

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 59.5-71.4 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 as of the end of 2019 amounted to 4.77 MM t.o.e., which exceeds 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'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 0.9% more than in 2018.

Speaking about the success of our companies, I would like to note that JC RUSVIETPETRO 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.

**SERGEY KUDRYASHOV**GENERAL DIRECTOR
OF ZARUBEZHNEFT JSC

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 Jaruco 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 Jaruco 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 Lents 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 provided 140% replenishment of oil production volumes. The growth of 2P (proved + probable) category reserves amounted to over 7 MM tons.

The Company achieved these indicators owing to high efficiency of exploration

wells drilling - the performance exceeded 80%, as well as implementation of the action plan aimed at stabilizing base oil production.

The stable condition of the resource base indicates a balanced portfolio of Zarubezhneft JSC's assets, consisting of prospecting sites and fields, which allows for stable investment in exploration works (EW) and putting new fields into development while maintaining financial stability.

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 with the main business, a gradual expansion is planned in this direction, starting with the most familiar regions. The first power generation facilities - three solar power plants - will be built in Vietnam.

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.



CORPORATE EVOLUTION

Corporate evolution is another part of the overall Strategy of Zarubezhneft JSC. A key decision was made to synchronously improve processes and develop corporate culture and personnel, taking into account external challenges and market trends such as centralization and digitalization.

The performance management system has been implemented in Zarubezhneft JSC since 2014. In 6 years, key instruments of performance improvement have been gradually integrated into it. Efforts are primarily aimed at improving existing business processes. Work in this area started with the introduction of an internal audit and risk management system, IFRS-based financial and accounting reporting, a planning and budgeting system, a matrix of corporate interaction, and the Integrated Labor Payment System (ILPS), which includes the principles of grading establishment and project incentives.

To date, all introduced performance improvement tools have been integrated into a unified comprehensive system of continuous improvement and provide for a closed cycle of continuous improvement of business processes. In 2019, the comprehensive system

of quality and performance management was patented in the Russian Federal Service for Intellectual Property (Rospatent).

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.

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