor market, we apply the following approaches:
- selection of a labor market appropriate for a certain group of personnel (Moscow, regional, and international labor markets);
- identification of key groups of employees and the positions for which the Group is ready to ensure wages/salaries higher than average across the respective labor market;
- for other employees, the Group is ready to provide average salaries as in the respective labor market.

Then, Zarubezhneft JSC consistently develops the following areas:
- improving the system of employee payment and motivation;
- improving and developing an integrated headcount planning system.

Within the Group, the Integrated Labor Payment System (ILPS), introduced in 2019, remains in place and in force. The ILPS determines a uniform procedure for setting employees’ salaries based on a single grading line, reflects the Company’s business interests and priorities, and ensures that each employee’s annual compensation is linked to his or her achievement of key performance indicators (KPIs).

The ILPS implements a uniform approach to setting employees’ salaries based on a single grading line, which shows the best balance of physical abilities and professional experience.

The employees having secondary and vocational secondary education certificates also make up a significant portion of the total personnel number.

In 2019, due to massive business expansion and entering new projects (in Uzbekistan and Egypt), Zarubezhneft Group Personnel Relocation Policies were developed and approved, establishing unified rules to govern personnel relocation, compensations and benefits, as well as protection of interests of the Group employees, and their family members, at rotation to new projects.

The basic securities and compensations included in the Relocation Policies are as follows:
- Travel allowance and relocation allowance;
- Visa support, ticketing, securing work permits;
- Provision of accommodation;
- Refund of expenditures on kindergartens and schools;
- Provision of voluntary health insurance to employees and their family members;
- Pension fund scheme.

The key components of the Relocation Policies are as follows:
- guaranteed employment of each Zarubezhneft Group employee after having completed his/her work at the Project;
- in the absence of an opportunity to provide the above employment, the Group shall pay the employee a monetary compensation.

In order to attract and retain key managers at Zarubezhneft Group, a complex system of motivation was built, comprising the following components:
- fixed compensation (title wage, increments and supplements in accordance with the law);
- month-end bonuses based on the performance targets achievement;
- year-end bonuses based on the KPI achievement.

The Group regularly analyzes inflation and consumer price index dynamics, on the basis of which decisions are made as to revision (indexation) of the employees’ salary level.

SOLE EXECUTIVE BODY (GENERAL DIRECTOR) REMUNERATION

All payments to the sole executive body are made as per the employment contract and on the basis of the following documents:
- Regulation on Zarubezhneft JSC Employees’ Payment and Motivation;
- Regulation on Zarubezhneft JSC’s General Director’s Annual Compensation (Minutes No. 155 dated May 30, 2018).
- Regulation on the Social Securities for Zarubezhneft JSC Employees and Retirees.

Pursuant to the Regulation on Zarubezhneft JSC’s General Director’s Annual Compensation, the annual compensation amount is determined based on the extent of corporate KPI target values achievement, subject to the indicators of bonus cancellation and implementation of the Corporate Business Initiative “Challenge”, as approved by the Board of Directors of the Company.

SOCIAL PROGRAMS

An integral part of the Group’s compensation system is a social support program for employees and their families, which is taken into account when evaluating the overall attractiveness and competitiveness of the compensation to be proposed.

Zarubezhneft Group has approved the Integrated Vision of Lump-sum Payments and Social Policies, the purpose whereof is to provide a decent level of medical services, assistance to the employees facing various adverse circumstances, compensation for the earnings lost upon retirement, and support to the Group retirees.

Uniform requirements to the subsidiaries’ benefits plans are formalized in the Model Regulation on Social Securities for the Subsidiaries’ Employees. Each subsidiary selects and approves, based on its employees’ needs and its own financial capacity, the optimal package of benefits, securities and refunds attributable to the employees.

In order to take measures to maintain employees’ health, the Company arranges reservations in Russian and Crimean health resorts. Employees are given the opportunity to purchase health resort vouchers for themselves and their family members, which are to be partially refunded by Zarubezhneft JSC, large families, along with families with children under 14, are given priority in this regard.

The year 2019 saw a positive trend in welfare benefits. In 2019, the amount...
of welfare benefits increased by 8% against 2018, and excluding retirement benefits from JV Vietsovpetro, the increase in welfare benefits amounted to 10%, as shown below.

Intangible incentives constitute an inherent part of the personnel motivation system. In order to encourage employees and labor collectives for significant contribution to Zarubezhneft JSC’s development and for the achievement of prominent production, financial and economic indicators, as well as for the purpose of improving corporate culture, the Company established titles of honor such as “Honored Employee of Zarubezhneft JSC”, “Long-Service Worker of Zarubezhneft JSC”, and such awards as Zarubezhneft JSC Certificate of Appreciation, Zarubezhneft JSC Certificate of Thank You, and Zarubezhneft JSC Certificate of Acknowledgment.

Over the last year, 236 employees of Zarubezhneft Group won departmental and corporate awards.

RECRUITMENT AND ONBOARDING

The Group’s priority in the area of recruitment is to meet the business need for highly qualified professionals through maximizing the use of internal candidates and personnel rotation. Zarubezhneft JSC widely applies extensive internal and external personnel recruitment and corporate training in management and professional training programs, which are conducted in accordance with high-priority goals and objectives, in order to identify the current situation as to compliance with corporate governance principles, and to further shape an action plan to develop and promote these principles.

The Company employs training and professional development system is designed not only to increase the required level of the employees’ professional and technical competence, but also to meet obligatory state requirements for oil and gas sector personnel in terms of level of training in industrial safety, occupational health, anti-corruption and fraud prevention.

The Company applies all modern types, forms and methods of training, hosted by the best Russian and foreign organizations and corporate training centers engaged in educational activities under a wide range of professional development and retraining programs. When implementing the training process, long-term and short-term training are used, both in-person and remotely, including specialized courses delivered through the automated system “WebTutor”.

The Company conducts annual personnel assessment on an ongoing basis, which allows us to systematically and objectively evaluate employee performance indicators, identify the most promising employees, encourage Company employees for prominent labor results and high professionalism, and determine the potential areas for both professional and personal development of employees.

Employees are evaluated against the following indicators:
- achievement of individual objectives/tasks by the employee over the past year;
- level of professional expertise of development;
- level of development of corporate and managerial competencies;
- implementation of the development map/individual development plan for the past year;
- level of the employee’s potential for further career growth and development;
- total performance of the employee.

Based on the results of annual evaluation, employees are provided with detailed and substantiated information on the performance and level of development of the employee’s expertise. Proposals are then formed and a decision is made as to the expediency of raising the professional status, changing the grade/position, promotion of the employee to a higher position, inclusion of the employee into the talented personnel pool, and priorities in the development of key expertise areas and individual objectives for the next year are determined for each employee.

The Company implements external assessment activities, such as the Assessment Center, 180/360-degree review, and various types of testing to identify the level of professional knowledge and skills, professional and personal qualities, and verbal and numerical abilities.

In the fiscal year, as part of the annual employee assessment, an additional 360-degree survey of top and middle management was conducted in order to identify the current situation as to compliance with corporate governance principles, and to further shape an action plan to develop and promote these principles.

In order to implement uniform HR Policies in personnel assessment, assessment activities are carried out throughout Zarubezhneft Group.

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Dynamics of social payments per one employee of Zarubezhneft Group, RUB

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The Company provides for the following training areas:
- corporate training in management and professional training programs in accordance with high-priority goals and objectives, which is aimed at developing corporate, managerial and professional competencies among employees;
- vocational training aimed at developing the knowledge, skills and abilities required for performance of job duties;
- obligatory training conducted under the requirements of governmental authorities and legislation of the Russian Federation, certified with relevant documents.

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In the fiscal year, under Zarubezhneft JSC’s development strategy, the key areas of personnel training and development were as follows:

- implementation of individual training programs aimed at professional development in accordance with current and strategic tasks and changing legislative requirements;
- joint implementation with leading Russian and foreign universities of the training process to train professionals in the areas most in demand in the Company;
- implementation of a corporate training and development program for the most promising employees, aimed at improving knowledge in the field of managerial potential development;
- implementation of the Lean Six Sigma corporate training program on production system and lean production;
- implementation of programs for teams to train under international projects;
- implementation of a corporate English language training program;
- implementation of corporate training and development programs for the Group’s key technical specialists.

For planning and implementation of corporate training, a Unified Corporate Programs Menu for top and middle managers, specialists, the talented personnel pool and young specialists has been formed and is currently used, and this Menu includes programs on strategic management, management-related, vocational, and distance training, and English language training. The priority area of the employee training system is the development of key professional and technical expertise and reducing the costs associated with it. It is also important to enhance personnel development programs with solid professional and managerial expertise to work on both the Company’s new and existing projects. The winners of the Nestro Lead competition — the first open competition for Zarubezhneft Group employees that started a comprehensive corporate personnel development program — were trained under the integrated program “Modern Leader in the International Environment” hosted by the International School of Business of the National University of Oil and Gas “Gubkin University” and the Moscow School of Management “Skolkovo.” The winners’ development program included internships in Norway and Japan, with 40 winners having participated in the program.

In 2019, the School of Petroleum Engineering trained 203 people, including employees of the Corporate Center, subsidiaries, and JV Vietsovpetro; the corporate knowledge base has been continuously complemented with materials from previously completed courses. Zarubezhneft JSC pays special attention to promoting talented and purposeful specialists with solid professional and managerial expertise to work on both the Company’s new and existing projects. The winners of the Nestro Lead competition — the first open competition for Zarubezhneft Group employees that started a comprehensive corporate personnel development program — were trained under the integrated program “Modern Leader in the International Environment” hosted by the International School of Business of the National University of Oil and Gas “Gubkin University” and the Moscow School of Management “Skolkovo.” The winners’ development program included internships in Norway and Japan, with 40 winners having participated in the program.

The objectives of the Nestro Lead training and development programs for competition winners and finalists are to form an efficient and cohesive team to perform work on foreign assets, taking into account the Company’s strategic interests; to assess and develop the personal potential of each team member; and to improve communication skills in an international environment.

The Company seeks to keep pace with the times and apply modern automated HR technologies. Using the WebTutor software program, all assessment procedures and analyzing results are automated and aligned in a single system governed under a single logic. The system’s introduction has significantly reduced labor and time spent on preparing and conducting assessment procedures and analyzing the results thereof. It has also increased the number of employees undergoing training simultaneously at the Company through remote training courses. This system is integrated in all but a few of the Company’s subsidiaries and makes it possible to ensure the assessment procedures are implemented online, as well as organize training on a remote basis. A training portal that includes all types of training provided by the Company has been developed to foster employees’ professional and personal development. In order to promptly plan and schedule employees’ training, the procedure for posting training applications online has been introduced, which has reduced labor costs for creating and analyzing proposals for arranging training activities submitted by employees. In 2020, the WebTutor automated HR management system will be further developed through the introduction of a new training module entitled “Talent Management and Career Development.”

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**RETENTION AND TALENTED PERSONNEL POOL**

In order to retain and motivate key employees, develop the necessary expertise, and reduce the costs of personnel recruitment and onboarding, the Company has created a Talented Personnel Pool and implemented an in-house rotation program. The talented personnel pool includes 134 of the Company’s most promising employees. Each of them is assigned a mentor from among the top managers.

In 2019, 23 employees from among the talented personnel pool were appointed to management positions, and 59 in-house employee transfers took place across Zarubezhneft Group.

For the purpose of continuously developing the talented personnel pool, the concept of modular training for the talent pool members is being implemented and hosted by the Company’s own School of Leadership and Managerial Potential Development. The main tasks of the School are as follows:

- developing key promising employees;
- improving governance and management culture;
- enhancing professional/business and personal qualities;
- increasing leadership potential and teamwork performance.
During the financial year, the School of Leadership and Managerial Potential Development had 129 talent pool members take part in training events under the programs aimed at developing managerial skills and personal qualities, such as innovation in the Company management system, system thinking, cross-functional management, core leadership values, and performance management. On-the-job programs for developing managerial and corporate expertise were developed to further develop talent pool members and implement individual development plans. An electronic library was also created to provide self-study and self-development opportunities. This library provides users with the ability to download and browse books online.

**WORK WITH YOUNG SPECIALISTS AND INTERACTION WITH EDUCATIONAL INSTITUTIONS**

In order to implement the innovative development and youth policies program, Zarubezhneft JSC intensively cooperates with the Russian Federation's leading higher education institutions to attract and select the most promising undergraduates, provide these students with work experience internship, and organize employees’ retraining and professional development. Cooperation agreements have been concluded with each university partner, and R&D interaction has been organized to promptly address training priorities for Zarubezhneft Group employees and the young specialists selected. The areas of cooperation cover education, research and development, and social and cultural activities.

Top priority is given to graduates of the following universities:

- National University of Oil and Gas “Gubkin University” (priority fields of education: Oil and Gas Engineering, Development and Operation of Oil and Gas Fields, Physical Processes of Oil and Gas Production, Geology, and Economics and Management in the Oil and Gas Sector);
- Lomonosov Moscow State University (fields of education: Economics, Vietnamese and English translators/interpreters);
- Moscow State Institute of International Relations (MGIMO University) (field of education: International Economic Relations);
- Tomsk Polytechnic University (fields of education: Development and Operation of Oil and Gas Fields, training at Honor-Walt);
- Ultra State Technical University (field of education: Development and Operation of Oil and Gas Fields);
- Samara State Technical University (fields of education: Development and Operation of Oil and Gas Fields, Machinery and Equipment in Oil and Gas Industries, Economics and Management in Fuel & Energy Complex);
- Lomonosov Moscow State University (fields of education: Geology, Law, Economics, Mathematics, Physics);
- Lomonosov Moscow State University of Fine Chemical Technologies (MITHI) (field of educators: Chemistry)
- Moscow Institute of Physics and Technology (fields of education: Mathematics, Physics).

The Group regularly attracts students from leading universities for practical training and work experience internships. In 2019, the Group granted work experience internships to 205 students. In 2018-2019, Zarubezhneft JSC funded training at higher educational institutions in the Russian Federation for 43 children of Russian nationals employed at JV Vietsovpetro.

The priority area of the Company’s activities is to work with young specialists employed with the Group. Working with them makes it possible to identify promising young people and encourage their professional development.

In 2019, the Council of Young Specialists, a peer public and professional association of active youth employed with the Company, continued its systematic work. The Council was established in 2013 as one of the tools to implement the Company’s youth policies.

The Council of Young Specialists is part of the Company’s HR Policies and performs the following functions:
- providing onboarding and involving young employees in the Company’s production and social activities;
- shaping a pro-active attitude and loyalty to the Company and its development strategy;
- unifying the employed youth, forming efficient communication among different generations of employees;
- involving employed youth in innovation, R&D and project activities;
- developing and maintaining the Company’s corporate culture through cultural and sporting events;
- assisting in creating conditions for developing young employees’ managerial and creative potential.

In addition to Zarubezhneft JSC, the Councils of Young Specialists operate in seven companies. They are JC RUSVIETPETRO LLC, ZARUBEZHNEFT-Dobycha Kharyaga LLC, VNIneft JSC, Giprovostokneft JSC, PNNK Nefteodobycha JSC, Motrica Oil Plant A.D., and OPTIMA Group d.o.o.. There are 95 total members of the Councils of Young Specialists.

The Council is an expert body that assists in creating conditions for developing young employees’ potential through the preparation of their own projects aimed at addressing key production challenges. Furthermore, Young Specialists actively participate in external events organized by the Company’s partners and peers in the fuel and energy sector. Among these events, the following deserve special mention: the International Youth Scientific Conference “Oil and Gas – 2019”, the All-Russia Competition “New Idea” (Rus.: “Novaya Ideya”) regarding the best R&D solution among young people employed at enterprises and organizations in the fuel and energy sector, and the international engineering championship “CASE-IN”.

**CORPORATE COMMUNICATIONS AND ORGANIZATIONAL IMPROVEMENTS**

Within the framework of the area of activity on Corporate Communications and Organizational Improvements, Council members took part in brainstorming sessions, business cases, and meetings of the Youth Council of the Ministry of Energy of the Russian Federation. Every year, a team of Young Specialists visits the Russian Energy Week exhibition. In the second quarter of 2019, the Group’s youth team placed second in the inaugural case championship in the city of Almetyevsk. In 2019, the work of the Council of Young Specialists was first announced at the Board of Directors, where the course for the Group’s youth intensive development was set.

**R&D INVOLVEMENT**

The first event that represents the R&D area is the Competition of R&D Works of Young Specialists, which acts as a tool to enhance performance in technical and process solutions by revealing the young employees’ potential through the preparation of their own projects aimed at addressing key production challenges. Furthermore, Young Specialists actively participate in external events organized by the Company’s partners and peers in the fuel and energy sector. Among these events, the following deserve special mention: the International Youth Scientific Conference “Oil and Gas – 2019”, the All-Russia Competition “New Idea” (Rus.: “Novaya Ideya”) regarding the best R&D solution among young people employed at enterprises and organizations in the fuel and energy sector, and the international engineering championship “CASE-IN”.

In 2019, the Councils of Young Specialists of the Corporate Center and the subsidiaries held over 200 events.
**INTELLECTUAL EVENTS**

In 2019, there were four corporate “What? Where? When?” tournaments among the teams of the Corporate Center (by DDG blocks) and subsidiaries. Another impressive fact was that Zarubezhneft JSC team won the Spring Intellectual Cup on “What? Where? When?”, awarded in the category for “The Most Intellectual Company in the Fuel & Energy, and Oil & Gas Sectors”. The team also ranked among the top three teams for the year. The same year, Zarubezhneft JSC’s representative team took part in the 19th Russian Championship on “What? Where? When?” for the first time.

In order to maintain team spirit and intellectual promptness, representative team training sessions have been organized on a permanent basis, as well as open training sessions for all comers, with a professional coach and a member of the “What? Where? When?” Elite Club involved.

Among other things, Zarubezhneft JSC teams participate and take prize-winning places every year in Oil Owl (Rus.: “Neftyanaya Sova”), an intellectual tournament for youth involved in the oil and gas industry, and E&Y Club’s EnergiYa intellectual tournaments.

**CORPORATE SPORTS DEVELOPMENT**

Each year, training takes place for the corporate football and volleyball teams, and corporate billiard and bowling tournaments are held. In 2019, the corporate volleyball team ranked 3rd in the Brands Cup (Rus.: “Kubok Marok”). Two platoons represented the Company at the Race of Heroes (Rus.: “Gonka Geroev”), and over 80 people went through the Ready for Labor and Defense program (Rus.: “Gotov k Trudu i Oborone”, Russian physical training standard).

For the first time in the Council's history, the Athletics Team took part in running competitions organized with support from the Ministry of Energy of the Russian Federation. The corporate football tournament is traditionally considered to be the largest event of the year, as it brings together active young people and all top management from both the Corporate Center and subsidiaries. This annual event is always capped off with a gala match between the Ministry of Energy and the management of Zarubezhneft JSC.

**VOLUNTEERING**

The volunteer movement, under the guidance of the Council of Young Specialists, also continues to actively develop. In 2019, young employees from VNIneft JSC, Zarubezhneft JSC and LLC RUSVEIPTETRO took part in greeting and thanking World War II veterans. The group of activists visited the Gagarinskaya Special Boarding School on Child Protection Day. In collaboration with Company management, a branded container for collecting the Company’s employees’ unwanted things was installed at Zarubezhneft JSC’s office. As the container is filled, the things are sent for further sorting, cleaning and distribution.

Also in the financial year, employees of Zarubezhneft JSC, ZARUBEZHNEFT-Dobycha Khar'yar LLC, and Zarubezhneftstroymontazh LLC took part in the Ecological Volunteer Event at the Lomonosov Moscow State University’s Botanical Garden, supported by the Zapovedniki Eco-Center. The group of activists consisting of employees of Zarubezhneft JSC and ZARUBEZHNEFT-Dobycha Khar'yar LLC visited the Gagarinskaya Special Boarding School on New Year’s Eve.

**BUILDING CORPORATE CULTURE AND ETHICS**

The potential for enhancing the Company’s performance largely depends on positive growth in production indicators, well-coordinated teamwork, functional interaction, and positive communications between employees both within and outside the structural units, as well as on well-coordinated partnership with the external environment.

The Company pays considerable attention to its corporate ethics. In this regard, 12 principles of corporate interaction were developed and implemented in 4 areas with 3 principles in each area. They reflect the desired behavioral indicators that affect the positive dynamics of both teamwork and efficient communication and the enhancement of the Company’s performance as a whole, as follows:

- Company – Employee: efficient interaction between an employee and the Company (“initiative and pro-active attitude to life”, “striving for continuous improvement and professional development”, “fair assessment (evaluation) of performance and motivation of employees”).
- Employee – Employee: efficient interaction between and among employees (“teamblock”, “constructive discussion of issues”, “business-style communication”).
- Manager – Employee: efficient interaction between a manager and an employee (“one-man management”, “peer discussion and unconditional execution of the decision”, “open doors”).

In order to develop and systematically implement the above principles of efficient interaction, the Integrated Program for Promoting Corporate Cooperation Principles was approved in 2019.

That same year, the emphasis was laid on involving employees through round tables and business games.

Throughout the year, about 400 of the Group's employees took part in such round tables and business games.

The primary objectives of these activities were to develop expertise in interacting with peer co-workers, the external environment, and subordinate employees, as well as to sharpen feedback skills.

In order to ensure a smooth immersion into the Company’s culture, an interactive adaptation course on the principles of corporate interaction has been developed for newly recruited employees.

Currently, the project’s execution is ongoing. Its progress will be manifested in the Company’s corporate life so that they are not just observed and implemented in a directive manner, but become a good tradition and assist in achieving joint results. Furthermore, the aim is for them to help all employees become one team characterized by strong cohesion and commitment to the Company’s common goals and values.

In 2019, the Best in Profession Contest was held at the production facilities of Zarubezhneft-Dobycha Samara LLC in the city of Samara. Participants from Zarubezhneft Group subsidiaries, the winners of the enterprise-level selection stage, showed off their knowledge and skills in the theoretical and practical parts of the contest in the following six categories:

- Operator of Oil and Gas Production;
- Operator of Dehydrators and Desalters;
- Electrical/Gas Welder;
- Maintenance technician;
- Passenger Vehicle Driver;
- Chemical Analyst.

In addition, the winners were determined in the following additional categories:

- Best in Production System;
- Best in HSE.
Social Policies in the Regions of Presence

Within the framework of its activities, Zarubezhneft Group significantly impacts the social and economic development of the regions where it is present. Therefore, the Company adheres to a policy of extensive social responsibility towards local communities and society as a whole.

Zarubezhneft JSC contributes to the sustainable development of the regions of its presence as an employer, a taxpayer and an essential economic actor.

In terms of cooperation with the regions, the emphasis lies on developing local initiatives and social activism. Zarubezhneft Group has been cooperating constructively with local authorities and public organizations. Each year, the subsidiaries conclude agreements with regional administrations that govern their joint activities on regional development.

The Group provides support to socially vulnerable groups, implements social and charitable projects in health care, education, improving housing conditions, culture and sports, and developing social infrastructure.

For the purpose of forming unified approaches within the framework of implementing charitable and sponsorship activities, Zarubezhneft JSC has adopted corresponding regulations. In addition, the Commission for Consideration of Social Applications received both by the Corporate Center and the subsidiaries meets on a regular basis. These tools are aimed at creating the most efficient, simple and transparent mechanism for providing assistance on the part of Zarubezhneft Group.

The regulations state the areas of charitable and sponsorship activities as follows:
- supporting culture, sports and a healthy lifestyle;
- preserving cultural and historical heritage, supporting military and patriotic activities and events;
- assisting creative teams and artists;
- supporting poor and low-income social classes, orphans, war veterans, and disabled;
- developing scientific and educational programs and professional development programs;
- organizing events timed to coincide with significant events of in the fuel and energy sector.

In 2019, Zarubezhneft Group allocated a total of 149 MM RUB to charities and sponsorship in the Russian Federation (including social and economic agreements executed with administrations of the regions where the Group subsidiaries and joint ventures operate), with 136 MM RUB thereof for charity and 13 MM RUB for sponsorship programs.

In 2019, the volunteer movement continued to develop as part of the Councils of Young Specialists’ agenda. Providing assistance to children from orphanages and residents of facilities for the elderly and disabled, as well as thanking war veterans have become traditional actions of Zarubezhneft Group on Victory Day.

Care for the environment and rational use of resources also remains an important area of corporate volunteering. In 2019, the Zarubezhneft Group employees held a series of activities and volunteer days to clean up regional territories. That’s how the employees of Zarubezhneft JSC, ZARUBEZHNEFT-Dobycha Kharyaga LLC, and Zarubezhneftfrestkomontazh LLC took part in the Ecological Volunteer Action in the Lomonosov Moscow State University’s Botanical Garden, supported by the Zapovedniki Eco-Center. In addition, the employees from the Kharyaga field organized a volunteer clean-up day on the banks of the Lek-Kharyaga River flowing along the road to the EP-2 well cluster pad. The event was arranged as part of the All-Russian Environmental Action Clean Shores for Our Rivers and Lakes (Russ.: “Nachim Rekim i Ozerman – Chistye Berеги”). Every year, the employees of RMNTK Netootdacha JSC continue to participate in the River Ribbon (Russ.: “Ruchynya Lenta”) ecological action.

Volunteer and charitable activities help employees develop a sense of personal responsibility and willingness to participate in public events. This is a unique part of the corporate culture that is supported and encouraged by the Company.
COUNTRY-BY-COUNTRY REPORTING

Zarubezhneft JSC’s development priorities include enhancement of corporate reporting transparency. Zarubezhneft Group operates in many different countries. Financial and economic details are presented in the table below by the regions in which it has a footprint.

The Income Disclosure, Profit for the Year and Income Tax Costs indicators are based on the country-by-country report prepared per legislative requirements (the Tax Code of the Russian Federation (Part 1), Chapter 14.4-1).

The Capital Expenditures Disclosure and Amount of Public Contributions/Charitable Donations indicators are prepared based on management reporting (statements).

The figures for the Russian Federation and the Socialist Republic of Vietnam are based on the figures for the joint ventures located in these countries whose figures are accounted for in the consolidated statements using the participating interest method.

The list of indicators has been defined subject to the recommendations of the Transparency International movement.

Zarubezhneft JSC Indicators for the Year Ended December 31, 2019, MM RUB¹

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Total</th>
<th>Russian Federation</th>
<th>Socialist Republic of Vietnam</th>
<th>Republic of Cuba</th>
<th>Bosnia and Herzegovina (Republika Srpska)</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income disclosure</td>
<td>249,182</td>
<td>152,290</td>
<td>63,571</td>
<td>501</td>
<td>32,470</td>
<td>350</td>
</tr>
<tr>
<td>Capital expenditure disclosure</td>
<td>39,110</td>
<td>19,152</td>
<td>18,719</td>
<td>861</td>
<td>261</td>
<td>117</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>7,252</td>
<td>16,445</td>
<td>2,485</td>
<td>−1,047</td>
<td>−10,278</td>
<td>−353</td>
</tr>
<tr>
<td>Income tax costs</td>
<td>13,740</td>
<td>3,790</td>
<td>9,898</td>
<td>20</td>
<td>31</td>
<td>1</td>
</tr>
<tr>
<td>Amount of public contributions/charitable donations</td>
<td>244.4</td>
<td>149</td>
<td>95</td>
<td>–</td>
<td>0.4</td>
<td>–</td>
</tr>
</tbody>
</table>

¹ As of March 16, 2019.
Entering new markets

03

COMPANY PERFORMANCE IN 2019
Gross hydrocarbon production by Zarubezhneft Group (share is taken into account), thous. t.o.e.

-7 %

Volume of Zarubezhneft Group’s reserves (share is taken into account), thous. t.o.e.

+4 %

Volume of exploration drilling by Zarubezhneft Group, thous. m

+49 %

Zarubezhneft Group’s consolidated revenue dynamics, bln RUB

+7 %

Consolidated EBITDA dynamics of Zarubezhneft Group, bln RUB

+24 %

Consolidated FCF dynamics of Zarubezhneft Group, bln RUB

+20 %

In 2019, the hydrocarbon reserves in the share of Zarubezhneft JSC increased by 3.6 MM RUB because of entering into new projects in Vietnam, Egypt and Uzbekistan, as well as exploration activities and re-assessment of reserves in the active assets.

In 2019, Zarubezhneft Group maintained the high level of consolidated revenue achieved in 2018.

In 2019, Zarubezhneft Group’s consolidated revenue dynamics, bln RUB:

-7 %

In 2019, the scope of exploration drilling in 2019 was 53.2 thous. m, which is 49% higher than in 2018.

In 2019, Zarubezhneft Group maintained the high level of consolidated revenue achieved in 2018.

In 2019, Zarubezhneft Group’s consolidated revenue dynamics, bln RUB:

+4 %

The primary goals of the work were to perform an additional study of hydrocarbon traps at the active fields and recognition of inferred reserves at new blocks.

The implementation of stabilizing measures allows showing high level of operational efficiency.

Despite the deteriorating macroeconomic environment\(^1\) and the decrease of global oil prices, the implementation of stabilizing measures allows showing high level of operational efficiency.

\(^{1}\) Hereinafter, the impact on indicators that show changes in macroeconomic factors and in the tax legislation.
TAX OBLIGATIONS OF ZARUBEZHNEFT GROUP COMPANIES

TAX PAYMENTS

In addition to such macroeconomic factors as changes in oil prices and the Ruble’s exchange rate, taxation has a substantial effect on the activity of Zarubezhneft Group. The tax and other compulsory accruals in the revenue of the Exploration and Production segment is 45%.

Zarubezhneft Group’s tax and other compulsory payments are calculated and paid in strict compliance with the applicable legislation of the Russian Federation, Bosnia and Herzegovina, and Vietnam.

The subsidiaries of Zarubezhneft JSC completely fulfill their obligations to pay taxes, levies, duties, insurance contributions to local, regional and national budgets and to non-budgetary funds of the Russian Federation.

A substantial increase of tax payments in 2019 is primarily related to the growth of expenditures on mineral extraction tax (MET) under the current tax policies. Furthermore, in 2019 a new damper mechanism was implemented, which increases the tax burden by more than 250 RUB per ton on average in case of no downstream segment in the Company.

It should be separately noted that in the second half of 2019, per amendments to the Russian Tax Code, the MET was permanently modified to add a Ks coefficient of 429 RUB per ton, which was previously valid until 2022 and was implemented as a temporary measure to replenish the Russian Federation’s budget.

The structures of tax payments for the Exploration and Production segment and the Service and Other Assets segment have significant differences, which is related to branch-specific taxes in the Exploration and Production area (MET, export customs duties on oil, royalty, and profit petroleum of the country under the Kharyaga production sharing agreement (PSA)).

The total amount of tax and other compulsory payments in the Russian Federation in 2019 was 55,633 MM RUB, which is 24% higher than in 2018, with 72% of the aforementioned payments going to the Russian Federation federal budget (FB), 24% to consolidated budgets (CB) of constituents, and 4% to non-budgetary funds (NBF).

Companies in the Bosnian region of Zarubezhneft Group are cumulatively the largest taxpayers to the budget system of Bosnia and Herzegovina. Payments to the budgets of all levels in 2019 amounted to 87.64 MM EUR. The primary burden of the companies is indirect taxes (69% excise taxes, 21% VAT), social contributions are 6%, while other taxes are 3%.

Mineral extraction tax, income tax, and royalty make up the highest share in the structure of compulsory payments of production companies under the Kharyaga PSA (KPSA).

The primary burden of the service segment companies is VAT, social contributions and income tax.
HYDROCARBONS EXPLORATION AND PRODUCTION (E&P)

THE EXPLORATION AND PRODUCTION SEGMENT IS ZARUBEZHNEFT GROUP’S KEY SEGMENT. THE COMPANY’S STRATEGIC DEVELOPMENT IS BASED ON IMPROVING ASSET PERFORMANCE AND DEVELOPING NEW PROMISING PROJECTS.

SUMMARY SEGMENT INDICATORS

Revenue in 2019 was 3 bln RUB, or 7%, lower than in the previous year. This is primarily due to the decline in the average 5% annualized decline of the Ruble price of oil (in 2018, it was 4,387 RUB/bbl; in 2019, it was 4,135 RUB/bbl). Another negative factor affecting revenue is the decrease in production volumes and oil sales compared to 2018: oil sales decreased by 519 thous. tons (-13%) for JV Vietsovpetro Block 09-1 and by 11 thous. tons (-12%) for Block 09-3. The decline in this indicator is partially offset by additional revenue of 2.4 bln RUB from supplies of third-party oil via Orenburgnefteotdacha JSC.

EBITDA for this segment in 2019 exceeded 30 bln RUB and dropped 16% compared to 2018. We saw growth for ZARUBEZHNEFT-Dobycha Kharyaga LLC’s assets of +2.1 bln RUB (increased pace of construction of facilities and increased number of wells completed by drilling, +2 wells), +1.1 bln RUB for JV Vietsovpetro Block 09-1 due to commisioning of the new wellhead platform WHP-20, completion of the reconstruction project and expansion of compressor capacities.

CURRENT PORTFOLIO OF ASSETS/PROJECTS OF THE SEGMENT

In 2019, Zarubezhneft Group owned 17 licenses, 9 of which were for prospecting and exploration of hydrocarbons, 2 for prospecting and evaluating hydrocarbon reservoirs and 6 for geological survey, exploration and production of hydrocarbons.

A license auction took place on June 27, 2019, for the purpose of geological survey, exploration and production of hydrocarbons at the Zapadno-Yareyaginsky site. JC RUSVIETPETRO LLC was the successful bidder.

EBITDA, bln RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>1H2015</th>
<th>1H2016</th>
<th>2H2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>16.6</td>
<td>17.8</td>
<td>23.9</td>
<td>31.4</td>
<td>30.5</td>
<td></td>
</tr>
</tbody>
</table>

We also saw a significant reduction of investments compared to 2018 amounting to -2.7 bln RUB for JC RUSVIETPETRO LLC as a result of the completion of the active phase of exploration works and drilling of Block 4 fields.

Investment volumes in 2019 increased by 1.8% or 5% compared to 2018. We saw growth for ZARUBEZHNEFT-Dobycha Kharyaga LLC’s assets of +2.1 bln RUB (increased pace of construction of facilities and increased number of wells completed by drilling, +2 wells), +1.1 bln RUB for JV Vietsovpetro Block 09-1 due to commisioning of the new wellhead platform WHP-20, completion of the reconstruction project and expansion of compressor capacities.

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>30 bln RUB

2-nd consecutive year

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CONDITION OF RESOURCES AND FEEDSTOCK

As of January 1, 2020, the total remaining geological reserves of A+B+C, and 2P category hydrocarbons of Zarubezhneft Group in Russia and abroad are 1,072.7 MM t.o.e. with no regard to the Company’s participating interest, and 548.3 MM t.o.e. with regard to the Company’s participating interest and 103.815 MM t.o.e. with no regard of total remaining recoverable reserves to the participating interest. The amount of total remaining recoverable reserves is 200.07 MM t.o.e. with no regard to the participating interest, and 548.3 MM t.o.e. with regard to the Company’s participating interest, and 202.07 MM t.o.e. with no regard of total remaining recoverable reserves to the participating interest. The amount of total remaining recoverable reserves is 200.07 MM t.o.e. with no regard to the participating interest, and 548.3 MM t.o.e. with regard to the Company’s participating interest and 103.815 MM t.o.e. with regard to the participating interest.

37% of A+B+C reserves are JC RUSVIETPETRO LLC reserves. The primary share of the hydrocarbon reserves is concentrated at the blocks of Severo-Khosedayuskoye and Zapadno-Khosedayuskoye fields.

The share of JV Vietsovpetro reserves is 33%, primarily concentrated at the White Tiger and the Dragon fields.


Dynamics of current recoverable reserves (АB+C1+2P) of Zarubezhneft Group taking into account the participating interest, thous. t.o.e.

<table>
<thead>
<tr>
<th>Year</th>
<th>Plan</th>
<th>Actual</th>
<th>Deviation %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>92,080</td>
<td>92,421</td>
<td>+4</td>
</tr>
<tr>
<td>2016</td>
<td>92,421</td>
<td>92,421</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>92,421</td>
<td>92,421</td>
<td>0</td>
</tr>
<tr>
<td>2018</td>
<td>92,421</td>
<td>92,421</td>
<td>0</td>
</tr>
<tr>
<td>2019</td>
<td>92,421</td>
<td>92,421</td>
<td>0</td>
</tr>
</tbody>
</table>

Reserves structure as of January 1, 2020:


- The balance of the hydrocarbon reserves for Zarubezhneft Group in 2019 also included the hydrocarbon reserves for new assets: Block 09-2/09 (structures KTN and KTN under exploration), West Ashrafi and North Ras El Ush fields (Arab Republic of Egypt), South Alamyshyk, West Khartoum and Khartoum fields (Republic of Sudan).

- JC RUSVIETPETRO LLC won the bid in 2019 in the license tender for new assets: Block 09-2/09 (structures KTN and KTN under exploration), West Ashrafi and North Ras El Ush fields (Arab Republic of Egypt), South Alamyshyk, West Khartoum and Khartoum fields (Republic of Sudan).

- Pilot commercial development was carried out at the Boca de Jaruco field in 2019 for implementing enhanced oil recovery methods.

As a result of the increment of Zarubezhneft JSC hydrocarbons reserves without regard to the share was:

- 3,367 thous. t.o.e. in JC RUSVIETPETRO LLC;
- 321 thous. t.o.e. in JV Vietsovpetro;
- 1,082 thous. t.o.e. at the Kharyaga field.

As of January 1, 2020, the total remaining geological reserves of А+B+C, and 2P category hydrocarbons at the Zapadno-Yareyaginskoye field are 1,082 thous. tons at the Kharyaga PSA.

Structure of current recoverable reserves (АB+C1+2P) of Zarubezhneft Group taking into account the participating interest, thous. t.o.e.

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>2019 Plan</th>
<th>2019 Actual</th>
<th>Deviation %</th>
</tr>
</thead>
<tbody>
<tr>
<td>JV Vietsovpetro</td>
<td>24,766</td>
<td>32,189</td>
<td>7,423</td>
</tr>
<tr>
<td>JV RUSVIETPETRO LTD</td>
<td>35,795</td>
<td>36,440</td>
<td>645</td>
</tr>
<tr>
<td>ZARUBEZHNEFT-Dobycha Kharyaga LLC</td>
<td>7,882</td>
<td>8,396</td>
<td>514</td>
</tr>
<tr>
<td>Block 09-3</td>
<td>1,810</td>
<td>975</td>
<td>-834</td>
</tr>
<tr>
<td>Orebugnnefteodobycha JSC</td>
<td>2,166</td>
<td>2,212</td>
<td>46</td>
</tr>
<tr>
<td>Ulyanovskneftegaz LLC</td>
<td>1,717</td>
<td>1,613</td>
<td>-104</td>
</tr>
<tr>
<td>Block 04-3</td>
<td>3,387</td>
<td>3,364</td>
<td>-3</td>
</tr>
<tr>
<td>Severo-Karasevskoye Petroleum Enterprise LLC</td>
<td>1,056</td>
<td>1,037</td>
<td>-19</td>
</tr>
<tr>
<td>Block 09-3/12</td>
<td>2,058</td>
<td>1,811</td>
<td>-247</td>
</tr>
<tr>
<td>Block 12/11</td>
<td>6,003</td>
<td>9,182</td>
<td>3,179</td>
</tr>
<tr>
<td>Block 16-1/15</td>
<td>260</td>
<td>32</td>
<td>-228</td>
</tr>
<tr>
<td>Block 42</td>
<td>381</td>
<td>0</td>
<td>-381</td>
</tr>
<tr>
<td>New assets</td>
<td>11,823</td>
<td>6,563</td>
<td>-5,260</td>
</tr>
<tr>
<td>TOTAL</td>
<td>99,071</td>
<td>103,815</td>
<td>4,743</td>
</tr>
</tbody>
</table>

Recoverable reserves of JC RUSVIETPETRO LLC in 2019 increased by 899 thous. t.o.e.
The Company’s strategic goal is to ensure a stable growth of HCs production in the medium- and long-term perspective by exploring and expanding the hydrocarbons resource base. In 2019, exploration works were carried out at the facilities of the Socialist Republic of Vietnam and in the Russian Federation.

### Primary results of the exploratory drilling in 2019

<table>
<thead>
<tr>
<th>Project, operator</th>
<th>Site</th>
<th>Legal form and participation interest</th>
<th>Project results in 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social republic of Vietnam</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Block 09-1 JV Vietsovpetro</td>
<td>Shelf</td>
<td>Intergovernmental agreement between Petrovietnam Oil and Gas Corporation (51%) and Zarubezhneft JSC (49%)</td>
<td>7 wells were drilled, including 1 multilateral well (2 wellbores from one wellhead). Exploration work was carried out at the White Tiger and Dragon fields. Completed with the construction of 6 wells. As of December 31, 2019, 2P reserves growth in the amount of 2,582 thou. TOE was achieved.</td>
</tr>
<tr>
<td>Block 09-3/12 JV Vietsovpetro</td>
<td>Shelf</td>
<td>Oil and gas contract between JV Vietsovpetro (55%), PVEP (30%), Zarubezhneft (15%)</td>
<td>Tests on well CT-6X – structure Ca-Tam were completed.</td>
</tr>
<tr>
<td>Block 42 JV Vietsovpetro</td>
<td>Shelf</td>
<td>Oil and gas contract between JV Vietsovpetro (49%) and PVEP (51%)</td>
<td>Drilling of the 1st exploratory well was completed, negative results were obtained and the decision to exit the project was taken.</td>
</tr>
<tr>
<td>Block 12-11 JV Vietsovpetro</td>
<td>Shelf</td>
<td>Zarubezhneft JSC oil and gas contract (100%)</td>
<td>Construction of 1 dual lateral well was completed. Oil reserves increased by 2,930 TOE.</td>
</tr>
<tr>
<td><strong>Russian Federation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pashinskoje Greenburgneftodacha JSC</td>
<td>Onshore</td>
<td>Zarubezhneft JSC license (100%)</td>
<td>The construction of 1 exploration well resulted in a growth of oil reserves amounting to 22 thou. TOE.</td>
</tr>
<tr>
<td>Kharyaga Zarubezhneft-Dobycha Kharyaga LLC</td>
<td>Onshore</td>
<td>Production sharing agreement, consortium structure: Zarubezhneft-JSC (20%), Zarubezhneft-Dobycha Kharyaga LLC (20%), Statoil Sverige Kharyaga AB (30%), Total Exploration and Production Russia (20%), Nenets Oil Company JSC (10%)</td>
<td>3 production wells with exploratory bad were drilled, total growth of oil reserves amounted to 1,082 thou. TOE.</td>
</tr>
</tbody>
</table>

### GEOLOGIC EXPLORATION

The scope of exploratory drilling in 2019 was about 53.2 thou. m. The primary goal was to specify structures containing non-drilled reserves at the active fields and to recognize inferred reserves at new blocks. In the fiscal year, the construction of seven exploration wells was completed offshore the Socialist Republic of Vietnam, as well as two wells in the Nenets Autonomous Area and one well in the Orenburg Region.

### Exploration drilling volume, thous. m

- **2015**: 20
- **2016**: 27
- **2017**: 27
- **2018**: 32
- **2019**: 36

<table>
<thead>
<tr>
<th>Year</th>
<th>Exploration drilling volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>20</td>
</tr>
<tr>
<td>2016</td>
<td>27</td>
</tr>
<tr>
<td>2017</td>
<td>27</td>
</tr>
<tr>
<td>2018</td>
<td>32</td>
</tr>
<tr>
<td>2019</td>
<td>36</td>
</tr>
</tbody>
</table>

Dynamics of production share as per Zarubezhneft JSC activity geography

- **2015**: 36
- **2016**: 53
- **2017**: 51
- **2018**: 45
- **2019**: 49

#### HYDROCARBONS PRODUCTION

In 2019, the Company focused on the production stabilization by taking a number of geological, organizational and technical measures as per the production program. 34 new wells have been commissioned at the Russian segment fields, a number of successful well interventions have been completed (side-tracking, hydraulic fracture, re-completion), as well as 117 other WIs.

The primary production assets in 2019 still were JC RUSVIETPETRO LLC, JV Vietsovpetro, Zarubezhneft-Dobycha Kharyaga LLC.
Block 09-1 is developed as per the Inter-Governmental Agreement dated December 27, 2010. The White Tiger and the Dragon as well as the White Hare and the White Bear fields, developed by JV Vietsovpetro, are located 150 km from the shore on the southern Vietnam shelf.

DEVELOPMENT AND PRODUCTION

The actual production of hydrocarbons at Block 09-1 in 2019 was 4,138 K t.o.e., which is lower by 14.6% than that in the previous year. This reduction is related to decline of production in base wells due to the White Tiger and the Dragon fields entering the final stage of development.

To maintain the production levels in 2019, an extensive well intervention program was completed with an additional production of 214.0 thous. tons of oil. A new block site in the area of WHP-20 was commissioned. After re-entry of MTD-2X well, the oil flow rate at startup was 311 tons/day.

Measures were developed and implemented in 2019 to form the FPM system at the Block fields. The comprehensive program includes the conversion to injection and use of non-fixed watering. Completion of the FPM program reduces the drop rates for Block 09-1 to 20.7%.

Development and approval of an algorithm for the search and selection of optimal designs and laboratory studies supported the development and consolidation of 2018 HFF campaign results. A specific startup growth for wells with HFF in 2019 exceeded 50 tons/day.

The industrial exploitation of the Dragon field gas condensate reservoir continued in 2019. Natural gas production was 132.4 MM m3, with the planned level of 117.8 MM m3. The overproduction of natural gas was due to increased production in order to maintain the pressure in the Dragon field gas lift system.

Capital construction activities in 2019 were related to the commissioning of WHP-20, valving of the X-mas tree for new wells and the installation of additional cells on WHP-20. A number of necessary operations were completed: reconstruction and expansion of compressor capacities at Block 09-1, modernization of the gas lift system at RP-2, reconstruction of CPF-3 for reception of WHP-20 production, installation of an auxiliary power supply system at Tamdao-1 jack-up drilling rig to connect it to the common grid of Block 09-1, and other activities.

FINANCIAL INDICATORS

Completion of the efficiency gain and cost optimization program in the reporting period failed to fully constrain the costs growth. The growing expenditures on fuels and lubricants were caused by increased scope of exploratory drilling and WIs. The increased expenditures on personnel were caused by the decision taken at the 51th Meeting of the Participants to re-adjust position salaries of employees by 4%, in order to increase the offshore facilities surcharge from 30 to 40 USD/day, totaling 7.2 MM USD. The worker overtime was completed in 2019, and costs of Chi Lin single-point mooring unit were undertaken in the amount of 3 MM USD, and expenditures on overhaul of the offshore infrastructure increased due to the dismantling of equipment at the small compressor station.

DEVELOPMENT PROSPECTS

Taking measures to compensate production rate drops at the Block fields is the main task for the asset. Therefore, it is planned to complete 69 well interventions, including drilling and commissioning of wells at the existing facilities of the White Tiger and the Dragon fields, and side-tracking to involve the remaining reserves of the White Tiger, the Dragon and the White Bear fields’ wells. For the base wells, it is planned to implement electrical centrifugal pumps (ECP) under the pilot development program, which will reduce expenditures on gas lift and increase flow rate of the existing wells.

In 2019, the profitability of Zarubezhneft JSC reduced by 31% relative to the previous period and amounted to 135 MM USD. The primary factor of the profitability reduction is related to reduced production and sales of oil (-15%) and decline in oil prices to 67.3 USD/bbl in the reporting period as compared to 2018 (-10% or -72 USD/bbl).
Blocks 09-3 (VRJ) are carried out as per the Petroleum Contract for development and exploitation of Blocks 09-3 reserves at the shelf of the Socialist Republic of Vietnam dated January 19, 2002, and the Joint Development Agreement (JDA) on the Southern Dragon – Sea Turtle field (SD-ST) dated June 26, 2009. According to the JDA, the share participation and allocation of production of Blocks 09-1 and Block 09-3 in the development of the joint SD-ST block is 50% and 50%, respectively.

In 2017, Idemitsu (15%) and PVEP (35%) withdrawn from the Petroleum Contract and transferred their shares to Zarubezhneft JSC from January 1, 2017. The Government of the Socialist Republic of Vietnam issued an investment certificate on September 6, 2018 for Block 09-3 entitling oil and gas activities, in accordance with which Zarubezhneft JSC is the Contractor with 100% of participating interest starting from January 1, 2017.

**DEVELOPMENT AND PRODUCTION**

Primary production activities at the Block are carried out in fractured rocks of the crystalline basement.

In 2019, the asset production was 81.17 K t.o.e. (-13% as compared to 2018). Production decline for the Southern Dragon – Sea Turtle field is mainly related to the reduced formation pressure. Despite this, measures intended to optimize the development wells resulted in overachievement of the planned production (+10 K t.o.e.).

**FINANCIAL INDICATORS**

As the result of shifting the Wits program to 2020 in 2019, control over the expenditures on procurement of chemical reagents, and works intended to reduce prices of tariff operations (operation and maintenance, oil treatment, gas lift and formation pressure maintenance), we see a decline in the OPEX in absolute terms as compared to the previous year.

The specific actual indicator for 2019 was 94.0 USD/ton as compared to 106.5 USD/ton in 2018 (-11.7%).

The primary factor of Zarubezhneft JSC profitability decline by 2 MM USD as compared to the previous year is a reduction of revenue by 8.8 MM USD (-18%) as the result of sales volume decrease by 10.8 thous. tons (-12%).

**OWNERSHIP STRUCTURE, %**

Zarubezhneft JSC: 100%

**DEVELOPMENT PROSPECTS**

To stabilize the production in 2020, works are planned to install ECPs in two wells (No. 2Kh, No. 422); a candidate to remedial cementing has been defined (well No. 406).
BLOCK 04-3

Block 04-3 is located in the northern part of the Nam Con Son basin on the southern shelf of the Socialist Republic of Vietnam, 280 km south-east from Vũng Tàu. The Thien Ung - Mang Cau structure is located within Block 04-3.

A Petroleum Contract was signed on June 26, 2009, based on a commercial discovery between Petrovietnam Oil and Gas Corporation and Zarubezhneft JSC concerning Block 04-3 of the Socialist Republic of Vietnam shelf. JV Vietsovpetro is the project operator.

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

FINANCIAL INDICATORS

The primary factor of Zarubezhneft JSC profitability decline by 1.9 MM USD as compared to the previous year suggests preparation for infrastructure development of Block 12/11 and start of production. Negotiations were undertaken with KNOC as to the rates of preparation and transportation of Block 12/11 production and possible procurement of Block 11-2, key arrangements with KNOC were achieved. After bilateral negotiations with Petrovietnam Oil and Gas Corporation and KNOC on December 21, 2019, the agreement (HGA-Heads or Agreement) was signed as to the general principles and conditions of further negotiators on gas prices of Block 12/11 and conditions of Block 11-2 procurement.

DEVELOPMENT PROSPECTS

As for 2020, it is planned to complete drilling and testing of the TN-4X well and recalculate HC reserves for Thien Nga-Hai Au structures after drilling (TN-HA commissioning is scheduled for the fourth quarter of 2022).

The work program for a mid-term period suggests preparation for infrastructure development of TN-HA structures, as well as development and approval of FDP FEED for TN-HA structures. The decision taken on the commercial discovery on the TN-HA structure is followed by engineering and survey activities for the construction of WHP and pipelines from Thien Nga – Hai Au structure to Rong Doi Development and exploration of other structures of the Block are planned.
BLOCK 09-3/12
Block 09-3/12 is located 160 km south-east from Vũng Tàu. The Block borders with Block 09-1 on the north-west. The PSA on Block 09-3/12 was signed on September 12, 2012 between Petrovietnam Oil and Gas Corporation, PVEP, JV Vietsovpetro and Bitexco Group. JV Vietsovpetro is the project operator. The PSA term is 25 years with a prolongation option for 5 years. The minimum work obligations in respect of geological exploration activities under the project include two phases. The minimum work obligations of two PSA stages were fulfilled in full.

The Ca Tam (Beluga) oil field was discovered within the Block. The discovery took place in 2014 after drilling СТ-2х and СТ-3х exploration wells. The commercial discovery was announced in 2017. In 2018, CTC-1 WHP support unit was installed and all pipelines were routed.

DEVELOPMENT AND PRODUCTION
The Beluga field was commissioned in January 2019. Production for 2019 was 452.85 K t.o.e. The field is being developed in natural conditions.

Production for 2019 was 452.85 K t.o.e.
First income from taking part in Block 09-3/12 was received in 2019 in the amount of 6.5 MM USD.

DEVELOPMENT PROSPECTS
One of the primary tasks for the Beluga field is updating design solutions, taking into account the obtained actual data and implementation of measures to stabilize the production and reduce production decline rates. Perspective measures include the construction and optimal placement of the second WHP, development drilling, HF program, PPM system arrangement, optimization of gas lift well operating conditions.

EXPLORATION AND DEVELOPMENT
Two best structures of the Block (KNT, KTN) have potential geological resources of 30 MM m³. Inflows up to 600 m³/day were obtained from the primary horizon at the fields (E70). Extensive exploration works have been completed at the Block: 11 exploration wells have been drilled. According to the G&G data and exploration drilling, there are 3 prospective structures (COD, KND, SON) with high prospective resources at Block 09-2/09 beyond two oil and gas discoveries. In case of commercial oil discoveries, exploration works are advantageous to develop these discoveries because they adjoin the existing oil fields near Block 09-2/09: the Rang Dong - Phuong Dong (JVPC) field, and the White Tiger (JV Vietsovpetro). The Block is located in the area with existing producing and transport infrastructure with intense oil and gas activity.

DEVELOPMENT PROSPECTS
The mid-term budget for Block 09-2/09 suggests the installation of a manned wellhead platform (WHP) at the KNT structure and an unmanned wellhead platform at the KTN. ODP, FEED, FDP are planned to be developed in 2020. The planned field commissioning date is 2022. The maximum level of production is planned to be achieved in 2023.
Block 16-1/15
Block 16-1/15 with an area of 3,117 km² is located in the western part of the Cua Long basin of the Vietnamese continental shelf, 80 km south-east from Vũng Tàu. The Block's eastern border adjoins Block 09-1. The PSA was signed on May 16, 2016 under the Vietnamese Shelf Block 16-1/15 Exploration and Development project between Petrovietnam Oil and Gas Corporation, JV Vietsovpetro, BITEXCO and SOVICO. JV Vietsovpetro was selected to be the project operator, and the investment certificate was received. The PSA term is 25 years with a prolongation option for 5 years, including 5 years of exploration works with a prolongation option for 2 years. The minimum work obligations in respect of geological exploration activities under the project include two phases. Currently, Phase I of the exploration works stage is being implemented, that suggests seismic surveys and drilling of two prospecting and exploration wells. The Ministry of Industry and Trade of the Socialist Republic of Vietnam Petrovietnam Oil and Gas Corporation approved the extension of the exploration works Phase I from June 11, 2019 for one calendar year. The project funding in the share of JY Vietsovpetro is carried out from the JV Production Development Fund.

EXPLORATION AND DEVELOPMENT
Works were completed in 2019 related to the testing of the first exploration well CV-1X; no commercial inflows were obtained within the Oligocene and Miocene horizons, the well was abandoned. Works were completed on evaluation of increment of oil and dissolved gas reserves upon the results of CV-1X well drilling and studies of the fracture screen of Block 16-1/15. Works have been continued on the special processing of 3D seismic data by the inversion method (300 km²): primary interpretation of the data has been obtained. Works have been completed on geological justification of selection and evaluation of geological drilling conditions of the second well, the site of the 2nd exploration well on the SV structure was preliminary defined along with the well structure (the main bore and side tracks).

DEVELOPMENT PROSPECTS
The work program for 2020 provides for design, geological and engineering exploration, drilling and testing of the 2nd exploration well in the Soi Vang structure. It is planned to complete the exploration works in a mid-term period, to develop and produce hydrocarbons using the unmanned WHP to drill 10 development wells, and re-enter 2 exploration wells. It is planned to start the development in 2023.

Area of block 3,117 km²
Ownership structure, %

Block 42
Block 42 is located on the continental shelf of Vietnam, 350 km south-west from Vũng Tàu and 60 south from Phu Quoc Island. The seabed depth is 25–30 m. 8 perspective structures have been identified at the Block with an area of 4,659 km². The PSA was signed on March 29, 2013 between PVEP (51%) and JV Vietsovpetro (49%), the project operator is PVEP. The PSA term is 30 years with a prolongation option for 5 years, including 7 years of prospecting and exploration.

EXPLORATION AND DEVELOPMENT
In 2019, the 1st exploration well PQ-1X was drilled (3,060 m) on the Phu Quoc structure. During construction of the well, a geological rock section was identified differing from the predicted section, with the rocks strongly compacted and subject to volcanic activities in the adjacent area. Irrespective of the attraction of this structure since it accumulates migrating oil flows, and proximity of hydrocarbons generation areas, no reservoirs in prospective horizons, no reservoirs in prospective horizons and no significant seals prevented from the HC field to form. Taking into account the signs of hydrocarbons absence and the identified geological section, the decision was made to abandon the well without string RIH to test the Soi area. All minimal obligations of the exploration works Phase I have been fulfilled.

Area of block 4,659 km²
Ownership structure, %

On March 15, 2019, the Block operator PVEP ROB proposed suspending main activities under the project due to negative results while drilling the 1st exploration well. JV Vietsovpetro, as Block 42 PSA contractor party, agreed to complete all procedures to quit the project as per the PSA Provisions for Block 42 and Joint Operating Agreement. The resolution was approved by the Minutes of the 51st Meeting of the JV Participants dated July 11, 2019. PVEP ROB Block operator prepared a report on the results of drilling of the 1st exploration well and completion of the exploration works Phase 1.

DEVELOPMENT PROSPECTS
In 2020, JV Vietsovpetro plans to complete all procedures to quit the PSA on Block 42; the contractor is expected to return the original investment certificate to the Ministry of Industry and Trade of the Socialist Republic of Vietnam as per Clause 2 (d), Article 43 of Decree of the Government of the Socialist Republic of Vietnam No. 95 dated October 16, 2015.
**REPUBLIC OF CUBA**

**BOCA DE JARUCO**

The Boca de Jaruco field is located on the north coast of Cuba, 30 km from Havana. The contract area of 37 km² is located in the north-western part of the field on the sea shore, 3.7 km west from the village of Boca de Jaruco. The field was discovered in 1969 and has been operated by the Cuban state oil company CubaPetroleo.

Zarubezhneft JSC carries out its activities as per the International Economic Association Agreement (IEAA) on increasing of oil recovery and share production dated June 24, 2011, as the contractor. The Agreement term is 25 years and includes two stages: Pilot Commercial Development Stage — commercial development stage 4 years (with a prolongation option for 4 years) and the Exploitation Stage. The primary method of enhanced oil recovery is well steam treatment.

In August 2018, Addendum No. 4 to the IEAA came into effect, which provides financing of local services and materials and equipment during the pilot commercial development on the M formation for 2 years by means of the Special Account, a non-written-off part of Cuba debt as per the Agreement between the Government of the Russian Federation and the Government of the Republic of Cuba on adjustment of the debt of the Republic of Cuba towards the Russian Federation for loans granted in the former USSR period, dated October 25, 2013.

**EXPLORATION AND EXPLOITATION OF FACILITIES**

In 2019:
- 8 cyclic steam treatments out of 8 planned treatments were performed;
- 23 thous. tons of steam were injected into the M formation;
- steam to oil factor in the BKh-3003 well reached 3.9 tons of steam/tons of oil (reduced by 7 times from the initial level);
- workover completed for wells 3002 and 3001 to include bitumen-saturated light streaks;
- tests of the innovative development started — intraformational oil upgrading by catalytic aquathermolysis at the BKh-3003 well;
- gas well cluster development started, the following facilities were built: OHV 33kV, Cluster M — GW Cluster oil pipeline, Cluster M — GW Cluster gas pipeline to supply gas to the mobile single-flow steam-generating plant (MSFSGP), and water line to supply MSFSGP;
- two (out of three) horizontal wells have been drilled — 3004 (with cutting samples that revealed bitumen saturation of a section above the M formation) and 3016 (with sampling 180 m of core in the pilot borehole), where two technologies will be tested: cyclic steam treatment and steam gravity drain. Drilling of the first horizontal well for the M formation was started on October 4, 2020 by O. A. Medvedev, Chairman of the Russian Federation Government;
- drilling of the third horizontal well 3006 started;
- total penetration in 2019 was 3,650 m;
- a base for reserves calculation was prepared as part of the scientific support and researches.

When implementing renewable energy source projects in Cuba, an agreement was signed with the Union Nacional Electrica (UNE), and Zarubezhneft JSC was registered as a participant of the Solar Power Frame 100 MW project. Agreements were signed with Norsk Solar (Norway), EMPower and UNE, as well as the Consortium Basic Conditions between Zarubezhneft JSC, Norsk Solar and EMPower. Cuba have provided for technical information on 17 locations where solar power plants are planned to be constructed, the suggested sites have been inspected. A preliminary scheme of the project implementation was prepared.

**DEVELOPMENT PROSPECTS**

Plans for 2020—2022:
- completion of the drilling of three horizontal wells (CSS+SAGD) in 2020 and of the fourth (additional) well BKh-3007 with the aim to test the upper (above the M formation) bitumen-saturated zones with drilling of the M formation;
- continued steam treatment of current wells;
- testing of the cyclic steam treatment technology in a horizontal well and the steam assisted gravity drainage (SAGD);
- pilot testing of the intraformational oil upgrading by catalytic aquathermolysis;
- definition of the 100 MW SPP construction project.

Until August 2020, the project is being implemented with co-financing by the Special Account for local costs; an agreement has been reached to prolong these conditions until the end of the production testing.

Since 2023, full-scale development of the M formation starts, with drilling of 7 wells in 2023 and further switching to more prospective reserves with additional exploration of the formation (increasing the formation coverage to 60 horizontal wells).
UZBEKISTAN

JV ANDIJANPETRO LLC

JV ANDIJANPETRO LLC is an oil producing asset with Zarubezhneft JSC share of 50%, that carries out its activities in cooperation with Uzbekneftegaz JSC.

Three fields (South Alamyshyk, Khartoum, East Khartoum) are located in the Fergana Region of the Republic of Uzbekistan. They were brought to development in 1945, 1957, and 1973, respectively. Primary development features have been fully drilled and are at the later stage of development.

DEVELOPMENT AND PRODUCTION

In 2019, the production of JV ANDIJANPETRO LLC was 0.8 thous. tons, taking into account that the operating activity started from December 1, 2019. Measures are undertaken for 98 development wells (comprising the production fund) for reworking idle and inactive wells.

DEVELOPMENT PROSPECTS

As for 2020, it is planned to drill 86 wells at the Khartoum field, as well as sidetracking in well 27 of the Khartoum field and 22 other WIs with a total production increase of 15.5 thous. tons.

RUSSIAN FEDERATION

JC RUSVIETPETRO LLC

JC RUSVIETPETRO LLC is the primary Russian producing asset of Zarubezhneft JSC.

JC RUSVIETPETRO LLC carries out its activities on hydrocarbons production at the facilities of the Central Khoreyver Uplift in the Nenets Autonomous Area since September 2010.

DEVELOPMENT AND PRODUCTION

In 2019, production of hydrocarbons by JC RUSVIETPETRO LLC was 3,257 K t.o.e., which is higher than the level of the previous year by 1.7% and than the target level by 1.9%. The production was carried out at the following fields of the Central Khoreyver Uplift: Severo-Khosedayuskoye, Visovoye, Verkhnezikinskoye, Zapadno-Khosedayuskoye, Sikkhoreyskoye, Vostochno-Sikkhoreyskoye, Severo-Sikkhoreyskoye, Severo-Ghilkeystynskoye, Syurkhatarinskoye, Yuzhno-Syurkharatinskoye, Pyuseyskoye, Uremyrdskoye, Vostochno-Yanemdeyskoye.

In order to fulfill the production plan over the course of the reporting period, 10 new wells were commissioned and 4 sidetrackings made with the incremental production of 206.2 thous. tons.

With a view to improve the development of low-density reserves based on detailed geological flow simulation and risks analysis, an optimal development option has been selected — lateral drilling with further intensification. After exploration and performance evaluation completion, it is planned to take a decision on distributing the technology.

Apart from well interventions, enhanced oil recovery methods are evaluated for performance: thermal gas treatment, surfactant polymer treatment, use of smart water, selective isolation of bottom waters. The stage of field tests has been completed for a number of operations.

JC RUSVIETPETRO LLC production program is traditionally performed in close cooperation with the companies of the Service and Other Assets segment: RMNTK Nefteotdacha JSC meets the demand in integrated services when drilling wells and during workover at the Central Khoreyver Uplift fields; Zarubezhneftestroymontazh LLC carries out construction and installation activities for the fields infrastructure development; VNNeft JSC and Giprovostokneft JSC carry out researches and development to search for new technologies and reagents in order to improve performance and enhance oil recovery of formations in the Central Khoreyver Uplift conditions.

FINANCIAL INDICATORS

JC RUSVIETPETRO LLC sells produced oil at the internal and external markets under commission agreements as well as supplies oil for process needs of the Field under direct agreements. Through constant monitoring of the market situation on the international and internal oil markets, the Company can flexibly respond to changes in demand thereby increasing its profitability.
Revenue from sales, including other sales, for 2019 grew by 0.2% to 75,343 MM RUB as compared to 2018, since the increase in oil sales in physical terms (+1.0%) and growth of rate of exchange are compensated by the oil price drop.

Growth of revenue from oil sales in far-abroad countries by 14% resulted from the supply volume growing by 22% and rate of exchange rising by 5%, which compensated for the drop of global oil price by 11%. The growth of supply compensated for the drop of global oil price and rate of exchange rising by 5%, which are compensated by the oil price drop.

As a part of the tax burden reduction in 2019, the Company successfully exercised the right to apply a preferential rate for export duty for the Zapadno-Khodorsayskoye field for the volume equal to 366 thous. tons of oil. In 2019, the tax burden on the Company was about 56%, with the tax concessions being 26.5 bln RUB. The ratio between taxes and revenue was about 47%.

Capital expenses for 2019 were 7,369 MM RUB, or 49.5% of the revenue (56.8% for 12 months of 2018). Apart from oil price reduction, EBITDA decreasing for 12 months of 2019 was caused by reduced opportunities to far-abroad countries.

EBITDA, MM RUB

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EBITDA decreased by 5,396 MM RUB as compared to the same period of 2018 to 37,294 MM RUB, or 49.5% of the revenue (56.8% for 12 months of 2018). Apart from oil price reduction, EBITDA decreasing for 12 months of 2019 as compared to the same period of 2018 is related to an increased tax burden and reduced qualifying oil volume.

In 2019, ZARUBEZHNEFT-Dobycha Kharyaga LLC reached the maximum production for the last six years — 1,599 k.t.o.e. This result exceeded the level of 2018 by 2.3% and the planned level by 6.3%. High results are associated with the permanent optimization and integrated control of the FPM system which allowed reducing water breakthrough rate for wells, and with implementation of the program for further drilling of the field.

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COMMISSIONING

In 2019, all registration procedures for Stage 1 facilities were documented and completed. Furthermore, the following facilities were commissioned:

• Office building;
• Control center building;
• Testing chemical and analytical laboratory;
• Well cluster 108 Reconstruction (organization of the production metering system).

In 2020, it is planned to complete works on facilities of well clusters, CPF facilities and the New Field Camp.

FINANCIAL INDICATORS

By means of increasing the sales volume (+86 thous. tons) in 2019 and taking into account that the successful program of performance improvement and optimization of costs is continued, the results for all economical indicators have been improved compared to the planned level.

Revenue is 6% above the planned level (+2.5 bln RUB), EBITDA is +0.9 bln RUB, reimbursable costs for 2019 are by 357 MM RUB lower than the planned level (-2%).

CAPEX changes in the reporting period relative to the 2018 level are related to increased construction rates of infrastructure facilities and increased number of drilled completed wells (+2 wells).

Reduction of expenditures is noted for all categories except for commercial costs and mandatory payments under the PSA, related with increased oil production volumes (CAPEX -101 MM RUB, -1%, OPEX -216 MM RUB, -6%, G&A -200 MM RUB, -14%).

EBITDA was negatively affected by the growth of commercial expenditures due to increased oil sales volumes as well as an insignificant growth of mandatory payments under the PSA (contributions for reworking of work sites due to increased oil production rates and revision of the calculation rate).

In 2019, specific operating expenses were 2,134 RUB/ton, which is by 11% below the planned level. Cumulative operational costs were 3,269 thous RUB in total, which is by 6% below the planned level. The stable dynamics of the indicator is maintained as a result of the increased share of Russian suppliers after the operator function is transferred to ZARUBEZHNEFT-Dobycha Kharyaga LLC and an opportunity to constantly implement the Performance Improvement and Costs Optimization program has been obtained.

DEVELOPMENT PROSPECTS

Primary attention in the mid term is paid to maintaining the production level of 1,500 thous. tons. A respective program has been formed for that purpose, and it is planned to continue optimization of the waterflooding system and use the EOR methods.

In order to establish the center of expertise for development of carbonate reservoirs, it is planned to test and implement enhanced oil recovery methods. To involve reserves of low-productive reservoirs, it is intended to drill horizontal wells with multi-stage acid proppant HFF and multilateral well drilling. To improve the ORF, it is planned to test the surfactant-polymeric flooding and reduplicate injection of large-volume polymeric rims.

For the nearest 5 years, the investment activity provides for construction of infrastructure facilities, arrangement of new well clusters, facilities necessary for optimization of injected liquid and implementation of the gas program under Stages 3, 4A, 4B, 4C, and 5.

By 2022, it is planned to reach the associated petroleum gas utilization of 95%.

Special attention will be paid to improving drilling results, production performance, reduction and optimization of costs, development of measures to re-involve materials into production.

Structure of the state’s revenues, MM RUB

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<thead>
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<th>Government revenue</th>
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<td>Royalty</td>
<td>3,624</td>
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<td>State profit oil</td>
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<tr>
<td>Profit tax</td>
<td>2,599</td>
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<tr>
<td>Total</td>
<td>19,082</td>
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ZARUBEZHNFT-DOBYCHA SAMARA LLC

Zarubezhneft-Dobycha Samara LLC is established in order to improve performance of production and economic activity of the companies within Samara group. The company was registered on July 2, 2015 and assigned the Management Company functions. Oil and gas production assets of Ulyanovskneftegaz LLC, Orenburgnefteotdacha JSC and Severo-Karasovskoye Petroleum Enterprise LLC are transferred under its control. In May 2017, a license was granted for using subsoil of the Yuzhno-Pcheliny license site under development. 100% participant of the Company is Zarubezhneft-Dobycha LLC.

Ownership structure, %

<table>
<thead>
<tr>
<th>Company</th>
<th>Percentage</th>
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<tr>
<td>Zarubezhneft-Dobycha LLC</td>
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<tr>
<td>Zarubezhneft-Dobycha Samara LLC</td>
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</table>

OPEX for Samara Group, RUB/t

<table>
<thead>
<tr>
<th>Year</th>
<th>OPEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>120</td>
</tr>
<tr>
<td>2016</td>
<td>120</td>
</tr>
<tr>
<td>2017</td>
<td>145</td>
</tr>
<tr>
<td>2018</td>
<td>162</td>
</tr>
<tr>
<td>2019</td>
<td>180</td>
</tr>
</tbody>
</table>

ULYANOVSKNEFTEGAZ LLC

Ulyanovskneftegaz LLC is an oil producing asset engaged in prospecting, exploration and production at five license sites located in the Ulyanovsk Region. Oil and gas are produced from sediments of Lower and Middle Carboniferous period predominantly represented by terrigenous reservoirs.

Recovery of reserves from Ulyanovskneftegaz LLC fields is from 1% and 5% at the Nizhnemazinskoye and Kondakovskoye fields to 52% and 55% at the Slavkinskoye and Sulakskoye fields, respectively.

Recovery of reserves at the Ruzhevskoye field is 99%. Average water-cut of well production for the fields is 73%.

PRODUCTION

The actual production of hydrocarbons of Ulyanovskneftegaz LLC in 2019 was 47.3 K t.o.e. which exceeds the planned level by 15%.

DEVELOPMENT PROSPECTS

The primary task of the Company is to take measures intended to keep the achieved hydrocarbons production volumes and take additional steps to reduce operational costs.

FINANCIAL INDICATORS

EBITDA for the reporting period was 309 MM RUB, which exceeds the planned level by 35% due to increased production relative to the plan. Due to reduced production relative to the actual level of 2018, operational profit for 2019 is lower by 126 MM RUB than in 2018.
ORENBURGNEFTEOTDACHA JSC

Orenburgnefteotdacha JSC is an oil producing asset engaged in prospecting, exploration and production at three license sites located in the Orenburg Region. Oil is produced from sediments of Lower Carboniferous period and Upper Devonian period predominantly represented by carbonate reservoirs.

Recovery of reserves from Orenburgnefteotdacha JSC fields is 43% at the Chernovskoye field, 25% at the Kirsanovskoye field and 39% at the Pashkinskoye field with the average water-cut of 32%.

PRODUCTION

The actual hydrocarbons production of Orenburgnefteotdacha JSC in 2019 was 124.2 K t.o.e. which exceeds the previous year level by 9.7% and the planned level by 20.8%.

Hydrocarbon production, thous. t.o.e.
+10 %

FINANCIAL INDICATORS

Capital investment, MM RUB
+5 %

EBITDA, MM RUB
~600 mln RUB 2-nd consecutive year

DEVELOPMENT PROSPECTS

The primary task of the Company is to take measures intended to maintain the achieved hydrocarbons production volumes and take additional steps to reduce operational costs.

EBITDA for 2019 was at the actual level of 2018 with comparable prices.

SEVERO-KARASEVSKOYE PETROLEUM ENTERPRISE LLC

The Lutsen'yakhskoye oil field with the area of 360.8 km2 is located in the Nadymsky District of the Yamalo-Nenets Autonomous Area in the Tyumen Region. The District center — Nadym — is located 45 km to the North-West, the village of Pangody is located 90 km to the North-West.

The Lutsen’yakhskoye field was discovered in 2011 after drilling a prospecting appraisal well No. 70-Lutsen’yakhskaya. A subsoil use license dated March 1, 2013 is owned by Severo-Karasevskoye Petroleum Enterprise LLC. In June 2016, a Sales and Purchase Contract was concluded between DEDACI ENTERPRISES LIMITED and Zarubezhneft/JSC (Zarubezhneft-Dobcha Samara LLC) for acquiring of 100% participating interest of Severo-Karasevskoye Petroleum Enterprise LLC. Recoverable reserves are 11.2 MM tons as of January 1, 2016.

In 2019, a project document was approved which regulated production testing of the Lutsen’yakhskoye field; the decision was recorded by the Minutes of the Central Oil and Gas Commission meeting dated July 15, 2019 (Central Commission for HC Reserves). Surveys are completed for on-site and linear facilities and the infrastructure development project is formulated for the period of production testing under the Lutsen’yakhskoye field project. The expert opinion of the General Directorate for State Environmental Review of the Russian Federation on the infrastructure development project of the Lutsen’yakhskoye field for the period of production testing is planned to be received in 2020. The Land Plot Lease Agreement (55.2 ha) has been concluded, land use and cadastral plans are being developed. A positive opinion was received towards the sand reserves in open pit No. 3 at the Lutsen’yakhskoye field in the amount of 321,903 m³ (Minutes No. 1382 of the Department of Resources Regulation and Oil and Gas Complex Development of the Yamalo-Nenets Autonomous Area dated February 11, 2019), CPF facilities of the Khulymskoye field (RITEK) and the Yarudeyskoye field (YARGEO LLC) were examined in order to select the optimal location of the oil discharge station.

EXPLORATION AND DEVELOPMENT

Work program 2020 suggests well drilling under production testing of the field; start of field infrastructure development for production testing. In the mid term, it is suggested to stage-wisely implement the exploration works program, drill exploration and development wells, and construct the field infrastructure. First oil inflow is expected during production testing in 2021.
OIL REFINING AND SALES (ORS)

SUMMARY SEGMENT INDICATORS

Upon the results of the segment operation in 2019, the segment revenue dropped by 28% as compared to the previous year level due to reduction of oil product prices and volume of oil products wholesales because of reduced production volumes of Brod Refinery A.D. and Modriča Motor Oil Plant A.D.

The cumulative indicator of operational performance of the segment in the reporting period was +0.3 MM EUR. The indicator is positive for the last 4 years.

The segment includes the following enterprises:

Company name | Basic parameters
---|---
Bosnia and Herzegovina, Republika Srpska | OPTIMA Group LLC Purchase of crude, oil, raw materials for motor oil production, wholesale and small wholesale of petroleum products, motor oils and lubricants in domestic and export markets
Oil refinery Modrica JSC | Manufacture of base oils and paraffins, motor oils and greases
Nestro Petrol JSC | Retail sale of petroleum and related products
Russian Federation | Neftegazincor JSC The main borrower of loan funds for the Project, owner of the controlling interest in BH enterprises

THE SEGMENT STRUCTURE

Zarubezhneft JSC project of reconstruction and modernization of the Oil Refinery and Sales segment enterprises in Bosnia and Herzegovina started on February 2, 2007 after signing the agreement with the Government of the Republic of Srpska (Bosnia and Herzegovina) on procuring the Bosanski Brod Oil Refinery producing motor oils in the city of Modrica, and a retail chain of Nestro Petrol A.D. that owned 85 fuel stations at the time of the purchase.

EBITDA, MM EUR

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10.0</td>
<td>3.5</td>
<td>4.6</td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>

MARKET OF OIL PRODUCTS, PRICING, COMPETITION

Enterprises of the segment located in the Republic of Srpska are engaged in wholesales of oil products (including own production) on the market of Bosnia and Herzegovina and adjacent countries, as well as in the retail market segment of Bosnia and Herzegovina.

The market of Bosnia and Herzegovina is highly marginal, however financial solvency of contractors and population remains low. Along with OPTIMA Group d.o.o., large suppliers of oil products in BH are INA, NIS, Petrol BH that supply oil products from the adjacent areas. Therefore, BH market is open for foreign (alternative) product. Pre-requisites for the current situation are no legal barriers for entry of imported fuel and a simple procedure of company registration for sales of oil products requiring no licensing.

BH market is flooded by oil products imported from far-abroad countries by small trading companies. Points of delivery from Ploce, Zadar, etc., intensify competition in the South and South-East of BH where the primary demand for oil products is formed.

Sales volume of oil products by OPTIMA Group d.o.o. in 2019 was 18% of BH market, which is 8% lower than the same indicator over the previous period. Reduction of OPTIMA Group’s share on BH market is caused by no production for sales in 2019 as a result of forced emergency shutdown of Brod Refinery A.D. on October 10, 2018 due to no stable external sources of supply. In the reporting period, the remaining fuel of Brod Refinery A.D. were sold and oil products were traded.

Primary factors for formation of wholesale prices of oil products on the market of Bosnia and Herzegovina and in the entire region are as follows:
- quotes for oil products in Platts European Marketcars;
- price premiums for each type of oil products.
Price premiums on the oil product market are defined based on demand and supply and by alternative opportunities for the customer in the conditions of sever competition of several producers and traders in Bosnia and Herzegovina. Unlike Russia, the market of BiH and the region is the buyers’ market rather than sellers’ market which significantly reduces opportunities to form prices on the part of the manufacturer/seller.

An average price premium for the pool of oil products sold by OPTIMA Group d.o.o. in 2019 increased by 92% as compared to 2018. Premium increment (improvement) occurred on the internal market and in the export sales of oil products due to a significant change in the structure of the sold pool of oil products by means of substantial decline of oil product sales.

Oil products are sold with a positive premium on the internal market of Bosnia and Herzegovina. The internal market is the primary channel of selling the segment’s production.

In 2019, premiums for export selling of oil products were positive, but still greatly inferior to the internal market.

**Premiums for oil products over the reporting period, USD/ton**

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums</td>
<td>24</td>
<td>32</td>
<td>24</td>
<td>36</td>
<td>58</td>
</tr>
</tbody>
</table>

**Premiums for oil products on the national market, USD/ton**

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums</td>
<td>53</td>
<td>59</td>
<td>40</td>
<td>47</td>
<td>73</td>
</tr>
</tbody>
</table>

**Premiums for exported oil products, USD/ton**

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums</td>
<td>18</td>
<td>16</td>
<td>23</td>
<td>20</td>
<td>7</td>
</tr>
</tbody>
</table>

OPTIMA Group d.o.o. and NIS (Gazprom Neft Serbia PJSC) signed an agreement for supply of oil products in the financial year. 182 thous. tons of oil products were sold under this agreement. Trading in other areas (Ploce, Pancevo) was additionally developed in 2019, the volume of sold fuel was 64 thous. tons.

The revenue was about 229 MM EUR, with the marginal income of 2.1 MM EUR.

Taking into account the positive dynamics of cooperation, it is planned to develop this profile in 2020.

**BROD REFINERY A.D.**

Brod Refinery A.D. has been engaged in oil refining in Bosnia and Herzegovina since 1968, and as part of Zarubezhneft Group — since 2007.

**OPERATIONAL INDICATORS**

Due to shutdown of Brod Oil Refinery late in 2018, there was no oil refining in the reporting year. In 2019, the refinery gas infrastructure development project was initiated and has been implemented.

During 2019, the refinery personnel were engaged in repair of equipment, dismantling of non-used units and infrastructure development.

**FINANCIAL INDICATORS**

In 2019, a significant reduction of salaries expenditures was achieved due to reduced personnel count. Furthermore, expenditures on power and online maintenance of primary equipment were reduced due to the altered production program and adjusted operating schedule of the refinery units. The major part of investments in 2019 was intended to complete the new boiler house project and conduct examination of units damaged during the accident in 2018. The total amount of investments was 2.7 MM EUR.

The following measures were undertaken during the 2019 investment program:

- construction completed, pre-commissioning and commissioning of the "New Boiler House" facility completed;
- primary activities on "Reworking of Section 05, 06";
- project "Construction of fences and embankment pads for tanks B-27, T-01" commissioned;
- design documentation developed for: "SCADA modernization for old refining line units (sections 04,05,06)"; "Closed drainage system in section 31"; "Tanks drainage system"; "Installation of the branded fuel preparation and offloading unit".
MODRIČA MOTOR OIL PLANT A.D.

Modriča Motor Oil Plant A.D. has been operating in Bosnia and Herzegovina since 1957, and as part of Zarubezhneft Group – since 2007.

The oil refinery in the city of Modriča is the only refinery producing oils and lubricants in Bosnia and Herzegovina.

The production range includes 220 items. Currently the Company produces the following production:

- base oils, paraffins;
- lubricants and liquids for vehicles and machinery;
- lubricants and liquids for industrial units;
- motor oils for gasoline and diesel motors;
- industrial oils and liquids for metal treatment;
- greases.

The products of Modriča Motor Oil Plant A.D. are certified by primary motorcars and industrial vehicles manufacturers (Audi, Volkswagen, BMW, Daimler-Chrysler, Opel, Scania, Volvo, MAN, Caterpillar, Jonh Deere, etc.) and South-Korean companies Hyundai and KIA Motors actively operating on the European market, which significantly improves competitive ability of its production.

OPERATIONAL INDICATORS

In 2019, the Company continued taking measures intended to improve reliability of equipment operation and performance of production activity. A project has been developed to replace additives heating with electrical heating to improve energy efficiency. The project is planned for 2020.

FINANCIAL INDICATORS

Due to no refining of lube distillate, the oil refinery revenue goes down. The reduction of personnel expenditures resulted in total decline of operating expenses.

Investment focus in 2019 was on maintaining equipment availability and procurement of the minimally required equipment.

The 2019 investment program included the following actions:

- worn-out equipment was regularly replaced at production facilities;
- design documentation was prepared for installation of electrical heating for additives, which will be realized and commissioned in 2020 as a part of energy saving measures.

Company investments are fully funded by means of own assets of the Company.

The production volume of motor oils and lubricants was 11.3 thous. tons in 2019.

OPTIMA GROUP D.O.O.

OPTIMA Group d.o.o. is a commercial asset of the Oil Refinery and Sales segment that is engaged in wholesale of oil products in Bosnia and Herzegovina and the adjacent countries.

OPERATIONAL INDICATORS

In 2019, OPTIMA Group d.o.o. implemented the policy of oil product sales intended to maintain the fuel sales share in the internal market.

The total volume of oil products wholesale in 2019 was 325 thous. tons.

According to the chimerical activity in 2019, the share of the refinery production sold by OPTIMA Group d.o.o. on the market of Bosnia and Herzegovina was 18%.

Sales volume of base oils and paraffins was 6,2 thous. tons
NESTRO PETROL A.D.

Nestro Petrol A.D. is a commercial asset of the Oil Refinery and Sales segment engaged in the retailing of primary production types manufactured by Modriča Motor Oil Plant A.D., as well as oil products procured from external manufacturers.

Nestro Petrol A.D. has its own production assets in the Republic of Srpska and in the Federation of Bosnia and Herzegovina. The filling station retail chain was established in 1945, and has been a part of Zarubezhneft Group since 2007.

Oil products and additional goods are retailed via a retail chain that has included 85 active fuel stations as of the end of 2019.

OPERATIONAL INDICATORS

The sales volume of oil products in 2019 is 5% lower than in 2018 due to the increasing number of competing fuel stations (about 20 new stations per year). As a result of changes in participation conditions in the state program of agricultural producer support, the number of enterprises that could have participated in the program has reduced two times. This resulted in reduced sales of Nestro Petrol in this area by 1.5 thous. tons relative to 2018.

Revenue from selling additional goods at fuel stations increased by 5% as compared to the previous period, which had a positive effect on the company’s operational performance.

The number of operating fuel stations increased by 5% as compared to the previous period, which had a positive effect on the company’s operational performance.

The primary reasons for sales decline per single filling station are active development of competitors.

The level of daily fuel sales per single filling station in 2019 was 2.8 tons/day, which is by 0.1 tons/day less than in 2018.

FINANCIAL INDICATORS

Primary indicators of Nestro Petrol A.D. operational performance show positive dynamics in 2019 relative to 2018.

Revenue from sales in 2019 is 2% lower than in 2018, the reduction being related with the decreased sales volume.

The absolute amount of operating expenses in 2019 corresponds to the level of 2018.

The Company investments in the financial year are fully funded by means of own assets.

Primary investment areas in 2019:

• fuel stations reconstruction;
• installation of vending equipment in shops and cafes at fuel stations;
• beginning to finance the construction of a new petrol station in Zalužani.

The number of operating fuel stations as of the end of 2019 has been reduced by 1 station as compared to the previous period.

The Nestro Petrol A.D. net cash flow in 2019 exceeds the previous year level by 2.7 MM EUR.
SERVICE AND OTHER ASSETS

SUMMARY SEGMENT INDICATORS

Summary indicators for the segment are formed based on the actual financial statements.

According to the operating results of the segment in 2019, the segment revenue grew by 103% as compared to the previous year level. Primary increase of the revenue is related to the activity of RMNTK Nefteotdacha JSC, Giprovostokneft JSC, and Zarubehstservice LLC. Operating performance (EBITDA) significantly exceeds the level of 2018.

A 5% rise of the average stuff number relative to 2018 is related to formation of a drilling team and an additional well servicing and workover team in RMNTK Nefteotdacha JSC for works at ZARUBEZHNEFT-Dobycha Kharyaga LLC facilities.

The segment includes the following enterprises:

<table>
<thead>
<tr>
<th>Company name</th>
<th>Basic parameters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arktikmorneftegazrazvedka JSC</td>
<td>Construction of offshore wells as a drilling contractor</td>
</tr>
<tr>
<td>Giprovostokneft JSC</td>
<td>Design, survey and engineering organization of the industrial level performing comprehensive studies and general design of facilities at all stages of field development</td>
</tr>
<tr>
<td>VNIIneft JSC</td>
<td>Industry institute in the area of oil and gas field development</td>
</tr>
<tr>
<td>RMNTK Nefteotdacha JSC</td>
<td>An organization offering a wide range of oilfield services</td>
</tr>
<tr>
<td>Zarubehstserviceyontozh LLC</td>
<td>The enterprise-organization construction, reconstruction, workover, construction control, preparation of design documentation</td>
</tr>
<tr>
<td>Zarubehstservice LLC</td>
<td>An enterprise which sells oil produced by Zarubezhneft Group of Companies, supplies equipment and materials</td>
</tr>
</tbody>
</table>

Revenue, MM RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>8,475</td>
<td>11,826</td>
<td>15,407</td>
<td>15,572</td>
<td>31,584</td>
</tr>
<tr>
<td>+103%</td>
<td></td>
<td></td>
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</tbody>
</table>

EBITDA, MM RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>365</td>
<td>403</td>
<td>1,250</td>
<td>988</td>
<td>1,844</td>
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<tr>
<td>+87%</td>
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</table>

FCF, MM RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>401</td>
<td>304</td>
<td>1,015</td>
<td>431</td>
<td>7,491</td>
</tr>
<tr>
<td>+1,637%</td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

Average headcount, persons

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>461</td>
<td>500</td>
<td>1,015</td>
<td>431</td>
<td>7,491</td>
</tr>
<tr>
<td>+5%</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

ARCTICMORNEFTEGAZRAZVEDKA JSC

Arcticmorneftegazrazvedka JSC is an enterprise providing services in the oil and gas sector.

Ownership structure, %

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zarubezhneft JSC</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>AMNGR</td>
<td></td>
<td>19</td>
</tr>
</tbody>
</table>

ACTIVITY AREAS

A high-priority area of the company’s activity is the South-East Asia where it takes part in prospective projects for drilling wells on the shelf of the Socialist Republic of Vietnam.

The primary area of Arcticmorneftegazrazvedka JSC development is implementing projects of Zarubezhneft JSC for construction of wells on the shelf as a drilling contractor.
In 2019, Arcticmorneftegazrazvedka JSC showed the following performance:

- Supporting the operation of the Murmanskaya jack-up drilling rig for 225 days for construction and testing of exploration wells 1903 (Block 09-1) and EF-1X (Block 12/11).
- The Russian flag was again raised at the Valentin Shashin drill ship and its historical name was reinstated.
- Optimization of operating expenses by reducing personnel expenditures and other production expenditures;
- Development of the Vocational Education and Training (VET) School business line: 4,496 people trained (2% growth relative to 2018), including 1,042 persons trained remotely (7% growth relative to 2018), the basic scope of remote training courses enlarged from 19 to 26 disciplines.

### Optimization of operating expenses

In 2019, Arcticmorneftegazrazvedka JSC maintained the Company target personnel count defined by the corporate center.

### Development Prospects

The primary development objective is stabilization of Arcticmorneftegazrazvedka JSC financial position ensuring a basis for reaching the maximum possible production and economically efficient performance and minimization of expenses.

1. Ensuring loading of the Murmanskaya rig
2. Transportation of the Valentin Shashin ship to the Russian Federation and transfer of the ship to the Federal Agency for State Property Management;
3. Providing educational services by the VET School during the entire planned mid-term period.
4. Optimization of general and administrative expenditures.

In general, operating expenses have shown a declining trend since 2015. Increased operating expenses in 2019 are related to the upgrade repair of the Murmanskaya jack-up drilling rig; this factor was partially compensated for by reducing expenditures on maintenance of the Valentin Shashin ship during downtime.

### Performance in 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Average headcount, persons</th>
<th>OPEX, MM RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>296</td>
<td>1,532</td>
</tr>
<tr>
<td>2016</td>
<td>296</td>
<td>1,254</td>
</tr>
<tr>
<td>2017</td>
<td>296</td>
<td>1,254</td>
</tr>
<tr>
<td>2018</td>
<td>296</td>
<td>1,254</td>
</tr>
<tr>
<td>2019</td>
<td>296</td>
<td>1,254</td>
</tr>
</tbody>
</table>

In 2019, Arcticmorneftegazrazvedka JSC, by Zarubezhneft JSC in a long-term perspective:

- Ensuring loading of the Murmanskaya rig
- Transportation of the Valentin Shashin ship to the Russian Federation and transfer of the ship to the Federal Agency for State Property Management;
- Providing educational services by the VET School during the entire planned mid-term period.
- Optimization of general and administrative expenditures.

### GIPROVOSTOKNEFT JSC

Giprovostokneft JSC is a surveying and engineering company of industry level engaged in integrated studies and general designing of facilities at all stages of field development (geological explorations, development, facilities, production) in order to ensure the maximum efficient extraction of HC resources.

### Activity Areas

The primary activity of Giprovostokneft JSC is designing and engineering survey of oil production, treatment and transportation facilities. The Company possesses a wide experience in various areas: elaboration of development concepts for oil and gas companies assets (individual fields and groups of HC fields), researches in the area of drilling and development of well construction projects, consulting services for construction project management, it is also a R&D competencies center of Zarubezhneft Group in the following areas: drilling engineering, integrated design, development of technically complex facilities, development of methodological material in the area of oil and gas production, pricing and standardization in engineering and construction.

### Performance in 2019

In 2019, the total volume of revenue on survey, R&D, designer supervision and other works (services) in Giprovostokneft JSC area of activity was 1,733 MM RUB, including services for the amount of 1,286 MM RUB completed using own resources, and 447 MM RUB by engaging subcontractors.

EBITDA indicator in 2019 was 71 MM RUB, which is higher than in 2018 by 28 MM RUB (60%) and is related to the increased scope of works and improved performance by means of increasing the workforce productivity (+13% by 2018).

### Development Prospects

Key development areas:
- general designing for Zarubezhneft JSC, Gazpromneft PJSC, Irkutsk Oil Company LLC, KTK-R, and other facilities in conventional designing regions of the Russian Federation;
- development of evaluation and re-engineering area;
- surveying in the Republic of Kazakhstan;
- development of the manufacturing execution system (MES).
VNIINEFT JSC

VNIINEFT JSC is the leading industry institute in the area of oil and gas field development.

**ACTIVITY AREAS**

Primary activities of VNIINEFT JSC are scientific support of Zarubezhneft JSC projects, R&D activities intended to overcome current technical and economic limits for displacement efficiency and sweep efficiency in hydrophobic carbonate reservoirs, development and upgrading of enhanced oil recovery methods, laboratory studies of core and formation fluids, removal of license risks of the Company, calculation of oil and gas reserves and designing oil and gas field development, along with training under the further vocational education program.

**PERFORMANCE IN 2019**

The following strategically important tasks and projects were completed in 2019:

- R&D for studying the structure of pore volumes;
- testing of the compositions of surfactant-polymeric flooding (in cooperation with BASF, Solvay, RSU, and KFU);
- works on gas injection to assess the performance at JC RUSVIETPETRO LLC fields;
- laboratory-confirmed potential performance of smart water used in order to optimize injection in carbonate reservoirs;
- three-phase filtration testing, linear model configuration, as well as definition of configured, combustion parameters;
- a program was compiled for polymer injection at the Kharyaga field;
- high oil recovery factors were acquired when using steam in the core of the M formation at the Boca de Jaruco field;
- support of innovative activity and the innovative development program (IDP) of Zarubezhneft JSC;
- new focus area was arranged to study reagents for chemical treatment of fields of Zarubezhneft Group;
- work aimed to calculate geological reserves of oil, dissolved gas and associated components; and the development flow chart was Development Flow Chart prepared for the Vostochno-Yanemdeyskoye field;
- the operating calculation was provided for reserves of oil and dissolved gas of the Yuzhno-Syurkharatinskoye field of JC RUSVIETPETRO LLC;
- the Exploration Works Department of the research and development center provided the operating evaluation of reserves for exploration drilling, including an exploration works program for Block 09-1, taking into account the results of seismic inversion;
- project teams of JV Vietsovpetro, ZARUBEZHNEFT-Dobycha Kharyaga LLC, and JC RUSVIETPETRO LLC were sufficiently staffed (95%).

Their primary tasks were aimed at analyzing and optimizing the current development status, building operating geological flow simulation models, and forming the WI rating.

Evaluation and definition were performed for the Middle East projects, which ensured entrance to these assets;

- an institute development strategy was prepared and approved (including a series of measures within the 75th anniversary to form the image of VNIINEFT JSC);
- more than 10 students completed internship with further employment.

In the structure of income from all types of activity, the highest share is traditionally taken by income from R&D deliverables (production).

Revenue increase in 2019 as compared to 2018 is caused by the growth of R&D activities by means of changing the structure and volume of the order portfolio, including that for Zarubezhneft Group.

The growth of operating expenses in the fiscal year is related with the higher volume of subcontractor services.

**DEVELOPMENT PROSPECTS**

The primary focus of VNIINEFT JSC is to ensure additional production of Zarubezhneft Group by entering new assets and implementing new technologies, including EOR, when developing current assets.
RMNTK NEFTEOTDACHA JSC

RMNTK Nefteotdacha JSC is a company that provides a wide range of oil-related services (workover and routine repair of wells, integrated drilling services, geological and engineering geologic studies, flow simulation, etc.), including technical and personnel support of service works. Furthermore, the Company acts as the operator in pilot commercial development and implementation of steam and thermal methods of enhanced oil recovery at the fields of Zarubezhneft Group and beyond it.

ACTIVITY AREAS

Production activity of RMNTK Nefteotdacha JSC is focused on the following areas:

Zarubezhneft Group:
- In the Arkhangelsk Region (Nenets Autonomous Area), at the fields of JC RUSVIETPETRO LLC and within the area of the Kharyaga PSA, at the facilities of ZARUBEZHNEFT-Dobycha Kharyaga LLC, oil services are provided (integrated drilling services, workover and regular repair of wells, geological and geologic engineering studies, flow simulation, formation testing, drilling supervision, remedial cementing, and enhanced oil recovery methods).
- In the Republic of Uzbekistan, works have been commenced on engineering supervision and control over the maintenance and overhaul repairs of wells, field geophysical tests, dynamic well testing and well wireline interventions at the facilities of JV ANDIJANPETRO LLC.
- In the Republic of Cuba, the Company meets the need of construction works for the development of wells, provides engineering and supervision services and control over well construction, as well as carries out a range of pilot commercial development to implement thermal and steam methods for enhanced oil recovery at the Boca de Jaruco field.
- At the facilities of Zarubezhneft-Dobycha Samara LLC (Orenburg and Ulyanovsk Regions), integrated services, supervision and geological support in well construction are provided.

External customers:
- At the facilities of RN-Yuganskieftegaz LLC, works are performed related to the construction supervision in development and exploration wells construction in the conditions of separate service.

Ownership structure, %

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zarubezhneft JSC</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Revenue, MM RUB

\[
\text{Revenue, MM RUB} = 1,184 + 1,286 + 1,599 + 1,898 + 3,256
\]

OPEX, MM RUB

\[
\text{OPEX, MM RUB} = 1,084 + 1,411 + 2,585 + 1,524 + 2,805
\]

PERFORMANCE IN 2019

A 63% growth in revenue as compared to the previous year is the result of drilling works and well reconstruction at the facilities of ZARUBEZHNEFT-Dobycha Kharyaga, JC RUSVIETPETRO LLC, and Boca de Jaruco, and with the increased scope of works on the maintenance and well workover, well interventions were carried out with the use of wire lines.

DEVELOPMENT PROSPECTS

In the mid-term perspective, the primary scope of works of RMNTK Nefteotdacha JSC are related with the integrated provision of drilling services and workover of wells at the fields of JC RUSVIETPETRO LLC and ZARUBEZHNEFT-Dobycha Kharyaga LLC.

The primary focus of the Company is oriented towards the loading of its own production capacities, improvement of well servicing and workover teams’ efficiency, reduction of non-productive time, control over operational performance, and entering foreign markets.
Zarubezhneftestroymontazh LLC

Zarubezhneftestroymontazh LLC is a company involved in the organization of construction, reconstruction, overhaul, construction supervision, development of design documentation, and engaged by a developer or customer under a general contractor agreement.

**ACTIVITY AREAS**

Main areas of activity of Zarubezhneftestroymontazh LLC in 2019:

- works on the infrastructure development of JC RUSVIETPETRO LLC Fields at the Central Khoreyver Uplift and the Kharyaga field of ZARUBEZHNEFT-Dobycha Kharyaga LLC;
- provision of engineering services at and supply of materials to the Boca de Jaruco field, the Republic of Cuba, as a part of the arrangement of the pilot commercial development site.

**PERFORMANCE IN 2019**

In 2019, the construction completion and installation activities continued without subcontracting. Over the year, works were carried out by the construction and installation unit and the visual inspection laboratory. Revenue from the works, performed without the engagement of subcontractors, amounted to 634 MM RUB with the yearly target of 550 MM RUB (15% growth).

The primary order portfolio of Zarubezhneftestroymontazh LLC is oriented on the customers within Zarubezhneft Group.

Operating expenses in 2019 totaled 2,103 MM RUB (25%, or 717 MM RUB less than in 2018), including subcontractor services as per the overall reduction of the scope of works.

Some construction and installation activities were carried out without subcontracting by the construction and installation unit and the X-ray and visual inspection laboratory. Works without subcontracting were done at the facilities of the Central Khoreyver Uplift and the Kharyaga field.

In 2019, the Company constructed 26 km of pipelines, 18 km of overhead lines, carried out backfilling of sites and roads in the scope of 377 thousand m³, and built 125 km of winter roads.

**DEVELOPMENT PROSPECTS**

In the mid-term perspective, Zarubezhneftestroymontazh LLC is focused on improving its competencies in infrastructure development of fields without subcontracting, and involving external customers: in 2019, registration was completed on Gazprombank trading platform for tenders of Gazprom JSC and Gazprom Neft PJSC, as well as registration on the “TEK-torg” trading platform for tenders of Rosneft PJSC and Bashneft-Polyus PJSC, works were performed on further training and personnel certification as per the requirements of Gazpromneft PJSC.

**Ownership structure, %**

- Zarubezhneft JSC: 80%
- Zarnestservice LLC: 20%
- ZNSM: 100%

Total revenue for the fiscal year amounted to 2,787 MM RUB, which is 30% lower than in the previous year due to the changed scope of capital construction of the key customers (JC RUSVIETPETRO LLC and ZARUBEZHNEFT-Dobycha Kharyaga LLC), including the backfilling of sites and roads, and the construction of oil gathering pipelines, water ducts, overhead lines and winter roads.
ZARNESTSERVICE LLC

Zarnestservice LLC is a company who sales oil produced by Zarubezhneft Group on national and foreign markets, supplies equipment, materials and oil products, and provides services to JV Vietsovpetro, other companies within Zarubezhneft Group, and external parties.

ACTIVITY AREAS

The order portfolio of Zarnestservice LLC is oriented on Zarubezhneft Group.

Primary areas of Zarnestservice LLC activities are as follows:
• delivery of Russian goods to JV Vietsovpetro;
• commission activity on the sale of oil produced by Zarubezhneft JSC subsidiaries on national and foreign markets;
• trading operations with oil and oil products from resources of companies not included in Zarubezhneft Group;
• delivery of diesel fuel to support trading operations of OPTIMA Group;
• commission activity on the freight of a supply vessel/tug for JV Vietsovpetro needs;
• delivery of goods to Zarubezhneft JSC subsidiaries.

PERFORMANCE IN 2019

Zarnestservice LLC is a commissionaire in oil sales from resources of subsidiaries who produce oil in the territory of the Russian Federation. In 2019, 3,621 thou. tons of oil were sold, 1,944 thou. tons of which — on the national market, and 1,678 thou. tons — for export.

In 2019, apart from the sales of Zarubezhneft Group’s oilGroup, contracts were concluded for the sale of oil produced by NK Yangpur OJSC and INTEK-Zapadnaya Sibir LLC under the relevant purchase and sale conditions.

In terms of materials and equipment delivery, the scope of production supplied was extended. Spare parts for repair of vessels, pipes, string wedges, centralizers and drill rods were delivered. Furthermore, tubulars were delivered to 3 entities (beyond Zarubezhneft Group): Sibirsky Promyshlenny Holding Trading House, ASDM Trading House, and Zavod Sovremenkiye Tekhnologiyi Izolyatsii LLC.

Additional revenue in 2019 resulted from the trading operations such as naphtha, gasoil and oil supply on foreign markets: 2.7 MM bbl of naphtha for 10,218 MM RUB and 0.62 MM bbl of gasoil for 2,726 MM RUB to the Emirates National Oil Company (ENOC), as well as 0.92 MM bbl of Djeno oil (Republic of Kongo) for 3,704 MM RUB.

The revenue volume in 2019 stood at 22.4 bn RUB, which was significantly higher than in 2018. The revenue growth is first of all can be explained by export supplies of oil and gasoil. The growth of operating expenses is directly related to higher revenue on purchase and sales transactions.
OVERVIEW OF ZARUBEZHNEFT’ JSC
FINANCIAL PERFORMANCE

Zarubezhneft JSC has a wide experience in the delivery of international oil and gas projects, stable long-term ties with leading oil companies in Russia and globally, and has founded a structure of R&D and project companies. The expertise in the area of shelf development tried and tested during long-term experience of Zarubezhneft JSC in foreign countries is the primary competitive advantage of the Company.

Zarubezhneft JSC is the Corporate Center, a head company that provides efficient management and interaction for more than 30 subsidiaries and 3 joint ventures in the interests of the state. Zarubezhneft JSC shares the accumulated management experience with its subsidiaries, providing them with consultation services in all areas of activity.

Apart from management of the subsidiaries at all stages, the Corporate Center manages a number of foreign projects (Blocks 09-1, 09-3, 04-3), as well as one project (Kharyaga PSA) in Russia at the stage of production and three projects at the stage of geological survey (Block 12/11, Severo-Karasenskoye Petroleum Enterprise LLC, Boca de Januco).

In 2019, Zarubezhneft JSC demonstrated high production and financial performance. Zarubezhneft JSC RAS-based net profit for 2019 amounted to 12 bln RUB, which is 12% more than in 2018.

Great results are shown by the joint ventures with PetroVietnam Corporation: JSC RUSVIETPETRO LLC in the Nenets Autonomous Area and JV Vietsovpetro at the Vietnamese shelf.

The fiscal year was successful for the Kharyaga PSA, that has been managed by the Company since mid-2016. The Company’s gas sector is dynamically developing on the Vietnamese shelf — Block 04-3.

The achieved financial results fully compensate for the dividends payout to the state budget in the amount established by the Company’s shareholder — the Federal Agency for State Property Management.

As a part of the performance improvement and cost optimization program, Zarubezhneft JSC constantly monitors the level of general and administrative (G&A) expenditures. Costs are evaluated in comparable conditions taking into account the consumer price index in order to annually reduce those relative to the previous year by at least 2%. The calculation is done as per the Guidelines for Formation of Operating Expenses and Determination of OPEX Reduction Indicator (approved by the decision of Zarubezhneft JSC Board of Directors, Minutes No. 127 dated September 14, 2016, and No. 163 dated January 28, 2019).

Costs in 2019 were reduced relative to the previous year in comparable conditions by 3.0% and amounted to 4,023 MM RUB.

Primary areas of the general and administrative expenditures optimization are as follows:

- consulting, audit and legal services;
- maintenance and repair of buildings, vehicles, rental of premises, representation, and other costs.

The Workforce Productivity indicator (WPI) is included in the system of key performance indicators (KPI) of the Group’s activity.

The Passport of the Workforce Productivity Indicator has been approved by the resolution of Zarubezhneft JSC Board of Directors (Minutes No. 131 dated November 25, 2016) and is based on the calculation procedure defined by Order of the Federal State Statistics Service No. 576 On Approving Statistical Tools for Organization of Federal Statistical Monitoring of Workforce Productivity by the Federal Agency for State Property Management in the Sector of Non-Financial Corporations with Public Ownership, dated September 23, 2014.

In accordance with this order, the revenue used to evaluate the achievement of this indicator is calculated based on the income accounted for under the Russian Accounting Standards (RAS). To calculate the workforce productivity change index, the revenue is given in the prices of the previous year.

The WPI target for 2019 within the KPI was 67,7 thous. RUB/man-hour. The actual value of the indicator estimated as the revenue of Zarubezhneft JSC as per RAS, calculated in conditions comparable to 2018 and correlated with the number of man-hours worked by the Company’s employees, was 81,8 thous. RUB/man-hour.

The workforce productivity in Zarubezhneft JSC is monitored monthly for the purpose of timely identifying and eliminating risks to fail to achieve this indicator. The Company efficiently uses the count management system, regularly conducts re-engineering of business processes and respective analyses, which identify areas that require optimization and improvement.

### Indicators

<table>
<thead>
<tr>
<th></th>
<th>2019 Actual</th>
<th>2018 in prices of 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (mln RUB)</td>
<td>40 405</td>
<td>42 254</td>
</tr>
<tr>
<td>Number of manhours worked (thsd)</td>
<td>516 524</td>
<td>516 524</td>
</tr>
<tr>
<td>Workforce productivity (thsd RUB/manhour)</td>
<td>78.23</td>
<td>81.80</td>
</tr>
</tbody>
</table>
INVESTMENT ACTIVITIES OF ZARUBEZHNEFT JSC

Projects are financed in accordance with adopted investment decisions and intended to ensure the Company’s development as per the approved Long-Term Development Program. In 2019, Zarubezhneft’s JSC investment activity was related with continuing the previously initiated investment projects – prospecting and exploration of fields in the Socialist Republic of Vietnam, Cuba, and modernization of assets in Russia. The investment program for 2019 has been approved by Zarubezhneft JSC Board of Directors (Minutes No. 162 dated December 20, 2018).

The actual funding of the investment program totaled 1.9 bln RUB, including investments into the survey activities of Zarubezhneft JSC – 1.6 bln RUB, investments of the Corporate Center (expansion of the influence zone and modernization of the CC primary funds) – 0.3 bln RUB, and funding of investment decisions for the downstream segment – 0.2 bln RUB. The intra-group borrowings amounted to 2.9 bln RUB. The investment program was funded in the fiscal year taking into account the optimization measures and current demand of the subsidiaries.

INNOVATIVE ACTIVITIES

The updated Innovative Development Program (IDP) of Zarubezhneft JSC for 2016–2020 (for the period up to 2030) has been developed as part of the instruction of the Russian Federation Government and approved by the Board of Directors on September 14, 2016 (Minutes No. 127).

According to the independent expert evaluation of the IDP development and implementation quality, the Company consecutively received highest ratings among oil and gas and energy companies with public ownership – for the IDP development in 2016 and its implementation in 2016 and 2017.

In 2019, Zarubezhneft JSC worked on updating its IDP for 2020–2024 (for the period up to 2030) in response to the instruction of the Government Commission for Economy Modernization and Innovative Development of Russia. The Concept of Zarubezhneft JSC Innovative Development Program for 2020–2024 (hereinafter, the Concept) was developed and approved by Zarubezhneft JSC Board of Directors (Minutes No. 65 dated March 27, 2019). The updated Draft IDP prepared based on the Concept, was approved by the Strategic Planning Committee of Zarubezhneft JSC Board of Directors (Minutes No. 63 dated October 30, 2019) and duly directed for consideration to the federal authorities. Approval of the updated IDP of Zarubezhneft JSC for 2020–2024 (for the period up to 2030) by Zarubezhneft JSC Board of Directors will take place in 2020.

Primary contractors engaged in the 2019 innovative projects were design and R&D organizations:
- within Zarubezhneft Group (VNIneft JSC, Giprovostokneft JSC),
- leading universities of the Russian Federation (Kazan (Volga Region) Federal University (KFU), Skolkovo Institute of Science and Technology (Skoltech), etc.),
- SMEs and other scientific and production organizations.

INNOVATIVE PROJECTS OF 2019

Development of a plant powered by Russian oil of any class. An innovative project was initiated due to significant costs of procurement of diesel fuel for power generation at JC RUSVIETPETRO LLC fields and the delivery challenges. It is intended to use Russian equipment (engines by the Kolomna plant) for oil classes up to 3 (inclusively) (high viscosity and sour) and to increase the time between overhaul of power machinery.

The existing power machines manufactured abroad and by the Kolomna plant require a high degree of oil treatment and are designed for operation with class 1 oil (light and sweet). A bottleneck of oil power machines is fuel equipment (injection nozzles, the piping system).

Within the scope of the innovative project, in 2017–2018, at the premises of Kazan Federal University, a number of experiments were conducted to select the most efficient catalytic aquathermolysis process. The technology integrates intra-intra treatment of heavy oil during steam treatment, which increases the oil quality and reduces its viscosity. Improvement of oil properties in formation conditions will improve the energy and economic performance of the Boca de Januco field development (and potentially other similar fields in the zone of heavy oils in Cuba and other countries).

In 2017–2018, at the premises of Kazan Federal University, a number of experiments were conducted to select the most efficient catalyst using a reactor. The selected nickel catalyst ensures the maximum conversion of oil and significant reduction of viscosity with an additional advantage of low price compared with the cobalt catalyst.

In 2019, the oil pilot testing was continued. According to the R&D, two applications were submitted to the Russian Agency for Patents and Trademarks for patenting unique technical solutions intended to upgrade the power plant assemblies for stable operation with oil up to class 3 inclusively. The Russian Agency for Patents and Trademarks has approved the issuance of patents for the inventions.

Technology of enhanced oil recovery at high-viscosity oil fields by catalytic aquathermolysis. Since 2017, the Company together with Kazan Federal University has carried out R&D on technology of enhanced oil recovery at high-viscosity oil fields by the method of catalytic aquathermolysis. The technology intensifies intra-intra treatment of heavy oil during steam treatment, which increases the oil quality and reduces its viscosity. Improvement of oil properties in formation conditions will improve the energy and economic performance of the Boca de Januco field development (and potentially other similar fields in the zone of heavy oils in Cuba and other countries).
In 2018, the second research stage was completed to address the remaining issues: evaluation of catalytic activity and coking of the catalyst during aquathermolysis processes, catalyst adsorption on the rock (displacement in the combustion pipe), study of solubility, thermal stability and filtration performance of the developed catalyst solution. A test batch of the catalyst has been manufactured for pilot testing.

In 2019, the catalyst was delivered to Cuba by sea. Preparations for pilot testing of the technology were completed, as well as basic cyclic steam treatment was provided for the candidate well (without catalyst). In November—December 2019, Zarubezhneft JSC experts successfully injected the catalyst into the formation with further cyclic steam treatment. Currently, the pilot testing continues during oil production.

In August 2019, a joint application (with KFU) was submitted to the Russian Agency for Patents and Trademarks for patent registration for the method of developing bituminous carbonate reservoirs using cyclic steam soaking and aquathermolysis catalyst. The Russian Agency for Patents and Trademarks has approved the patent issuance.

Pilot testing of surfactants in a single well by swctt method in JC RUSVIETPETRO LLC In 2019, at the Zapadno-Khodoseyskoye field, JC RUSVIETPETRO LLC successfully completed pilot testing for surfactants by BASF in a single well to improve oil recovery of hydrophobic carbonate reservoirs. It should be noted that this pilot testing of Zarubezhneft JSC by the SWCTT (Single Well Chemical Tracer Test) method for carbonate reservoirs was the first pilot testing of this type ever carried out in Russia. The primary idea behind SWCTT is the application of chemical tracers to determine the residual oil saturation when oil is displaced by water and surfactants. SWCTT is intended to compare quickly find the rise of displacement efficiency for surfactant and water. The testing results proved an efficient performance of the selected composition. In accordance with the analytical interpretation, the displacement efficiency growth was 0.07 (when exposed to surfactant) as compared to that of water.

Pilot testing of diverter technologies in Zarubezhneft-Dobycha Kharyaga LLC Zarubezhneft-Dobycha Kharyaga LLC successfully continues pilot testing of the diverter technologies (injection of cross-linked polymeric compositions based on polymacrylamide). The project has been under way since 2017. Its primary objective is to test the technology of re-distributing filtration flows of injected water using polymeric compositions injected into active wells. The project covers wells of D3-III formation of the Kharyaga field’s Devon sediments. 13 wells were treated in 2017—2019, with 18,215 m3 of cross-linked compositions injected. Additional oil production is evaluated upon pilot testing results using common methods — displacement characteristics. The cumulative additional production of oil for the given period is estimated to exceed 140 thous. tons, with more than 75 thou. tons of oil produced in 2019.

The system of testing and implementation of new technologies (NTS) In 2019, Zarubezhneft Group continued to actively develop the system of testing and implementation of new technologies (NTS) offered by the market but not yet embodied by the Group. Pilot testing of new equipment and technologies was performed by JC RUSVIETPETRO LLC, Zarubezhneft-Dobycha Samara LLC, Zarubezhneft-Dobycha Kharyaga LLC, and Zarubezhneft JSC Branch in Cuba. A positive economic effect has been achieved according to the results.

In 2019, JC RUSVIETPETRO LLC conducted 16 tests in the following key areas: improvement of the technology of secondary drilling by a slot perforator, testing of the well clean-up highly efficient system, as well as other modern drilling equipment and devices.

Zarubezhneft-Dobycha Samara LLC also assessed the performance of the adaptive input gravity module used to operate equipment in horizontal wells and testing of pump-jack linear drive.

In 2019, Zarubezhneft-Dobycha Kharyaga LLC completed pilot testing of the technology for prevention of bottomhole zone clogging during well servicing and evaluated performance of ball valves used in the X-mas tree and dynamic power compensators at a substation 35/6/0.4 kV. In total, 8 tests were made by the subsidiary in 2019.

In 2019, Zarubezhneft JSC Branch in Cuba continued testing of the heat-resistant fiber-optic borehole system for monitoring of distributed temperature and pressure along with testing of heat-resistant progressive cavity pumps and cyclic steam soaking using such pumps.

In 2019, Zarubezhneft Group obtained 1 patent for invention, 2 patents for useful models, and 9 software certificates.

15 applications were sent to the Russian Agency for Patents and Trademarks for the registration of intellectual property. 36 scientific articles and papers were published.

Zarubezhneft JSC continues developing development and expanding formats of interaction with the innovative environment. In June 2019, a Cooperation Agreement was concluded between Zarubezhneft JSC and the Moscow State University n. a. M. V. Lomonosov. This agreement proves mutual interest of Zarubezhneft JSC and the MSU in active training and re-training of personnel in the field of scientific and innovative activity.

As part of the Innovative Development Program, Zarubezhneft JSC actively develops mutually beneficial cooperation with universities in order to form plans of joint implementation of innovative projects and carry out joint work in the field of predicting scientific development, training and re-training of personnel.
DIGITAL TRANSFORMATION

Currently, the oil and gas industry follows other capital intensive sectors to implement new opportunities of complex use of digital technologies. Digital transformation results in substantial achievements for both the industry and the society in general. Zarubezhneft JSC realizes the competition challenges on the domestic and global markers in a long-term perspective (for decades ahead), and demonstrates its readiness to all necessary transformations. For a number of priority processes having the highest effect on Zarubezhneft JSC business, such as reserves management, field development, oil and gas production, search and evaluation of new projects, the Company excels competitors and is at the same level with the industry leaders. The total level of maturity of key processes in Zarubezhneft JSC is sufficient for modifying business processes using digital technologies.

The Company elaborated and approved the Digital Transformation Strategy. The Digital Transformation Strategy takes into account and comprehensively supplements the goals and objectives of the adopted strategic planning documents of Zarubezhneft JSC, including the corporate development strategy, Long-Term Development Program, and is closely linked to the innovative development program and the IT strategy of the Company.

Zarubezhneft JSC has defined 3 key stages of digital strategic development:

**STAGE I**

2013—2019

Acquisition of key production information

**STAGE II**

2020—2022

Digital harmony
Pilot projects

**STAGE III**

2023—2030

Digital supremacy

In 2019, the Company successfully completed Stage 1 of the Digital Transformation Strategy. During the implementation of Stage 1, the Company overcame fragmentation of source information flows in all segments, which increased convenience and ease of the data usage; ensured the fastest possible reception, processing and analysis of the data, and outlined efficient management mechanisms data. Key outcomes of Stage 1 of the Digital Transformation Strategy are as follows:

- 93% of wells of Company assets in Russia have been equipped with the telemetry, ensuring real-time data transmission;
- 5 own software systems have been developed in the area of the Company’s technological focus;
- data exchange has been introduced — 35 information systems of the Company are integrated with each other.

Starting from 2020, Zarubezhneft JSC begins the Implementation of Stage 2 of the Digital Transformation Strategy (Digital Harmony). Its key objectives will be:

- development of a data management automation concept;
- ensuring data quality and its compliance with the corporate requirements;
- automated formation of corporate reporting based on source data;
- implementation of complex digital projects, pilot testing of digital technologies for quick search, diagnosis and evaluation of new assets;
- transition from predictive to prescriptive analytics.

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- 93% of wells of Company assets in Russia have been equipped with the telemetry, ensuring real-time data transmission;
 PROCUREMENT ACTIVITY

Procurement activities of Zarubezhneft JSC are carried out in accordance with the requirements of Federal Law No. 223-FZ On Procurement of Goods, Works, Services by Specific Types of Entities and with the Procurement Regulation. In 2019, the Tender Commission of Zarubezhneft JSC arranged and reviewed 307 procurement procedures for goods, works and services for the needs of Zarubezhneft JSC and its subsidiaries for a total sum of more than 13 bln RUB.

To bring the openness and transparency of procurement activity to a new level, the system of electronic tender platforms was used and procurement information was also published in the Unified Information System and in corporative information sources, which increased the number of procurement participants, expanded the Company’s opportunities in selecting quotations with the most optimal conditions.

The Company works with potential suppliers/contractors to optimize expenses and reduce costs. The analysis of technical and commercial proposal of bidders and identification of possibilities to reduce the price of goods and services allowed the bidders to improve their commercial proposals in terms of providing the maximum possible discount. In this manner, in 2019 a substantial saving of money was achieved — more than 1.2 bln RUB.

When taking measures to expand the access of small and medium enterprises to procurement in Zarubezhneft JSC, the following results were achieved in 2019:

- public accounting of procurements was provided by the consultative body in the area of ensuring performance of procurements by Zarubezhneft JSC;
- the share of procurements of small and medium enterprises amounted to 65.79%, with the set target of 18% for that period (Decree of the Russian Government No. 1352 dated December 11, 2014 On Specific Features of SME Participation in Procurement of Goods, Works, Services by Specific Types of Entities);
- the share of Zarubezhneft JSC procurements made as a result of the procedures with participation of small and medium enterprises made up 17.15% for the reporting period with the target of 15%;
- 23 companies joined Zarubezhneft JSC Partnership Program for partnership with small and medium enterprises.

In its operation, Zarubezhneft JSC employs the agenda adopted by the Russian Federation Government in terms of import phase-out — one of the strategic areas in operation of public companies for the nearest future. In this connection, the Company constantly tries to phase out imported production with Russian ones in a scheduled and stage-wise manner. As a result, the share of procured production, works and services of foreign origin is consistently reduced, and is below 0.97% in the companies of the Group operating in the Russian Federation.

PERSPECTIVE AND EXPANSION OF THE ACTIVITY AREA

Entering new projects and expanding Zarubezhneft’s JSC areas of activity are the key strategic goals of the Company. Activities are ongoing in searching, evaluation and entering new oil and gas projects in Russia and abroad. Apart from the operating countries conventional for the Company (Vietnam and Cuba), Zarubezhneft JSC has signed a concession for the blocks SEREU and EGZ in Egypt, and for oil fields South Alamyshyk, Khartoum and East Khartoum in Uzbekistan. The development of projects and expansion of the operating area in the MENA region, including Egypt, is one of the key areas of Zarubezhneft’s JSC international activities. Forming a cluster in Egypt allowed for the expansion in the region and evaluation of new fields.

We continue consistently searching for new foreign assets. The main tasks are as follows:

- forming a production center in the MENA region (Iraq/Kurdistan, Oman, Algeria);
- the Russian Federation cluster (Volga and Ural Region);
- a cluster in Africa (Gabon, Congo); entering projects in the CIS countries;
- entering a project in the area of new technologies (high-viscosity oils, difficult-to-recover oil).

New projects in the Russian Federation are also considered. It is planned to expand the resource base near the existing assets. The Company considers procuring a gas asset in the Orenburg Region, a strategic region for the Company. A joint venture is being arranged with Gazpromneft to work with difficult reserves in the Khanty-Mansi Autonomous Area. Entering the assets will make it possible to cover new regions in the Russian Federation and substantially increase the Company’s resource.

As part of the current innovative development of the global energy sector, our Company constantly strives to accumulate expertise in all areas of its activities (exploration and production, project management, technological leadership, etc.).

Primary focus and development of the Company are based on the following key principles:

- focus on key clusters/regions;
- synergy with existing assets;
- comprehensive integration into the region (entering projects of various scales and in different areas — conventional reserves, difficult-to-recover reserves, servicing, onshore/offshore, access and propagation of technologies), and creation of price clusters;
- application of advanced technologies (unconventional, difficult-to-recover reserves) and their propagation (EGR, carbonates).
When diversifying their businesses, oil and gas companies rely on their unique experience in onshore and offshore drilling, oil and gas refining, transport and installation operations, and organization of trading operations. They expand their activities in the area of renewable energy sources through development of their own expertise and purchase of core assets, as well as through cooperation with leading suppliers of process equipment and project developers. Following this tendency, Zarubezhneft JSC also considers its participation in the RES projects.

During the long history of successful projects, Zarubezhneft JSC has accumulated a vast experience of the communication with management of developing countries that are currently motivated to boost RES in their regions.

Knowing the potential of renewable energy sources in future and their increasing competitiveness versus fossil fuels, in March 2019, the Board of Directors of Zarubezhneft JSC addressed the issue of developing the projects on RES (Minutes No. 165 dated March 27, 2019), and in June 2019 a new Department for Development of Renewable Energy Sources (DDRES) was created as a structural unit of the Company in order to implement the phased development of its own expertise, as a related business, which will be an additional factor in improving the sustainability of its own structures.

The principal RES development focus are countries of Zarubezhneft JSC presence:
• the Socialist Republic of Vietnam (strategic development focus: offshore WPPs, taking into account corresponding expertise and production capacities available with JV Vietsovpetro);
• the Republic of Cuba;
• the Russian Federation;
• Bosnia and Herzegovina.

During a short period from the moment of creation of the Department for Development of Renewable Energy Sources:
• a funnel of projects was formed as per the developed criteria, and primary approaches were defined for selecting regions/countries with the potential of entering RES projects;
• the passport of the “R-8. RES Development” business process was elaborated and approved in the framework of integration of the new area;
• partner relationships were established with both international and Russian companies to implement the RES projects, as well as cooperation was established with leading suppliers of process equipment and project developers.

Work is ongoing in the Company on searching and analyzing practicability of taking part in RES projects in the territories of its presence and in new perspective markets of the RES core business.
Atop of all – **flexibility and adaptivity**

**04**

**CORPORATE GOVERNANCE**
The only shareholder of Zarubezhneft JSC is the Russian Federation represented by the Federal Agency for State Property Management. Pursuant to Clause 3 of Article 47 of Federal Law No. 208-ФЗ “On Joint-Stock Companies” dated December 26, 1995, in the Company, all voting shares whereof belong to the only shareholder, resolutions on issues within the competence and expertise of the General Meeting of Shareholders shall be made by that shareholder individually and shall be executed in writing.

In 2019, the Federal Agency for State Property Management issued Order No. 499-р dated June 30, 2019, “On Resolutions of the Annual General Meeting of Shareholders of Zarubezhneft Joint Stock Company covering the following resolutions adopted:

• The annual report of Zarubezhneft JSC for 2018 was approved.
• The annual accounting (financial) statements of Zarubezhneft JSC for 2018 were approved;
• Allocation of Zarubezhneft JSC profit for 2018 in the amount of 10,668,601.397 thous RUB was approved as follows:
  - 5,918,500.000 RUB for dividend payments;
  - 1,066,860.340 RUB for formation of Zarubezhneft JSC reserve fund;
  - 38,448.219 RUB for compensation to the members of the Audit Commission of Zarubezhneft JSC;
  - 3,644,594.838 RUB for financing the investment plan of Zarubezhneft JSC for 2019, approved by the resolution of the Board of Directors (Minutes No. 162 dated December 20, 2018);
• Resolutions were made as to payment of compensations to the members of the Board of Directors and the Revision Commission of Zarubezhneft JSC.
• The Board of Directors of Zarubezhneft JSC was elected with the composition as follows:
• The Revision Commission of Zarubezhneft JSC was elected with the composition as follows:
  N. N. Alikina, A. N. Bogashov, A. I. Mvozhanka.
• Nexia Pacioli LLC was approved as the auditor of Zarubezhneft JSC for 2019.
• The Regulation on Compensations and Refunds to the Members of the Revision Commission of Zarubezhneft JSC was approved in a revised edition.

The Board of Directors of Zarubezhneft JSC (prior to the Annual General Meeting of Shareholders) was elected in accordance with Order No. 822-p

<table>
<thead>
<tr>
<th>Full name</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aleksandr Alekseevich Gladkov</td>
<td>Director of the Oil and Gas Production and Transportation Department of the Ministry of Energy of the Russian Federation</td>
</tr>
</tbody>
</table>
| Karen Vilgelmovich Karapetyan     | year of birth — 1963  
                                                     holds no Company shares |
| Sergey Ivanovich Kudryashov       | General Director of Zarubezhneft JSC  
                                                     year of birth — 1967  
                                                     holds no Company shares |
| Maksim Yurievich Sokolov          | General Director of LSR Group PJSC  
                                                     year of birth — 1968  
                                                     holds no Company shares |
| Evgeniy Aleksseevich Murov        | year of birth — 1945  
                                                     holds no Company shares |
| Aleksey Leonidovich Teksler       | First Deputy Minister of Energy of the Russian Federation  
                                                     year of birth — 1973  
                                                     holds no Company shares |
| Anatoliy Vladimirovich Tikhonov   | General Director FSB “Russian Energy Agency” of the Ministry of Energy of the Russian Federation  
                                                     year of birth — 1969  
                                                     holds no Company shares |
Pursuant to Order No. 409-p ("On Resolutions of the Annual General Meeting of Shareholders of Zarubezhneft Joint Stock Company" of the Federal Agency for State Property Management, dated June 30, 2019), the Board of Directors of Zarubezhneft JSC was elected with the composition as follows:

### Full name

- **Karen Vigelovitch Karapetyan**: Advisor to the Chairman of the Management Board of Gazprombank JSC, year of birth — 1963, holds no Company shares.
- **Pavel Anatolievich Kadochnikov**: Vice-Rector for Research of the All-Russian Academy of Foreign Trade of the Ministry of Economic Development of the Russian Federation, year of birth — 1979, holds no Company shares.
- **Sergey Ivanovich Kudryashov**: General Director of Zarubezhneft JSC, year of birth — 1967, holds no Company shares.
- **Eugeny Alekseievich Murov**: year of birth — 1945, holds no Company shares.
- **Maksim Yuriievitch Sokolov**: First Deputy General Director of LSR Group PJSC, year of birth — 1968, holds no Company shares.
- **Pavel Yuriievitch Sorokin**: Deputy Minister of Energy of the Russian Federation, year of birth — 1973, holds no Company shares.
- **Anatoly Vladimirovitch Tikhonov**: Deputy Minister of Energy of the Russian Federation, year of birth — 1969, holds no Company shares.

The Regulation on the Board of Directors of Zarubezhneft JSC was approved by resolution of the Extraordinary General Meeting of Shareholders of Zarubezhneft JSC (Order No. 2253-p of the Federal Agency for State Property Management, dated October 12, 2005).

In accordance with the resolutions of the Board of Directors of Zarubezhneft JSC, the Board of Directors approved the requirements specified in Clause 8 (1) of the Regulation "On Management of Joint Stock Companies' Shares Held in Federal Property", dated December 3, 2004, as well as the Bank of Russia requirements.

A list of issues considered by the Board of Directors in 2019 in accordance with the directions of the Government of the Russian Federation and the instructions of Rosmujeshchevo:

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>On transition of Zarubezhneft JSC to preferential use of domestic software.</td>
</tr>
<tr>
<td>2</td>
<td>On updating the Long-Term Development Program of Zarubezhneft JSC.</td>
</tr>
<tr>
<td>3</td>
<td>On development of programs to improve the quality of procurement management.</td>
</tr>
<tr>
<td>4</td>
<td>On finalizing corporate import phase-out plans for protection against radiation, chemical and biological factors.</td>
</tr>
<tr>
<td>5</td>
<td>On expanding the practice of using factoring in the performance of contracts for the supply of goods (performance of work, provision of services).</td>
</tr>
<tr>
<td>6</td>
<td>On Zarubezhneft JSC year-end dividends for 2018.</td>
</tr>
<tr>
<td>7</td>
<td>On establishing Zarubezhneft JSC subsidiaries.</td>
</tr>
<tr>
<td>8</td>
<td>On electing the Chairman of the Board of Directors of Zarubezhneft JSC.</td>
</tr>
<tr>
<td>9</td>
<td>On implementation of methodological guidelines on KPI application in state companies and development (updating) of the Company bylaws governing formation of key performance indicators and compensations to the Company management.</td>
</tr>
<tr>
<td>10</td>
<td>On the purchase of Russian production used to execute national projects and implement a comprehensive plan of modernization and expansion of production infrastructure.</td>
</tr>
<tr>
<td>11</td>
<td>On expediency of the Company integration into the activities covered by the national project (program) &quot;International Cooperation and Export&quot;.</td>
</tr>
<tr>
<td>12</td>
<td>On amendments to Zarubezhneft JSC procurement documentation governing competitive procedures.</td>
</tr>
<tr>
<td>13</td>
<td>On the possibility of the JSC transition to tax control in the form of tax monitoring.</td>
</tr>
</tbody>
</table>

In 2019, as part of the measures on updating the Long-Term Development Program of the Company, the following annexes to the LTDP were updated by resolution of the Board of Directors, subject to the recommendations given on the results of the LTDP audit and to the directives received from the Government of the Russian Federation, as below:

- **Annex No. 3 “Zarubezhneft Group Innovation-Related Activity”**;
- **Annex No. 4 “Action Plan for Zarubezhneft JSC Long-Term Development Program Risk Management up to 2038”**;
- **Annex No. 5 “Demand of Labor Resources under Zarubezhneft JSC Long-Term Development Program”**;
- **Annex No. 6 “Labor Performance Enhancement Program”**;
- **Annex No. 7 “Measures to Increase Performance and Transparency of Zarubezhneft JSC Activities”**;
- **Annex No. 8 “Measures on Planned and Phased Replacement of the Foreign Production, Works and Services Purchased with Equivalent Domestic Products, Work and Services”**;
- **Annex No. 9 “Operating Expenses Reduction Program”**;
- **Annex No. 10 “Program Measures to Ensure Achievement of the LTDP KPIs and Compensation to Zarubezhneft JSC Management”**.

Also, for the purpose of implementation of measures on Zarubezhneft JSC digital transformation, Annex No. 13 to the Long-Term Development Program, "Zarubezhneft JSC Strategy in Digital Transformation", was developed and approved by the Board of Directors.
In pursuance of directive No. 276n-IT13 dated January 17, 2019 of the Government of the Russian Federation, in order to implement the sectorial section of the action plan for acceleration of the growth rates of investments in fixed capital and increase their share in the gross domestic product up to 25 percent, the Board of Directors of Zarubezhneft JSC approved Annex No. 1.4 to the LTDP, “Long-Term Development Program Measures to Accelerate the Growth Rates of the Investments in Fixed Capital of the Exploration and Production segment.”

Detailed information on the Company’s compliance with the directives of the Government of the Russian Federation, and with the instructions of the President and the Government of the Russian Federation, is provided in the Section “Report on the Execution of the Instructions of the President and the Government of the Russian Federation.”

The meetings of the Board of Directors also considered the issues aimed at fulfillment of the strategic business objectives of the Company, as follows:

- On approval of the Report on Achievement of Zarubezhneft JSC Corporate KPI Target Values for 2018;
- Preliminary approval of the Annual Report of Zarubezhneft JSC for 2018;
- Progress report on implementation of Zarubezhneft JSC Corporate Strategy for 2019;
- On approval of Zarubezhneft JSC KPI target values for 2020;

Pursuant to the Regulation on the Strategic Planning Committee under the Board of Directors, the issues lying within its competence and expertise include, without limitations, as follows:

- determining priority areas, strategic objectives and basic principles of the Company’s strategic development;
- considering long-term development programs and reports on implementation thereof;
- considering reports on implementation of the Company strategy, developing recommendations as to adjustment thereof;
- developing recommendations as to establishing branches and opening representative offices;
- developing recommendations as to approval of the Company key performance indicators and target values thereof;
- considering reports on the Company’s achievement of the target values of the approved key performance indicators;
- developing recommendations as to strategic documents covering innovative development issues.

During 2019, 17 meetings of the Strategic Planning Committee were held, each with the participation of all elected members of the Strategic Planning Committee.

The full list of issues considered at the meetings of the Board of Directors of the Company in 2019 is given in the appendix “Information on the holding of the Board of Directors’ meetings.”

COMMITTEES ATTACHED TO THE BOARD OF DIRECTORS

Three committees were established under the Board of Directors of Zarubezhneft JSC, as follows:

- Strategic Planning Committee;
- Audit Committee;
- Compensation and Nominating Committee.

The List of Issues Considered at the Meetings of the Strategic Planning Committee under the Board of Directors of Zarubezhneft JSC in 2019

<table>
<thead>
<tr>
<th>No.</th>
<th>Meeting / Term of holding</th>
<th>Meeting date</th>
<th>Agenda</th>
<th>The Strategic Planning Committee Members having participated in the meeting</th>
</tr>
</thead>
</table>
3. Joint meeting of the Strategic Planning Committee meeting / by personal attendance

06.03.2019

1. On the vision embodied in Zarubezhneft JSC Innovation Development Program.
2. On development of renewable energy sources projects in Zarubezhneft JSC.
3. On current status of Zarubezhneft JSC as to entering new oil and gas projects in foreign countries and in the Russian Federation.

K. V. Karapetyan
S. I. Kudryashov
A. L. Tekler
A. V. Tikhonov

4. Strategic Planning Committee meeting / by correspondence

14.03.2019


K. V. Karapetyan
S. I. Kudryashov
A. L. Tekler
A. V. Tikhonov

5. Strategic Planning Committee meeting / by correspondence

15.04.2019


K. V. Karapetyan
S. I. Kudryashov
A. L. Tekler
A. V. Tikhonov

6. Joint meeting of the Strategic Planning Committee and the Compensation and Nominating Committee / by correspondence

26.04.2019


A. A. Gladkov
K. V. Karapetyan
S. I. Kudryashov
A. L. Tekler
A. V. Tikhonov

7. Strategic Planning Committee meeting / by correspondence

14.05.2019


K. V. Karapetyan
S. I. Kudryashov
A. L. Tekler
A. V. Tikhonov

8. Strategic Planning Committee meeting / by correspondence

17.05.2019

1. Consideration of the Action Plan for implementation of proposals on enhancing Zarubezhneft Group performance, developed in accordance with the auditor’s recommendations following the 2018 audit of the Long-Term Development Program.

K. V. Karapetyan
S. I. Kudryashov
A. L. Tekler
A. V. Tikhonov

9. Strategic Planning Committee meeting / by correspondence

27.05.2019

1. On updating of Zarubezhneft JSC Long-Term Development Program.

K. V. Karapetyan
S. I. Kudryashov
A. L. Tekler
A. V. Tikhonov

10. Joint meeting of the Strategic Planning Committee and the Compensation and Nominating Committee / by correspondence

27.05.2019


K. V. Karapetyan
S. I. Kudryashov
A. L. Tekler
A. V. Tikhonov

11. Joint meeting of the Strategic Planning Committee and the Compensation and Nominating Committee / by correspondence

05.09.2019


P. A. Kadochnikov
K. V. Karapetyan
S. I. Kudryashov
P. Yu. Sorokin
A. V. Tikhonov

12. Strategic Planning Committee meeting / by correspondence

05.09.2019


P. A. Kadochnikov
K. V. Karapetyan
S. I. Kudryashov
P. Yu. Sorokin
A. V. Tikhonov

13. Strategic Planning Committee meeting / by correspondence

30.10.2019


P. A. Kadochnikov
K. V. Karapetyan
S. I. Kudryashov
P. Yu. Sorokin
A. V. Tikhonov

14. Strategic Planning Committee meeting / by correspondence

11.11.2019

2. On functioning of the intellectual property rights management system in Zarubezhneft JSC.
3. On disposition of a non-core asset ‘Working premises, the city of Modrino’.

P. A. Kadochnikov
K. V. Karapetyan
S. I. Kudryashov
P. Yu. Sorokin
A. V. Tikhonov

15. Joint meeting of the Strategic Planning Committee and the Compensation and Nominating Committee / by correspondence

11.11.2019

2. Consideration of the Report on Achievement of Zarubezhneft JSC Corporate KPI Target Values based on the forecast till the end of 2019 subject to the actual performance for 9 months of 2019.

P. A. Kadochnikov
K. V. Karapetyan
S. I. Kudryashov
P. Yu. Sorokin
A. V. Tikhonov

16. Joint meeting of the Strategic Planning Committee and the Compensation and Nominating Committee / by correspondence

11.12.2019

1. On updating of Zarubezhneft JSC Corporate KPI Target values for 2020.

P. A. Kadochnikov
K. V. Karapetyan
S. I. Kudryashov
P. Yu. Sorokin
A. V. Tikhonov

17. Strategic Planning Committee meeting / by correspondence

24.12.2019

3. On updating of Zarubezhneft JSC Long-Term Development Program.

P. A. Kadochnikov
K. V. Karapetyan
S. I. Kudryashov
P. Yu. Sorokin
A. V. Tikhonov
The List of Issues Considered at the Meetings of the Audit Committee under the Board of Directors of Zarubezhneft JSC in 2019

<table>
<thead>
<tr>
<th>No.</th>
<th>Meeting / form of holding</th>
<th>Meeting date</th>
<th>Agenda</th>
<th>The Audit Committee Members having participated in the meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Audit Committee meeting / by personal attendance</td>
<td>08.02.2019</td>
<td>1. Consideration of the Plan for the RAS Audit of Zarubezhneft JSC Accounting (Financial) Statements. 2. Consideration of the Plan for the IFRS Audit of Zarubezhneft JSC Consolidated Financial Statements.</td>
<td>A. A. Gladkov, M. Yu. Sokolov, A. L. Tekслer</td>
</tr>
<tr>
<td>3</td>
<td>Audit Committee meeting / by personal attendance</td>
<td>18.04.2019</td>
<td>1. Consideration of Zarubezhneft JSC annual accounting (financial) statements for 2018. 2. On the external auditor’s performance, following the RAS audit of Zarubezhneft JSC accounting (financial) statements for 2018. 3. Consideration of Zarubezhneft JSC consolidated financial statements under the IFRS, for 2018. 4. On the external auditor’s performance, following the IFRS audit of Zarubezhneft Group consolidated financial statements for 2018. 5. Consideration of the results of external quality assessment (evaluation) of Zarubezhneft JSC internal audit function.</td>
<td>A. A. Gladkov, M. Yu. Sokolov, A. L. Tekслer</td>
</tr>
</tbody>
</table>
### INTERACTION OF INTERNAL AND EXTERNAL AUDITORS

In May 2019, in pursuance of Clause 2.1 of the Guidelines for Organization and Conduct of a Statutory Audit of Financial (Accounting) Statements (approved by Order No. 12 of the Federal Agency for State Property Management dated January 21, 2016), and Clause 2.5 of the Guidelines for Organization of Work of Audit Committees under the Board of Directors (approved by Order No. 86 of the Federal Agency for State Property Management Management dated March 20, 2014), the Audit Committee under the Board of Directors of Zarubezhneft JSC considered the performance of the external auditor, following the results of the audit of Zarubezhneft JSC accounting (financial) statements under the RAS for 2018.

The interaction between the internal audit service (Internal Audit Section) and external auditors of the Company was carried out on the basis of the “Policies of Interaction between the Audit Committee under the Board of Directors of Zarubezhneft JSC and External Auditors”, approved by the Company in accordance with the requirements of the Federal Agency for State Property Management guidelines for organization and conduct of statutory audit of financial (accounting) statements.

In 2019, the interaction between internal and external auditors focused on the following issues:

- evaluation of non-current assets (asset impairment testing);
- evaluation of the risks of material misrepresentation of financial statements;
- evaluation of the risk of fraud and biased judgments and estimates;
- application of new standards when preparing consolidated financial statements;
- quality of interaction between the Company’s responsible employees and the auditors of Nexia Paczki LLC and Deloitte & Touche CIS JSC during external audits.

The Internal Audit Section conducted, and submitted (in May 2019) for consideration of the Audit Committee, an assessment (evaluation) of the interaction between the Company and the external auditor, based on the criteria recommended by the Federal Agency for State Property Management. The Audit Committee members were also interviewed to assess the quality of the Company’s interaction with external auditors. The quality of interaction between the Company and the external auditors was assessed as “efficient”.

### COMPENSATION AND NOMINATING COMMITTEE

Composition of the Compensation and Nominating Committee under the Board of Directors of Zarubezhneft JSC in 2019

- Anatoly Vladimirovich Tikhonov – General Director of FSBI “Russian Energy Agency” of the Ministry of Energy of the Russian Federation (the Committee Chairman);
- Aleksandr Alekseevich Gladkov – Director of the Oil and Gas Production and Transportation Department, Ministry of Energy of the Russian Federation;
- Maksim Yuryevich Sokolov – General Director of LSR Group PJSC.

The Committee Members, subsequent to the Annual General Meeting of Zarubezhneft JSC shareholders (August 12, 2019 through December 31, 2019):

- Pavel Yuryevich Sorokin – Deputy Minister of Energy of the Russian Federation (the Committee Chairman);
- Karen Vlasyevich Karapetyan – Advisor to the Chairman of the Management Board of Gazprombank (JSC);
- Maksim Yuryevich Sokolov – First Deputy General Director of LSR Group PJSC.

The Committee Members, prior to the Annual General Meeting of Zarubezhneft JSC shareholders (January 1, 2019 through June 30, 2019):

- Anatoly Vladimirovich Tikhonov – General Director of FSBI “Russian Energy Agency” of the Ministry of Energy of the Russian Federation (the Committee Chairman);
- Aleksandr Alekseevich Gladkov – Director of the Oil and Gas Production and Transportation Department, Ministry of Energy of the Russian Federation;
- Maksim Yuryevich Sokolov – General Director of LSR Group PJSC.
Pursuant to the Regulation on the Compensation and Nominating Committee under the Board of Directors, the issues lying within its competence and expertise include, without limitations, as follows:

- developing recommendations as to the Company’s HR Policies and personnel motivation;
- supervising the implementation of the Company’s compensation policies and a range of motivation programs;
- developing recommendations as to the amount of compensation payable to the members of the Board of Directors and management personnel of the Company;
- improving the system of key performance indicators of the Company;
- considering reports on the Company’s achievement of the target values of the approved key performance indicators.

The list of issues considered at the meetings of the Compensation and Nominating Committee under the Board of Directors of Zarubezhneft JSC in 2019

<table>
<thead>
<tr>
<th>No.</th>
<th>Meeting / form of holding</th>
<th>Meeting date</th>
<th>Agenda</th>
<th>The Compensation and Nominating Committee Members having participated in the meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Joint meeting of the Compensation and Nominating Committee and the Audit Committee / by correspondence</td>
<td>28.05.2019</td>
<td>1. Consideration of proposals on the amount of compensations to the members of the Board of Directors of Zarubezhneft JSC. 2. Consideration of proposals on the amounts of compensation to the members of the Revision Commission of Zarubezhneft JSC. 3. Consideration of the Report on Implementation of the Corporate Business Initiative “Challenge”. 4. On payment of annual compensation to the General Director of the Company.</td>
<td>A. A. Gladkov  M. Yu. Sokolov  A. V. Tikhonov</td>
</tr>
</tbody>
</table>
# INFORMATION ABOUT MEETINGS OF THE BOARD OF DIRECTORS

In 2019, 14 meetings of the Board of Directors of Zarubezhneft JSC were held as follows.

<table>
<thead>
<tr>
<th>Minutes number and meeting date</th>
<th>Form of holding</th>
<th>Meeting agenda</th>
<th>The members of the Board of Directors, having participated in the meeting</th>
</tr>
</thead>
</table>
| No. 163 28.01.2019             | By correspondence | 1. On transition of Zarubezhneft JSC to preferential use of domestic software.  
2. On updating of Zarubezhneft JSC Long-Term Development Program.  
| No. 164 26.02.2019             | By correspondence | 1. On approval of the audit engagement for auditing the implementation of Zarubezhneft JSC Long-Term Development Program.  
| No. 165 27.03.2019             | By personal attendance | 1. On the Council of Young Specialists and youth policies adopted in Zarubezhneft JSC.  
2. On the vision embodied in Zarubezhneft JSC Innovation Development Program.  
3. On development of renewable energy sources projects in Zarubezhneft JSC.  
5. On updating of the Non-core Assets Register of Zarubezhneft JSC.  
2. On consideration of reports on the performance of the Committees under the Board of Directors of Zarubezhneft JSC, for 2018.  
4. On results of the auditors’ work on audit of Zarubezhneft JSC accounting statements under the IFRS, for 2018.  
| No. 168 29.05.2019             | By personal attendance | 1. On consideration of annual accounting statements of Zarubezhneft JSC, and consolidated financial statements under the IFRS of Zarubezhneft Group, for 2018.  
2. On consideration of the opinion of the Revision Commission, following the inspection of financial and economic activities of Zarubezhneft JSC for 2018.  
6. On the amount, form, and payment procedure as to the distribution of the yearend dividends on Zarubezhneft JSC stock.  
7. On the recommendations of the Board of Directors of Zarubezhneft JSC as to the profit allocation.  
<table>
<thead>
<tr>
<th>Minutes number and meeting date</th>
<th>Form of holding</th>
<th>Meeting agenda</th>
<th>The members of the Board of Directors, having participated in the meeting</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Minutes number and meeting date</th>
<th>Form of holding</th>
<th>Meeting agenda</th>
<th>The members of the Board of Directors, having participated in the meeting</th>
</tr>
</thead>
</table>

Additional notes:
1. On the prospects of the Oil Refinery and Sales segment.
2. On updating of Zarubezhneft JSC KPI system.
THE REVISION COMMISSION OF ZARUBEZHNEFT JSC

In 2018, pursuant to Order No. 499-p “On Resolutions of the Annual General Meeting of Shareholders of Zarubezhneft Joint Stock Company” of the Federal Agency for State Property Management, dated June 30, 2018, the Revision Commission of Zarubezhneft JSC was elected with the composition as follows:

<table>
<thead>
<tr>
<th>Full name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. E. Bogashov</td>
<td>Director of the Department of Corporate Governance, Pricing Environment, and Control and Auditing Work in the Fuel and Energy Sector of the Ministry of Energy of the Russian Federation</td>
</tr>
<tr>
<td>N. N. Annikova</td>
<td>Independent expert</td>
</tr>
<tr>
<td>A. I. Mozhaeva</td>
<td>Administrative Assistant at the Gas and Oil Sector Development Division, the Department for State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency, the Ministry of Economic Development of the Russian Federation</td>
</tr>
</tbody>
</table>

The Revision Commission carried out an inspection of the Company’s financial and economic activities for 2018. Following the inspection, the opinions on reliability of the data presented in Zarubezhneft JSC accounting (financial) statements and annual report for 2018 were drawn up.

As a result of the inspection, recommendations were made to the Company, as reflected in the corresponding Certificate and opinion of the Revision Commission, based on the 2018 results.

Pursuant to Order No. 409-p “On Resolutions of the Annual General Meeting of Shareholders of Zarubezhneft Joint Stock Company” of the Federal Agency for State Property Management, dated June 30, 2019, and based on the Revision Commission performance in 2018–2019 corporate year, its members were paid compensation in the amount of 200,000 RUB.

The compensation to the members of the Revision Commission who are not public servants is paid as per the Regulation on Compensations and Refunds to the Members of Zarubezhneft JSC Revision Commission.

ENSURING INTERNAL CONTROL WITHIN ZARUBEZHNEFT GROUP

The primary objective of the Internal Audit Section of Zarubezhneft JSC is to assess the risks management system performance and express an opinion on the reliability and performance of the internal control and corporate governance system in place in the Group.

In its activities, the Section is guided by the Regulation on Internal Audit of Zarubezhneft JSC, Methodology for Planning and Conducting Internal Audits, and Regulation on the Internal Audit Section.

Functionally, the Internal Audit Section is accountable to the Board of Directors of Zarubezhneft JSC. The existing structure of the subordination of internal audit service to the Board of Directors and executive bodies of the Company provides Internal Audit Section with independence sufficient to perform the functions assigned thereto.

The annual plan of internal audits and the report on the Section performance are subject to review by the Audit Committee, and to approval by the Board of Directors of Zarubezhneft JSC.

In 2019, the key areas of internal audits were set as follows:

• evaluation of the corporate KPIs achievement (on a quarterly basis);
• audit of sale of non-core assets of Zarubezhneft Group (on a quarterly basis);
• audit of the risks management process in Zarubezhneft Group;
• audit of internal control and risks management system, as to anti-corruption;
• audit of the investment project “Illoca de Januro” performance;
• audit of the investment project “Luts eyakshy skoe Field Build-Out”,
• audit of the jack-up “Murmanskaya” class-restoring repair process;
• audit of the business process “Construction and Facilities Management” of Zarubezhneftrestroymontazh LLC;
• audit of the business process “Management of Procurement and Sale of Optional Goods” of Nestro Petrol A.D.;
• audit of production system of Zarubezhneft JSC.

As a result of the audits conducted, the Internal Audit Section assessed the internal control system as to business processes, and made recommendations for improvement thereof:

• an algorithm was developed for evaluation and ranking of the non-conformities detected in the course of internal audits;
• efforts were made to develop the internal audit function in terms of IT-audits;
• a system of annual evaluation and planning of internal audits (“audit universe”) was developed and put into practice;
• online monitoring of procurement activities was conducted.

In accordance with the requirements of the International Standards for the Professional Practice of Internal Auditing, and in line with the best practices, the Section operates:

• a procedure to certify the employees’ independence and freedom from conflicts of interest;
• a unified system of accounting for violations/breachses, faults detected through audits, and monitoring the remedial measures;
• an internal audit quality management system (under ISO 9001:2015).

Throughout the year, in order to develop professional expertise, all employees of the Internal Audit Section participated in training events such as trainings, seminars and workshops, and strategy sessions.
MANAGEMENT OF ZARUBEZHNEFT JSC

OLEG VALERIEVICH AKIMOV
Deputy General Director for Production

- In 1999, he graduated from the Gubkin Russian State University of Oil and Gas with a degree in Development and Operation of Oil and Gas Fields. In 2011, he earned an MBA degree from the Moscow State Institute of International Relations (MGIMO University) of the Russian Ministry of Foreign Affairs (Development and Operation of Oil and Gas Wells). In 2011, he earned his PhD degree in Technical Sciences.
- In 1999, he started his career in Yuganskneftegaz JSC as an oil and gas well diagnostics operator, having worked his way up to the company's Chief Engineer.
- From 2006 to 2015, he worked in RN-Yuganskneftegaz LLC as the Head of Regional Engineering and Process Directorate, then the Chief Engineer of Production Department, then the Head of Production Department, and then the First Deputy General Director for Production and Chief Engineer.
- In 2016, he moved to the position of Advisor to the General Director of Zarubezhneft JSC.
- In 2016, he became the Chief Engineer of ZARUBEZHNEFT-Dobycha Kharyaga LLC.
- In 2017, he took the position of the General Director of ZARUBEZHNEFT-Dobycha Kharyaga LLC.
- Since May 2019, he has been the Deputy General Director for Production in Zarubezhneft JSC.
- For more than 20 years of work in the oil and gas industry, he has been repeatedly awarded insignia, including a letter of appreciation and an honorary diploma from the Ministry of Energy of the Russian Federation, as well as an honorary diploma and a letter of acknowledgment from the Governor of the Nenets Autonomous Area. In 2017, by an order of the Ministry of Energy of the Russian Federation, he was awarded the title of "Honored Oilman".
- Holds no shares of Zarubezhneft JSC.

DENIS NIKOLAEVICH MAKSIMOV
Deputy General Director for Economics and Finance

- In 2004 to 2013, he worked in Orenburggaz PJSC, taking a range of positions in the Finance and Economics Department.
- From 2013 to 2016, he worked as the Deputy General Director for Economics and Finance in JC RUSVIETPETRO LLC.
- In July 2016, he took the position of the Deputy General Director for Economics and Finance of Zarubezhneft JSC.
- He was awarded the Certificate of Honor by the Ministry of Industry and Trade of the Socialist Republic of Vietnam.
- Holds no shares of Zarubezhneft JSC.

EVGENIY ALEKSEEVICH MATVEYEVT
Deputy General Director for Corporate Security

- He graduated from the Bauman Moscow Higher Technical School, and the Russian Academy of Public Administration under the President of the Russian Federation.
- From 1984 to 2016, he held a range of government and administrative positions.
- From 2015 to 2016, he was a counselor to the Governor of the Tula Region in the executive office of the Tula Region Government.
- In June 2016, he was appointed Head of Corporate Security Section of Zarubezhneft JSC.
- Since December 2017, he has been the Deputy General Director for Corporate Security in Zarubezhneft JSC.
- He has departmental and governmental awards of the Russian Federation.
- Holds no shares of Zarubezhneft JSC.

IGOR SEMENOVICH AFANASIEV
Deputy General Director for Geology and Development

- In 1993, he graduated from Voronezh State University.
- From 1997 to 2001, he was a counselor to the Governor of the Voronezh Region.
- In 2007 to 2014, he worked as the Deputy Director of the Field Development Department, OC Rosneft JSC.
- Since August 2014, he has been the Deputy General Director for Geology and Development in Zarubezhneft JSC.
- Holds no shares of Zarubezhneft JSC.

SERGEY IVANOVIICH KUDRYASHOV
General Director (Sole Executive Body)

- In 1991, he graduated from the Kulyashov Polytechnic Institute. In 2006, he received his Master of Business Administration (Executive MBA) degree issued by 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 VNKh, Head of the Strelechnevsk Oil and Gas Production Directorate.
- From 2003 to 2004, he was Manager of Yuganskneftegaz JSC, and Vice President of YUKOS-EP JSC.
- From 2005 to 2008, he was First Vice President of OC Rosneft JSC being in charge of the company’s production sector.
- From July 12 to December 28, 2012 he held the position of First Deputy General Director of Zarubezhneft JSC.
- Since December 28, 2012, he has been the General Director of Zarubezhneft JSC. In accordance with Order No. 920 “On Resolutions of the Extraordinary General Meeting of Shareholders of Zarubezhneft Joint Stock Company” of the Federal Agency for State Property Management dated November 29, 2017, he was elected General Director of Zarubezhneft JSC for the period of 5 years.
- 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.
- Holds no shares of Zarubezhneft JSC.
In 2019, he started his career in Zarubezhneft JSC.

In 2016 to 2018, he was the Deputy General Director for Legal and Corporate Issues in ZARUBEZHNEFT-Dobycha Kharyaga LLC.

Since February 2019, he has been the Deputy General Director for Legal and Corporate Communications in Zarubezhneft JSC.

In 2018, he took the position of the Deputy General Director for Refining and Sales, and General Administration and Human Resources, in Zarubezhneft JSC.

He has governmental awards of the USSR and the Russian Federation.

He holds no shares of Zarubezhneft JSC.

In 1992, he graduated from the Tyumen Industrial Institute, Oil and Gas Production Department, with a degree in Technology and Integrated Mechanization of Oil and Gas Fields Development and qualification of Production Engineer.

From 2007 to 2009, he completed a joint program with Kingston University (London) at the Academy of National Economy under the Government of the Russian Federation; he holds a Master of Business Administration (MBA) degree.

From 1997 to 2005, he held the positions of the Deputy Head of the HR Policies Section, then the Head of the HR Policies Section, and then the Director for HR Policies at Yuganskneftegaz JSC.

From 2005 to 2007, he was the Head of the HR Policies Section in MCC EuroChem JSC.

From 2007 to 2017, he held the position of the Director of Administration of MCC EuroChem JSC, and was a member of the Management Board of MCC EuroChem JSC.

From 2017 to 2018, he was the Head of the Oil and Gas Division, the Member of the Management Board of EuroChem Group AG (Zug, Switzerland), the Member of the Board of Directors of MCC EuroChem JSC (Moscow).

In 2018, he took the position of the Deputy General Director for Refining and Sales, and General Administration and Human Resources, in Zarubezhneft JSC.

He has governmental awards of the USSR and the Russian Federation.

He holds no shares of Zarubezhneft JSC.

In 2019, he has been the Deputy General Director for Business Development in Zarubezhneft JSC.

He has corporate and departmental awards of the Ministry of Energy of the Russian Federation, as well as the title of “Honored Oilman”.

He holds no shares of Zarubezhneft JSC.

In 2005 to 2007, he worked as the Assistant First Vice President of OC Rosneft JSC.

From 2005 to 2007, he was the First Vice President of Zarubezhneft JSC.

Since 2015, he has been the Deputy General Director for Refining and Sales, and General Administration and Human Resources, in Zarubezhneft JSC.

He holds no shares of Zarubezhneft JSC.

Denis Borisovich Ulitin
Deputy General Director for Organizational Development and Corporate Communications

In 2000, he graduated from the Novosibirsk State Academy of Economics and Management with a degree in Finance and Credit. In 2003, he completed the Executive Education Program for Russian oil and gas industry managers, “Oil and Gas Industry: Major Project Management” at the Moscow School Skolkovo.

From 2001 to 2005, he worked at Yuganskneftegaz at various positions.

From 2005 to 2010, he worked as the Assistant First Vice President of OJSC Rosneft JSC.

From 2011 to 2012, he was the Deputy Director of the Oil and Gas Production and Transportation Department of the Ministry of Energy of the Russian Federation.

In January 2013, he was appointed Chief of the General Director’s Office of Zarubezhneft JSC.

Since February 2019, he has been the Deputy General Director for Organizational Development and Corporate Communications in Zarubezhneft JSC.

He has departmental awards of the Ministry of Energy of the Russian Federation.

He holds no shares of Zarubezhneft JSC.

Aleksandr Yuryevich Belov
Deputy General Director for Business Development

In 1999, he graduated from the V. V. Kuibyshev Polytechnic Institute (Oil Department), majoring in Technology and Integrated Mechanization of Oil and Gas Fields Development. He holds certificates of training of George Washington University School of Business and Public Management, and ESI INTERNATIONAL.

He passed a project management course at the Moscow School of Management Skolkovo.

From 1989 to 1996, he worked at the oil and gas fields operated by Khmelnogorsneft Oil and Gas Production Directorate (Novoarkhangelskneftegaz JSC).

From 1995 to 2005, he rose from the Field Supervisor to the Head of the Orenburgneftegaz Oil and Gas Production Directorate (Orenburgneftegaz JSC).

He headed the Production Unit “Orenburg-Yug” in TNK-BP.

From 2005 to 2007, he worked as the Deputy General Director for Manufacturing in ROSSSAZ LLC.

From 2007 to 2009, he worked as the President and the General Director of SNG GISSAR OPERATINGS LLC (foreign enterprise), a subsidiary of UKOIL Overseas, in the city of Tashkent.

From 2009 to 2013, he held management positions at the following companies within Gazprom Neft JSC: The General Director of Gazpromneft-Angara LLC, the Head of the Exploration and Production Block in SIBIR ENERGY PLC, the General Director of Gazprom Neft Orenburg JSC.

From 2014 to 2015, he was the General Director of Preobrazhenskneftegaz CJSC of CJSC RussiaNeft PUSC.

From 2015 to 2019, he worked as the Deputy General Director for Production at Gazprom Dobycha Shelf Yuzhno-Sakhalinsk LLC, headed the development of new assets in the Orenburg Region.

Since 2019, he has been the Deputy General Director for Business Development in Zarubezhneft JSC.

He has corporate and departmental awards of the Ministry of Energy of the Russian Federation, as well as the title of "Honored Oilman”.

He holds no shares of Zarubezhneft JSC.
DIVIDEND POLICY AND INFORMATION ON PROFIT ALLOCATION OF ZARUBEZHNEFT JSC

Zarubezhneft JSC Regulation on Dividend Policy was approved at the meeting of the Board of Directors on January 30, 2015 (Minutes No. 96). The revised edition of the Dividend Policy was approved by the Board of Directors on February 16, 2017 (Minutes No. 134).

The Dividend Policy of Zarubezhneft JSC is aimed at ensuring the greatest transparency, for the Company’s shareholders, of the decision-making process with respect to dividend distribution, calculation of the amount of dividends, and the procedure for payment thereof, in line with the Russian Federation legislation. In order to ensure the Dividend Policy transparency, the Company posts the Policy and any amendments thereto on the Company official website at https://www.nestro.ru/en/.

Under the Dividend Policy, Zarubezhneft JSC strives to ensure annual growth of dividends payable to the Russian Federation, while providing an optimal combination of the shareholders’ interests with the demand for sufficient financing of the Company, along with respect to and strict observance of a shareholder rights stipulated by the applicable laws of the Russian Federation, as well as successful execution of investment projects of Zarubezhneft JSC, to be implemented in accordance with the Company Business Plan as approved by the Board of Directors. The Company’s dividend growth rates are dependent on the Company’s net profit growth rate, as well as on its financial standing and the investment projects being executed.

The fundamentals of the Dividend Policy adopted in Zarubezhneft JSC, are as follows:

- compliance with the applicable laws of the Russian Federation, the Company’s Articles of Association and bylaws, including compliance of the Company’s dividend accrual and payment practices with the laws of the Russian Federation;
- observance of the shareholders’ rights and interests;
- commitment to high standards of corporate governance;
- ensuring the interest of the management and shareholders in increasing the Company’s profitability;
- raising the investment potential of the Company;
- ensuring positive trend in terms of amounts of dividend payments, subject to the Company’s net profit increase;
- endeavor to provide the shareholders with the most convenient way to receive dividends;
- endeavor to pay dividends as soon as practicable;
- ensuring maximum transparency of the mechanism for identifying the dividend amount.

For a number of years, Zarubezhneft JSC has remained among the leading Russian companies in terms of dividends paid to the Russian Federation.

Pursuant to Order No. 409-p “On Resolutions of the Annual General Meeting of Shareholders of Zarubezhneft Joint Stock Company” of the Federal Agency for State Property Management, dated June 30, 2019, the net profit generated by Zarubezhneft JSC in 2018, in the amount of 10,668,603 thous RUB, was distributed as follows:

- to pay dividends — 5,918,500 thous RUB, making up 55.476% of the net profit for the year (performed by means of Payment Order No. 3789 dated August 9, 2019);
- to form a reserve fund — 1,066,860 thous RUB, or 10% of the net profit;
- to make reimbursements to the members of the Board of Directors — 38,448 thous RUB, or 0.36% of the net profit;
- to make reimbursements to the members of the Revision Commission — 200 thous RUB, or 0.002% of the net profit;
- to finance Zarubezhneft JSC investment plan, approved by the resolution of the Board of Directors (Minutes No. 162 dated December 20, 2018) — 3,644,595 thous RUB, or 34.162% of the net profit.
Caring for fragile ecosystems

PARTNER RELATIONS BETWEEN INTERNATIONAL AND RUSSIAN COMPANIES FOR THE PURPOSE OF GREEN ENERGY PROJECTS IMPLEMENTATION HAVE BEEN ESTABLISHED
### OFFICIAL INFORMATION ABOUT ZARUBEZHNEFT JSC

<table>
<thead>
<tr>
<th>Full name of the Company</th>
<th>Zarubezhneft Joint Stock Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number and date of issue of the registration certificate</td>
<td>Certificate series 77 No. 003280973 dated October 22, 2004, OGRN (PSRN) 1047708046870</td>
</tr>
<tr>
<td>Constituent entity of the Russian Federation</td>
<td>Moscow</td>
</tr>
<tr>
<td>Location</td>
<td>101990, Moscow, Bld. 1, 9/1/1 Armyansky per.</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>Included into the List of Strategic Joint Stock Companies</td>
<td>Yes</td>
</tr>
<tr>
<td>Full name and legal address of the Registrar</td>
<td>Nezavisimaya Registratorskaya Kompaniya R.O.S.T. Joint Stock Company, 18/1B, Premise IX, Stromynka ul., Moscow, 107076</td>
</tr>
<tr>
<td>Amount of the authorized capital stock, as of December 31, 2019, RUB</td>
<td>50,729,067,000</td>
</tr>
<tr>
<td>Shares issued, total count</td>
<td>50,729,067</td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>50,729,067</td>
</tr>
<tr>
<td>Share denomination, RUB</td>
<td>1,000</td>
</tr>
<tr>
<td>State registration number of the issue of ordinary (preferred) shares and the registration date</td>
<td>1-01-65072-D dated December 09, 2004</td>
</tr>
</tbody>
</table>

| Preferred shares | None |
| Nominal value per preferred share, RUB | None |
| Shares owned by the Russian Federation | 50,729,067 |
| Participating interest of the Russian Federation in the share capital | 100% |
| Company shareholders with the participating interest in the share capital being over 2% thereof | The Russian Federation as represented by the Federal Agency for State Property Management |
| Availability of special rights for the Russian Federation to take part in a joint stock company’s management (“golden share”) | None |
| Full name and legal address of the Company’s auditor | Nexia Pacitti LLC, 7/2 Britskaya Tatarskaya ul., Moscow, 115184 |
Establishment of the All-Union Association Zarubezhneft under the Ministry of Oil Industry of the USSR as the Main Directorate (Decree of the USSR Council of Ministers No. 2310r dated September 30, 1967)

An agreement between the Governments of the Russian Federation and the Socialist Republic of Vietnam on further cooperation was signed

The decree of the Russian Government on contribution of the Russian participant (JV Vietsovpetro) share to the charter capital of Zarubezhneft JSC was issued

Zarubezhneft JSC received 20% share and operatorship from the French company Total in the project of Kharyaga field development

A new Company development strategy was approved in the Company

In July, a supplement to the Agreement on oil development and production at the Kharyaga field on production sharing terms was signed, according to which the Agreement term was extended till December 31, 2031

Zarubezhneft JSC celebrated its half-century anniversary

A production sharing agreement for South East Ras Ul Ush and East Gebel El Zeit blocks was signed in Cairo between Zarubezhneft JSC, the Ministry of Oil and Mineral Resources of Egypt, the Egyptian state oil holding company GANOORE and Pacific Oil Limited
<table>
<thead>
<tr>
<th>Item No.</th>
<th>Company name</th>
<th>Zarubezhneft JSC participating interest</th>
<th>Zarubezhneft JSC Subsidiaries’ participating interest</th>
<th>Region of the Company’s presence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>JV Vietsovpetro</td>
<td>49% - Vietnam</td>
<td>-</td>
<td>Vietnam</td>
</tr>
<tr>
<td>2</td>
<td>VRJ Petroleum Co</td>
<td>100% - Vietnam</td>
<td>-</td>
<td>Vietnam</td>
</tr>
<tr>
<td>3</td>
<td>JC RUSVIEPETRO LLC</td>
<td>51% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>4</td>
<td>AMNGR JSC</td>
<td>100% - 1 share - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>5</td>
<td>RMNTK Nefteotdacha JSC</td>
<td>100% - 1 share - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>6</td>
<td>Ulyanovsknftetgaz LLC</td>
<td>99.09% - RMNTK Nefteotdacha JSC – 0.1% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>7</td>
<td>Orenburgnftetgaz JSC</td>
<td>100% - 1 share - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>8</td>
<td>Neftegazinor JSC</td>
<td>99% - Russia</td>
<td>-</td>
<td>Russia</td>
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<tr>
<td>9</td>
<td>Giprovostoknftet JSC</td>
<td>22.09% - RMNTK Nefteotdacha JSC – 38% - Russia</td>
<td>-</td>
<td>Russia</td>
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<tr>
<td>10</td>
<td>VNnftet JSC</td>
<td>32.27% - RMNTK Nefteotdacha JSC – 38% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>11</td>
<td>VNnftet-Zapadiya Sibir CJSC</td>
<td>- VNnftet JSC – 51% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>12</td>
<td>Nefyanoe Khoozyaystvo CJSC</td>
<td>- RMNTK Nefteotdacha JSC – 15% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>13</td>
<td>ZARUBEZHNEFT-Dobycha LLC</td>
<td>99.9% - Neftegazinor JSC – 0.1% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>14</td>
<td>ZN Energiya LLC</td>
<td>80% - ZN Dobycha LLC – 20% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>15</td>
<td>ZARUBEZHNEFT-Foreniezmontazh LLC</td>
<td>80% - ZN Energiya LLC – 20% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>16</td>
<td>ZARUBEZHNEFT-Holding&amp;Services AG</td>
<td>100% - Switzerland</td>
<td>-</td>
<td>Switzerland</td>
</tr>
<tr>
<td>17</td>
<td>EXPLON LLC</td>
<td>80% - ZARUBEZHNEFT-Foreniezmontazh LLC – 20% - Russia</td>
<td>-</td>
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</tr>
<tr>
<td>18</td>
<td>SPIMEJ JSC</td>
<td>10% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>19</td>
<td>OPTIMA Group d.o.o.</td>
<td>- Neftegazinor JSC – 100% - Republic of Srpska</td>
<td>-</td>
<td>Republic of Srpska</td>
</tr>
<tr>
<td>20</td>
<td>Brod Refinery A.D.</td>
<td>- Neftegazinor JSC – 79.9% - Republic of Srpska</td>
<td>-</td>
<td>Republic of Srpska</td>
</tr>
<tr>
<td>21</td>
<td>Modriča Motor Oil Plant A.D.</td>
<td>- Neftegazinor JSC – 75.6% - Republic of Srpska</td>
<td>-</td>
<td>Republic of Srpska</td>
</tr>
<tr>
<td>22</td>
<td>Nestro Petroleum A.D.</td>
<td>- Neftegazinor JSC – 80% - Republic of Srpska</td>
<td>-</td>
<td>Republic of Srpska</td>
</tr>
<tr>
<td>23</td>
<td>Jadrans-Nefagas d.o.o.</td>
<td>- Neftegazinor JSC – 34% - Republic of Srpska</td>
<td>-</td>
<td>Republic of Srpska</td>
</tr>
<tr>
<td>24</td>
<td>OPTIMA-Modriča d.o.o.</td>
<td>- Modriča Motor Oil Plant A.D. – 100% - Republic of Srpska</td>
<td>-</td>
<td>Republic of Srpska</td>
</tr>
<tr>
<td>25</td>
<td>Zarubnezhtef-Dobyche Samara LLC</td>
<td>- ZARUBEZHNEFT-Dobycha LLC – 100% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>26</td>
<td>ZARUBEZHNEFT-Dobyche Kharyaga LLC</td>
<td>99.9832% - ZARUBEZHNEFT-Dobycha LLC – 0.0168% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>27</td>
<td>Severo-Karasevskoe Petroleum Enterprise LLC</td>
<td>- Zarubnezhtef-Dobyche Samara LLC – 99.9% - Ulyanovsknftetgaz LLC – 0.1% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>28</td>
<td>ZN LA Ltd.</td>
<td>- ZARUBEZHNEFT-Dobycha LLC – 100% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
<tr>
<td>29</td>
<td>ZN BV Ltd.</td>
<td>- ZARUBEZHNEFT-Dobycha LLC – 100% - Russia</td>
<td>-</td>
<td>Russia</td>
</tr>
</tbody>
</table>

In 2019, the corporate structure of Zarubezhneft Group changed as follows:
- within the framework of optimization of Zarubezhneft Group structure, and implementation of the Non-Core Assets Disposition Program of Zarubezhneft JSC, JV Arctic Drilling Limited was liquidated;
- the registration procedures related to increase of Zarubezhneft JSC participating interest in VRJ Petroleum Co to 100%, were completed;
- for the purpose of execution of new projects of Zarubezhneft JSC in Russia and abroad in pursuance of directive No. 5051п – П13 (p-P13) of the Government of the Russian Federation dated June 10, 2019 and the Resolution of the Board of Directors of Zarubezhneft JSC (Minutes No. 170 dated June 27, 2019), ZN Dobycha LLC and ZN Razvitiye LLC were established;
- as part of a joint project with Uzbekneftegaz JSC to enhance oil recovery at the fields of South Alamyshyk, Khartoum and East Khartoum, located in the Fergana Region of the Republic of Uzbekistan, JV ANDIJANPETRO LLC was established;
- Nestro LLC, ZN Energiya LLC, SPK LLC, and ZN Asia Ltd. were established in order to expand Zarubezhneft Group activities and execute new projects.
LIST OF THE LICENSES HELD BY ZARUBEZHNEFT GROUP IN THE RUSSIAN FEDERATION

In 2019, Zarubezhneft Group held the licenses efficient in the Russian Federation, as follows:
- nine NE licenses to produce hydrocarbons;
- six NR licenses for geological survey, exploration and production of hydrocarbons;
- two licenses to prospect and appraise hydrocarbon deposits.

A license auction took place on June 27th, 2019 for the purpose of geological survey, exploration and production of hydrocarbons at the Zapadno-Yareyaginsky site. JC RUSVIETPETRO LLC was the successful bidder.


Instructions of the President of the Russian Federation and Decrees of the Government of the Russian Federation


On expediency of the Company integration into the activities covered by the national project (program) "International Cooperation and Export". In pursuance of directive No. 10357-P13 (p-P13) of the Government of the Russian Federation dated November 14, 2019.

On the purchase of Russian production units to execute national projects and implement a comprehensive plan of modernization and expansion of the trunk infrastructure. In pursuance of directive No. 984n-P13 (p-P13) of the Government of the Russian Federation dated November 1, 2019.


On finalizing corporate import phase-out plans for protection against radiation, chemical and biological factors.


The resolutions provided for by the directives were adopted by the BI of Zarubezhneft JSC (Minutes No. 164 dated February 26, 2019).

The activities provided for by the directives were included in the revised edition of Annex No. 8 to the LTDP as approved by the BI of Zarubezhneft JSC (Minutes No. 168 dated June 11, 2019).

The standard defining personal protection equipment for employees of the Companies belonging to Zarubezhneft Group was updated (Order No. 407 dated December 30, 2019).

Within the framework of the Program implementation, inter alia, standard forms of procurement documentation were approved (Order No. 185 dated June 18, 2019), indicators for the procurement performed by the Subsidiaries were developed (Letter No. ИМ-25-267 (ДМ) dated June 27, 2019), and test procurements through electronic trading platforms of InterBIB, TEK long and PROF were carried out.

Copies of the Program approved on the Procurement Activities Management Quality Improvement, along with amendments to the statutory documents, were sent to the chairpersons of the meeting of the Board of Directors dated February 26, 2019, on adoption of resolutions in pursuance of the Directives were posted in Interactive Communication System of Zarubezhneft JSC Personal Account on the Interdepartmental Portal of the Federal Agency for State Property Management.

On updating the Long-Term Development Program of Zarubezhneft JSC (hereinafter, the LTDP), and submission of the LTDP audit reports to the Ministry of Economic Development of the Russian Federation, the Federal Agency for State Property Management, and federal executive authorities coordinating Zarubezhneft JSC activities, in accordance with Decree No. 1780 of the Government of the Russian Federation dated August 30, 2017.


The resolutions provided for by the directives were adopted by the BI of Zarubezhneft JSC (Minutes No. 164 dated February 26, 2019).

The company developed, and the BI approved, Annex No. 14 to the LTDP “The Activities of the Long-Term Development Program to Accelerate the Growth Rates of Investments in Fixed Capital of the Exploration and Production Segment” (Minutes No. 169 dated June 11, 2019).


The resolutions provided for by the directives were adopted by the BI of Zarubezhneft JSC (Minutes No. 164 dated February 26, 2019).

The company developed, and the BI approved, Annex No. 14 to the LTDP “The Activities of the Long-Term Development Program to Accelerate the Growth Rates of Investments in Fixed Capital of the Exploration and Production Segment” (Minutes No. 169 dated June 11, 2019).


The resolutions provided for by the directives were adopted by the BI of Zarubezhneft JSC (Minutes No. 164 dated January 28, 2019). (Minutes No. 163 dated January 29, 2019).

Action Plan for 2019–2021, for Zarubezhneft JSC transition to preferential use of domestic software (hereinafter, the “Action Plan”) was agreed upon with ANO Center of Expertise on Import Phase-Out in the Information and Communication Technology (rus: “Tsentr Kompetentsii po Importnatsii izhodov v Sferu Informatsionno-Kommunikatsionnykh Tekhnologii”) (Letter Ref. No. 03/130 dated March 13, 2019), and was approved by the BI of Zarubezhneft JSC (Minutes No. 166 dated March 20, 2019).

Activities on transition to preferential use of the domestic software were included in Annex No. 8 to the LTDP, the revised edition wherein was approved by the BI of Zarubezhneft JSC (Minutes No. 169 dated June 11, 2019).

The reports on the implementation of the Action Plan for Q1, Q2, Q3 and Q4 2019 were posted in Zarubezhneft JSC Personal Account on the Interdepartmental Portal of the Federal Agency for State Property Management, on April 10, 2019, July 10, 2019, October 10, 2019, and October 10, 2020 respectively, and sent to the Ministry of Communications of the Russian Federation.
Instructions of the President of the Russian Federation and Decrees of the Government of the Russian Federation

On amendments to the employment contract with the Head of the JSC and on expediency of amending the current program and register of non-core assets disposition.
In pursuance of directive No. 6604-n-T13 (p-P13) of the Government of the Russian Federation dated September 18, 2017

On submission by Zarubezhneft JSC to the Ministry of Economic Development of the Russian Federation of information on possession of assets located in the Russian Federation, through foreign legal entities.
In pursuance of directive No. 5945-n-T13 (p-P13) of the Government of the Russian Federation dated August 25, 2017

On approval of the Procedure for Coordination with the Ministry for the Development of Russian Far East and Arctic, of investment programs, and other plans, for infrastructure development implementable by joint stock companies with state participation in the Far Eastern Federal District.
In pursuance of directive No. 3538-n-T13 (p-P13) of the Government of the Russian Federation dated May 25, 2017

On acquisition or rent of aircraft, including those with high-comfort passenger compartments.
In pursuance of directive No. 2652-n-T7 (p-P7) of the Government of the Russian Federation dated April 17, 2017

Information on execution by the Company of the relevant Instructions and Decrees

- The updated Register of Non-Core Assets of Zarubezhneft JSC and the Action Plan for Sale of Non-Core Assets of Zarubezhneft JSC for 2019–2020 were approved by the BD (Minutes No. 166 dated March 29, 2019).
- Report on Sale of NCA for Q4 2018 was considered by the BD (Minutes No. 164 dated February 26, 2019).
- Report on Sale of NCA for Q1 2019 was considered by the BD (Minutes No. 167 dated April 25, 2019).
- Report on Sale of NCA for Q2 2019 was considered by the BD (Minutes No. 171 dated August 12, 2019).
- Report on Sale of NCA for Q3 2019 was considered by the BD (Minutes No. 174 dated November 26, 2019).

On the resolution provided for by the directives were adopted at the BD meeting on October 27, 2017 (Minutes No. 144).

On the resolution provided for by the directives were adopted at the BD meeting on June 23, 2017 (Minutes No. 140).
- The procedure for coordination with the Ministry for the Development of Russian Far East and Arctic, of investment programs (plans) for infrastructure development implementable in the Far Eastern Federal District, was approved by the Board of Directors on June 23, 2017 (Minutes No. 140). The procedure is posted in the Personal Account of Zarubezhneft JSC on the Interdepartmental Portal of the Federal Agency for State Property Management on June 26, 2017.
- The Long-Term Development Program of Zarubezhneft JSC does not provide for any financing of social and economic development goals in the Far Eastern Federal District. In 2017–2019, Zarubezhneft Group did not have any expenditures on activities aimed at priority development of the Far Eastern Federal District.
- The resolution provided for by the directives were adopted at the BD meeting on May 23, 2017 (Minutes No. 138).
- Procurements of aircraft for the needs of Zarubezhneft JSC and its Subsidiaries, are monitored on an annual basis. In 2019, no such procurement took place.

On the development progress, and implementation, of the import phase-out plans.
In pursuance of directive No. 8384-n-T13 (p-P13) of the Government of the Russian Federation dated February 6, 2017

- The resolutions provided for by the directives were adopted at the BD meeting on March 17, 2017 (Minutes No. 139).
- The Company has a working group on import phase-out (approved by Order No. 144 dated May 30, 2017), by Order No. 125 dated May 17, 2017 a person responsible for controlling the entry of information into All “Import Phase-Out Technology and Projects”
- The Company developed and approved governing document No. 426 dated December 19, 2018 “Guidelines for Mandatory Analysis of the Potential for Foreign Production Phase-Out in favor of the Domestic Production of Equivalent Specifications and Consumer Properties in the Russian Segment of Zarubezhneft Group Footprint”
- According to the instruction by the Ministry of Industry and Trade of the Russian Federation in respect of compliance with Clause 1 of the Minutes of the Interdepartmental Working Group meeting, the system “Import Phase-Out Technology and Projects” was updated, as to imported production introduced and operated in the Subsidiaries of Zarubezhneft Group, in Q1, Q2, Q3 and Q4 2019.
- Zarubezhneft JSC developed a Digital Transformation Strategy aimed at setting objectives and goals for digitalization, as well as creating competitive advantages both in Russia and abroad through large-scale application of digital technology (approved by Order No. 345 dated November 25, 2019).
- Zarubezhneft JSC has a working group on import phase-out, the document is posted in the Personal Account of the Company on the Interdepartmental Portal of the Ministry of Economic Development of the Russian Federation.

On expanding the practice of using factoring in the performance of contracts for the supply of goods (performance of work, provision of services).
In pursuance of directive No. 7704-n-T13 (p-P13) of the Government of the Russian Federation dated October 11, 2016

- The resolutions provided for by the directives were adopted at the BD meeting on November 11, 2016 (Minutes No. 129).
- In order to implement the practice of factoring, the methodology of financing against a cash claim assignment by a counterparty (factoring) was approved by Order No. 501 dated November 29, 2016.
- The edition of Zarubezhneft JSC Regulation on Procurement subject to the requirements of the directives was approved by the BD (Minutes No. 133 dated December 27, 2016). The existing updated edition of the Regulation on Procurement (approved by Minutes No. 176 of the BD meeting dated December 30, 2019) also meets the requirements set forth in the directives.
- In 2018, small and medium business entities did not establish any requirements for factoring to be used in the performance of contracts for the supply of goods (performance of work, provision of services).
Instructions of the President of the Russian Federation and Decrees of the Government of the Russian Federation

On amendments to the Company’s procurement policy in terms of innovative construction materials.

- The resolutions provided for by the directives were adopted at the OAO on October 14, 2016 (Minutes No. 128).
- The edition of the Regulation on Procurement subject to the requirements of the directives was approved by the BD (Minutes No. 133 dated December 27, 2016).

- The existing updated edition of the Regulation on Procurement (approved by Minutes No. 176 of the BD meeting dated December 30, 2019) also meets the requirements set forth in the directives.
- In 2019, no innovative construction materials were procured.

On conclusion of agreements on priority engagement of vessels built at Russian shipyards.

- The resolutions provided for by the directives were adopted at the BD meeting on August 8, 2016 (Minutes No. 126).
- In order to implement the directives:
  - A Model Contractual Condition prescribing priority engagement of vessels built at Russian shipyards, for export supplies of goods (cargo), using water transport, was developed.
  - By Order No. 354 dated August 19, 2016, the Model Contract Condition prescribing priority engagement of vessels built at Russian shipyards, for export supplies of goods (cargo) using water transport, was approved.
  - Zarubezhneft JSC and its Subsidiaries are monitored to ensure that the oil supply contracts to be concluded contain the above model contract condition prescribing priority engagement of vessels built at Russian shipyards, for export supplies of goods (cargo) using water transport.
  - In 2019, 15 contracts were concluded under the above model contractual condition prescribing priority engagement of vessels built at Russian shipyards, for export supplies of goods (cargo) using water transport.

On implementation of professional standards across the Company’s activities.

- The resolutions provided for by the directives were adopted at the BD meeting on August 8, 2016 (Minutes No. 126).
- In 2019, in pursuance of the directives, the Reports on Measures Taken to Implement Professional Standards in Zarubezhneft JSC were considered by the Board of Directors in the 1st half of 2019 (Minutes No. 166 dated March 29, 2019) and in the 2nd half of 2019 (Minutes No. 176 dated December 30, 2019).

Refer to the Section “Information on execution by the Company of the relevant Instructions and Decrees”.

- The updated Register of Non-Core Assets of Zarubezhneft JSC and the Action Plan for Sale of Non-Core Assets of Zarubezhneft JSC for 2019–2020 were approved by the BD (Minutes No. 166 dated March 29, 2019).
- Report on Sale of NCA for Q4 2018 was considered by the BD (Minutes No. 164 dated February 26, 2019).
- Report on Sale of NCA for Q1 2019 was considered by the BD (Minutes No. 167 dated April 25, 2019).
- Report on Sale of NCA for Q2 2019 was considered by the BD (Minutes No. 171 dated August 12, 2019).
- Report on Sale of NCA for Q3 2019 was considered by the BD (Minutes No. 174 dated November 26, 2019).

- The resolutions provided for by the directives were adopted by the Company BD (Minutes No. 126 dated August 8, 2016).
- The edition of the Regulation on Procurement subject to the requirements of the directives was approved by the BD (Minutes No. 133 dated December 27, 2016).

- The existing updated edition of the Regulation on Procurement (approved by Minutes No. 176 of the BD meeting dated December 30, 2019) also meets the requirements set forth in the directives.
- In 2019, no foreign software procurement took place.

On procurement of domestic commercially viable software required for the JSC activities.

- The resolutions provided for by the directives were adopted by the Company BD (Minutes No. 126 dated August 8, 2016).
- The edition of the Regulation on Procurement subject to the requirements of the directives was approved by the BD (Minutes No. 133 dated December 27, 2016).

- The existing updated edition of the Regulation on Procurement (approved by Minutes No. 176 of the BD meeting dated December 30, 2019) also meets the requirements set forth in the directives.
- In 2019, no foreign software procurement took place.

At the same time, the Company takes proper measures to fulfill directive No. 1006n-P13 (p-P13) dated December 6, 2018, “On transition of Zarubezhneft JSC to preferential use of domestic software”.

On the normative acts of the Company that govern limitations as to procurement of certain types of goods, works, and services.
In pursuance of directive No. 2793n-P13 (p-P13) of the Government of the Russian Federation dated April 19, 2016.

- The resolutions provided for by the directives were adopted at the BD meeting on May 31, 2016 (Minutes No. 124). The procurement limitations have been applied in the Company since 2016.

- In 2019, the analysis of procurement activities in terms of application of procurement limitations in 2018 was carried out, with information on the analysis results posted on the Interdepartmental Portal and the respective report sent to the Federal Agency for State Property Management (Letter Ref. No. DM/25-304 (SM) dated January 28, 2019).

- By Order No. 175 dated June 10, 2019, the procurement limitations as to the mandatory list of certain types of goods, works, and services, were updated. The procurement limitations are available on the Company’s official website.


- The resolutions provided for by the directives were adopted at the BD meeting on March 30, 2016 (Minutes No. 119).
- The procedure for accounting for high-priority investment projects of Zarubezhneft Group was approved by the Board of Directors on May 13, 2016 (Minutes No. 122).

On innovation development.

- The resolutions provided for by the directives were adopted at the BD meeting on March 15, 2016 (Minutes No. 119), where:
  - the passport and target values of an integrated KPI of innovative activities, and the revised weights of corporate KPIs, for 2016–2018 were approved,
  - Annex No. 7 to the LTDP was updated subject to the inclusion of the above innovation activity integrated KPI into the LTDP KPIs.
- The updated passport of the integrated KPI of innovative activity of Zarubezhneft JSC was approved by the resolution of the BD on August 21, 2017 (Minutes No. 141).
- Information on achievement of the integrated KPI of innovative activity was included in the Report on the implementation of IDP of Zarubezhneft JSC for 2018 (approved by the BD under Minutes No. 167 dated April 25, 2019).

On optimization and performance enhancement of charity and sponsorship expenditures.

- The resolutions provided for by the directives were adopted at the BD meeting on September 4, 2015 (Minutes No. 109).
- At the meeting of the Board of Directors of Zarubezhneft JSC held on January 14, 2016 (Minutes No. 116), the Regulations on Charitable and Sponsorship Activities of Zarubezhneft JSC were approved.
- At the meeting of the Board of Directors held on November 27, 2017 (Minutes No. 145), the revised edition of the Regulations on Charitable and Sponsorship Activities of Zarubezhneft Group was approved in pursuance of the recommendations based on the audit of the performance of procedures for organizing risks management and internal control system as to preventing and combating corruption.
- In 2019, as part of the implementation of recommendations based on a regular evaluation of the corporate anti-corruption system, a revised edition of the Regulations on Charitable and Sponsorship Activities of Zarubezhneft Group was approved (Minutes No. 176 dated December 30, 2019).
- The budget for sponsorship and charitable activities of Zarubezhneft Group, for 2019, was approved by the Board of Directors on December 25, 2018 (Minutes No. 162) as part of the Business Plan 2019.
- In 2019, Zarubezhneft JSC published information on its charitable and sponsorship activities through its Personal Account, on a quarterly basis.

On the procedure for settlements under export contracts.

- The resolutions provided for by the directives were adopted at the BD meeting on September 4, 2015 (Minutes No. 109).
- In order to implement the directives:
  - pa model contractual condition to export contracts, providing for the possibility to transfer the minimum portion of export settlements in Russian rubles was developed,
  - by Order No. 497 dated December 12, 2019, a new model form of oil export contract containing a model contractual condition on the possibility of making settlements in Russian rubles was approved,
  - in 2019, 15 crude oil supply contracts were concluded under the above model contractual condition on the possibility of making settlements in RUB.
On the introduction of a management bonus system based on the manager KPI and subject to the need to reduce operating expenses (costs) by 2–3% annually, in pursuance of directive No. 2303n-T13 (p-P13) of the Government of the Russian Federation dated April 16, 2015

- The resolutions provided for by the directives were adopted by the BD of Zarubezhneft JSC (Minutes No. 101 dated April 30, 2015).
- By the resolution of the BD (Minutes No. 164 dated February 26, 2019), the Report on the Implementation of Operating Expenses Reduction Program for 2018 (in 2018, the reduction in operating expenses amounted to 3.1%), and the Operating Expenses Reduction Program for 2019, were approved.
- The Report on the Implementation of Operating Expenses Reduction Program for Q1 2019 was considered by the BD of Zarubezhneft JSC (Minutes No. 169 dated June 11, 2019).
- The Report on the Implementation of Operating Expenses Reduction Program for Q2 2019 was considered by the BD of Zarubezhneft JSC (Minutes No. 172 dated September 20, 2019).
- The Report on the Implementation of Operating Expenses Reduction Program for Q3 2019 was considered by the BD of Zarubezhneft JSC (Minutes No. 174 dated November 26, 2019).

On ensuring the establishment of single treasuries of parent, subsidiary and dependent companies, in pursuance of directives No. 510n-T13 (p-P13) dated August 8, 2014, and No. 176n-T13 (p-P13) dated March 26, 2015, of the Federation and Decrees of the Government of the Russian Federation

- The Unified Treasury of Zarubezhneft Group has been functioning since July 1, 2015.
- For the establishment of the Unified Treasury, the following documents were approved:
  - Regulations on Payments in Zarubezhneft Group (Order No. 270 dated September 18, 2017);
  - Regulations on Fundraising and Investment in Zarubezhneft Group (Order No. 231 dated May 20, 2015);
  - Unified Financial and Credit Policies in Zarubezhneft Group, the revised edition (Order No. 58 dated March 31, 2017);


- The resolutions provided for by the directives were adopted at the BD meeting on April 15, 2015 (Minutes No. 100).
- The annual report prepared subject to the requirements stated in the directives was approved by the resolution of the annual General Meeting of Shareholders of Zarubezhneft JSC (Decree No. 409-r of the Federal Agency for State Property Management dated June 30, 2019).
- The report on the LTDP implementation and the KPI achievement, for 2018, was sent to the Federal Agency for State Property Management, the Ministry of Energy and the Ministry of Economic Development, of the Russian Federation (letters No. OK-46-2590 (SK) dated May 20, 2019).

On the net currency assets limitation, in pursuance of directive No. 8495n-T13 (p-P13) of the Government of the Russian Federation dated December 17, 2014

- by Order No. 280 dated July 5, 2016, the Guidelines for Calculating and Monitoring Net Currency Assets possessed by Zarubezhneft Group, were approved.
- At the meeting of the Board of Directors on August 8, 2016 (Minutes No. 126) the resolution on monthly submission of the report form to the Bank of Russia was adopted.
- In 2019, the Department of Finance and Treasury Operations sent to the Bank of Russia information on the net currency assets of Zarubezhneft JSC, on a monthly basis.
On increasing labor performance, and creating and modernizing high-performance jobs.
In pursuance of directive No. 7389-n/P-13 (p-P13) of the Government of the Russian Federation dated October 31, 2014

- Annex No. 6 to the LTDR, “Labor Performance Enhancement Program for 2015–2018”, was developed and approved by the resolution of the Board of Directors of Zarubezhneft JSC (Minutes No. 97 dated February 27, 2015), and the indicator “Labor Performance” was included into the system of corporate KPIs of Zarubezhneft JSC (Minutes No. 103 dated May 28, 2015, Minutes No. 139 dated May 20, 2017).
- Amendments were made to the employment contract with the General Director, as provided for by the directives (supplement to the employment contract dated December 26, 2014).
- In the Personal Account of Zarubezhneft JSC on the Interdepartmental Portal of the Federal Agency for State Property Management, the information on labor performance enhancement is filled up and annually. The information for 2018 was published on March 22, 2019.

On ensuring the JSC adoption of key performance indicators.
In pursuance of directive No. 2579-n/P-13 (p-P13) of the Government of the Russian Federation dated April 25, 2014

- In pursuance of the recommendations of the Revision Commission based on the results of the audit of financial and economic activities of the Company in 2015, the updated Regulation on the KPI System, and the passports of the corporate KPIs of Zarubezhneft JSC were developed and agreed with the Federal Agency for State Property Management (letter No. ДП-05-44/755 (DP) dated October 28, 2016).
- By the resolution of the Board of Directors of Zarubezhneft JSC dated November 25, 2016 (Minutes No. 131), the updated edition of the Regulation on Key Performance Indicators of Zarubezhneft JSC and the updated passports of the corporate KPIs approved by the Federal Agency for State Property Management (letter No. ДП-05-44/775 (DP) dated October 28, 2016) were approved.
- In 2019:
  - The Report on the Corporate KPI Achievement for 2018 was approved by the Board of Directors of Zarubezhneft JSC (Minutes No. 168 dated May 29, 2019).
  - The reports on the KPI achievement for 3 months, 6 months and 9 months 2019 were considered by the Board of Directors of Zarubezhneft JSC (Minutes No. 169 dated June 11, 2019, Minutes No. 173 dated September 30, 2019, and Minutes No. 174 dated November 26, 2019).
- The KPI system of Zarubezhneft JSC was updated in accordance with Decree No. 1388-p of the Government of the Russian Federation dated June 27, 2019, and directive No. 9054-n/P-13 (p-P13) of the Government of the Russian Federation dated October 2, 2019.
- The updated KPIs for 2020 were approved by the resolution of the Board of Directors of Zarubezhneft JSC (Minutes No. 175 dated December 26, 2019).

On conducting process audits and price audits of investment projects.
In pursuance of directive No. 2988-n/P-13 (p-P13) of the Government of the Russian Federation dated May 30, 2013

- By the resolution of the Board of Directors of Zarubezhneft JSC (Minutes No. 110 dated September 30, 2015), the Standard of Process Audit and Price Audit of Investment Projects of Zarubezhneft Group was approved. The above Standard of Process Audit and Price Audit of Investment Projects of Zarubezhneft Group incorporates the recommendations of the Expert Council under the Government of the Russian Federation, as well as the updated regulatory framework in terms of investment and project activities.
- In 2019, no investment projects were identified that fell under the criteria for being included in the scope of process and price audits.


- In 2019, the Report on Sustainable Development of Zarubezhneft JSC for 2018 was prepared and posted on the official website of the Company.

- Information on the implementation progress of the investment programs adopted in Zarubezhneft JSC was updated, on a quarterly basis, in the Personal Account of Zarubezhneft JSC on the Interdepartmental Portal of the Federal Agency for State Property Management.

On implementation of measures aimed at ensuring information transparency of procurement activities and transition to electronic procurement, including regulations governing the procedures for procurement of goods, work and services.

On proposals and recommendations aimed at stimulating the development of environmental responsibility mechanisms based on international standards, including, inter alia, nonfinancial reporting and voluntary certification of systems subject to independent verification and certification (Sub-clause “n” (1) of Clause 1 of List No. Тп-1640 (П) of Instructions of the President of the Russian Federation dated June 6, 2010, and Letter No. ГН-13/37524 (ГН-13/37524) of the Federal Agency for State Property Management dated December 5, 2011)

On increasing labor performance, and creating and modernizing high-performance jobs.

On implementation of the recommendations as to intellectual property rights management.
In pursuance of directive No. 9177-n/P-13 (p-P13) of the Government of the Russian Federation dated December 31, 2010 “On Improvement of the Procedure for Managing Open Joint Stock Companies Whose Shares Are Owned by the Federal Government, and Federal State Enterprises” approved, having stipulated the functions related to the intellectual property rights management, the KPIs sets for evaluation of the IP rights management system in Zarubezhneft JSC regularly posted the relevant information in its Personal Account on the Interdepartmental Portal.

On proposals and recommendations aimed at stimulating the development of environmental responsibility mechanisms based on international standards, including, inter alia, nonfinancial reporting and voluntary certification of systems subject to independent verification and certification (Sub-clause “n” (1) of Clause 1 of List No. Тп-1640 (П) of Instructions of the President of the Russian Federation dated June 6, 2010, and Letter No. ГН-13/37524 (ГН-13/37524) of the Federal Agency for State Property Management dated December 5, 2011)

- By Order No. С-44 of Zarubezhneft JSC dated December 1, 2014, the Smal and Medium Business Entities Partnership Program of Zarubezhneft JSC was approved; both the Partnership Program and the Register of Small and Medium Business Entities Having Joined the Partnership Program were made available on the Company’s website in the Section “Information Disclosure.”
- In 2019, in pursuance of the directives of the Government of the Russian Federation, revised editions of the Regulation on Procurement of Zarubezhneft JSC were prepared, and approved by the BD (Minutes No. 169 dated June 11, 2019, and Minutes No. 176 dated December 30, 2019).
- Quarterly reports on the results of procurement activities were considered at the meetings of the Board of Directors of Zarubezhneft JSC as follows: the Report for Q4 2018 (Minutes No. 166 dated March 29, 2019, the Report for Q1 2019 (Minutes No. 172 dated September 20, 2019), and the Report for Q3 2019 (Minutes No. 174 dated November 26, 2019).

- Refer to the Section "Environmental Protection".
  - At the meeting of the Board of Directors held on April 20, 2012 (Minutes No. 59) the Environmental Program of Zarubezhneft Group of Companies was approved. In order to control the implementation of the Program, a specialized unit, the Occupational Health and Safety and Environmental Protection Section, was established in Zarubezhneft JSC.
  - In 2019, the Report on Sustainable Development of Zarubezhneft JSC for 2018 was prepared. The Report is available on the official website of Zarubezhneft JSC.
On development and approval of the list of laws governing the Joint Stock Company’s activity, as well as on ensuring submission of reports on implementation of long-term development programs, and on achieving approved key performance indicators, in accordance with Clauses 2 and 3 of Instruction No. Tip-2013 (P) of the President of the Russian Federation dated December 27, 2014

References:
1. The report on the execution of the Company’s long-term development program, dated December 29, 2014, and ordered No. 1211/02 (ES) dated November 12, 2014, and approved by the resolution of the Board of Directors of the Company (Minutes No. 91 dated November 20, 2014).
2. Refer to the Section “Long-Term Development Program”.
3. The regulation on Key Performance Indicators and the corporate KPI passports were approved by the Board of Directors (Minutes No. 144 dated December 24, 2014).
4. In 2016, subsequent to approval by the Federal Agency for State Property Management (Letter No. D17-05-44755 (DP) dated October 28, 2016), the updated editions of the Regulations on Key Performance Indicators and the corporate KPI passports were approved by the resolution of the Board of Directors of the Company. In 2017, at the meeting of the Board of Directors held on August 21, 2017 (Minutes No. 143), the revised edition of the Passports of Zarubezhneft JSC Innovation Activity Integrated Key Performance Indicator was approved.
5. Regulations on increasing investment and operational performance and reducing expenditures were approved by the resolution of the Board of Directors of Zarubezhneft JSC (Minutes No. 117 dated January 29, 2016; the previous edition was approved by Minutes No. 112 dated November 11, 2015).
6. The regulation on internal audit was approved by the resolution, the Board of Directors (Minutes No. 97 dated February 27, 2015). In accordance with the Guidelines for Preparing the Regulation on Internal Audit, the Company developed a revised edition of the Regulation on Internal Audit in Zarubezhneft JSC (approved by the resolution of the Board of Directors (Minutes No. 110 dated September 30, 2015)). In 2016, the Regulation on Internal Audit in Zarubezhneft JSC was updated subject to the Guidelines for Organizing Risks Management and Internal Control System as to Preventing and Combating Corruption, and approved by the resolution of the Board of Directors of Zarubezhneft JSC on October 14, 2016 (Minutes No. 128 dated October 14, 2016).
7. The regulation on quality management system of Zarubezhneft JSC was approved by the resolution, the Board of Directors of Zarubezhneft JSC (Minutes No. 112 dated November 11, 2015). In 2016, the updated edition of the Regulation on the Quality Management System of Zarubezhneft JSC was approved (Minutes No. 133 dated December 27, 2016).
8. The Risk Management Policy of Zarubezhneft JSC was approved by the resolution of the Board of Directors of Zarubezhneft JSC (Minutes No. 112 dated November 11, 2015). In 2016, the updated edition of the Regulation on the Quality Management System of Zarubezhneft JSC was approved (Minutes No. 133 dated December 27, 2016).
9. The Risk Management Policy of Zarubezhneft JSC was approved by the resolution of the Board of Directors of Zarubezhneft JSC (Minutes No. 112 dated November 11, 2015). In 2016, the updated edition of the Regulation on the Quality Management System of Zarubezhneft JSC was approved (Minutes No. 133 dated December 27, 2016).
10. The Regulation on the Procedure for Developing and Implementing the Innovation Development Program of Zarubezhneft JSC was approved by Order No. 262 of Zarubezhneft JSC dated September 6, 2017 (previous editions were approved by Order No. 635 dated December 30, 2015, and Order No. 541 dated November 16, 2015).
Information about the Non-Core Asset Disposition Program of Zarubezhneft JSC


Information about Sales of Non-Core Assets for 2019

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Asset name</th>
<th>Asset inventory number (if applicable)</th>
<th>The balance sheet line the asset was recorded under on the reporting date prior to the sale of the asset</th>
<th>Balance value of the asset (thous RUB)</th>
<th>Actual sales value (thous RUB)</th>
<th>Deviation of actual cost of sales from the asset balance value (thous RUB)</th>
<th>The reason for the deviation of actual cost of sales from the asset balance value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Track-type snow/marsh vehicle ZVM 24110P Uzola</td>
<td>004075</td>
<td>1150</td>
<td>0</td>
<td>331</td>
<td>+331</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>2</td>
<td>Tank semi-trailer NEFAZ (AE020373)</td>
<td>00000236</td>
<td>1150</td>
<td>0</td>
<td>57</td>
<td>+57</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>3</td>
<td>Tank semi-trailer NEFAZ (AE020273)</td>
<td>00-00319</td>
<td>1150</td>
<td>0</td>
<td>61</td>
<td>+61</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>4</td>
<td>Special-purpose bus, GAZ VM-3284</td>
<td>769</td>
<td>1150</td>
<td>169.3</td>
<td>169.3</td>
<td>0</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>5</td>
<td>Motor vehicle UAZ-390945-360</td>
<td>00-00394</td>
<td>1150</td>
<td>0</td>
<td>29</td>
<td>+29</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>6</td>
<td>Motor vehicle UAZ-390995 E251MO73</td>
<td>00-00000-000427</td>
<td>1150</td>
<td>131.7</td>
<td>132</td>
<td>+0.3</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>7</td>
<td>Cable winding machine (trailer unit 8341(4333US73))</td>
<td>00-000318</td>
<td>1150</td>
<td>84.7</td>
<td>92</td>
<td>+7.3</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>8</td>
<td>Hyundai IX 35 351</td>
<td>0000-000-001491</td>
<td>1150</td>
<td>0</td>
<td>750</td>
<td>+750</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>9</td>
<td>Ford Cargo 907</td>
<td>00000271</td>
<td>1150</td>
<td>1,031.6</td>
<td>1,031.6</td>
<td>0</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>10</td>
<td>Ural PPU 344</td>
<td>00000012</td>
<td>1150</td>
<td>0</td>
<td>255</td>
<td>+255</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>11</td>
<td>Ural KPM 346</td>
<td>00000016</td>
<td>1150</td>
<td>0</td>
<td>185</td>
<td>+185</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>12</td>
<td>FORD CARGO 709</td>
<td>00000229</td>
<td>1150</td>
<td>643.4</td>
<td>658</td>
<td>+24.6</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>13</td>
<td>UAZ-120290 763</td>
<td>00-00394</td>
<td>1150</td>
<td>88.5</td>
<td>93.5</td>
<td>+5</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>14</td>
<td>GAZ 2705-505</td>
<td>00000186</td>
<td>1150</td>
<td>0</td>
<td>42</td>
<td>+42</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>15</td>
<td>Kamaz 65116-62-418</td>
<td>101264</td>
<td>1150</td>
<td>229.6</td>
<td>570</td>
<td>+340.4</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>16</td>
<td>Bus Peugeot 591</td>
<td>101316</td>
<td>1150</td>
<td>0</td>
<td>385</td>
<td>+385</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>17</td>
<td>UAZ-390945 605</td>
<td>101203</td>
<td>1150</td>
<td>0</td>
<td>60</td>
<td>+60</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>18</td>
<td>Chevrolet Nova 607</td>
<td>101372</td>
<td>1150</td>
<td>0</td>
<td>360</td>
<td>+360</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>19</td>
<td>Lorryboy CKM ZAP 9221</td>
<td>00000088</td>
<td>1150</td>
<td>0</td>
<td>130</td>
<td>+130</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>20</td>
<td>KAMAZ 53504-46 779</td>
<td>00003029</td>
<td>1150</td>
<td>466.7</td>
<td>880</td>
<td>+413</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>21</td>
<td>VAZ LADA 4x4 2131 A313TP73</td>
<td>00000273</td>
<td>1150</td>
<td>0</td>
<td>70</td>
<td>+70</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>22</td>
<td>UAZ Patriot, with cargo box, 390</td>
<td>000-101389</td>
<td>1150</td>
<td>227.2</td>
<td>267.2</td>
<td>+40</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>23</td>
<td>Honda CR-V (Am.) 181</td>
<td>101326</td>
<td>1150</td>
<td>0</td>
<td>805</td>
<td>+805</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>24</td>
<td>GAZ articulating crane 335</td>
<td>00000048</td>
<td>1150</td>
<td>0</td>
<td>305</td>
<td>+305</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>25</td>
<td>Honda CR-V 877</td>
<td>101348</td>
<td>1150</td>
<td>0</td>
<td>315</td>
<td>+315</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>26</td>
<td>Mitsubishi Pajero 817</td>
<td>101178</td>
<td>1150</td>
<td>0</td>
<td>605</td>
<td>+605</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>27</td>
<td>Heavy-duty semi-trailer 0917</td>
<td>101329</td>
<td>1150</td>
<td>274</td>
<td>295</td>
<td>+21</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>28</td>
<td>KAMAZ 65116 tractor 374</td>
<td>101251</td>
<td>1150</td>
<td>132</td>
<td>260</td>
<td>+128</td>
<td>Sold by auction</td>
</tr>
</tbody>
</table>

The measures on sale of the non-core assets were taken on the basis of the documents approved by the Board of Directors of Zarubezhneft JSC, as follows:

- Non-Core Asset Disposition Program (Minutes No. 145 of the BD meeting dated November 27, 2017);
- Register of Non-Core Assets (Minutes No. 166 of the BD meeting dated March 29, 2019);
- Plan for Sale of Non-Core Assets (Minutes No. 166 of the BD meeting dated March 29, 2019).

In total, as of the end of 2019, 49 non-core assets were sold for a total amount of over 28.5 MM RUB (48 assets were sold through competitive bidding at public auctions and 1 non-core asset was liquidated).
<table>
<thead>
<tr>
<th>Item No.</th>
<th>Asset name</th>
<th>Asset inventory number (if applicable)</th>
<th>The balance sheet line the asset was recorded under on the reporting date prior to the sale of the asset</th>
<th>Balance value of the asset (thous RUB)</th>
<th>Actual sales value (thous RUB)</th>
<th>Deviation of actual cost of sales from the asset balance value (thous RUB)</th>
<th>The reason for the deviation of actual cost of sales from the asset balance value</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>Vacuum truck AKN (OSR; Oil Spill Recovery), on undercarriage, KAMAZ 284</td>
<td>000-101427</td>
<td>1150</td>
<td>1,341</td>
<td>1,595</td>
<td>+254</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>30</td>
<td>Steam generating unit, on undercarriage, KAMAZ 43118-15</td>
<td>101200</td>
<td>1150</td>
<td>0</td>
<td>935</td>
<td>+935</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>31</td>
<td>Suzuki Grand Vitara 313</td>
<td>00000253</td>
<td>1150</td>
<td>0</td>
<td>465</td>
<td>+465</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>32</td>
<td>Toyota Avensis 619</td>
<td>Y(U) 619 YP (UR) 199</td>
<td>1150</td>
<td>0</td>
<td>670</td>
<td>+670</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>33</td>
<td>Toyota Avensis 380</td>
<td>000(G3)380aw(III) 199</td>
<td>1150</td>
<td>0</td>
<td>556</td>
<td>+556</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>34</td>
<td>Toyota Avensis 156</td>
<td>h(N)(156)PKR(II) 197</td>
<td>1150</td>
<td>0</td>
<td>693</td>
<td>+693</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>35</td>
<td>Opel Insignia 612</td>
<td>000-01409</td>
<td>1150</td>
<td>0</td>
<td>419</td>
<td>+419</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>36</td>
<td>Skoda Octavia (A22-M-840)</td>
<td>A(A)(22-M)(M)-840</td>
<td>143100</td>
<td>96</td>
<td>339.5</td>
<td>+243.5</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>37</td>
<td>Skoda Octavia (A24-D-374)</td>
<td>A(A)(24-D)(D)-374</td>
<td>143100</td>
<td>0</td>
<td>293.4</td>
<td>+293.4</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>38</td>
<td>Toyota Avensis</td>
<td>Y(U) 620 YP(UR) 199</td>
<td>1150</td>
<td>0</td>
<td>616</td>
<td>+616</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>39</td>
<td>Toyota Avensis</td>
<td>Y(U) 621 YP(UR) 199</td>
<td>1150</td>
<td>0</td>
<td>614</td>
<td>+614</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>40</td>
<td>Bus Mercedes 2018</td>
<td>0041514</td>
<td>143100</td>
<td>551</td>
<td>1,372</td>
<td>Sold by auction</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>Bolster-type haulage tractor MAZ, E368M073</td>
<td>000-00000-000442</td>
<td>1150</td>
<td>1,500</td>
<td>640</td>
<td>–860</td>
<td>Sold by open auction (the sale below the balance value was approved by the BD of Zarubezhneft JSC, Minutes No. 166 dated March 29, 2019)</td>
</tr>
<tr>
<td>42</td>
<td>Cementing truck Ta&amp;-320, with pump Ta&amp;-26-32, on undercarriage, E914M073</td>
<td>000-00000-000508</td>
<td>1150</td>
<td>1,429</td>
<td>2,053</td>
<td>+624</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>43</td>
<td>Tractor with dozer blade attachment B10M</td>
<td>101371</td>
<td>1150</td>
<td>562</td>
<td>805</td>
<td>+243</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>44</td>
<td>Bolster-type haulage tractor MAZ No. E367M073</td>
<td>000-00000-000444</td>
<td>1150</td>
<td>1,500</td>
<td>700</td>
<td>–900</td>
<td>Sold by open auction (the sale below the balance value was approved by the BD of Zarubezhneft JSC, Minutes No. 166 dated March 29, 2019)</td>
</tr>
<tr>
<td>45</td>
<td>Health complex, bathhouse/sauna, 27 km</td>
<td>64420</td>
<td>1150</td>
<td>11,687</td>
<td>5,662</td>
<td>–6,025</td>
<td>Sold by open auction (the sale below the balance value was approved by the BD of Zarubezhneft JSC, Minutes No. 166 dated March 29, 2019)</td>
</tr>
<tr>
<td>46</td>
<td>Bolster-type haulage tractor MAZ-6433VP9-1420-010</td>
<td>00-000351</td>
<td>1150</td>
<td>1,041.8</td>
<td>535</td>
<td>–506.8</td>
<td>Sold by open auction (the sale below the balance value was approved by the BD of Zarubezhneft JSC, Minutes No. 166 dated March 29, 2019)</td>
</tr>
<tr>
<td>47</td>
<td>Semitrailer MAZ 4802-G7</td>
<td>00000064</td>
<td>1150</td>
<td>0</td>
<td>48</td>
<td>+48</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>48</td>
<td>URAL 4320 A4x10 S13S389 AS</td>
<td>00000019</td>
<td>1150</td>
<td>0</td>
<td>181</td>
<td>+181</td>
<td>Sold by auction</td>
</tr>
<tr>
<td>49</td>
<td>Arkh Dilling Limited Inc. (18% of the authorized capital owned by AMPGR LLC)</td>
<td>11700</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Non-core asset was liquidated</td>
</tr>
</tbody>
</table>

In order to structure the sale of non-core assets, Zarubezhneft JSC approved the Regulations on the Organization of Sale of Non-Core Assets of Zarubezhneft Group (Order No. 127 dated May 17, 2017), which provides for a detailed and phased way of sale of the non-core assets through competitive procedures subject to the requirements of the legislation of the Russian Federation, as follows:  
• Stage 1: Holding auctions/tenders;  
• Stage 2: Sale by public offering;  
• Stage 3: Sale with no price declared;  
• Stage 4: Preparation of further proposals for sale of non-core assets (in the event if the above 3 stages have not identified a purchaser, a range of proposals will be prepared for possible transfer of the non-core asset for rent or pledge, gratuitous transfer thereof, etc.).  

Reports on sale of non-core assets across Zarubezhneft Group were considered quarterly at the meetings of the Board of Directors of Zarubezhneft JSC.
In 2019, Zarubezhneft JSC took part, as a defendant, in two court cases on claims associated with labor relations (on recovery of wages and on compensation for moral damage) for the total amount of 3,240,223 RUB. The plaintiffs’ claims were denied in full.

In addition, the Moscow Arbitration Court is considering four court cases raised by applications of Zarubezhneft JSC to challenge the decisions of the Federal Tax Service Inspectorate No. 1 for Moscow dated November 14, 2018 on the additional assessment of property tax for the period from Q1 through Q4 2016, for the total amount of 17,401,016 RUB, filed in connection with changes in the cadastral value of immovable property. These cases have not been considered or decided upon yet.

The results of certain large-scale court cases involving Zarubezhneft Group subsidiaries in 2019 should also be noted, as follows:

• By the decision of the Arbitration Court of the Murmansk Region, dated December 18, 2019, AMNGR JSC claims as to invalidate Decision No. 2 dated May 25, 2018 of the Murmansk Region Federal Tax Service Interdistrict Inspectorate, adopted based on the field tax audit for 2014–2015, were partially satisfied. Against the total amount of 35,366,594.41 RUB of additionally assessed taxes plus fines and penalties, contested by AMNGR JSC, AMNGR JSC claims were satisfied in the amount of 24,865,656.23 RUB.

The legal disputes regarding the corporate relations involving BH Group Subsidiaries should be noted as ongoing since 2013.

In 2019, in particular, the District Commercial Court and the Main Court of Banja Luka considered court cases on eight lawsuits filed by minority shareholders (legal entities and individuals) against Nestro Petrol A.D. and Neftegazincor LLC for forced redemption of shares, as well as on setting the redemption price of shares of Modriča Motor Oil Plant A.D. (claims totaling 2,592,722.08 KM).

Four court cases have been considered as of the date. In three of the above cases, in the total amount of 1,925,371.46 KM, the court denied the claims of the minority shareholders in full, while in one case amounting to 45,878 KM the claims of the minority shareholder were satisfied. The remaining cases are pending and no decision has been taken on them.

The reason for such lawsuits was the fact that at the time of their filing, Nestro Petrol A.D. and Neftegazincor LLC (as affiliates) jointly owned more than 90% of the shares of Modriča Motor Oil Plant A.D.

Legal subdivisions of the Subsidiaries defend the interests of Zarubezhneft JSC through both judicial and extrajudicial procedures. The arising court cases with their participation are mainly related to the ordinary course of business and pose no significant risk to the financial and economic activities of Zarubezhneft Group of Companies.

In accordance with the Articles of Association of Zarubezhneft JSC and with account taken of the details of the Company’s accounting (financial) statements, the major transactions in 2019 were those worth over 43.5 bln RUB.

In 2019, Zarubezhneft JSC concluded no major transactions.

In 2019, the Company concluded no contracts/agreements whereto the regulations on related-party transactions would apply.
LIST OF PROGRAMS IMPLEMENTED BY ZARUBEZHNEFT JSC AS PART OF ITS DEVELOPMENT STRATEGY AND LONG-TERM DEVELOPMENT PROGRAM

- The updated Program of Innovative Development of Zarubezhneft JSC for 2016–2020 (with potential prospects till 2030) was approved by the Board of Directors of Zarubezhneft JSC (Minutes No. 127 dated September 14, 2016).
- Performance Enhancement and Costs Optimization Program of Zarubezhneft Group was approved by the resolutions of the Board of Directors of Zarubezhneft JSC (Minutes No. 127 dated September 14, 2016, No. 134 dated February 16, 2017, and No. 150 dated February 22, 2018).
- The Labor Performance Enhancement Program was formed and included into the Long-Term Development Program of Zarubezhneft JSC based on Directive No. 7389/П-13 (p-P13) dated October 31, 2014 and approved by the Board of Directors (Minutes No. 97 dated February 27, 2015, No. 150 dated February 22, 2018, and No. 163 dated January 28, 2019).
- The activities of the Long-Term Development Program to accelerate the growth rates of investments in fixed capital of the Exploration and Production segment were approved within the scope of Annex No. 14 to the Long-Term Development Program by the resolution of the Board of Directors of Zarubezhneft JSC (Minutes No. 169 dated June 11, 2019).
- Methodology for Planning and Conducting Internal Audits in Zarubezhneft JSC was approved by the resolution of the BD dated January 21, 2019.
- A set of measures aimed at scheduled and phased replacement of procurements, work and services with equivalent Russian production, work and services was approved within the scope of Annex No. 8 to the Long-Term Development Program by the resolution of the Board of Directors of Zarubezhneft JSC (Minutes No. 147 dated December 19, 2017, No. 150 dated February 22, 2018, and No. 169 dated June 11, 2019).
- Regulations for Auditing Subsidiaries (approved by Order No. 409 dated December 21, 2017).
- The activities of the Long-Term Development Program to accelerate the growth rates of investments in fixed capital of the Exploration and Production segment were approved within the scope of Annex No. 14 to the Long-Term Development Program by the resolution of the Board of Directors of Zarubezhneft JSC (Minutes No. 169 dated June 11, 2019).

LIST OF THE BYLAWS GOVERNING THE ANNUAL REPORT PREPARATION

- Regulation on Internal Audit in Zarubezhneft JSC (approved by the Resolution of the BD dated November 20, 2018, Minutes No. 160).
- Methodology for Planning and Conducting Internal Audits (approved by Order No. 14 dated January 21, 2019).
- Internal Control Policy in Zarubezhneft JSC (approved by the resolution of the BD dated June 26, 2016, Minutes No. 125).
- Regulations for Auditing Subsidiaries (approved by Order No. 409 dated December 21, 2017).
- The consolidation of financial statements prepared under the IFRS. Selection of the audit company for audit of Zarubezhneft Group consolidated financial statements for 2019–2020 was carried out through an open request for proposals as per the requirements stated in Federal Law No. 223-FZ (FZ) "On Audit of Companies", and the tender was won by Deloitte & Touche CIS JSC.

INFORMATION ON THE AUDITOR OF ZARUBEZHNEFT JSC ACCOUNTING STATEMENTS FOR THE FINANCIAL YEAR

Zarubezhneft JSC annually engages external auditors for auditing the accounting (financial) statements prepared under the Russian Accounting Standards.

In 2018, Nexia Pacioli LLC won the competition and became the RAS statements auditor. The cost of services of Nexia Pacioli LLC on the audit of the accounting (financial) statements for 2019 amounted to 708.0 thous RUB. Besides, Nexia Pacioli LLC provided audit services as to special purpose financial statements of Zarubezhneft JSC for 2018, in the amount of 180.0 thous RUB, and services on auditing the implementation of Zarubezhneft JSC Long-Term Development Program for 2018, in the amount of 852.0 thous RUB.

EXTRACT FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF ZARUBEZHNEFT GROUP AND INFORMATION ON THE AUDITOR, FOR THE FINANCIAL YEAR

The Federal Treasury, and the Self-Regulatory Organization of Auditors (SRO) the auditor belongs to, regularly exercise control over the auditor’s activities.

Zarubezhneft JSC annually engages external auditors for auditing the consolidated financial statements prepared under the IFRS. Selection of the audit company for audit of Zarubezhneft Group consolidated financial statements for 2019–2020 was Deloitte & Touche CIS JSC.

The winner of the tender and the auditor of the consolidated financial statements of Zarubezhneft Group for 2019–2020 was Deloitte & Touche CIS JSC. Deloitte & Touche CIS JSC performs quality control of audit engagements as of and before the date of issue of the audit opinion, as well as inspection and monitoring of quality of auditor’s documentation for the audits prior completed. The cost of the services provided by Deloitte & Touche CIS JSC as to the audit of the consolidated financial statements for 2019, amounted to 11,159 thous RUB.
### Consolidated statement of profit and loss and other comprehensive income for the year ended on December 31, 2019

#### Million, Russian RUB

<table>
<thead>
<tr>
<th>Category</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue From Sales and Joint Operations Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of oil, gas and petroleum products</td>
<td>65,300</td>
<td>58,521</td>
</tr>
<tr>
<td>Support services and other sales</td>
<td>9,521</td>
<td>10,996</td>
</tr>
<tr>
<td>Joint venture income</td>
<td>18,068</td>
<td>22,526</td>
</tr>
<tr>
<td><strong>Total Revenue From Sales and Joint Operations Income</strong></td>
<td>92,889</td>
<td>92,043</td>
</tr>
<tr>
<td><strong>Costs and Expenditures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of purchased oil, gas and petroleum products</td>
<td>(40,637)</td>
<td>(35,953)</td>
</tr>
<tr>
<td>Business and operating expenses</td>
<td>(15,512)</td>
<td>(15,715)</td>
</tr>
<tr>
<td>Selling and marketing, general running, and administrative expenditures</td>
<td>(5,236)</td>
<td>(6,188)</td>
</tr>
<tr>
<td>Taxes other than the profit tax</td>
<td>(5,543)</td>
<td>(5,336)</td>
</tr>
<tr>
<td>Depreciation, depletion and amortization</td>
<td>(4,056)</td>
<td>(3,525)</td>
</tr>
<tr>
<td>Transportation expenditures</td>
<td>(2,600)</td>
<td>(2,244)</td>
</tr>
<tr>
<td>Geological exploration costs</td>
<td>(211)</td>
<td>(118)</td>
</tr>
<tr>
<td>Export duty</td>
<td>(342)</td>
<td>(655)</td>
</tr>
<tr>
<td>Other income/(expenses), net</td>
<td>2,229</td>
<td>(544)</td>
</tr>
<tr>
<td><strong>Profit from operating activities</strong></td>
<td>19,411</td>
<td>21,765</td>
</tr>
<tr>
<td>Expenditures on assets impairment, net</td>
<td>(413)</td>
<td>(6,977)</td>
</tr>
<tr>
<td><strong>Financial income</strong></td>
<td>999</td>
<td>595</td>
</tr>
<tr>
<td>Financial expenditures</td>
<td>(806)</td>
<td>(1,862)</td>
</tr>
<tr>
<td>Currency differences, net</td>
<td>(2,018)</td>
<td>4,042</td>
</tr>
<tr>
<td><strong>Profit before profit tax</strong></td>
<td>16,273</td>
<td>17,563</td>
</tr>
<tr>
<td>Current profit tax</td>
<td>(1,866)</td>
<td>(4,030)</td>
</tr>
<tr>
<td>Deferred profit tax</td>
<td>(932)</td>
<td>(1,040)</td>
</tr>
<tr>
<td><strong>NET PROFIT FOR THE YEAR</strong></td>
<td>13,453</td>
<td>11,590</td>
</tr>
</tbody>
</table>

Net profit/(loss) for the year, attributable to:

- Parent company shareholder: 13,310
- Minority shares: 143

13,453

**OTHER COMPREHENSIVE INCOME/(EXPENSES)**

<table>
<thead>
<tr>
<th>Category</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect of translation to presentation currency</td>
<td>(7,257)</td>
<td>12,246</td>
</tr>
<tr>
<td>Cash flow hedge result</td>
<td>-</td>
<td>323</td>
</tr>
<tr>
<td>Other Comprehensive Income/(Expenses) for the Year less Profit Tax</td>
<td>(7,257)</td>
<td>12,569</td>
</tr>
<tr>
<td><strong>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</strong></td>
<td>6,196</td>
<td>24,159</td>
</tr>
</tbody>
</table>

Other comprehensive income/(expenses) for the year, attributable to:

- Parent company shareholder: 5,426
- Minority shares: 770

6,196

### Consolidated statement of financial position as of December 31, 2019

#### Million, Russian RUB

<table>
<thead>
<tr>
<th>Category</th>
<th>December 31, 2019</th>
<th>December 31, 2018</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>Property, plant and equipment</td>
<td>40,024</td>
<td>38,583</td>
</tr>
<tr>
<td>Investment in Joint Ventures</td>
<td>74,822</td>
<td>87,565</td>
</tr>
<tr>
<td>Debt securities</td>
<td>4,230</td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>1,104</td>
<td>1,629</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>3,028</td>
<td>2,206</td>
</tr>
<tr>
<td><strong>Total Non-Current Assets</strong></td>
<td>124,108</td>
<td>130,161</td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>4,427</td>
<td>8,043</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>5,447</td>
<td>4,775</td>
</tr>
<tr>
<td>Dividends debt</td>
<td>5,111</td>
<td>9,383</td>
</tr>
<tr>
<td>Taxes recoverable and tax prepayments</td>
<td>1,676</td>
<td>1,139</td>
</tr>
<tr>
<td>Borrowings issued</td>
<td>4,160</td>
<td>4,458</td>
</tr>
<tr>
<td>Debt securities</td>
<td>6,861</td>
<td>1,062</td>
</tr>
<tr>
<td>Deposits, cash and cash equivalents</td>
<td>35,387</td>
<td>32,836</td>
</tr>
<tr>
<td>Other current assets</td>
<td>1,146</td>
<td>1,086</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td>64,215</td>
<td>63,689</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>188,323</td>
<td>193,841</td>
</tr>
<tr>
<td><strong>EQUITY CAPITAL AND LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital and Provisions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized capital</td>
<td>50,729</td>
<td>50,729</td>
</tr>
<tr>
<td>Other provisions</td>
<td>14,310</td>
<td>13,243</td>
</tr>
<tr>
<td><strong>Total Capital and Provisions</strong></td>
<td>169,029</td>
<td>164,026</td>
</tr>
<tr>
<td><strong>Undistributed profit</strong></td>
<td>56,224</td>
<td>51,873</td>
</tr>
<tr>
<td><strong>Parent company shareholders’ equity</strong></td>
<td>148,507</td>
<td>148,013</td>
</tr>
<tr>
<td>Minority shares</td>
<td>(9,207)</td>
<td>(9,485)</td>
</tr>
<tr>
<td><strong>Total Capital and Provisions</strong></td>
<td>136,800</td>
<td>136,528</td>
</tr>
<tr>
<td><strong>Long-Term Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term loan liabilities</td>
<td>14,743</td>
<td>15,231</td>
</tr>
<tr>
<td>Long-term estimated liabilities</td>
<td>10,988</td>
<td>10,195</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>5,716</td>
<td>5,320</td>
</tr>
<tr>
<td><strong>Total Long-Term Liabilities</strong></td>
<td>31,447</td>
<td>30,764</td>
</tr>
<tr>
<td><strong>Short-Term Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term loan liabilities</td>
<td>6,441</td>
<td>10,975</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>8,201</td>
<td>8,555</td>
</tr>
<tr>
<td>Short-term estimated liabilities</td>
<td>1,424</td>
<td>1,448</td>
</tr>
<tr>
<td><strong>Tax liabilities</strong></td>
<td>1,623</td>
<td>2,877</td>
</tr>
<tr>
<td><strong>Derivative financial instruments</strong></td>
<td>186</td>
<td>1,327</td>
</tr>
<tr>
<td><strong>Other short-term liabilities</strong></td>
<td>2,111</td>
<td>1,391</td>
</tr>
<tr>
<td><strong>Total Short-term Liabilities</strong></td>
<td>24,076</td>
<td>26,567</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>151,523</td>
<td>157,313</td>
</tr>
<tr>
<td><strong>Total Capital and Liabilities</strong></td>
<td>188,323</td>
<td>193,841</td>
</tr>
</tbody>
</table>
GLOSSARY

AG – additional goods
AIS – analytical information system
APG – associated petroleum gas
ARP – asphaltene-resin-paraffin deposits
BP – business process
CPF – central production facility
CIS – commonwealth of independent states
ERP – emergency response plan
ESP – electrical submersible pump
FPM – formation pressure maintenance
Freight – the carriage charge payable for cargo transportation or using a vessel
PWDU – preliminary water discharge unit
HFF – hydraulic formation fracturing
HPF – hazardous production facility
HSE – Health, Safety and Environment
IDP – innovative development program
IFRS – international financial reporting standards
IRD – internal regulatory documents
IT – Information Technology
JSC – joint-stock company
JV – joint venture
KFU – Kazan federal university
KPI – Key Performance Indicators
KPSA – Kharyaga production sharing agreement
LLC – limited liability company
LTDP – long-term development program
MET – Mineral Extraction Tax
MPC – maximum permissible concentration
NTS – new technologies
ORF – oil recovery factor
OSCP – oil spill contingency plan
PSA – production sharing agreement
R&D – research and development
RAS – Russian Accounting Standards
RMNTK – Russian Interdisciplinary Scientific and Technical Center
ROE – return on equity
SRO – self-regulatory organization (of auditors)
TOE – tons of oil equivalent
UoM – unit of measure (merit)
Upstream (segment) – production, intra-field transportation and primary processing of hydrocarbons
VAT – value added tax
WHP – wellhead platform

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