

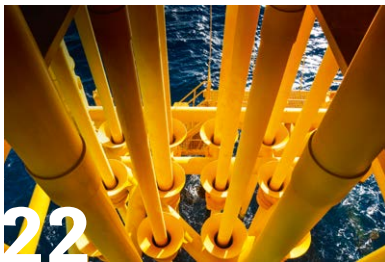




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**2014**





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A close-up portrait of a man with short, dark hair and light-colored eyes, wearing a light blue striped shirt and a dark blue tie. The background is softly blurred, suggesting an indoor office setting with natural light.

**STATEMENT FROM  
THE GENERAL DIRECTOR  
OF ZARUBEZHNEFT  
SERGEY KUDRYASHOV**



The past year was a complicated and unstable one both for the country as a whole as well as for enterprises in the fuel-and-energy complex. Despite this, our company coped well with the difficulties and challenges posed in 2014. Due to this, we have fully performed our obligations to our shareholder – the state, by paying out in time and in full the given dividends and also ensured a growth of indicators in all the segments of its activity.

DEAR COLLEAGUES, PARTNERS AND FRIENDS,

## UPSTREAM

Based on the results of 2014, oil production by the Zarubezhneft Group of companies was 10,300 thousand tonnes. This was 199 thousand tonnes (2.0%) greater than the planned target (10,101 thousand tonnes) and 147 thousand tonnes (1.4%) greater than the target of the previous year.

Production growth has been the result, first of all, of the dynamic development of the JC RUSVIETPETRO project in the Nenets Autonomous Area. Oil production by RUSVIETPETRO for 2014 was 3,203 thousand tonnes, exceeding by 15% the production level of 2013. Achievement of such indicators by RUSVIETPETRO has been a result of active drilling in the fields being developed in the Central-Khoreyver Uplift (CKU).

In relation to our main asset in Vietnam JV Vietsovpetro, we carried out a large complex work, and, as a result, have managed to stabilise the declining production from fields that have been operated for over 30 years. This has been possible thanks to the commissioning of new wells, remedial stimulation work on older wells, and the efficient management of the reservoir pressure maintenance system.

Almost all exploration wells drilled off the shore of Vietnam turned to be successful. The oil free flow rate stood at 150 to 2,000 tonnes per day.

At the 44th meeting of JV Vietsovpetro's Board of Participants of held in Vietnam, the 2015 production target was set, and for the first time in many years this indicator was not decreased but scheduled at the same level as the previous year: 5.100 million tonnes of oil. Moreover, the target in 2016 is to boost production.

It is important to note the fact that the Murmanskaya jack-up rig owned by Zarubezhneft's subsidiary Arktikmorneftegazrazvedka drilled some of the wells off the shore of Vietnam. In 2014, this jack-up rig underwent a workover and is now operating effectively in Vietnam. Shortly we will also complete a workover of the Deep Venture Drilling Ship (former Valentin Shashin).

Our projects' successes with Vietnamese partners have not gone unnoticed by the Vietnamese authorities. In November 2014, the General Secretary of the Central Committee of the Communist Party of Vietnam Nguyen Phu Trong visited Zarubezhneft while in the Russian Federation on an official visit. This reflects just how a great trust there is in our work and serves as an impetus for a further efficient cooperation with our Vietnamese partners.

We have also actively engaged in work on our other assets. Currently, we are making efforts to develop oil production in Volga-Ural region through Zarubezhneft's subsidiaries Orenburgnefteotdacha and Ulyanovskneftegaz.

We have managed to raise production level of the Group as compared to the target indicator and the same period of the previous year thanks to dynamic development of the JC RUSVIETPETRO project in the Nenets Autonomous Area and stabilization of production level at JV Vietsovpetro fields



Today we may also talk about the successful implementation of the enhanced oil recovery (EOR) project at the Boca de Jaruco field in Cuba. Over the past year, we drilled all of the six wells envisioned by the contract. We are planning to further test other EOR methods, beyond just the currently employed thermal methods, at Boca de Jaruco.

## DOWNSTREAM

In 2014, considerable work was carried out in the creation of a package of strategic documents that will serve as a basis for the future development of Zarubezhneft

Work is being continued to increase the efficiency of the Zarubezhneft Group of companies' operations in the Balkan region. Since 2007, we have been implementing a project for the rehabilitation and upgrading of production capacities in the refining sphere. This segment is not yet profitable for our company. However, it is conditioned by the generally unfavourable situation facing the downstream sector in the whole of Europe.

Despite this, we are intending to continue investments in our enterprises in the Republic of Srpska with a view to further upgrade production, develop the sales of products and reduce losses. We plan to do it thanks to finding an optimal correlation between our refineries' capacity with sales market potential and an active implementation of a broader programme focused on improved efficiency of operating activities.

## SERVICES

In this segment, the aim create synergies between the work of our service companies and our main Upstream activities. As was already mentioned, in Vietnam the Murmanskaya jack-up rig has been operating successfully, while in NAA and Cuba the subsidiary service companies Oil Recovery and Zarubezhneftstroyromontazh as well as the VNIIneft and Giprovostokneft institutes are in operation.

In 2015, the plan is to complete the creation of an integrated corporate institute for the oil sector by bringing together SamaraNIPIneft. (OC Rosneft's subsidiary) and Giprovostokneft (Zarubezhneft's subsidiary). With this integration, the newly formed institute will become the largest scientific design institute in the Russian Federation in the oil production sector.

## DEVELOPMENT OF ZARUBEZHNEFT'S CORPORATE CENTRE

In 2014, considerable work was carried out in the creation of a package of strategic documents that will serve as a basis for the future development of Zarubezhneft:

- in June, the Board of Directors approved an updated Corporate Strategy that will guide the company's development until 2030;
- in November, a long-term development programme was approved; the programme had been positively reviewed by government experts and approved by the Government of the Russian Federation;
- also we have worked out, reached agreement and approved with the Government of the Russian Federation an investment programme for the 2014–2018 period.

Hence, we have satisfied all of the state's directives in full and within the established terms and delineated the main course of development for our company.

In developing these strategic documents, considerable attention was devoted to the organisational development of Zarubezhneft.

We have set ambitious targets. The goal is to ensure the company's operations and performance is in line with the best in the world within our main business segments, and to become a global leader in a number of areas.

In 2014, we began to implement a series of projects aimed at improving our intracorporate organisation. Projects in the areas of finance, personnel, risk management and intracorporate control were completed.

For the first time in the company's history:

- consolidated financial statements according to the International Financial Reporting Standards (IFRS) and a report on sustainable development were issued;
- reserves were audited according to international standards;
- a standard procedure for carrying out technological and price audits was developed and approved by the Government;
- a contest of professional skills "the best in occupation" was held.



Our company also made good progress in increasing the transparency of procurement activities. At present, the level of openness of our procurement activities is 95% much higher than only a year ago.

In addition, in 2013 we were the first of the Russian oil companies to start oil sales on the domestic market through the St Petersburg International Mercantile Exchange (SPIMEX), and in September 2014 we also carried out oil exports through the SPIMEX system.

### DEVELOPMENT OF THE PERSONNEL'S COMPETENCIES

In October, Gubkin's Oil & Gas Russian State University established an academic department "Management of the foreign oil production projects" for Zarubezhneft. The department provides a master's of 'Management' degree programme focused on managing foreign oil production.

In order to strengthen technological competencies of specialists at the company, last year Zarubezhneft opened a School of Oil Engineering. In 2014, this school provided four courses in technological training for specialists at Zarubezhneft and its subsidiaries.

We also held the second contest of scientific and technical papers for young employees of our enterprises. The number of contestants was three times greater than the first time suggesting increased popularity of the contest and a growth in applicable activities. It is important to strengthen the potential of the young generation by introducing the most promising developments directly into industrial process.

### CONCLUSION

Such positive developments must stimulate further innovation especially under conditions of dampened world prices for energy resources. Only through taking joint actions, we will be able to obtain favourable results and to drive the company forward onto a new trajectory.

In order to strengthen technological competencies of specialists at the company, last year Zarubezhneft opened a School of Oil Engineering

# 95%

is the level of openness of our procurement activities

**SERGEY KUDRYASHOV**  
General Director  
of Zarubezhneft



# COMPANY PROFILE



01





# KEY EVENTS OF 2014

Strategic development milestones of Zarubezhneft

**MARCH.** Zarubezhneft's Board of Directors considered and approved its strategic guidelines for the development of Zarubezhneft.



**JUNE.** Based on the Strategic guidelines a new corporate strategy for the company's development was elaborated on and approved by the Board of the Directors on 26 June 2014 before it was agreed with the Government of the Russian Federation.

**NOVEMBER.** On 20 November 2014 a programme for the long-term development of the company was approved by Zarubezhneft's Board of Directors.



**OCTOBER.** Zarubezhneft issued its report on sustainable development for 2013.

**DECEMBER.** A meeting "in praesentia" of the company's Board of Directors was held at Zarubezhneft's premises, at which Zarubezhneft's 2015 business plan and a new KPI system were approved.

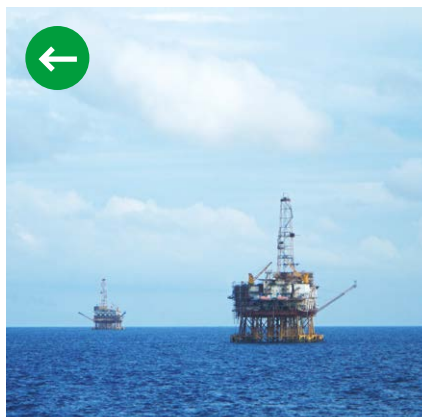
# INDUSTRIAL EVENTS

**MARCH.** Ahead of schedule, Zarubezhneft resumed a well drilling programme in the Volga-Ural region (through subsidiaries – Orenburgnefteotdacha and Ulyanovskneftegaz).

**APRIL.** Zarubezhneft reached the maximum average-day production rate for the last several years. The level of the average-day rate in April exceeded the previous April's figure by 9.5%.



**MAY.** The Joint Venture Vietsovpetro produced its 210-millionth tonne of oil. Within the framework of the agreement between Zarubezhneft and Cubapetroleo on pilot works, additional exploration and secondary oil recovery methods were implanted at the Cuban field Boca de Jaruco: a BJ-2001 well was put into trial production and the first oil was obtained therefrom.



**JULY.** In the Vishanskoye oil field in Belorussia, a joint Russian-Belorussian enhanced oil recovery (EOR) project between Zarubezhneft and Production Association Belorusneft was launched. To apply the thermal-gas EOR method, a compressor station for air injection into the formation was put into operation.

**SEPTEMBER.** Zarubezhneft jointly with SPIMEX was the first of the Russian oil companies to organise and conduct the oil sales procedure for export through the exchange's electronic trading platform "Torg-I" by selling 300 thousand tonnes. Joint Company RUSVIETPETRO produced its 9-millionth tonne of oil.



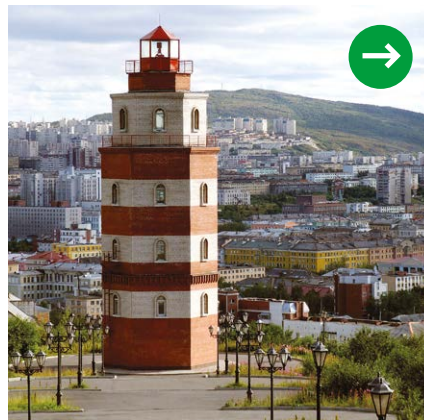
**SEPTEMBER.** BK-16 WHP of the southern area of the Bach Ho field (Block 09-1) was put into operation enabling the commissioning of five wells and the additional oil production of 97,268 tonnes of oil by the end of 2014. Apilot programme for performing a large number of dimensional formation hydrofracturing operations (seven wells) was carried out.



**OCTOBER.** Orenburgnefteotdacha put in place a pressure maintenance system at the Pashkinskoye field. During 2014, remedial stimulation jobs (geological and technical measures) were carried out on 14 wells to transfer the production to overlying horizons (T1). In addition, three wells were drilled in the Pashkinskoye field.

**97,268**  
tonnes were additionally produced from September to the end of 2014 thanks to the fact that BK-16 WHP of the southern area of the Bach Ho field (Block 09-1) was put into operation

**OCTOBER.** At the Nam Rong-Doi Moi (NR-DM) field (09-3 Block), two producing wells were drilled and work on sidetracking two wells was completed. Formation of a pressure maintenance system was started with well No. 420 transferred to injector well stock. These measures allowed a 10% increase in oil production volumes compared with 2013.



**DECEMBER.** Arctic Oil Company on Kolguev Island put into operation the ENEX-390 gas-turbine electric power station, with nominal capacity of 390 kW. This made possible an increase the usage of associated petroleum gas and resulted in reduced costs for the purchase of diesel fuel for power generation.

**DECEMBER.** The Joint Company RUSVIETPETRO carried out: construction and installation as well as precommissioning jobs in the completion of the Power Block 3 at the Energy Centre No. 2; commissioning of the pipeline system (Du 426mm) for transportation of associated petroleum gas (APG) from the West Khosedayu field to the North Khosedayu field; work on a temporary scheme for sulfur recovery from APG supplied to the Energy Centre No 2; commissioning two pipeline heaters for the West Khosedayu field. All of the projects of the Joint Company RUSVIETPETRO have

been aimed at the maximum use of the associated petroleum gas for electricity generation for in-house needs and other useful applications.

Ulaynovskneftegaz drilled three producing wells in the Sulakskoye field and one sidetrack operation was completed in the Slavkinskoye field. As a result in 2014, oil production increased by 35% compared with 2013.

The average active oil well stock was increased from six wells to eleven

by putting four new wells and one side-track well into production. In 2014, average oil production grew by almost 1.6 times compared with 2013 (from 60 to 100 tonnes per day).

Within the framework for the implementation of the project at the Boca de Jaruco field in the Republic of Cuba, a mobile steam-generator unit was put into operation and the first thermal-steam treatment of the BJ2001 well was completed.



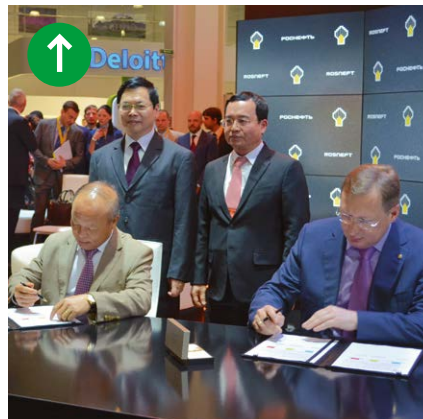
## THE DOCUMENTS SIGNED IN THE FIELD OF INTERNATIONAL COOPERATION

**MAY.** A memorandum of understanding (MoU) was signed between Zarubezhneft, Rosneft and Cupet on Block 37 of offshore state zone of Cuba at the St Petersburg International Economic Forum in the presence of the President of the Russian Federation Vladimir Putin.

**JUNE.** A MoU was signed for geological research on Blocks 125 and 126 offshore of Vietnam between Zarubezhneft, Rosneft and PetroVietnam.

**NOVEMBER.** A memorandum to further the development of strategic cooperation was signed between Zarubezhneft and the Vietnamese state-owned corporation PetroVietnam in the presence of the President of the Russian Federation Vladimir Putin and the General Secretary of the Central Committee of the Communist Party of Vietnam Nguyen Phu Trong.

**DECEMBER.** A MoU was signed between Zarubezhneft and the Indian company Oil India Limited during an official visit to India by the President of the Russian Federation Vladimir Putin.



## CORPORATE EVENTS

**FEBRUARY.** Held a strategic session devoted to results of 2013 and plans for 2014 with participation of Zarubezhneft's top-managers, heads of the key divisions, heads of subsidiaries and affiliated companies.



**AUGUST.** Held the second professional skills competition for oil & gas production operators at Zarubezhneft and its subsidiaries and joint ventures.

**NOVEMBER.** Held a strategic session introducing the company's corporate project management system at



**Company news you may read at the site**

[www.zarubezhneft.ru/en/press-centr/novosti/](http://www.zarubezhneft.ru/en/press-centr/novosti/)



## SCIENCE, PERSONNEL TRAINING, INCREASING COMPETENCIES

**JUNE.** Zarubezhneft's own Oil Engineering School was created. From June to November 2014, four technological training courses were conducted for specialists at Zarubezhneft and its subsidiaries.

**SEPTEMBER.** Held the second scientific-and-technical paper competition works for young specialists at the Zarubezhneft Group of companies.



**OCTOBER.** An agreement was signed between Zarubezhneft and Gubkin Oil & Gas Russian State University for the creation of an academic department at Zarubezhneft including for a management degree and a master's programme with a specific focus on the "management of foreign oil production projects".

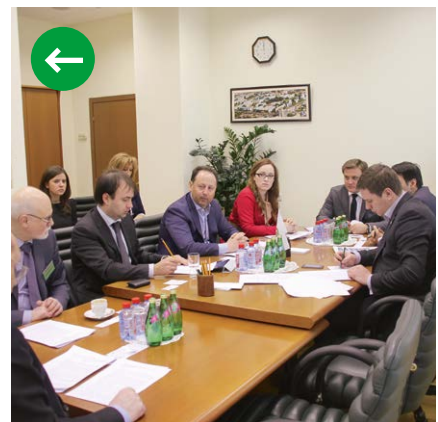


## JUNE –

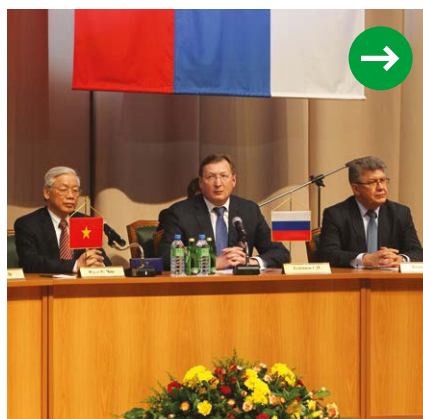
Zarubezhneft's own Oil Engineering School was created

## OTHER EVENTS

**MARCH.** Held the first meeting of the advisory body, which focused on issues of efficient purchasing practices.



**SEPTEMBER.** Held the second meeting of the advisory body, which focused on issues of efficient purchasing practices.



**NOVEMBER.** Visit to Zarubezhneft by the General Secretary of the Central Committee of the Communist Party of Vietnam Nguyen Phu Trong during his official trip to Russia.



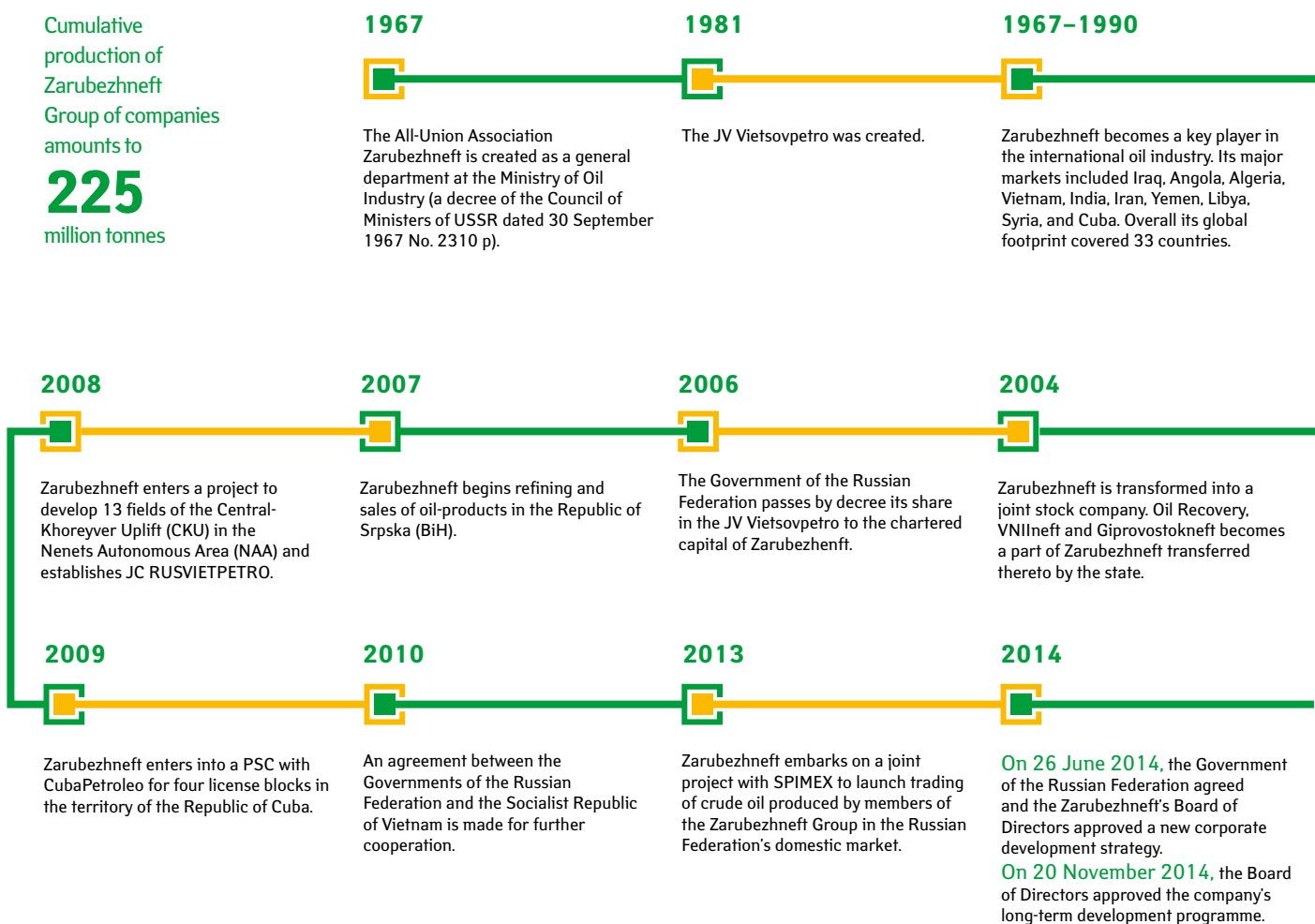
# HISTORY

In the second half of the 1960s, after the re-establishment of the system of all-union sector ministers, an analysis was carried out on the conditions and prospects for the development of foreign economic relations considering the conditions, scale and purposes of the time, including political ones. Such work was also done in the Ministry of Oil Industry. At the initiative of its head V.D. Shashin, administration and all divisions of the ministry with the participation and assistance of the authorities concerned: the State Committee for Foreign Economic Relations, the State Planning Committee, the Ministry of Foreign Affairs, Ministry of Geology, Ministry of General Machine Building and other ministries integrated proposals were

elaborated and presented to the leadership of the country for a new strategy that called for the oil industry's participation in foreign economic activity.

The proposals included plans for long-term development and for complex cooperation in the field of exploration, the construction of field surface facilities and the development of oil fields in developing countries. According to the State Committee for Foreign Economic Relations and the Ministry of Foreign Affairs, these developing countries showed serious interest in economic relations with our state and possessed potentially large raw oil reserves.

Cumulative production of Zarubezhneft Group of companies amounts to **225** million tonnes



## MAJOR AREAS OF ACTIVITY

Zarubezhneft is a Russian oil and gas company of strategic importance acting for the state's benefit. It has a rich history, unique experience in foreign economic activities and is continually developing and adapting.

The company's management maintains the highest levels of professionalism and apply the very best and up-to-date methods for the management of our assets. This enables our company to sustainably develop and successfully compete with the largest oil and gas companies.

Zarubezhneft's Group of companies is a diversified state-owned oil and gas holding that consolidates over 20 joint companies and subsidiaries in various segments of the oil and gas business:

- Upstream;
- Downstream;
- Service and other assets.

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

Zarubezhneft Group of companies has more than

**20** joint ventures and subsidiaries



### UPSTREAM

- Exploration, development and operation of onshore and offshore oil and gas fields in Russia and abroad.



### DOWNSTREAM

- Design, construction and operation of refining facilities, tank farms and pipeline systems.



### SERVICES AND OTHER ASSETS

- Application of the leading domestic technologies for the development of oil and gas fields;
- Development of modern methods for oil recovery rate enhancement in order to expand exports of high-tech services;
- Export/import operations for technological equipment supplies.

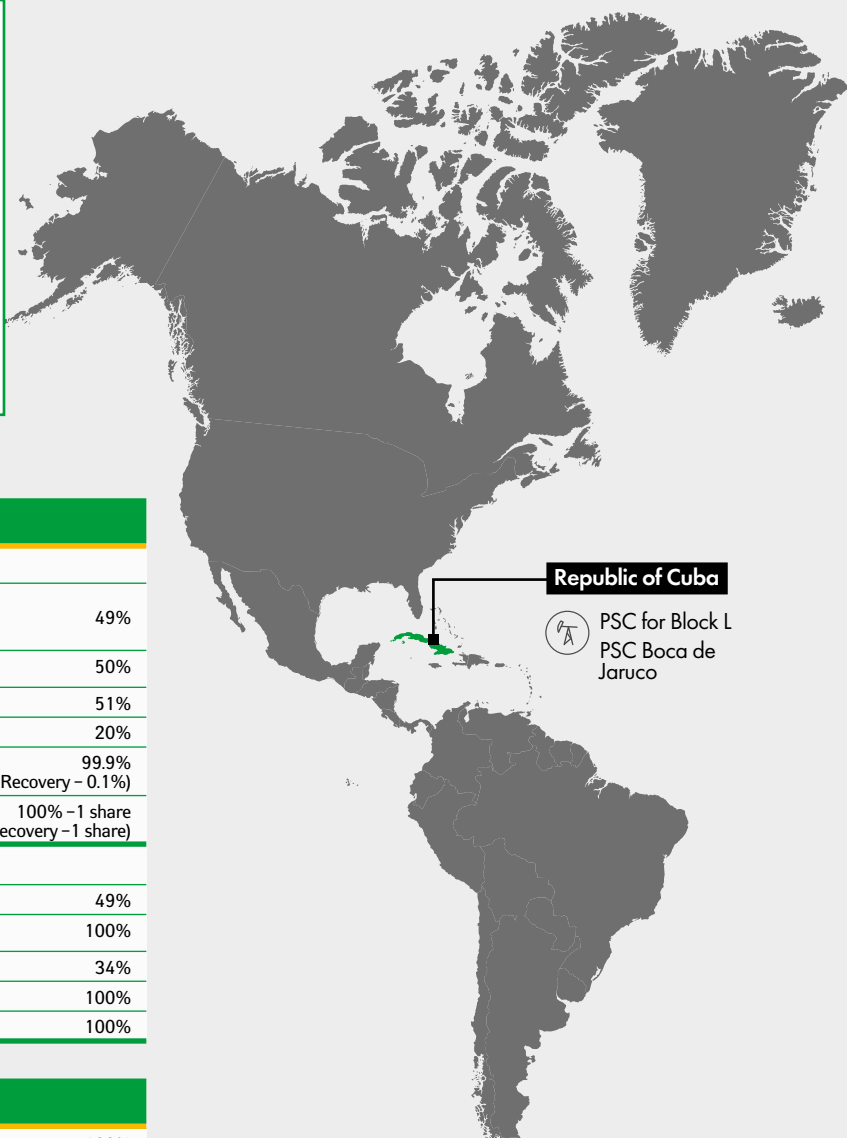


# CONSOLIDATED CORPORATE AND PROJECT STRUCTURE OF THE ZARUBEZHNEFT GROUP OF COMPANIES



## Activities geography you may see at the company site

[http://www.zarubezhneft.ru/en/about\\_company/struktura/](http://www.zarubezhneft.ru/en/about_company/struktura/)



## UPSTREAM

### PRODUCTION

JV Vietsovpetro Block 09-1 (Exploration works on 04-1, 09-3/12, 16-2, 42 Blocks)	49%
VRJ Petroleum Co, Block 09-3	50%
JC RUSVIETPETRO	51%
KHARYAGA PSC	20%
Ulyanovskneftegaz (UNG)	99.9% (Oil Recovery - 0.1%)
Orenburgnefteotdacha (ONO)	100% - 1 share (Oil Recovery - 1 share)

### EXPLORATION

Block 04-3	49%
Block 12/11	100%
Jadran Naftagas d.o.o	34%
Boca de Jaruco	100%
Block L	100%

## SERVICES AND OTHER ASSETS

Zarubezhnefte-stroyontazh	100%
Arktikmorneftegazrazvedka (AMNGR)	100% - 1 share
Zarnestservice	100%
Oil Recovery	100% - 1 share
VNIIneft	70.27%
Giprovostokneft	60.09%

## DOWNSTREAM

OGIC	95%
OPTIMA Group	100%
Modrica Oil Production Plant	75.65%
Brod Refinery	79.69%
NESTRO PETROL	80%



Upstream



Refining



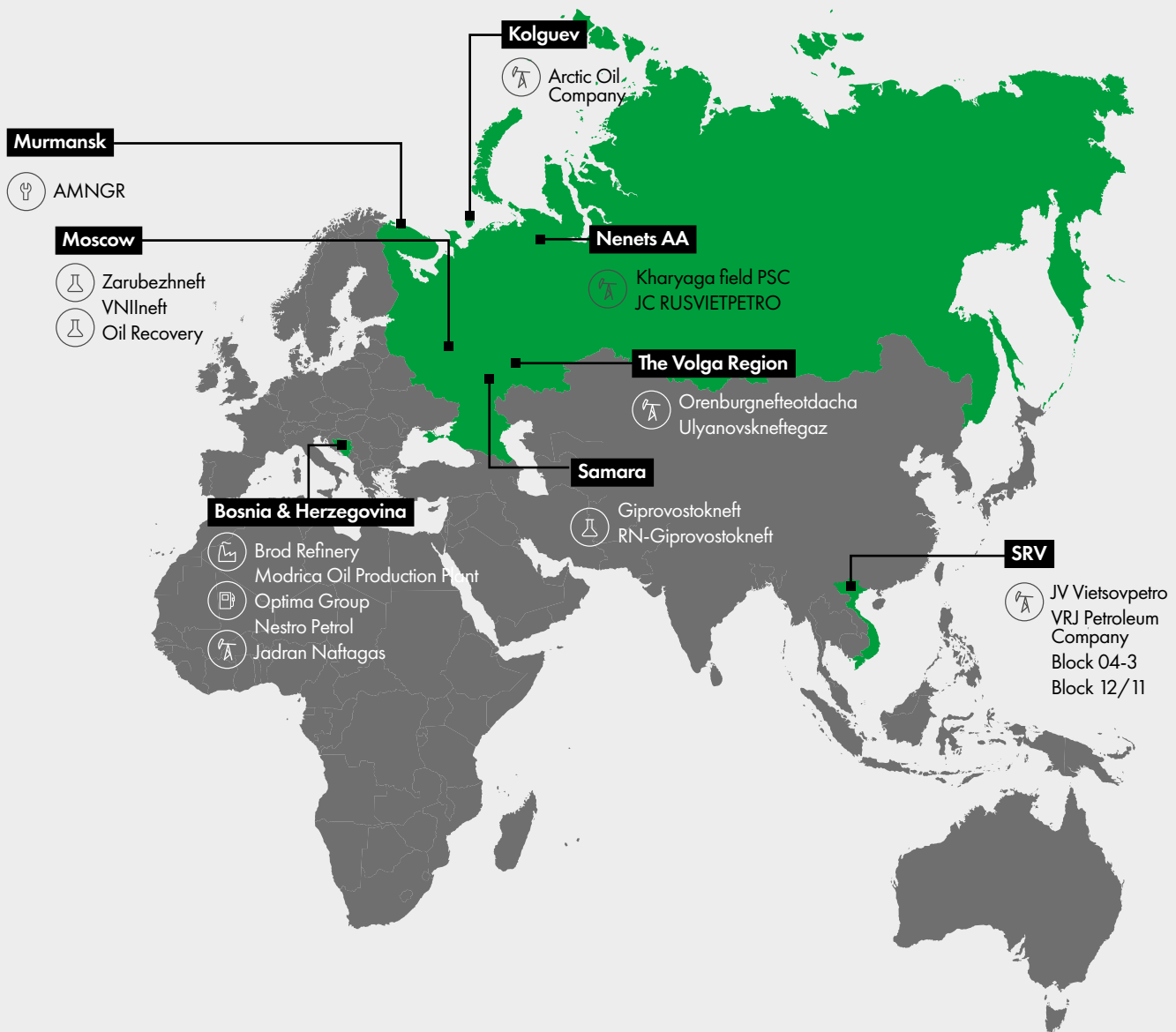
Oil products sales



Services rendering



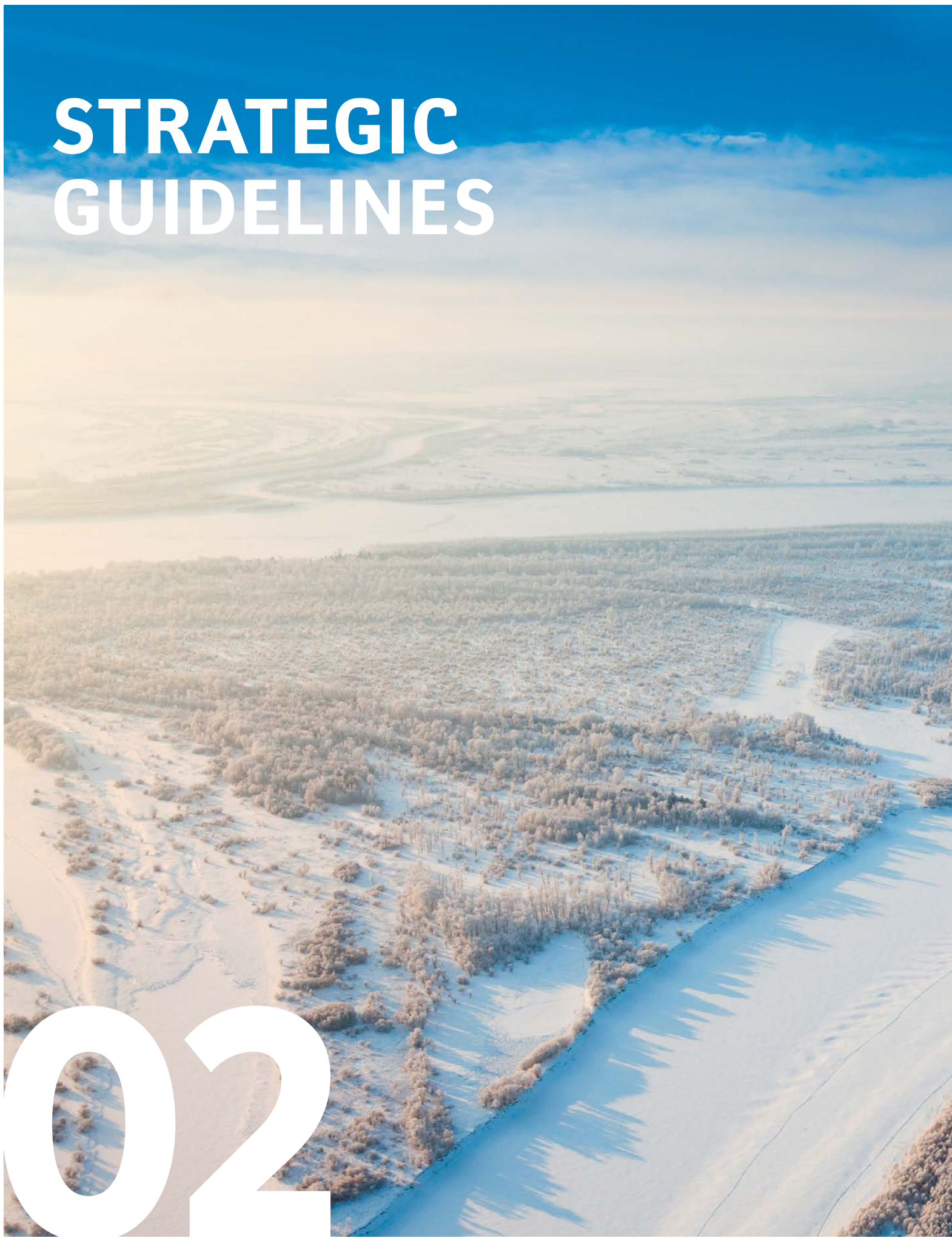
Scientific engineering centers





# STRATEGIC GUIDELINES

02









# DEVELOPMENT STRATEGY OF THE COMPANY

In 2014, Zarubezhneft's Board of Directors approved a set of strategic guidelines to serve as a basis for a new corporate development strategy until 2030.

In 2011, the Board of Directors approved Zarubezhneft's corporate development strategy up to the year 2030. It suggested that in addition to a continuation of the company's existing production projects the company should seek diversify the businesses into trading and petrochemistry segments (Minutes of the Meeting No. 48 dated 20 April 2011).

Production is a priority segment and a basis of future development of the Company

Zarubezhneft has taken steps to develop the company in all segments of activity. The company has continued to see results in the production segment (for instance with the entry into new blocks in Vietnam and the production stimulation through JC RUSVIETPETRO's operations in the Nenets Autonomous Area). However, the scale of the company and its possibilities of investment in new segments' development has not met the goals of business diversification in accordance with the strategy approved in 2011. Realising the diversification aspects of the strategy have been complicated by negative market developments and a continued absence of sufficient resources and/or competencies to branch out and develop these other strategic business segments:

- In trading – the company has not had oil volumes of sufficient quantity to venture into the global market. For trading, scale is essential for trading (the largest traders turnover are from \$130 billion USD);
- In petrochemistry – the company has not had access to sufficient low-cost raw materials, in-house competencies or the necessary funding (above \$5 billion USD).

In 2014, Zarubezhneft's Board of Directors approved a set of strategic guidelines to serve as a basis for a new corporate development strategy until 2030 (Minutes of the Meeting No. 85 dated 26 June 2014).

The main strategic guidelines and the corporate strategy for 2014 prioritised the production sector as the foundation for the further development of the company. The focus is on oil-and-gas field production where the company can leverage its already existing competencies, namely out-of-balance in fields and in those with complex reservoirs, similar to those that the company has already developed.

## THE STRATEGY WILL BE CARRIED OUT IN THREE STAGES:

**Stage One "Preparation for growth" (2014–2016)** – will encompass work to develop already active assets, strengthen competencies and increase the efficiency of all organisational processes.

**Stage Two "Readiness for growth" (2017–2020)** – will see the formation of a business development team and an entry into 3–5 new assets leveraging the company's core competencies.

**Stage Three "Intense growth" (2020–2030)** – the work done in the earlier stages will provide a platform for rapid expansion in output including a ramping up of production to beyond 15 million tonnes by 2030.

To ensure that the corporate development strategy is being realised, a plan outlining top-priority actions and milestones has been put in place (order of Zarubezhneft dated 16 September 2014 No. 408). The plan outlines development tasks, sets target completion dates for key tasks, defines the responsibilities of Deputies General Director, heads of divisions and subsidiaries. Progress against the Plan's top-priority actions shall be made quarterly. The plan's actions shall be included in the KPI forms of the Deputies General Director.

# LONG-TERM DEVELOPMENT PROGRAMME

In 2014, Zarubezhneft developed and approved the Long-term development programme. Main scenarios of the Long-term development programme are formed for development perspective before 2030.

The company's long-term development programme (LTDP) was approved by the Zarubezhneft Board of Directors on 20 November 2014. LTDP was approved by the following bodies:

- The Strategic Planning Committee under the Zarubezhneft Board of Directors, Minutes of the Meeting No. 1 dated 19 September, 2014;
- Expert Council of the Government of the Russian Federation, letters No. ЭС-2909/02 dated 29 September 2014 and No ЭС-1211/02 dated 12 November 2014;
- Federal Property Management Agency (ROSIMUSCHESTVO), letter No. 05/43392 dated 10 October 2014 (the Ministry of Economic

Development of the Russian Federation Ref. No. 102212 dated 14 October 2014);

- The Ministry of Economic Development of the Russian Federation, the letter No. 26273-НП/Д07 dated 24 October 2014;
- The Commission for Issues of Development of the Fuel and Energy Complex, Reserves Replacement and the Increased Energy Efficiency of Economics, Minutes of the Meeting No. 2 dated 23 October 2014.

Long-term development programme is set up in order to follow directives of the Government of the Russian Federation and is approved by The Commission for Issues of Development of the Fuel and Energy Complex, Reserves Replacement and the Increased Energy Efficiency of Economics

The long-term development programme has set the following key production goals and tasks:

- Increased production and cost efficiency at the company's current assets through enhanced optimisation and additional drilling at small out-of-balance fields;
- Utilisation of the current assets as a platform for improving technical expertise in the field of fractured carbonates and for the acquisition and development of new assets.
- Acquisition of assets, optimisation using the competencies developed working in the fields with complicated reservoirs and small assets with out-of-balance development systems.
- Join in new projects (for instance, large projects, risky exploration operations or the development of unconventional reserves) on the basis of JVs with strong operators where Zarubezhneft can provide privileged access to reserves and reduce risks thanks to its status as a state-owned company of the Russian Federation.

At present, the primary challenge facing the downstream segment is curb losses and improve profitability. In order to reach this goal, the following tasks must be carried out:

- Carry out operational improvements at refineries and lube plants to increase efficiency, reduce losses, optimise production and streamline the administration;
- Increase the efficiency of the existing retail and wholesale network without extensive development of the retail network;
- To consider the possibility of engaging a strategic partner to help achieve these aims in the downstream segment subject to agreement with the Government of the Russian Federation.

The strategic development of the service block will aim to maximum synergies along Zarubezhneft's key upstream segment:

- To do this, field development will be done taking advantage of VNIIneft's scientific and technical expertise in optimising the development of hydrophobic carbonate reservoirs including fractured basement reservoirs;
- Strengthening the customer servicing for well construction and reconstruction with the purpose of increasing investment efficiency through the use of optimal technological solutions.

In order to increase the efficiency in the key upstream operations segment, the company is focusing on strengthening competencies required for the development of complex reservoirs. VNIIneft, a subsidiary of Zarubezhneft, has created research centres for reservoir simulation – including fractured hydrophobic carbonate and fractured basement reservoirs. Work is being carried out to improve the geological-and-hydrodynamic models and localisation of the residual reserves of the company's current assets. In order to enhance efficiency of the reserves development JV Vietsovetro is preparing a programme for the development of block terrigenous structures of low thickness.

For the purpose of minimising the production loss risks, the long-term development programme of Zarubezhneft provides production forecasts for five different scenarios that take into consideration the development of existing assets, exploration projects as well as the potential entry into new projects:

The long-term development programme of Zarubezhneft provides production forecasts for 5 SCENARIOS

1. Basic scenario lays out production forecasts based only on existing assets.
2. Production forecasts considering the growth of geological reserves (Oil Initially In-Place) of existing assets.
3. Production forecast considering measures to increase existing assets' ORF (oil recovery factor).
4. Production forecast based on the implementation of exploration projects.
5. Production forecast based on entry into potential new projects.

The primary task for the further development of the company is to increase the value of its current assets through resource base attainment and by increasing the efficiency and oil recovery factor from fractured basement reservoirs as well as the active development of terrigenous block structures of low thickness.

In order to increase the ORF from the fractured hydrophobic carbonate reservoirs, the company should begin pilot tests in the fields in 2015 as part of its innovation development programme.

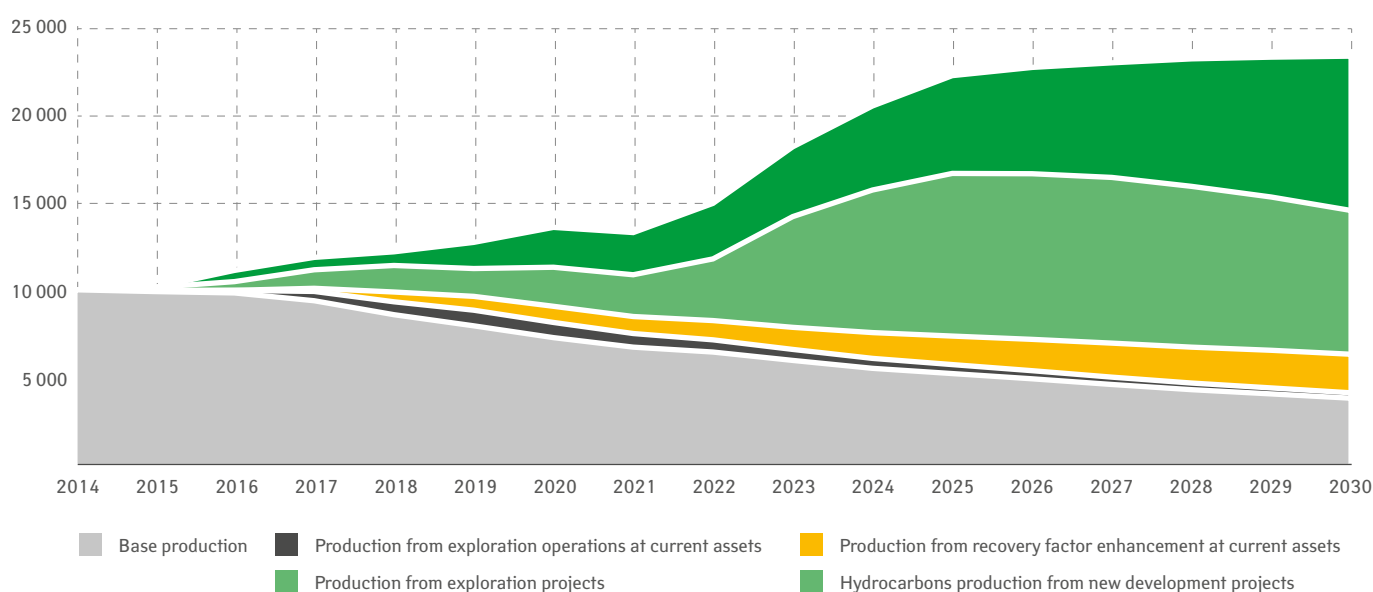
The main potential is the fields of Block 09-1 where oil recovery factor (ORF) growth is possible through the following measures:

- Improved localisation of residual reserves within the fractured basement reservoirs and terrigenous lensoid structures as a result of detailed geological-and-hydrodynamic simulations;
- Increased use and efficiency in the application of advanced production technologies and enhanced oil recovery (EOR) methods (such as directional and horizontal wells, sidetracking, hydro-fracturing, water-gas mixture injection etc.).

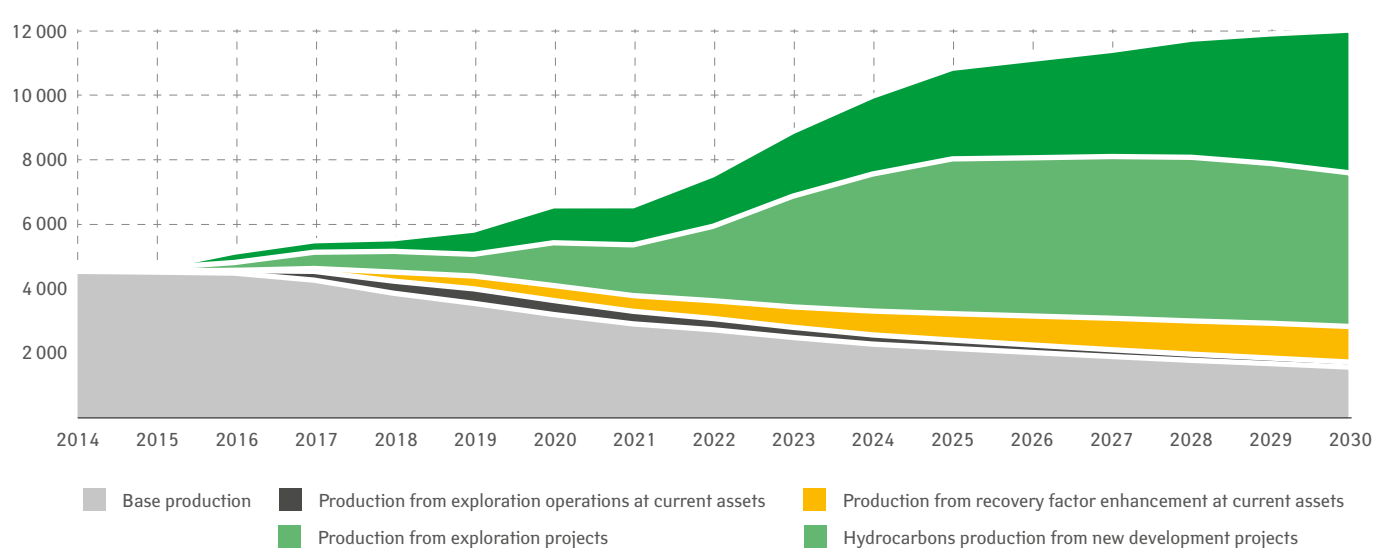


Indices	Cumulative result for 2014–2030				
	Basic scenario	Growth of geological reserves of existing assets	Measures to increase existing assets ORF	Realisation of exploration projects	Entering new projects
Cumulative hydrocarbons (HC) production volume, thousand tonnes (total)	116,030	124,340	143,429	226,365	288,995
Cumulative HC production volume, thousand tonnes (considering ZN's share)	51,479	55,653	65,173	109,500	140,816
CAPEX, million Roubles (considering ZN's share)	150,956	182,704	208,891	541,419	966,220
EBITDA, million Roubles (considering ZN's share)	228,969	252,848	299,623	1,210,887	1,474,561
NPV, million Roubles (considering ZN's share)	112,832	120,975	134,832	175,578	198,869

HC production for the full development, thousand tonnes F.O.E., excl. the share



HC production for the full development, thousand tonnes FOE, incl. the share



A close-up photograph of a complex network of yellow industrial pipes and valves on an offshore oil or gas platform. The pipes are arranged in a dense, vertical pattern, with several large circular flanges visible. The background shows the deep blue ocean with white-capped waves. The lighting is bright, highlighting the metallic texture of the pipes.

# THE RESULTS OF THE ACTIVITIES OF ZARUBEZHNEFT'S GROUP OF COMPANIES IN THE YEAR 2014

# 03



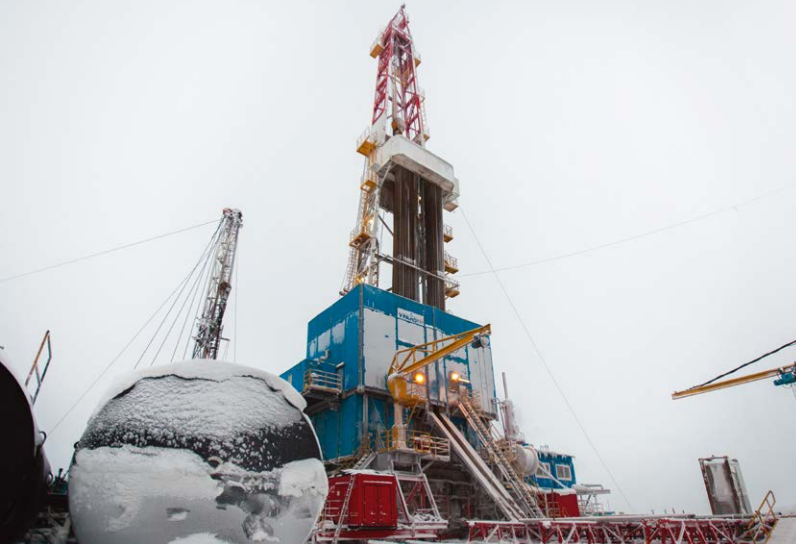






# UPSTREAM

The UPSTREAM Segment is important in the Zarubezhneft Group of companies's generating the main share of the consolidated net profit and cash flow.



## CURRENT ASSETS AND PROJECTS PORTFOLIO

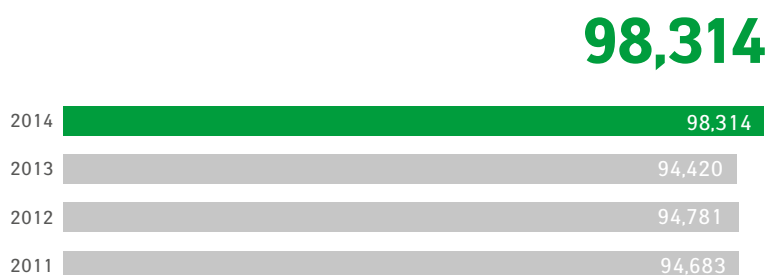
With the purpose of ensuring sustainable production growth in the medium and long term, the company is carrying out strategic exploration operations and expansion of the HC resource base.

Operator	Projects	Life-cycle phase
Socialist Republic of Vietnam		
JV Vietsovpetro	09-1 Block, oil fields – Bach Ho, Rong, Tho Trang, Gau Trang, Meo Trang	Exploration and production
	04-3 Block, Thien Ung-Mang Cau oil-and-gas-condensate field	Exploration and production
	09-3/12 Block	Exploration
	12/11 Block	Exploration
PVEP	42 Block	Exploration
09-3 Block VRJ	Unit area of 09-3 and 09-1 Blocks Nam Rong – Doi Moi	Exploration and production
Republic of Cuba		
Branch of Zarubezhneft	Block L	Evaluation of the results obtained
	Boca de Jaruco oil field	Exploration
Bosnia and Herzegovina, the Republic of Srpska		
Jadran Naftagas JV	Posavina Block	Exploration
	Semberija Block	Exploration
Russian Federation		
JC RUSVIETPETRO	Block of CKU 1, North-Khosedayu oil field	Production
	Block of CKU 2, oil fields: Visovoye, Upper Kolva	Exploration and production
	Block of CKU 3, oil fields: Western-Khosedayu, Sikhoreyskoye, East-Sikhoreyskoye, North-Sikhoreyskoye	Exploration and production
	Block of CKU 4, oil fields: Surkharatinskoye, North-Oshkotynskoye, Puseyskoye, South-Surkharatinskoye, Uremyrdskoye, East-Yanemdeyskoye	Exploration and production
Total	Kharyaga oil field	Production
Orenburgnefteotdacha (ONO)	Pashkinskoye oil field	Exploration and production
	Kirsanovskoye oil field	Exploration and production
	Chernovskoye oil field	Exploration and production
Ulyanovskneftegaz (UNG)	Ruzhevskoye oil field	Production
	Slavkinskoye oil field	Exploration and production
	Kondakovskoye oil field	Exploration and production
	Sulakskoye oil field	Exploration and production
	Radischevskiy area	Exploration
Arktikmorneftegazrazvedka (Kolguev Oil and Gas Production Department)	Peschanoozerskoye oil-and-gas-condensate field	Exploration and production

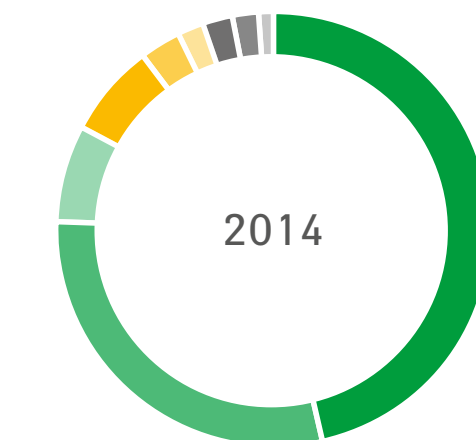
## RESOURCE AND RAW MATERIALS BASE STATUS

The Zarubezhneft Group of companies conducts oil prospecting, exploration and development abroad under intergovernmental agreements, PSCs, oil and gas contracts and concessions in the Socialist Republic of Vietnam, Republic of Cuba, Bosnia and Herzegovina. The Group owns 16 licenses for hydrocarbons prospecting, exploration and production on 24 fields within 14 subsoil blocks in the territory of the Russian Federation (a list of the licenses is provided in the attached Appendix).

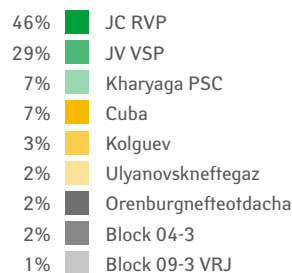
Dynamics of volume of the current recoverable reserves (a+b+c1) of the Zarubezhneft Group of companies considering participation share, thousand tonnes f.o.e.



Structure of reserves as on 31 December 2014



Companies	actual 2013	plan 2014	actual 2014
JV VSP	27,153	26,419	28,968
Block 04-3	1,706	1,706	1,706
Block 09-3 VRJ	574	504	520
JC RVP	42,623	42,157	44,841
Kharyaga PSC	7,169	6,843	6,872
ONO	2,139	2,052	2,408
UNG	2,241	2,301	2,209
Kolguev Ltd.	3,451	3,431	3,425
Cuba	7,365	7,365	7,365
<b>TOTAL, thous. tonnes F.O.E.</b>	<b>94,420</b>	<b>92,778</b>	<b>98,314</b>



The Joint Company RUSVIETPETRO accounts for

46%

of the Zarubezhneft Group's recoverable reserves

JV VSP accounted for

29%

of the Group's main recoverable reserves





The total geological hydrocarbon reserves of the Zarubezhneft Group of companies in Russia and abroad (considering the contributions of categories A+B+C1+C2) were 680.201 million tonnes of f.o.e. as of 01 January 2015.

Meanwhile, the total recoverable hydrocarbon reserves of the Group (considering the contributions of categories A+B+C1+C2) were estimated at 125.299 million tonnes of fuel oil equivalent as of 01 January 2015. The amount of total recoverable reserves considering contributions of categories A+B+C1 was 98.314 million tonnes of fuel oil equivalent at the beginning of 2015. The growth these recoverable oil reserves was 9.349 million tonnes of f.o.e. in 2014.

The Zarubezhneft Group has a balanced portfolio of assets that provide the opportunity for consistent investment in exploration activities and putting new fields into development while at the same time ensuring financial stability.

The Joint Company RUSVIETPETRO accounted for 46% of the Zarubezhneft Group of companies' main recoverable reserves as of 31 November 2014. These reserves are concentrated in the

Northern-Khosedayu and Western-Khosedayu fields. Meanwhile, JV VSP accounted for 29% of the Group's main recoverable reserves. These are concentrated in Bach Ho and Rong fields.

As of 1 January 2015, Zarubezhneft had 30 oil, gas and condensate reserves on its books. 18 fields under development: Bach Ho, Rong, Nam Rong-Doi Moi, Gau Trang, Boca de Jaruco, Tho Trang, North-Khosedayu, Visovoye, West-Khosedayu, Pashkinskoye, Kirsanovskoye, Chernovskoye, Kondakovskoye, Ruzhevskoye, Slavkinskoye, Sulakskoye, Peschanoozerskoye, Kharyaga. Nine fields being explored: Meo Trang, Thien Ung-Mang Cau, Upper Kolva, Sikhoreyskoye, East-Sikhoreyskoye, North-Sikhoreyskoye, North-Oshkotynskoye, Puseyskoye, East-Yanemdeyskoye. Three fields being prepared for commercial production: South-Surkharatinskoye, Uremyrdskoye and Surkharatinskoye.

**9.349**  
million tonnes of  
f.o.e. – the growth  
of recoverable  
oil reserves was  
in 2014

As a result of exploratory drilling and operations at production wells in 2014, Zarubezhneft's reserves volume increased by 4% compared with 2013 and by 6% compared with the 2014 forecast.

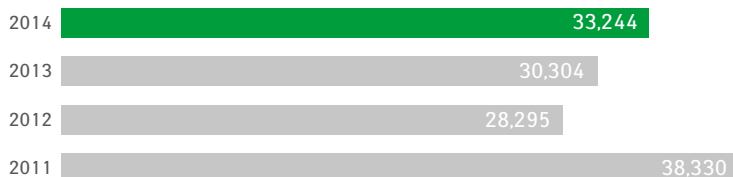
## EXPLORATION OPERATIONS

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

Investment activity in 2014 was characterised by the continuation of the investment projects initiated previously (exploration and development of the fields in SRV, Cuba, modernisation of the assets in Bosnia and Herzegovina).

In 2014, no seismic surveys were conducted. Meterage of the exploration drilling was 33.2 thousand meters, an increase of 9.7 % over the 2013 figure.

Meterage of exploration drilling, m



**+9.7%**

increase of the exploration drilling in 2014 over the 2013 figure

**33.2**

thousand meters – Meterage of the exploration drilling







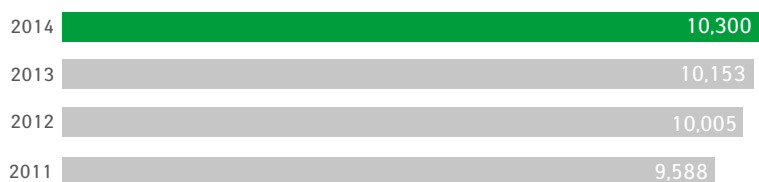
Project, Operator	Area	Legal form and participation share	Results of the Project in 2014
Socialist Republic of Vietnam			
09-1 Block JV Vietsovetrop	offshore	Intergovernmental agreement between PetroVietnam (51%) and Zarubezhneft (49%)	Exploration wells are drilled at the following fields: Bach Ho, Rong, Tho Trang. As a result, oil reserves grew by 4.54 million tonnes.
09-3/12 Block JV Vietsovetrop	offshore	Petroleum Contract of JV Vietsovetrop (55%) PVEP (30%) Bitexco (15%)	The first exploration well was drilled; new oil deposit was discovered.
04-3 Block JV Vietsovetrop	offshore	Petroleum Contract between PetroVietnam (51%) and Zarubezhneft (49%)	Preparatory works carried out for production platform construction.
12-11 Block JV Vietsovetrop	offshore	Petroleum Contract of Zarubezhneft (100%) at prospecting and exploration stage	Seismic data interpretation, geochemical research was done; the prospects were defined; preparation for drilling is ongoing.
42 Block JV Vietsovetrop	offshore	Petroleum Contract between PVEP (51%) and JV Vietsovetrop (49%)	Seismic data interpretation was done; the prospects were defined; preparation for drilling is ongoing.
Republic of Cuba			
Block L, Branch of Zarubezhneft	offshore	PSC between Zarubezhneft (100% at exploration stage) and CUPET	Final appraisal of the block's potential was completed.
Boca de Jaruco, Branch of Zarubezhneft	onshore	PSC between Zarubezhneft and CUPET	A plan to drill producing wells at E1 and M formation was completed. Work on cyclic steam injection was commenced.
Bosnia and Herzegovina, the Republic of Srpska			
Posavina and Semberija Blocks. Przhdol sub-basin. Concession of Jadran-Naftagas d.o.o.	onshore	Subsidiary of Zarubezhneft – OGIC – 34%, NIS a.d. Novi Sad, – 66%	Obudovac-2 well was re-tested.
Russian Federation			
JC RUSVIETPETRO	onshore	License of Zarubezhneft (51%) and PetroVietnam (49%)	Two exploration wells were drilled in the Sikhoreyskoye and North-Sikhoreyskoye fields. As a result, oil reserves grew by 7.55 million tonnes.



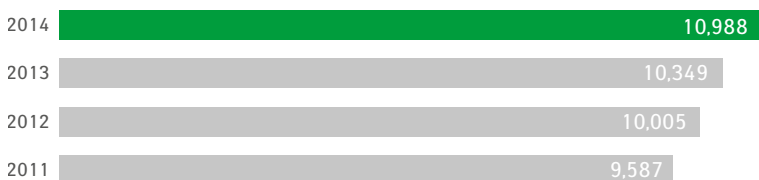
## OIL PRODUCTION

In 2014, the company continued active development of the Upstream Segment. Its efforts were focused both on maintaining the sustainable level of hydrocarbon production from the main fields of the Joint Venture Vietsovpetro, which are at the late stage of their development (Bach Ho, Rong), and enhancement of production from fields recently brought into development by the Joint Company RUSVIETPETRO (the West-Khosedayu, Visovoye fields). These are major producing assets in the Upstream Segment.

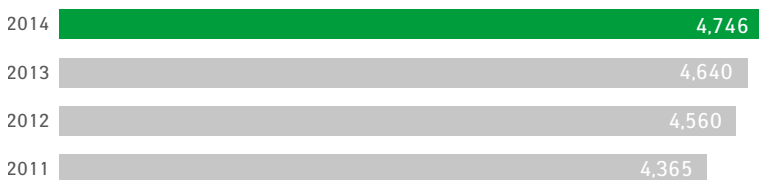
Gross oil production by the Zarubezhneft Group of companies



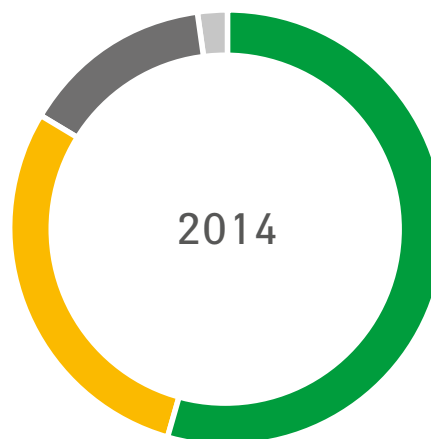
Gross oil production by the Zarubezhneft Group of companies, thousand tonnes of F.O.E.



Gross oil production by the Zarubezhneft Group of companies (considering their shares), thousand tonnes



Structure of production in 2014



- 54% ■ JV VSP
- 29% ■ JC RVP
- 14% ■ Kharyaga PSC
- 3% ■ Others:
  - VRJ (09-3 Block)
  - ONO
  - UNG
  - Kolguev

**54%**  
Production share  
of JV VSP

**29%**  
Production share  
of JC RVP



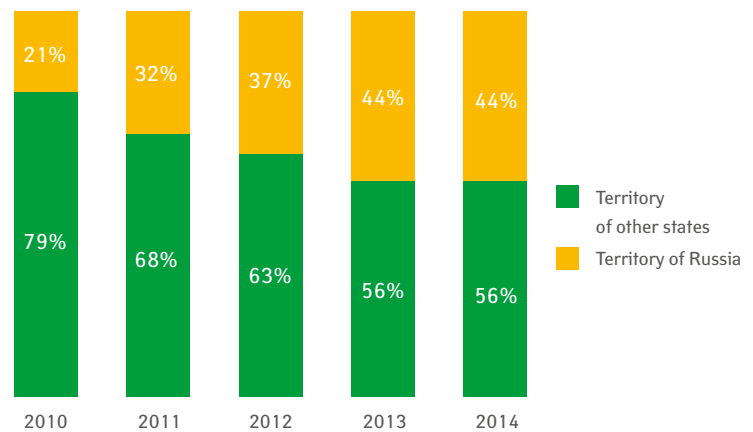
Dynamics of production share according to the ZN's footprint

These investment projects required geological, technological, organisational and technical activities for putting wells into production, well workovers and optimisation of well equipment operations. As a result of this investment activity, gross production grew by 639 thousand tonnes of fuel oil equivalent f.o.e. (+6%) compared with 2013 production levels.

The major producing asset in both the Upstream Segment and the overall company's structure is JV Vietsovpetro.

Zarubezhneft's share of overall production from its Russian assets grew from 44% in 2013 to 47% in 2014 thanks to the active development at the West-Khosedayu field (the largest of RUSVIETPETRO's fields by reserves).

Actual oil production in 2014 considering Zarubezhneft's share was 2.3% higher than the 2013 level and 2.6% higher than that in the planned 2014 output (or +106 thousand tonnes and +123 thousand tonnes, respectively).



Production considering ZN's share, thous.t.	Actual 2013	Planned 2014	Actual
JV VSP	2,727	2,524	2,626
JC RVP	1,426	1,556	1,633
Kharyaga PSC	311	323	296
09-3 Block	60	75	65
Orenburgnefteotdacha	74	87	75
Ulyanovskneftegaz	23	40	31
Peschanozerskoye field	20	18	18
<b>TOTAL</b>	<b>4,640</b>	<b>4,623</b>	<b>4,746</b>

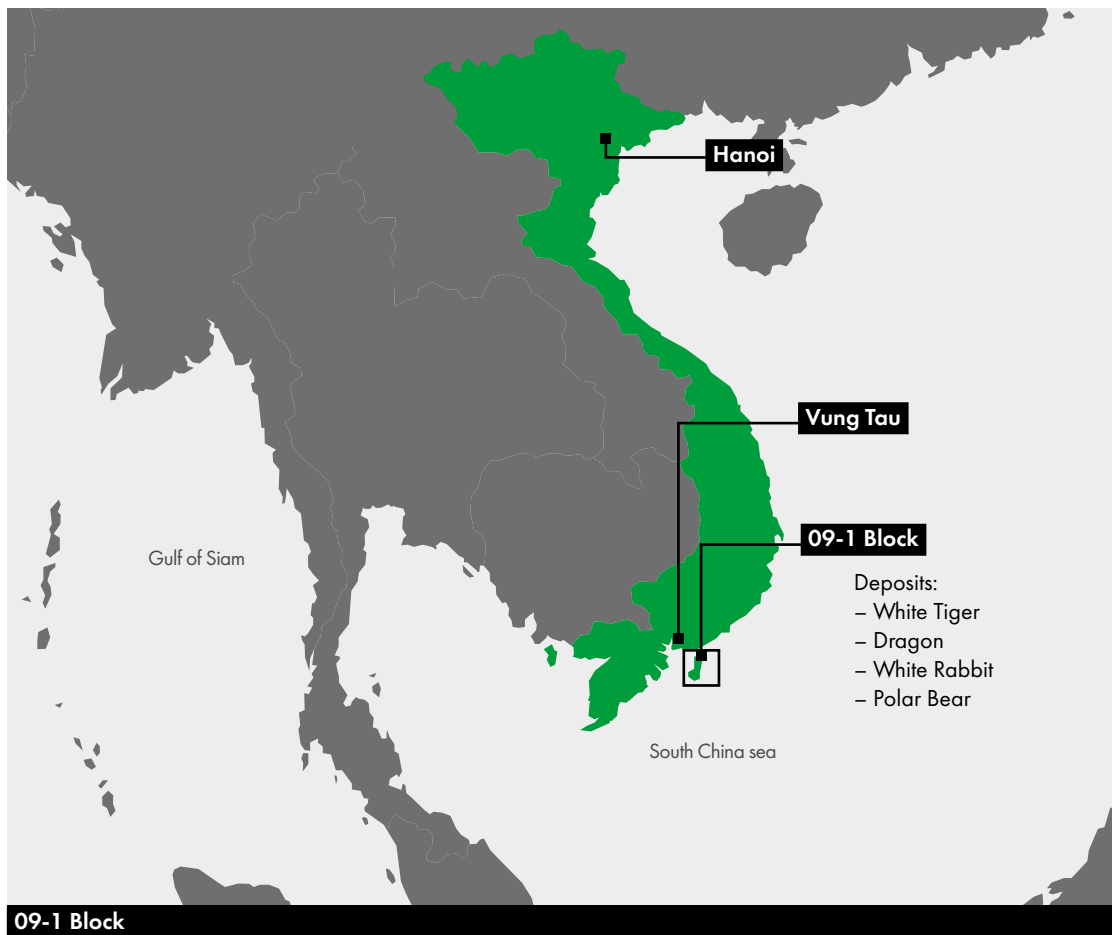
## THE SOCIALIST REPUBLIC OF VIETNAM

### 09-1 BLOCK – JV VIETSOVPETRO

Development of 09-1 Block is being carried out in accordance with the intergovernmental agreement dated 27 December 2010 (its validity was extended for 20 years, to 31 December 2030, inclusive).

Location

**5,360**  
thousand tonnes  
is actual oil  
production from  
the block in 2014



The unique Bach Ho and Rong fields as well as Tho Trang and Gau Trang are being developed by JV Vietsovpetro 150 km from the shore on shelf off southern Vietnam. Thirteen fixed offshore platforms, 23 well-head platforms (WHPs), 2 process platforms, 3 compressor stations and 2 reservoir pressure maintenance (RPM) platforms have been

built. A united LP gas gathering system ensures successful execution of the entire process for gas gathering and transportation to the shore. JV Vietsovpetro's use of the gas lift technique in these fields for gas treatment and for artificial oil lift JV Vietsovpetro allows up to 97% of the gas produced to be utilised.



In September 2014, BK-16 WHP in the southern area of the Bach Ho field was put into operation enabling the commissioning of five wells and the additional oil production of 97,268 tonnes before the end of 2014.

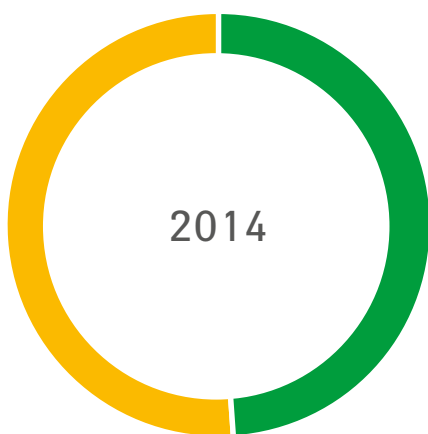
In the JV Vietsovpetro, one of the best shore bases in Southeast Asia has been created for construction and installation offshore of the process and satellite platforms for wells drilling and oil & gas production. The JV has four jack-up rigs, a fleet of more than 20 units, including derrick barges, fire-fighting, diving and supply vessels, and three floating storage and offloading units (FSOs).

JV Vietsovpetro is operator of the realised projects with the direct participation of Zarubezhneft and is carrying out numerous service operations. Actual oil production from the block amounted to 5,360 thousand tonnes.

The percentage of the total oil produced by lifting method:

- By free-flow production method – 36.3%
- By artificial lift method – 63.7%.

Ownership structure



49% Zarubezhneft  
51% Petrovietnam

The 09-1 Block's reserve recovery is 71% with an average production water-cut of 47%. Existing well stock is 288 producers and 71 injectors.

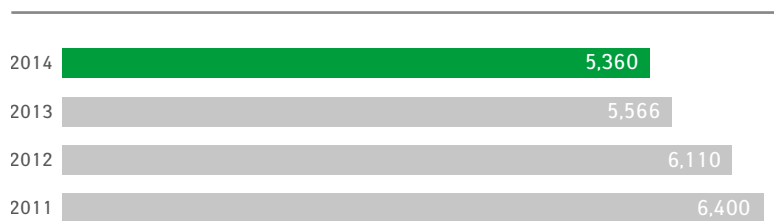
In 2014, 22 new wells and six sidetracks were drilled in the block. Also in 2014, work was continued on maintenance of the reservoir pressure in the field's terrigenous deposits. In addition, a pilot programme using large-volume hydrofracturing (seven wells) was carried out.

These activities are part of the company's strategy to maintain current production volumes.

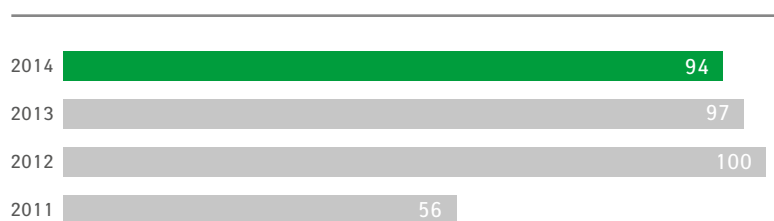
In 2015, the plan is to maintain production drilling rates in the block's fields, also for the first time JV Vietsovpetro is planning to drill two horizontal wells in terrigenous deposits of the Rong field.

**228**  
producers and  
**71**  
injectors existing  
well stock of the  
Block

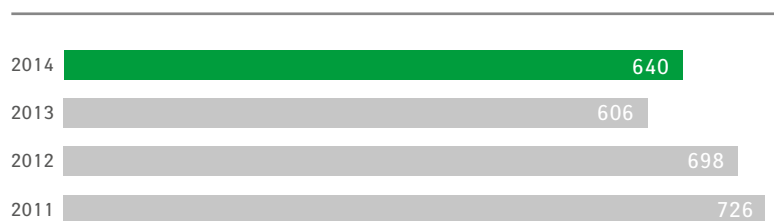
Production volume, thousand tonnes



Production drilling meterage, thousand m



Capital investments, million usd

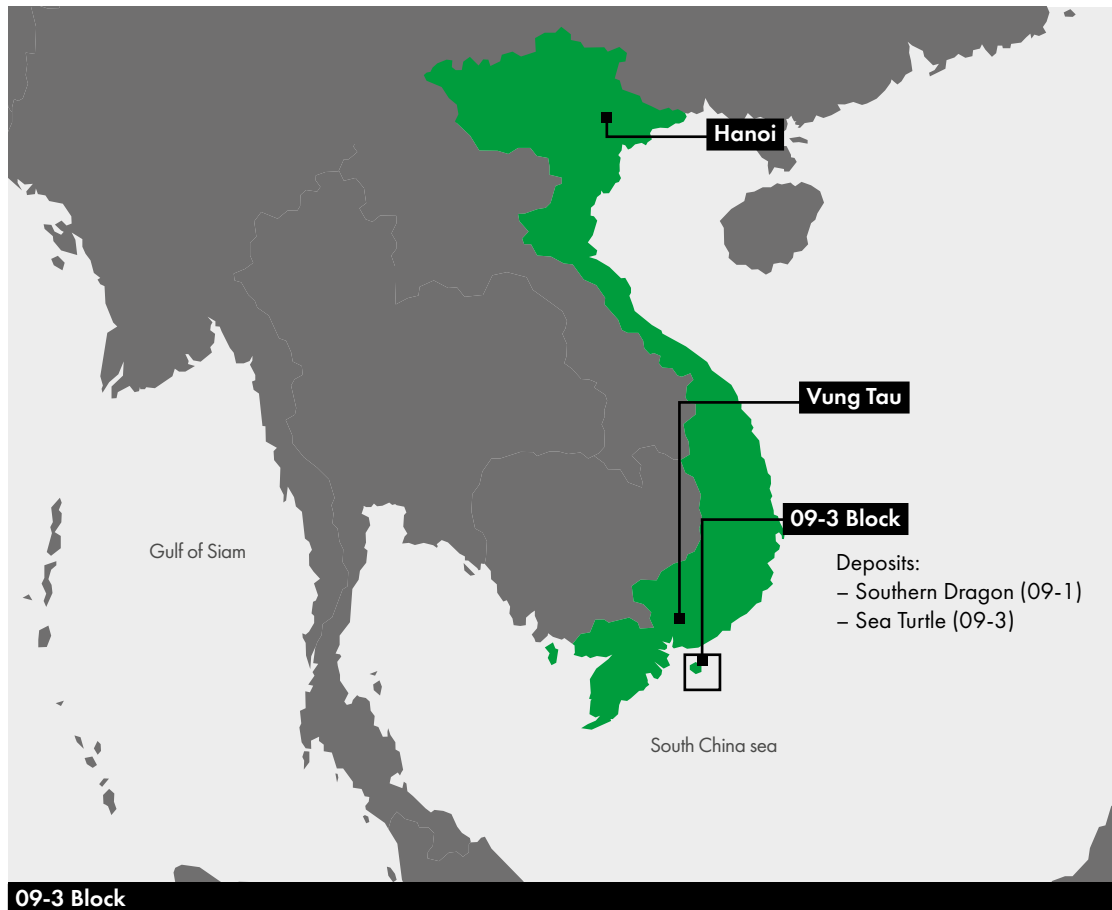


## 09-3 BLOCK – VRJ PETROLEUM CO

The work in 09-3 Block is being carried out in accordance with the 09-3 Block Vietnam Offshore Oil Reserves Development Petroleum Contract (dated 19 January 2002) and the Nam Rong-Doi Moi (NR-DM) field Joint Development Agreement (JDA, dated 26 June 2009). In accordance with the JDA's conditions, Zarubezhneft's participation share and production allocation from blocks 09-1 and 09-3 in the NR-DM field Unit Area is 50% and 50% in each case.

Location

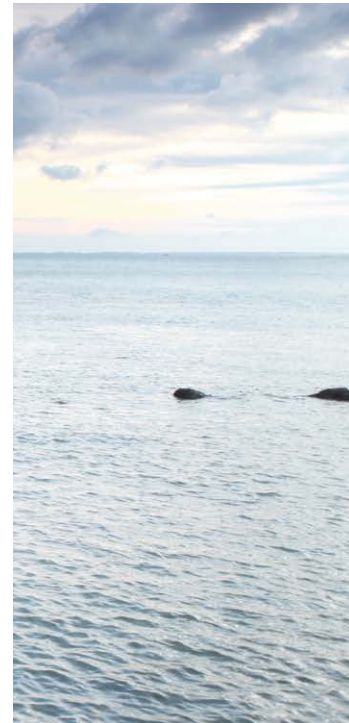
**667.2**  
thousand tonnes  
Total production  
since the operation  
began



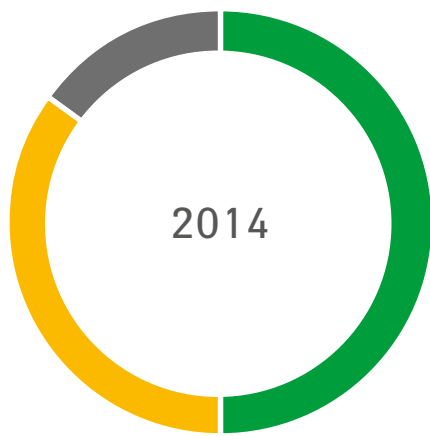
In 2010, blocks 09-3 and 09-1 of the Nam-Rong-Doi Moi field Unit Area were commissioned.

Production is now conducted from fractured rock of the crystalline basement. Total production since the operation began has totalled 667.2 thousand tonnes.

Reserves recovery from block 09-3 is 29% with an average production water-cut of 44%. Active well stock is 17 producers and one injector.



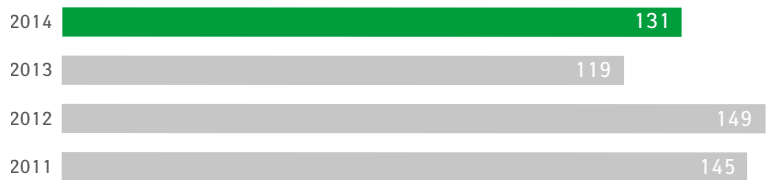
Ownership structure



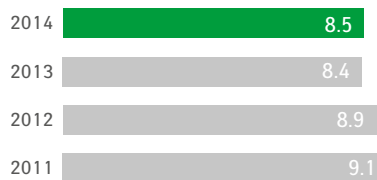
50% Zarubezhneft  
 35% PVEP  
 15% Idemitsu O&G Co

In 2014, two wells and two side-tracks were drilled in the NR-DM field. Work was started on the establishment of a reservoir pressure maintenance system with the well No. 420 transferred to injector well stock in October. These operations allowed a 10% increase in oil production volumes compared to 2013.

Production volume, thousand tonnes



Production drilling meterage, thousand m



Capital investments, million usd





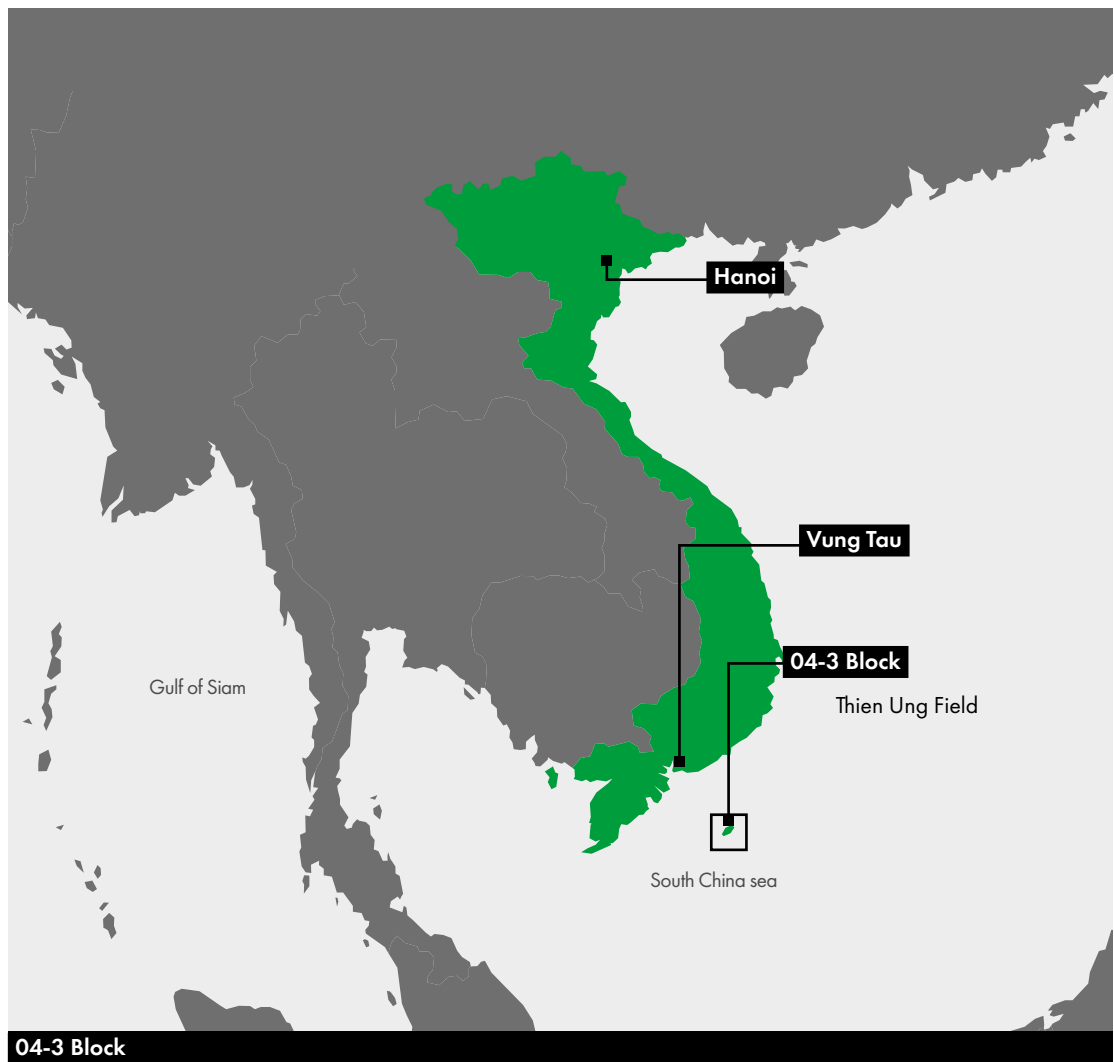
## 04-3 BLOCK

The 04-3 Block is within the bounds of Thien Ung-Mang Cau, which is situated in the Nam Con Son basin, deep in the Vietnam's southern shelf, 280 km southeast of Vungtau.

Location

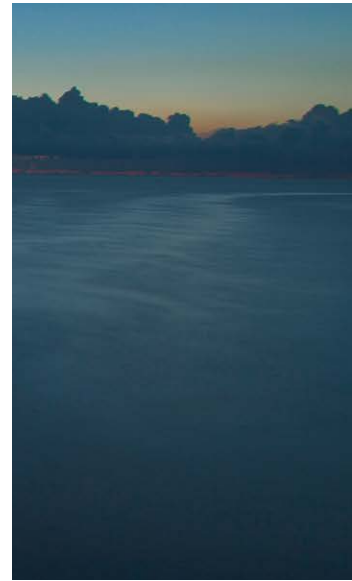
**2014**

FEED is completed, preparation for construction of wellhead platform (WP)



The work in 04-3 Block is being carried out under the petroleum contract for commercial discovery between Petrovietnam and Zarubezhneft in (dated 26 June 2009). JV Vietsovetro is the project operator.

By August 2013, prospecting and exploration work required to fulfill Phase 1 and 2 obligations had been done.



On 10 December 2013, a gas and gas condensate sales agreement was signed for 04-3 Block as was an agreement for the reconstruction of Bach Ho field with an aim towards gas compression and transportation from the Thien Ung and Dai Hung fields.

On January 2014, an agreement was made on an "early production project from the Thien Ung field". Then on 11 September 2014, the Ministry for Industry and Trade of the Vietnam approved the

first extension Phase 2 exploration up to 17 August 2015.

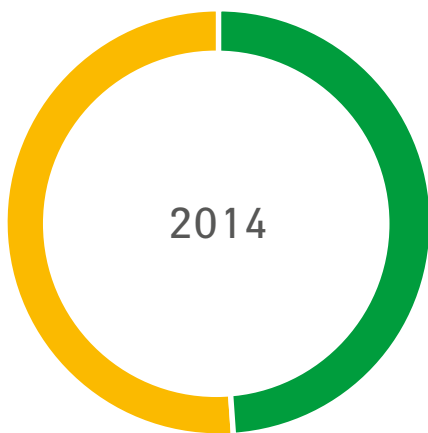
On 3 December 2014, under the terms of the 04-3 Block petroleum contract, the X Managing Committee Meeting was held at which the implementation of the 2014 Work Programme and Budget was considered and the 2015 Work Programme and Budget were approved.

Within the framework of the 2014 work programme and budget's implementation for the Thien Ung wellhead platform (WP) FEED was completed, detailed engineering works were carried out, contracts were concluded to purchase the main metalware and tubulars for manufacturing the WH's jacket structure and topside structure, and the contracts were signed for the long lead equipment purchase.

Commercial gas production from the Block 04-3 is planned for **2016**

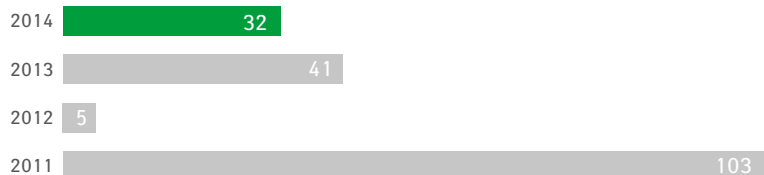
Commercial gas production from the block is planned for 2016.

Ownership structure



49% Zarubezhneft  
51% Petrovietnam

Capital investments, million usd

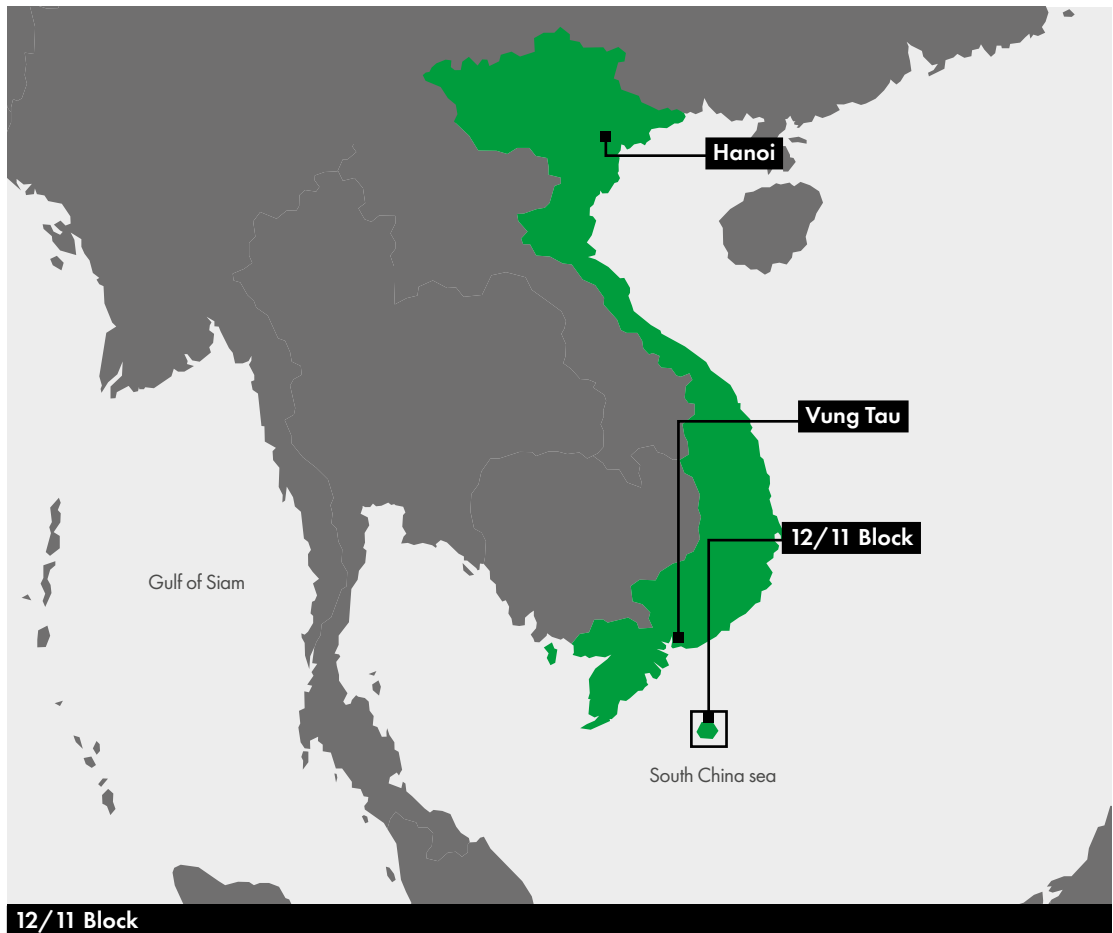


## 12/11 BLOCK

12/11 Block is located within the bounds of the oil-and-gas-bearing Nam Con Son basin 350 km southeast of Vungtau.

Location

**1 000** km<sup>2</sup>  
of 3D seismic surveys  
were interpreted



The block's oil and gas potential comes from Oligocene and Lower Miocene deposits within the Thien Nga, Chim Cong, Chim Ung, Hong Hac/ Hoang Yen and Quyt structures. These HC reserves correspond to reserve category P3.

In 2013, a 3D Seismic survey of the block was completed using BroadSeis technology over a full 1,271 km<sup>2</sup> in preparation for setting up exploration drilling.

The production sharing contract (PSC) for 12/11 Block was signed on 19 December 2012. The PSC's validity

extends 25 years for oil and 30 years for gas with a possibility to extend it for a period of up to 5 years (this includes the exploration period which has a 5 year period with a possible extension of up to 2 years).

At present, the exploratory stage is in Phase 1 (obligatory). This includes processing and interpretation of 1000 km<sup>2</sup> of 3D seismic surveys and the drilling of three exploration wells (the minimum scope of works according to the PSC).

Drilling operations have not been carried out in the block.





According to the 2011 feasibility studies, the prospective resources of the block are 10.42 million tonnes of oil and 76.59 billion m<sup>3</sup> of gas. The resource base of the 12/11 Block will be specified in the first quarter of 2015 after getting the results of the interpretation of the 3D seismic survey data (3,266 km<sup>2</sup>) and after conducting special AVO seismic surveys and modelling the block's oil-and-gas-bearing system.

In 2014, representatives of Zarubezhneft, Vietsovpetro, Petrovietnam and PVEP signed several documents: the Farm-out Agreement (FOA), an agreement on amendments #1 to the PSC, an application for registration/correction of the investment license, and also la Joint Operating Agreement. Zarubezhneft share of the project will now stand at 30% with JV VSP at 40%, and PVEP at 30%.

Active work was carried out in order to elaborate the joint position on developing the methodology, increasing the efficiency of planning and realising JV Vietsovpetro projects.

Ownership structure



100% ■ Zarubezhneft

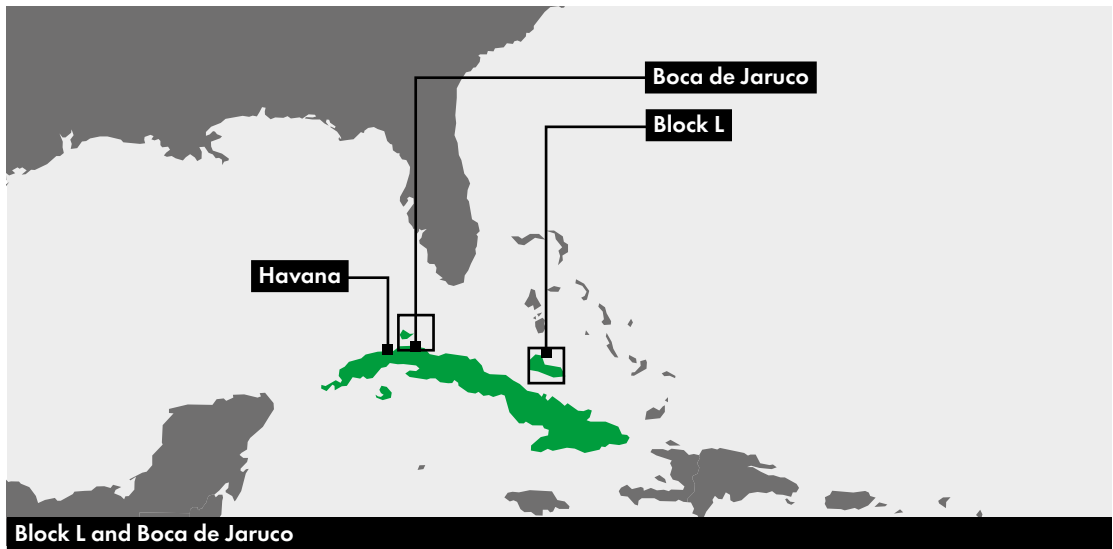
After JV Vietsovpetro and PVEP entered the project Zarubezhneft share of the project will now stand at 30%

# REPUBLIC OF CUBA

## BLOCK L

Block L (3 thousand km<sup>2</sup> area) is located in the northern part of the Cuban shelf. Sea depth within Block L varies from 135 to 570m.

Location



Zarubezhneft is conducting its Block L activities in accordance with its Agreement of International Economic Association No. 696 (dated 3 November 2009). The agreement's duration is 25 years.

The petroleum potential of the block comes from Jurassic and Cretaceous carbonate deposits.

In 2011, 2D seismic operations were carried out over 314 km and 3D seismic operations over 1,973 km<sup>2</sup>.

In 2013, L-01X vertical exploratory well was drilled in the Almedina structure.

In 2014, with the aim of studying the potential of Block L and considering new projects in the Republic of Cuba, a joint Working Group with Cubapetroleo was established. The decision was taken to liquidate well L-01X. In line with the Working Group's report of the working group and the Administrative Committee's decision, continuation of work in the Block L was acknowledged to be inadvisable given

the reservoir's complex geological structure, the high costs of drilling, the complicated well design, and high geological and other risks associated with the project.

Ownership structure



100% ■ Zarubezhneft

## BOCA DE JARUCO

The Boca de Jaruco field is located on northern coast of Cuba, 30 km from Havana. The designated area is situated on the northwest part of the field on the seashore, 3.7 km to west of Boca de Jaruco village. It was discovered in 1967 and operated by CubaPetroleo.

Zarubezhneft is conducting activities as per the Agreement of International Economic Association No. 228 (dated 24 June 2011). The duration of the agreement is 25 years. Zarubezhneft's return on investment is provided for by the terms of the PSC. Since 1 January 2014, Zarubezhneft is the project operator.

The period for pilot works is set at 4 years in two areas of the Boca de Jaruco field, the E1 formation and M formation. In 2013, drilling works in the E1 formation were started.

Since the project's inception: six wells have been drilled (including two wells in 2014) in the pilot works stage; a well pad was equipped for the E1 formation; core samples were taken (and analysis is being carried out); drilling of the three producing steam injection wells was completed (BJ-2002 and BJ-2003) in the E1 formation. The BJ-2001 and

BJ-2003 wells are in test production with tests and studies being carried out; in the BJ-2001 well steam injection is being conducted.

Drilling of three producing stream injection wells (BJ-3001, BJ-3002, BJ-3003) has been completed in the M formation (the wells are being tested and studied); a mobile steam-generator has been supplied; precommissioning jobs have been done; the steam-generator complex has been launched; works on infrastructure for oil production and steam injection have been completed; work on obtaining permits and approvals has been completed.

In 2014, a one year extension for the pilot works stage was approved. Total meterage for 2013-2014 was 7,710 meters of rocks.

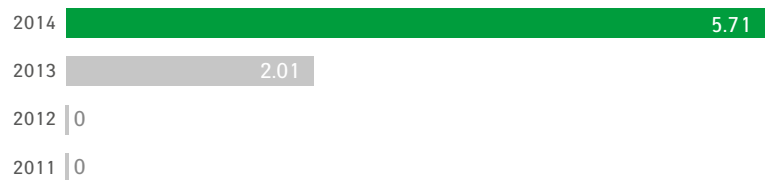
**6** WELLS are drilled since the beginning of the project

Ownership structure



100% ■ Zarubezhneft

Production drilling meterage, thousand m



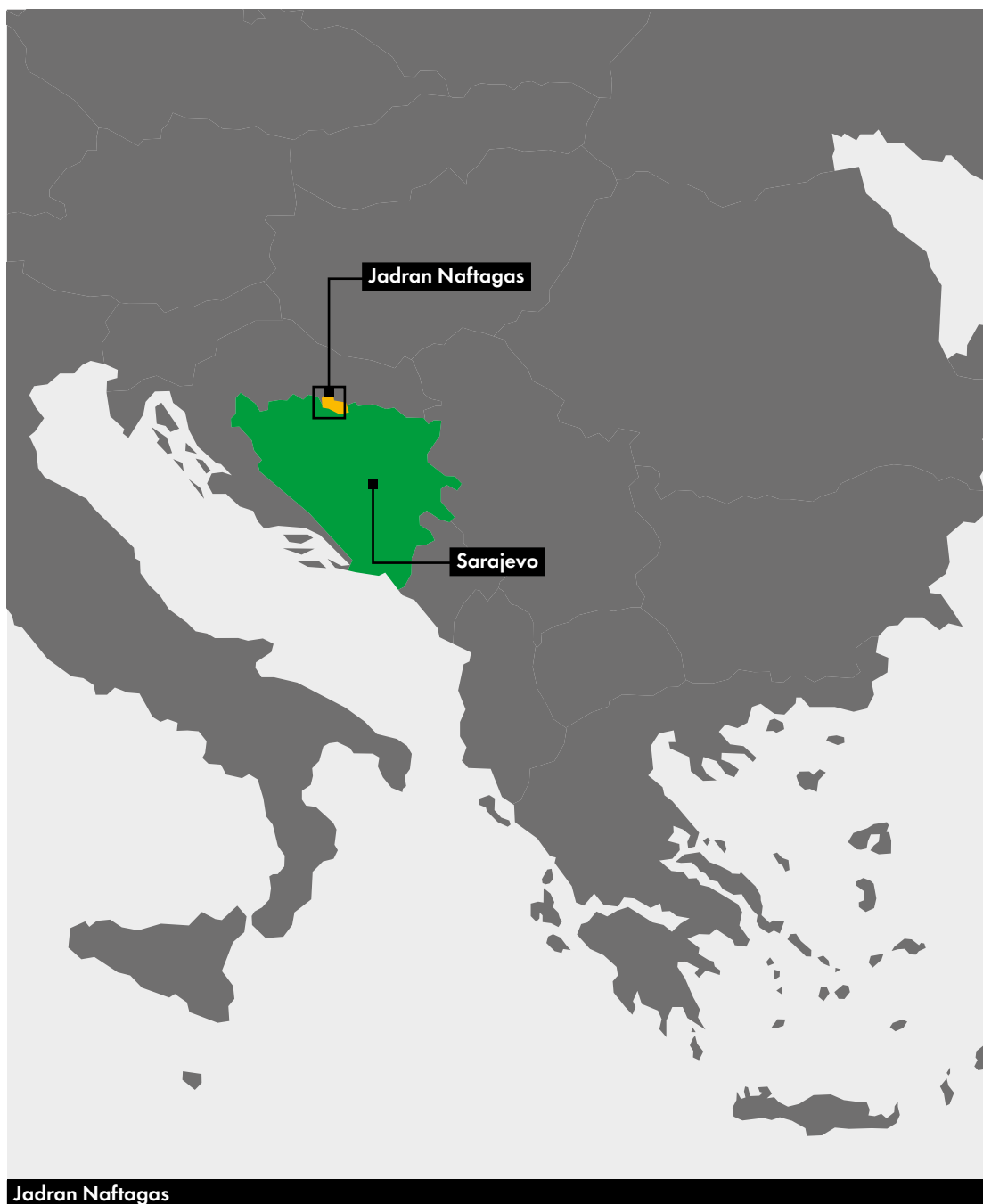


## BOSNIA AND HERZEGOVINA

### JV JADRAN NAFTAGAS

The area consists of 3 exploration blocks: Majeвица, Eastern Herzegovina and Motajica.

Location





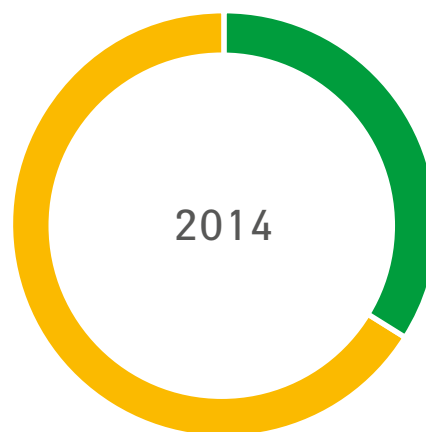
JV Jadran Naftagas as established on 23 December 2010 in Banja Luka.

The Concession Agreement is for exploration of hydrocarbons and operation in the territory of the Republic of Srpska (dated 26 September 2011). The participation shares in the concession are divided as follows: NIS a.d. Novi Sad (a subsidiary of Gazprom neft) – 66% and OGIC (a subsidiary of Zarubezhneft) – 34%.

JV Jadran Naftagas has obtained license for oil and gas prospecting, exploration and development within the Republic of Srpska (Bosnia and Herzegovina).

In 2011-2013, regional (513 linear km) and detailed (1391 linear km) 2D seismic surveys were completed. In 2014 two exploration wells Obudovac-2 were drilled in the Obudovac structure in the Posavina sub-basin in the Semberija sub-basin. We have received substantial amount of geological material in order to assess regions prospects.

Ownership structure



34% ■ OGIC (subsidiary of Zarubezhneft)  
66% ■ NIS (subsidiary of Gazprom neft)

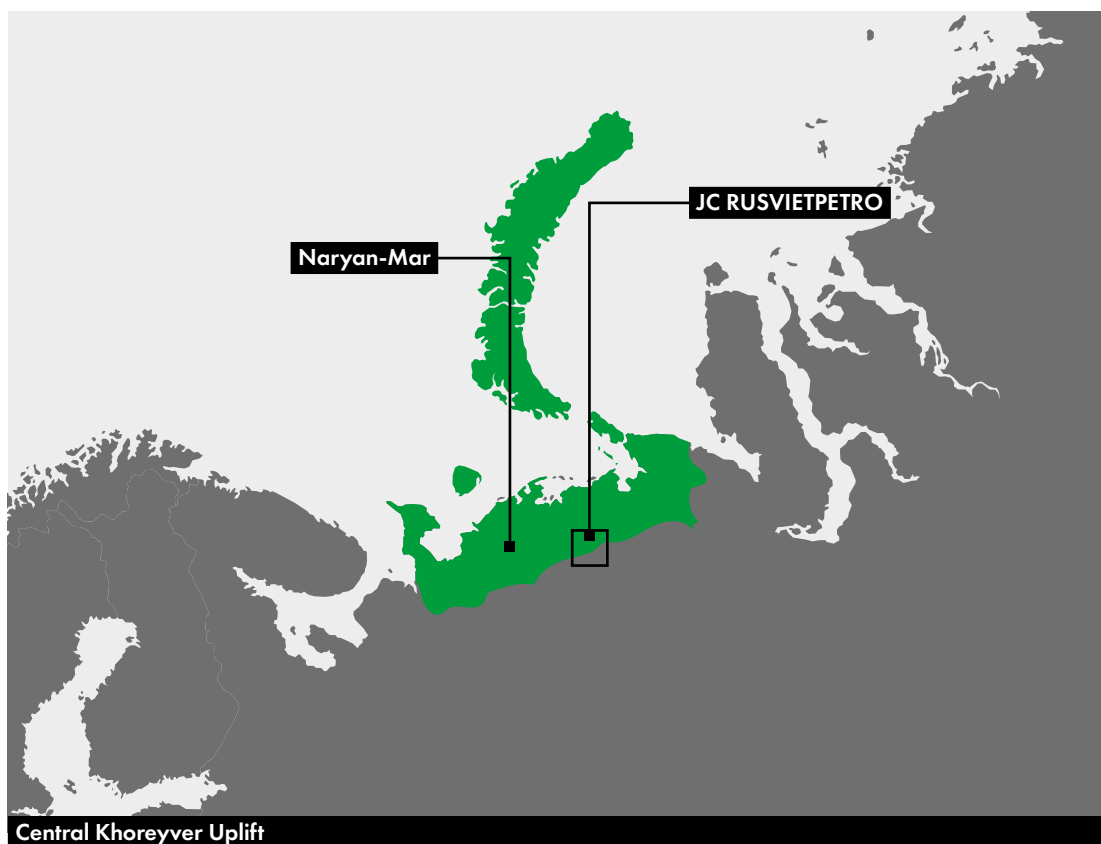
**34%**  
is the participation share of OGIC (a subsidiary of Zarubezhneft)

## RUSSIAN FEDERATION JOINT COMPANY RUSVIETPETRO

Joint Company RUSVIETPETRO is the major Russian asset of Zarubezhneft. Oil production has been carried out from assets in the Central Khoreyver Uplift in the Nenets Autonomous Area since September 2010. These are predominantly from Upper Devonian carbonate deposits.

Location

**3,203**  
thousand tonnes  
Oil production by  
JC RUSVIETPETRO  
for 2014



Thanks to strict adherence to project plans, the three largest fields were put into commercial production within a record short period:

- 2010 – North Khosedayu
- 2011 – Visovoye
- 2012 – West Khosedayu

Reserves recovery for these three fields is 15% with an average production water-cut of 45-63%. The active well stock is 167 producers and 4 injectors.

Development of the fields and construction of surface facilities is being carried out in strict compliance with the project's trial production plan incorporating new technologies and the latest equipment.

In 2014, JC RUSVIETPETRO increased its production index by 15% compared to the year 2013. The oil production growth was a result of active drilling in West Khosedayu, the largest by reserves field.



All of Joint Company RUSVIETPETRO's project plans aim for the maximum use of project associated petroleum gas for electricity generation for in-house needs and related applications. In the Energy Centre No. 2, construction, installation and precommissioning jobs for Power Block No. 3 have been completed. In December 2014, a pipeline (Du 426mm) was commissioned for the transportation of NPG from the West Khosedayu field to the North Khosedayu field. Work is being done on a temporary scheme for sulfur recovery from the APG (associated petroleum gas) that is supplied to the Energy Centre No. 2. Two pipeline heaters have been commissioned for the West Khosedayu field.

By the end of 2014, these performance enhancing actions helped the company to use 46.3% of its associated petroleum gas versus 26% in 2013 and with the possibility of boosting usage above 70% in 2015 across all of the company's fields.

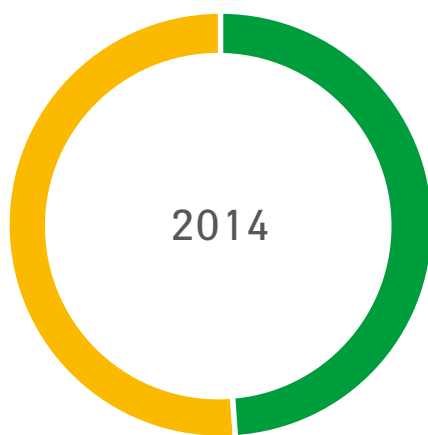
In 2014, 40 wells and two side-tracks were completed in RUSVIETPETRO's fields helping to boost the annual production level above 3 million tonnes of oil.

In 2015, the plan is to continue the production drilling programme at the main fields (North Khosedayu, Visovoye, West Khosedayu) as well as put into commercial production the Sikhoreyskoye and North Oshkotynskoye fields. In addition to the production drilling, a pilot programme consisting of 12 acid hydro-fracturing operations will be put in place.

These actions will allow the company to ensure that this asset's oil rate plateau remains at its mid-range objective of over 3 million tonnes per year.

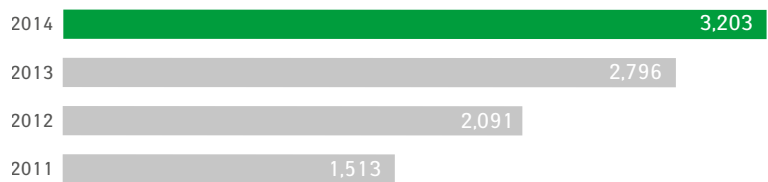
**100,444**  
thousand tonne  
is the current volume  
of C1+C2 recoverable  
reserves

Ownership structure

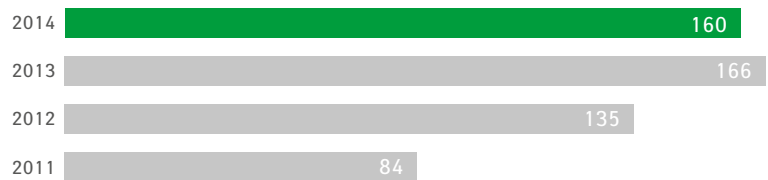


49% Zarubezhneft  
51% Petrovietnam

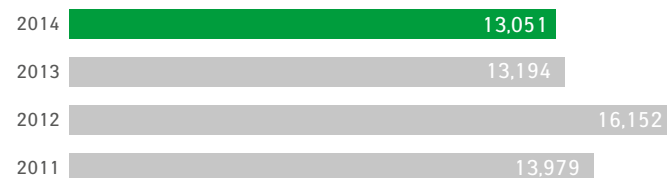
Production volume, thousand tonnes



Production drilling meterage, thousand m



Capital investments, million roubles



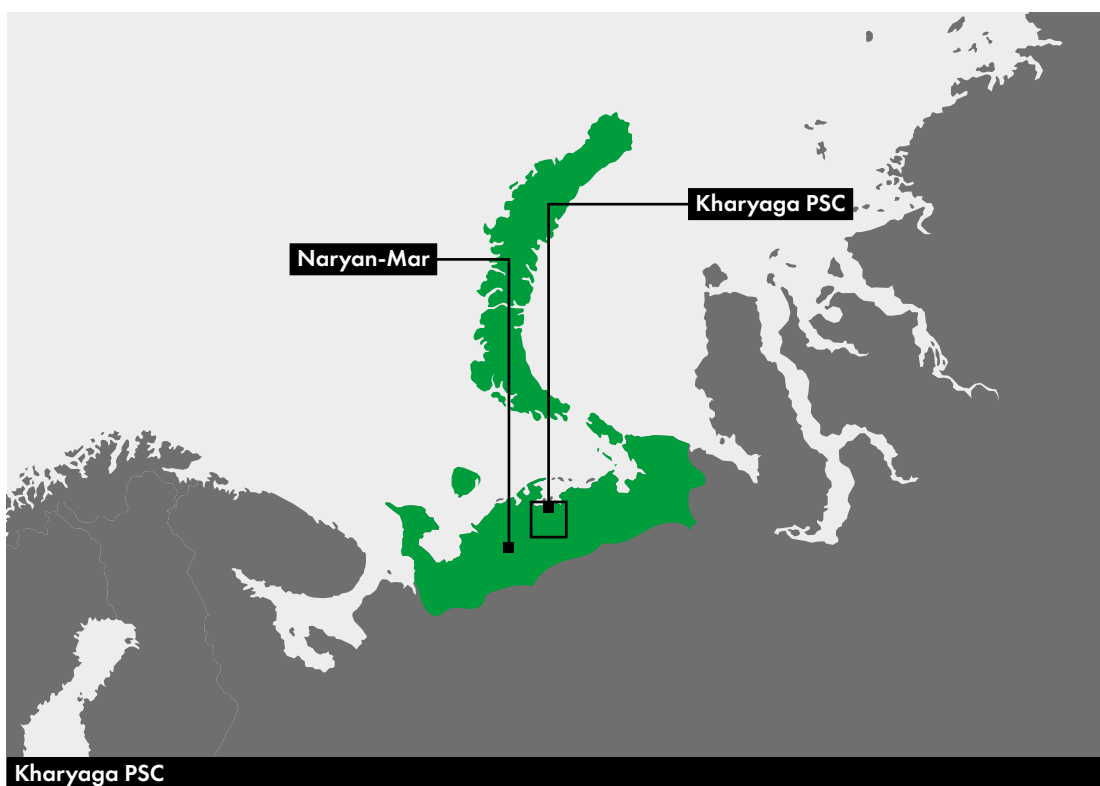
## KHARYAGA PSC

Zarubezhneft entered the Kharyaga PSC project on 1 January 2010 taking a 20% participation share. The project's operator is TOTAL E&P Russie (40%). The other participants in Kharyaga PSC are Statoil Sverige A.B. (30%) and the Nenets Oil company JSC (10%).

Location

In 2014, production volume at Kharyaga PSC was

**1,481**  
thousand tonnes



In 2014, Kharyaga PSC's production volume was 1,481 thousand tonnes. The active well stock is 38.

During 2014, four wells were drilled: two wells on the EP1 pad (E1-13, E1-14) and two wells in the northwest area of Target Formation 2 on the WP-1 pad (W1-02, W1-03). These wells are oil producers, but they also bear a geological burden in helping to define further the development strategy of the northwest part of the field.

In 2014, a range of activities were carried out with an aim to stabilise production. The injection well (E1-13) was identified to be transfer to producing well stock; seven well workover jobs were done to

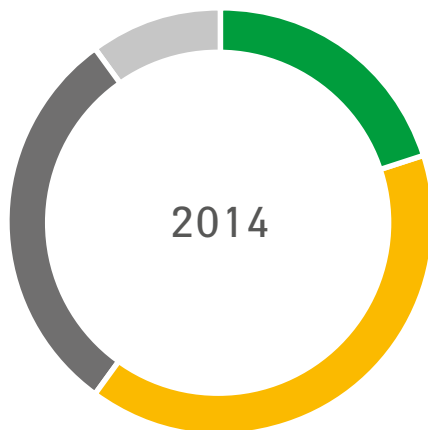
change the electrical submersible pumps (ESPs) in the wells of the 108 and EP-1 pads; the DEL-1 well was transferred to the Artinskian strata in order to acquire additional geological-field information. In 2014, production volume was 1,481.0 thousand tonnes and found to be lower than the scheduled output of 1,586.8 thousand tonnes. The output was lower than expected thanks to ESP breakdowns in six wells, a high level of water-cut in the E1-11 well (65%), an unscheduled shutdown of process facilities at the Lukoil-Komi installations as a result of fire. One of the most important tasks in 2014 was to begin to solve the issue of associated petroleum gas utilisation in accordance with the Decree of the Government of the Russian Federation. This



required an upgrade to the CPF that will allow for the increased associated gas utilisation in the future (up from 26% to 95%).

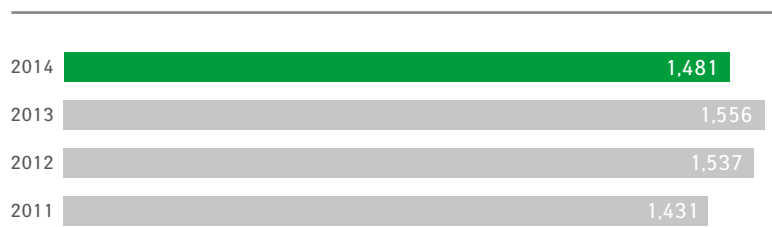
The Kharyaga project partners proposed to limit petroleum operations financing in line with the framework of the 2014 budget. CAPEX has been optimised by 31% and OPEX by 11%. The work is scheduled to be completed and the CPF launched in 2017.

Ownership structure

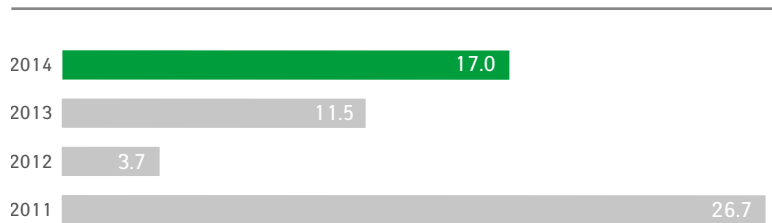


- 20% Zarubezhneft
- 40% Total
- 30% Statoil
- 10% Nenets Oil Company

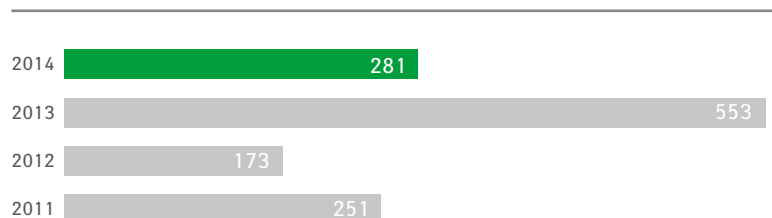
Production volume, thousand tonnes



Production drilling meterage, thousand m



Capital investments, million usd

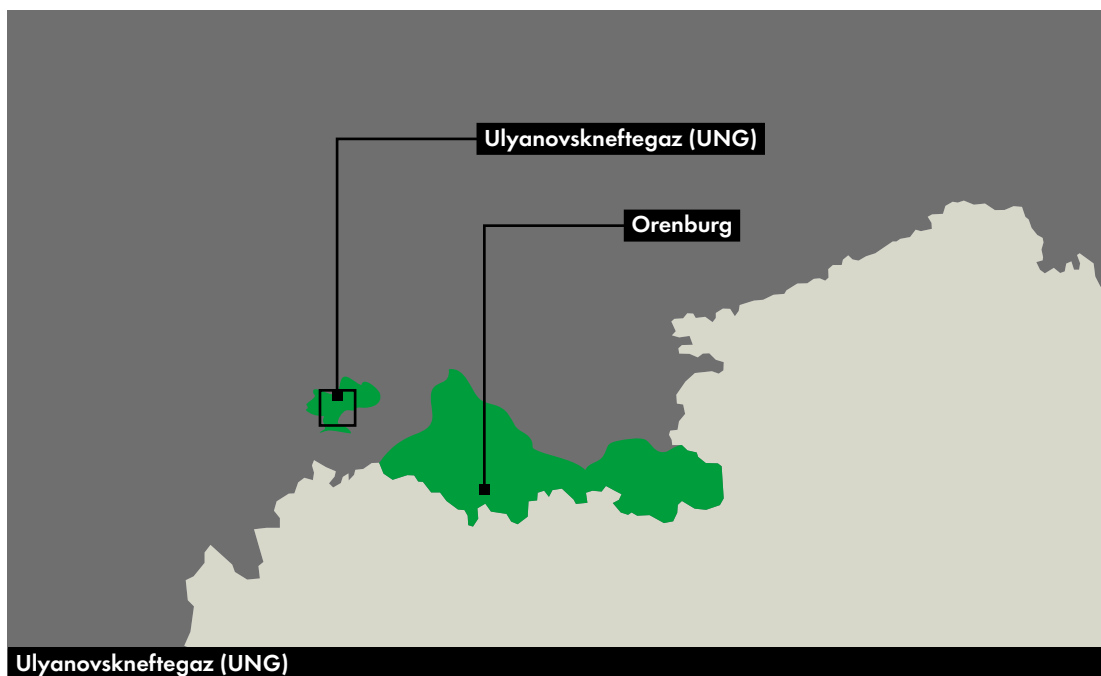




## ULYANOVSKNEFTEGAZ (UNG)

Ulyanovskneftegaz is an oil-producing asset in the Near Volga Upland of Central Russia.

Location



31

thousand tonnes  
were produced by  
Ulyanovskneftegaz  
in 2014

The company is engaged in prospecting, exploration and production in five license areas located in the the Ulyanovsk region. The company produces oil from Lower and Medium Carboniferous deposits predominantly in terrigenous reservoirs.

In 2014, drilling of new wells continued. Three producing wells were drilled in the Sulakskoye field and one side-track was drilled in Slavkinskoye field. As a result, oil production increased by 35% in 2014 compared with 2013.

The average active oil well stock increased from six wells to 11 by the commissioning of four new wells and one side-track drilling. Average oil production in 2014 increased by almost 1.6 times compared to 2013 (up from 60 to 100 tonnes per day). In general, stable oil production in UNG Ltd. is a result of an enhancement of the overhaul period for active

wells from 189 days in 2013 to 349 days in 2014 thanks to the application of mechanical and thermal methods to combat asphalt, resin, and paraffin deposition in the wells.

The reserve recovery rate is between 1% and 5% in the Kondakovskoye and Sulakskoye fields and between 34% and 83% in the Slavkinskoye and Ruzhevskoye fields; the average field oil water-cut is up to 40-60%.

In 2014, an automated oil metering station was installed and commissioned at the crude processing facility (CPF) in the Novospasskoye work camp.

One exploration well was drilled in the Nizhnemazinskaya area of the Radischevskoye license.



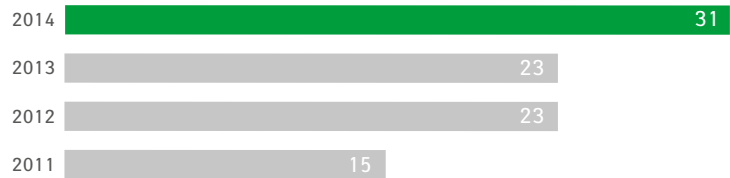
In 2015, the plan is to continue the drilling programme with an aim to bring more reserves into development and boost this asset's oil production growth.

Ownership structure

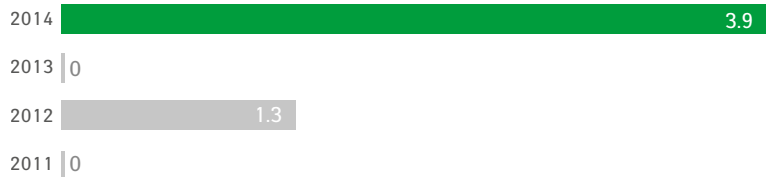


100% ■ Zarubezhneft

Production volume, thousand tonnes



Production drilling meterage, thousand m



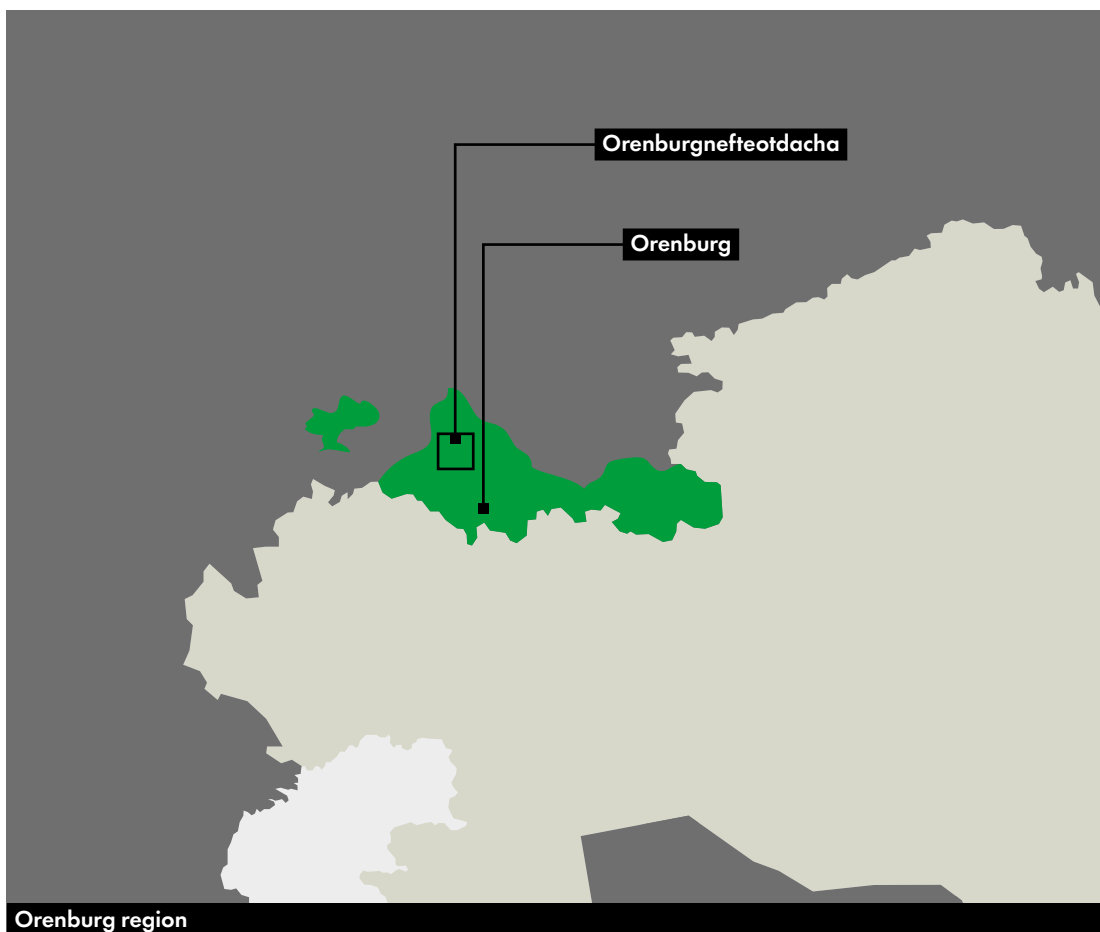
Capital investments, million roubles



## ORENBURGNEFTEOTDACHA

Orenburgnefteotdacha is an oil-producing asset in the Near Volga Upland of Central Russia.

Location



**75**  
thousand tonnes  
were produced by  
Orenburgnefte-  
otdacha in 2014

The company is engaged in prospecting, exploration and production in three license areas located in the Orenburg region. The company is producing oil from Lower Carboniferous and Upper Devonian deposits represented predominantly by carbonate reservoirs. Licenses are valid up to 31 May 2033.

In 2014, the company's focus was continuing work on developing the category C1 reserves (in the B2 formation) given the current declining well stock as well as drilling new producing wells. Three producing wells were commissioned in the Pashkinskoye field, and oil production increased by 7,305 tonnes. In

the Pashkinskoye field, the early commissioning of a pressure maintenance system helped to stabilise production. These actions improved the prospect of further drilling in the field.

Orenburgnefteotdacha's fields see a marked degree of variability in reserves recovery rates from 2% in the Chernovskoye field to 16% and 25% in the Kirsanovskoye and Pashkinskoye fields, respectively, with an average oil water-cut of 4-46%. The asset has 20 active producing and two injection wells.





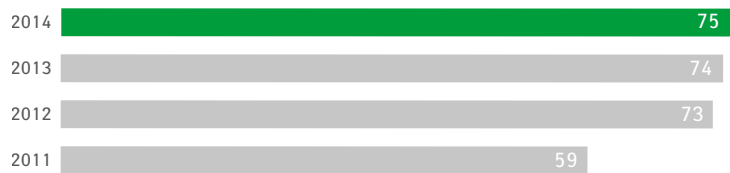
Ownership structure



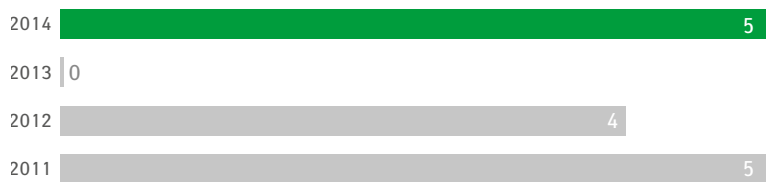
100% Zarubezhneft

In 2014, the production volume totaled 75.3 thousand tonnes, an 1.7% increase over the 2013 level.

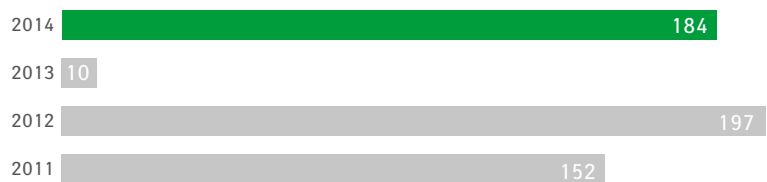
Production volume, thousand tonnes



Production drilling meterage, thousand m



Capital investments, million roubles



## KOLGUEV OIL AND GAS PRODUCTION DEPARTMENT

This asset is located in the northwest part of Timan-Pechora province on Kolguev Island in the of the Nenets Autonomous Area of the Arkhangelsk region 200 km from Naryan-Mar.

Location



**18**  
thousand tonnes  
were produced  
at Peschanoozer-  
skoye field in 2014

The company is producing oil from the central block and the eastern part of the western block of the Peschanoozerskoye field with Lower Triassic deposits represented by terrigenous reservoirs.

As of 1 January 2014, 38.6% of approved recoverable reserves were being recovered with an average oil water-cut of 30%; the average oil well rate is 1.5 tonnes per day, and there are 33 active producing wells with 90% of the active well stock operated periodically.

Oil production fell by 1.0 thousand tonnes in 2014 compared with 2013 as a result of reduced reservoir pressure and an increase in the number wells operating intermittently. The company is considering options to change the well operation methods with a view to curbing the decline in the rate of production.

In December 2014, a gas-turbine power station was commissioned with a nominal capacity of 390 kW. It allowed an increase in the level of associated petroleum gas use and helped cut costs by reducing the purchase of diesel fuel for power generation.

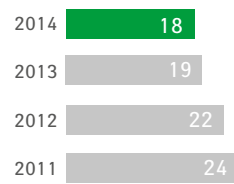


Ownership structure



100% ■ Zarubezhneft

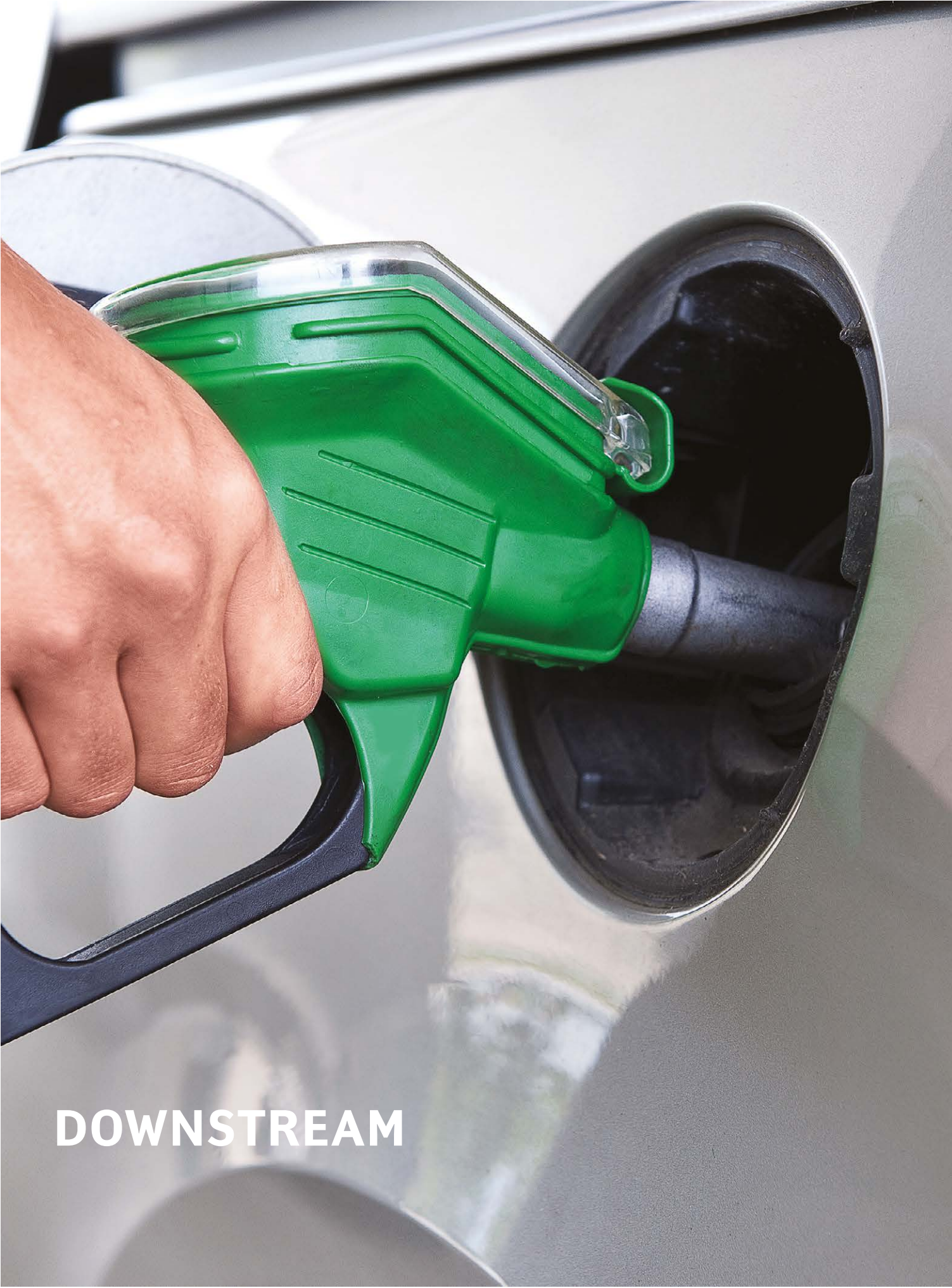
Production volume, thousand tonnes



Capital investments, million roubles







**DOWNSTREAM**



Zarubezhneft's project for the reconstruction and upgrading of enterprises in its Downstream segment in Bosnia and Herzegovina began on 2 February 2007 after the signing of an agreement with the Government of the Republic of Srpska (Bosnia and Herzegovina [BiH]) for the purchase of the Brod Refinery, the Modrica Oil Production Plant and the retail network of Nestro Petrol that comprised 79 fuel stations at the time of purchase.

The following enterprises are included in the segment

Company's name	Year of establishment	Year of entering the project	Location	Major lines of activity	Ownership share
OPTIMA Group	2008	2008	BiH, Banja Luka	Oil purchases, wholesale and small wholesale trade of oil products in domestic and export markets.	100%
Brod Refinery	1968	2007	BiH, Brod	Refining, oil products production	79.69%
Modrica Oil Production Plant	1957	2007	BiH, Modrica	Base oils and paraffin production, motor oils and lubes production and sales	75.65%
Nestro Petrol	1945	2007	BiH, Banja Luka (head office)	Wholesale trade of oil products and associated goods	80%
OGIC	2002	2007	Russian Federation, Moscow	Major loan debtor for the project's implementation, controlling shareholder of BiH enterprises	95%

**100%**

Ownership share of Zarubezhneft in OPTIMA Group

**79.69%**

Ownership share of Zarubezhneft in Brod Refinery

**75.65%**

Ownership share of Zarubezhneft in Modrica Oil Production Plant

**80%**

Ownership share of Zarubezhneft in Nestro Petrol

**95%**

Ownership share of Zarubezhneft in OGIC



## BROD REFINERY

Brod Refinery is the main production asset in the segment. The Brod Refinery is the only refinery within BiH's territory.

In 2014, refining output totaled  
**947.7**  
thousand tonnes



Products produced by the refinery include the following types of oil products:

- Motor gasoline;
- Diesel fuel;
- Bitumen;
- Fuel oil;
- Heating oil;
- Liquefied gas;
- Raw materials for base oils and paraffin production.



In 2014, refining throughput totaled 947.7 thousand tonnes which was 77.3 thousand tonnes lower than the in 2013 year. Refining throughput was reduced to minimise sales volumes of oil products on the foreign market.

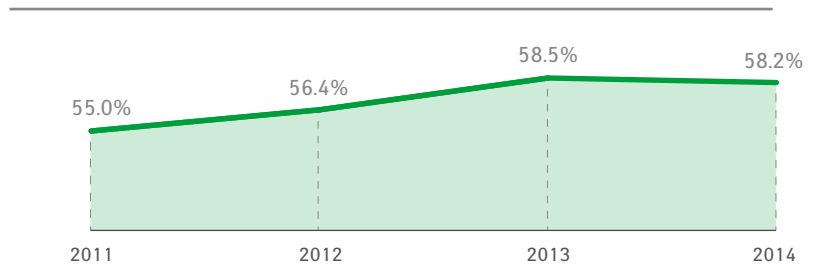
The yield of light products increased by 0.3% compared with 2013, meanwhile the value of losses and in-house needs decreased by 0.2%.

In 2014, the company was actively engaged in activities aimed at business improvement. Investments totaled EUR12.1 million in 2014.

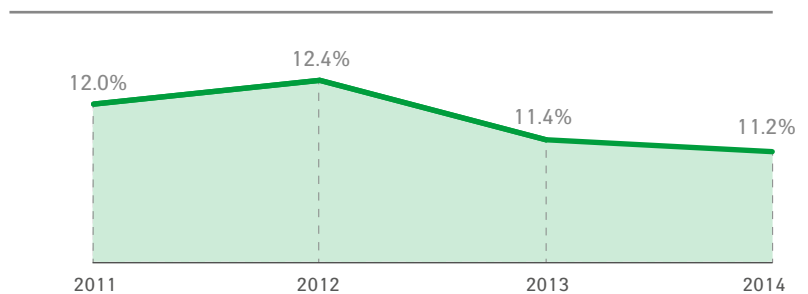
Over the reporting period, the following projects and investments were carried out:

- the commissioning of a T-26 feed tank that allowed the extension of the operation period at secondary processing units during periods where the crude distillation units shutdown;
- the introduction of a LASUR system for measuring material balances to improve data accuracy and reduce losses;
- the installation of measuring stations to control stack gas composition at the refinery and to monitor the environmental situation in the boiler room and CDU (section 31);
- the reconstruction of electric power sub-station P-20 in order to provide the plant with a continuous power supply;
- to reduce power consumption and improve efficiency one pump was changed at water supply point No. 2 and two pumps were change at the water recycling block;
- major construction was done to install a vacuum-forming system in section 31, which will reduce steam consumption (construction and installation was 90% complete by the end of the reporting period and is due to be completed in Q1 2015);
- completed the refinery's scheduled workover;
- new catalysts were purchased and existing catalysts were regenerated to comply with production technology.

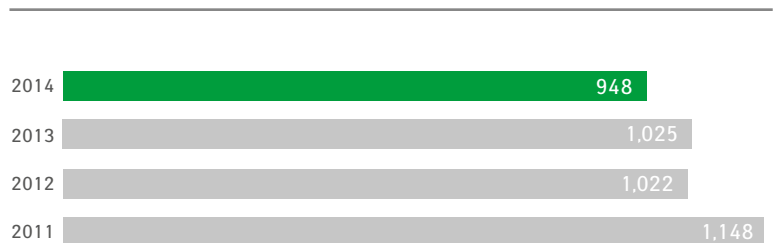
Light Products Yield



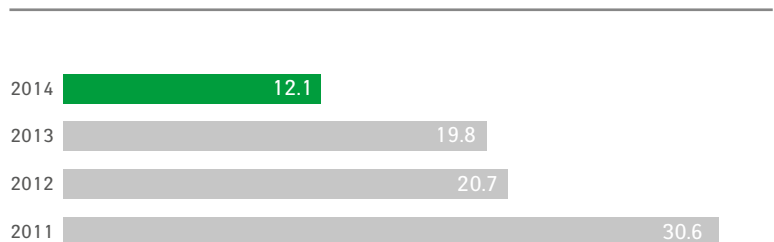
Fuel and loss



Refining throughput, thousand tonnes



Investments, million Euro



## MODRICA OIL PRODUCTION PLANT

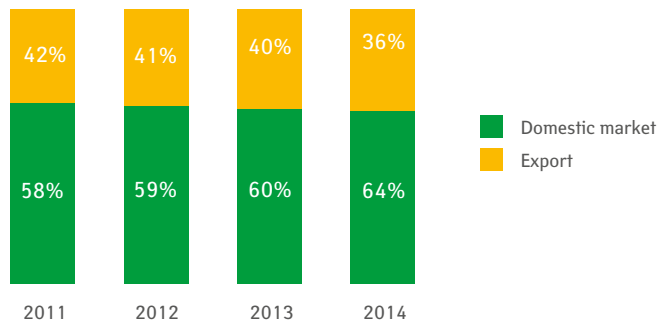
The Modrica Oil Production Plant is the only oil and lubricant production plant in BiH's territory. It occupies the third place in Europe in terms of production capacity among such plants and third in terms of oil production.



The range of the oil refinery's products is over 220 items. At present, Modrica Oil Production Plant is producing the following types of products:

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

Structure of motor oils sales by markets



Modrica Oil Production Plant's products are certified by major motor vehicle and industrial machinery producers (such as Audi, Volkswagen, BMW, Daimler-Chrysler, Opel, Scania, Volvo, MAN, Caterpillar, John Deere etc.) and also by South Korean companies actively working in the European market (Hyundai and KIA Motors) who help to increase the competitiveness of its products.

In 2014, lube distillate throughput was 28.5% lower than 2013's level. This drop was connected with the decrease in oil throughput volume at the Brod

Refinery. This meant that the Modrica plant saw a reduction in the raw material received (i.e. lube basestock).

In 2014, the drop in production volumes sales of motor oil and lubricant compared with 2013 was influenced by changing relations with customers (refusal of the customers' commercial credit).

The overall dynamics of motor oil and lubricant sales show preservation of the general selling policy of this products' group.

In 2014, about 60% of the total volume the plant's production was sold in the BiH market and the other 40% was sold in foreign countries (Serbia, Kosovo, Montenegro, Poland, Macedonia, Hungary, Croatia, Slovenia, Romania).

In BiH's oil and lubricant market, Modrica Oil Production Plant's products have a 36% share.

In 2014, the company implemented an investment programme aimed at supporting the working capacity of existing production and increasing production efficiency.

In 2014, the switch to a full processing schemewater-supply wells drilling operationswater treatment costs reduction were completed.

A major investment project has been the construction of a new oil mixing complex. The first testing stage with ABB engineering company specialists was completed between 2 December 2014 to 20 December 2014.

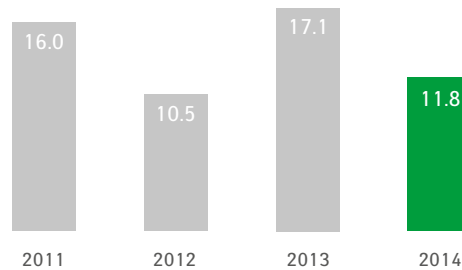
Trial commissioning of the facility is scheduled for 2015. The documentation for commercial operations at the complex should be finished by the end of Q1 2015.

In the near term, the investment activities at the Modrica Oil Production Plant will remain aimed at further optimisation of production.

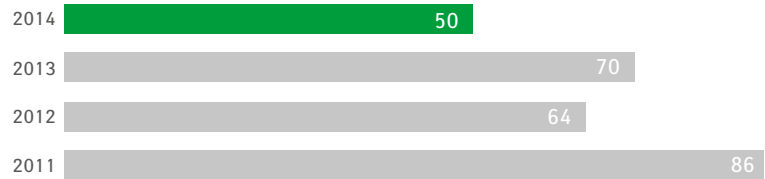
**60%**  
of the total volume the plant's production was sold in the BiH market

**40%**  
was sold in foreign countries

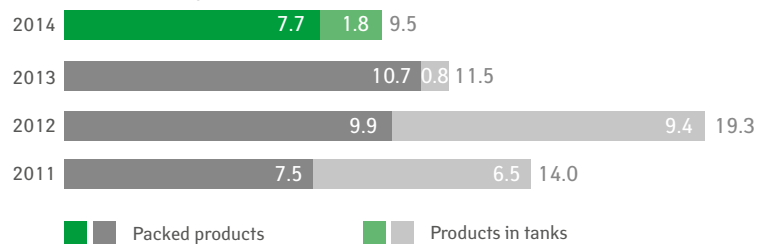
Share of oils sales on the domestic market



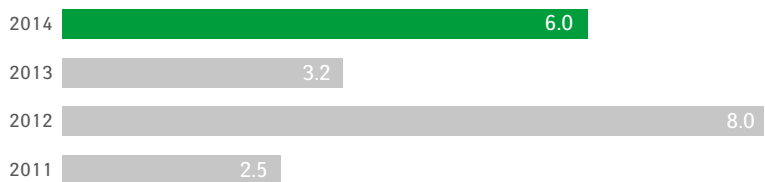
Oil distillate refining, thousand tonnes



Motor oils and lubricants sales, thousand tonnes



Investments, million Euro





## OPTIMA GROUP

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Optima Group is engaged in the wholesale distribution of the Brod Refinery's oil products and the Modrica Oil Production Plant's base oils, motor oils, lubricants and paraffin.



In 2014, the company continued its aim of increasing its market share amongst small and medium-sized buyers thereby increasing its sales margin thanks to the profits of large distributors.

In 2014, domestic sales dropped relative to total sales (69%) compared with 2013 figures (74%).

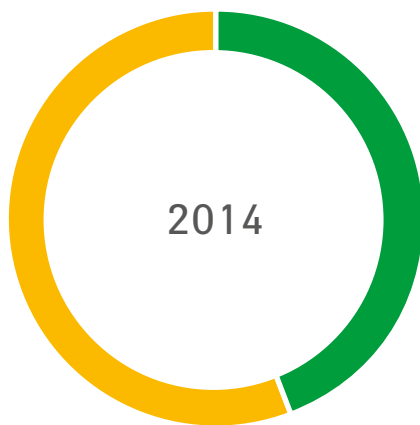
Based on the results of commercial activity in 2014, Optima Group held 44.3% of sales of oil products in the Bosnia and Herzegovina market

Optima Group held **44.3 %** of sales of oil products produced at the Brod Refinery in the Bosnia and Herzegovina market

The company's key short-term goals are the following:

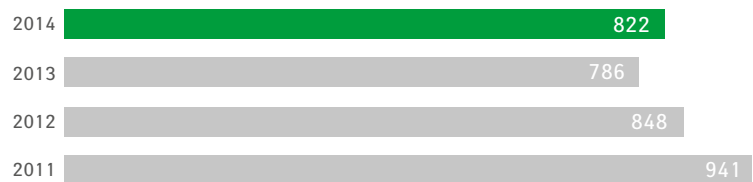
- Increasing sales volumes on the most marginal domestic markets,
- Increasing market share amongst end buyers
- Developing new sales channels for dark oil products (reducing distributors' share, entering new regional markets, exploring the potential of packed bitumen),
- Developing the domestic sales through a retail network of independent operators and the development of a sales office in Sarajevo,
- Development of the external market through establishing long-term relationships with partners in Croatia, Serbia, Austria, Italy, Slovenia and Montenegro,
- Increasing the sale of packaged oils on the domestic market, working a marketing strategy for the oil refinery's new products, optimisation of the product mix, and the development of new products.

Share of oil products sales in domestic market as of 31 December 2014

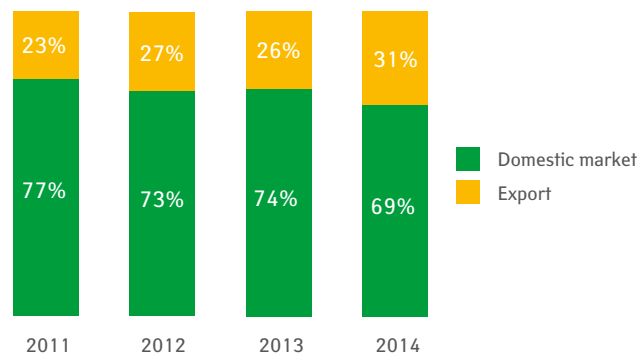


44.3% Optima Group  
55.7% Other sellers

Oil-products wholesale, thousand tonnes



Structure of oil-products sales at the markets



## NESTRO PETROL

Nestro Petrol is engaged in the retail sales of oil products and additional items. The sales network is made up of 84 fuel stations: 73 of these are in the Republic of Srpska and 11 of the stations are in the Federation of Bosnia and Herzegovina. Retail trade volumes of oil products at the company's fuel stations have followed a positive trajectory. In 2014, retail fuel sales were up 4.2% compared with 2013.





In the reporting period, the company purchased two fuel stations (Ivanjska, Kozarska Dubica) and strengthened its position in the local market. Ten fuel stations from flooding in May 2014, but all of these have been repaired and are back in operation. In 2014, in line with investment plans the following activities were carried out:

- installation of gas equipment at selected fuel stations (the programme is intended for 15 fuel stations),
- completed the rebranding two fuel stations and the reconstruction of four fuel stations,
- purchased two fuel stations (Kozarska Dubica and Ivanjska) and put into operation under the Nestro brand,
- a support hotline was organised for fuel station customers; a training centre for fuel station managing personnel was opened; and a "mystery consumer" programme was introduced,
- new project implementation: a "Social Card" discount programme for multi-child families; the "Nestro Agrarian Card" discount programme for agricultural producers; and the introduction of a new automated night-time service at fuel stations with self-service terminals.

The company is planning to continue implementing measures that will increase the operational efficiency and sales profitability of fuel and other goods.

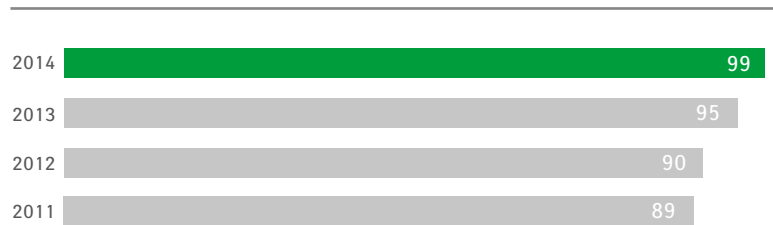
**Major areas of activities for the company include:**

- Increasing retail sales volumes through the purchase or rental of fuel stations, thereby increasing the sales network and marketing opportunities, including in new regions;
- Development of the network by equipping fuel stations with: equipment and facilities for the shops and cafes at the stations, gas equipment, AdBlue urea dispensing stations, car wash facilities (two small size and one multioperator facility), air compressor facilities for pumping tires at the fuel stations;
- Capital investment to equip the fuel stations with double-wall tanks, diesel-generators, reconstruction and the purchase of equipment.

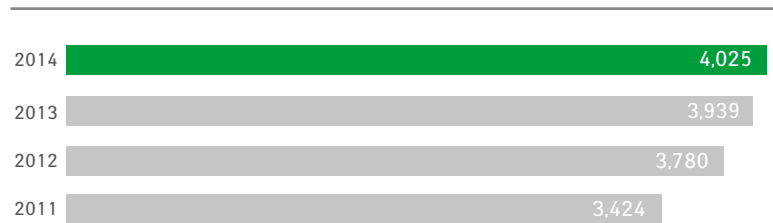
The sales network is made up of **84** fuel stations

Retail fuel sales were up **4.2%**

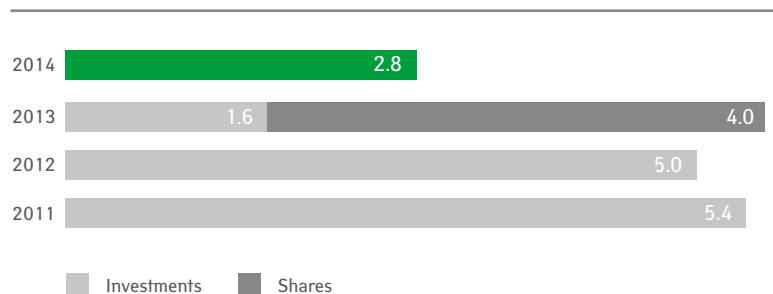
Oil-products retail sale, thousand tonnes



Average sales volume per 1 fuel station, l/d



Investments, million Euro





**SERVICE  
AND OTHER ASSETS**



The service assets segment of the Zarubezhneft Group of companies is represented by enterprises engaged in building the oil and gas infrastructure,

carrying out exploration, drilling operations, oilfield equipment supply, scientific research and planning and surveying work.

The service segment development priorities are the maximisation of synergies with Zarubezhneft's key upstream segment:

- The utilisation of VNInet in the creation of a full-value technical centre specialising in the development of optimised hydrophobic reservoirs and fractured basement reservoirs;
- Establishing of a department for the efficient operation and optimised development of out-of-balance fields;
- Strengthen the customer service in the well construction and reconstruction sector with the through efficiency enhancing investments in technological solutions.

Affiliate name	Company profile
AMNGR	<p>Company renders services in the oil and gas sphere under the following areas of activity:</p> <ul style="list-style-type: none"> <li>• Drilling: by Murmanskaya jack-up rig – construction of exploration wells off the shore of Vietnam; by Deep Venture DV – construction of exploration wells in the deep shelf of the South-East Asia);</li> <li>• Marine transport services by supply vessel Neftegaz-55 – provision of the safe tankers loading from remote terminals on Sakhalin Island;</li> <li>• Cargo-handling port servicing (as part of process and cargo berths);</li> <li>• Auxiliary production: maintenance engineering station, a professional technical training school and operation base.</li> </ul>
VNIneft	<p>Scientific research institute working on solving problems in oil field development and oil recovery enhancement.</p> <p>Major areas of activity:</p> <ul style="list-style-type: none"> <li>• Scientific and research focuses on applications of EOR methods, petrophysical core analysis, formation fluids property analysis, well hydrodynamics, analysis of the investment potential of oil and gas projects, expert and patent research;</li> <li>• Design and survey work includes engineering and analysis of oil and gas field development, geological simulation, calculation of reserves, drilling support and monitoring the status of raw materials, ecology, and the economics of oil fields development.</li> </ul>
Giprovostokneft	<p>Scientific organisation providing engineering services and implementing design and survey work (independent expert examination of design documentation, carrying out of studies in the area of drilling and well construction projects, planning stage of design, engineering surveys for construction, the integrated design of oil and gas industry facilities) and scientific research for enterprises in the oil and gas complex.</p>
Zarubezhneftstroyontazh	<p>An enterprise that provides organisation services to support the construction, reconstruction, workover, construction controls, and preparation of design documentation; engaged by the developer or customer based on a general contractor agreement</p>
Oil Recovery	<p>An enterprise that provides services for technical and personnel provisioning at CKU fields, carries out contractor operations under the agency agreement in terms of conducting pilot works for the testing and introduction of steam-thermal EOR methods (the Boca de Jaruco project), and renders services on the operation of the nitrogen-compressor unit VISHA-Thermogaz (Belorussia).</p>
Zarnestservis	<p>An enterprise that trades oil produced by the Zarubezhneft Group of companies on domestic and foreign markets, supplies equipment, materials and services for JV Vietsovpetro needs.</p>
Explon	<p>An enterprise that provides maintenance services for buildings' life support systems, sanitary maintenance and cleaning the inner premises and territory adjacent to the building, additional services (such as catering, services of sports and health centres, consumer services)</p>



## ARKTIKMORNEFTEGAZRAZVEDKA

Arktikmorneftegazrazvedka (AMNGR) conducts its activity in Murmansk where its head office is located. Priority line of activities of the company focus on South-East Asia, where the company participates in prospective drilling of offshore wells in the Socialist Republic of Vietnam.

AMNGR primarily works as a drilling contractor on Zarubezhneft's offshore well construction projects.

**AMNGR's primary capacities are:**

- the Murmanskaya jack-up drilling rig is capable of drilling exploration and production offshore wells to the estimated depth of up to 6,000 m with sea depth of up to 100 m.
- the Deep Venture (formerly Valentin Shashin) drilling vessel is capable of drilling exploration and production offshore wells to the estimated depth of up to 7,000 m with sea depth of up to 1,715 m.



In 2014, the company completed the repair of the Murmanskaya jack-up rig and the Deep Venture drilling vessel.

At present, the company is searching for a profitable contract for the Deep Venture DV including in regions such as Mexico, India, Nigeria and Indonesia. In order to increase its commercial efficiency, AMNGR will divest non-core assets.



### ON-SHORE INFRASTRUCTURE OF AMNGR INCLUDES

**Cargo-handling port-station – vessel mooring, loading, offloading:**

- Lavna (Murmansk, 20th km of Pechengskoye highway).

**Maintenance Engineering Station (MES) – (Kola, Kildinskoye highway 2):**

- Transportation group (berthing, repair, vehicle maintenance),
- Operation and energy group – repair and maintenance of power systems of AMNGR.

**Professional and technical training school.**

In 2014, the Murmanskaya jack-up rig successfully implemented the work on a contract with JV Vietsovetpetro. The drilling of 5 wells was completed. The drilling meterage totaled 17,176 meters. The Murmanskaya jack-up rig's commercial drilling rate was 2,623 meters per rig-month which is higher than the planned rate by 11%. The Murmanskaya jack-up rig's was non-productive only 2.3% of the time.

Thanks to the wells drilled by the Murmanskaya jack-up rig in 2014, JV Vietsovetpetro's reserves grew by more than 2.0 million tonnes.

In 2014, repairs to the Deep Venture DV were completed. Meanwhile, pre-commissioning work on the Subsea Blowout Prevention system have been underway.



**MURMANSKAYA JACK-UP RIG**

Jack-up rig, capable of drilling wells to a depth of up to 6,000 metres with maximum sea depth of 100 metres.

Short characteristics	
Production /upgrading year	1991/2014
Dimensions	109 x 68 m
Living space, persons	84
Total weight	14,465 tonnes



**DEEP VENTURE DV**  
(formerly Valentin Shashin)

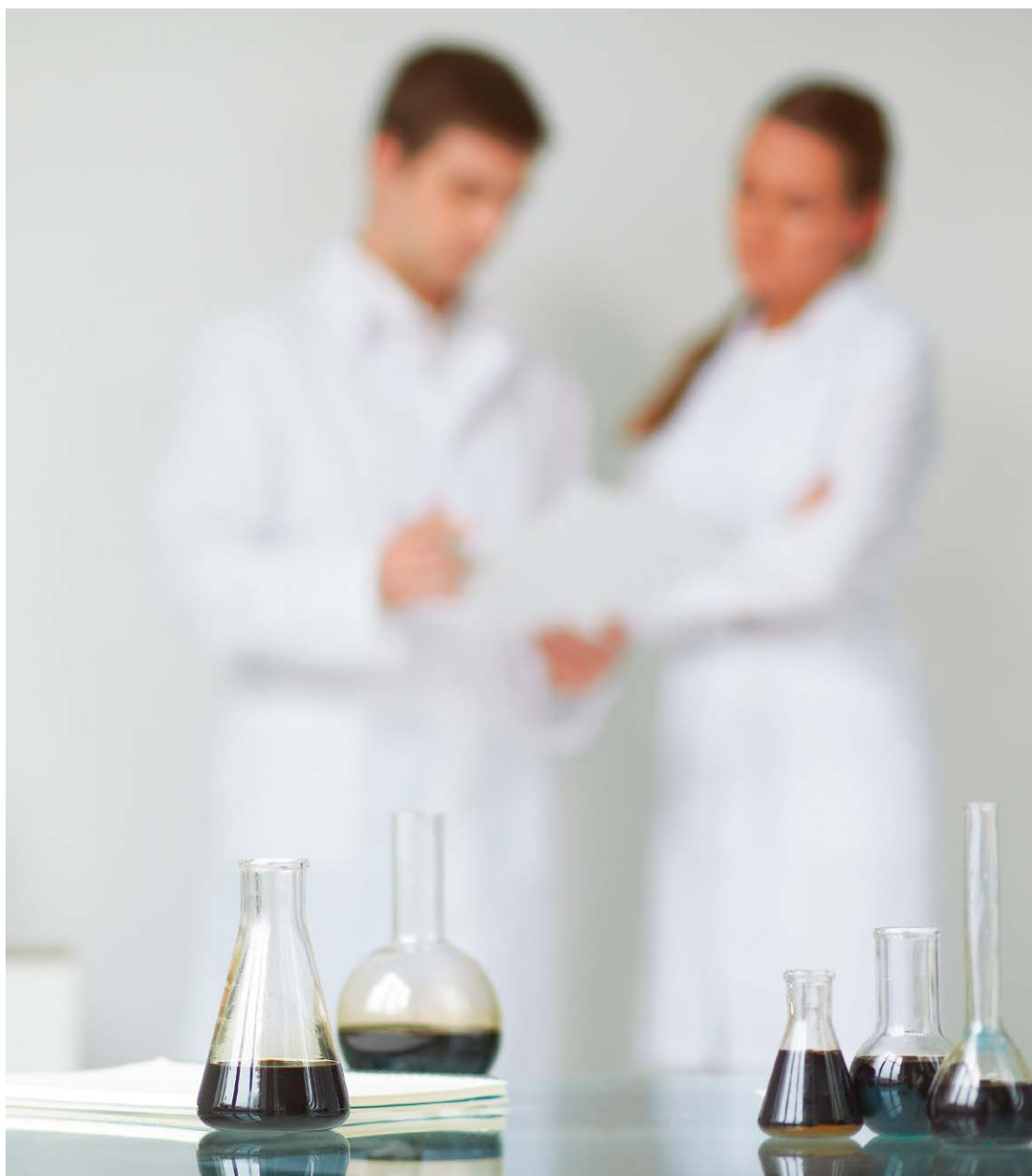
Vessel, capable of drilling wells to a depth of up to 7,000 metres with maximum sea depth of 1,715 metres.

Short characteristics	
Production /upgrading year	1982/2014
Dimensions	149 x 28 m
Living space, persons	116

## GIPROVOSTOKNEFT

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The Service Assets Segment aims to provision of services across a range of activities including scientific research, planning and surveying, scientific support for prospecting, exploration and the development of fields, calculation of reserves, field development design, as well as implementation of scientific research projects. This segment is represented by two institutes: Giprovostokneft (Samara) and VNIIneft (Moscow).





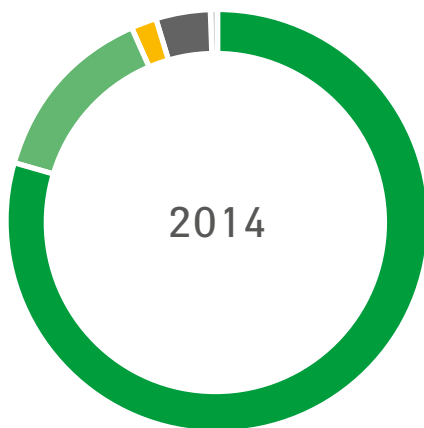
In 2014, the company completed the following works:

- In 2014, the company completed the following works:
- a project for expanding CPC pipeline system in the Russian Federation;
- engineering survey and engineering works for field surface facilities, treatment and external transportation from CKU fields;
- a project for Verkhnechonskneftegaz that included construction of surface field facilities a gathering system and in-field oil transportation facilities;
- a project at the Suzunskoye field that included work on treatment , external transportation and surface facilities;
- projects for Orenburgneft and Buguruslanneft that included survey and research works for treatment, external transportation and field surface facilities;
- well drilling projects for Orenburgneft;
- projects at the Kuyumbinskoye (Slavneft-Krasnoyarskneftegaz) and Srednebotuobinskoye fields (Taas-Yuryakhneftegazdobycha) that included general design engineering survey and research works on treatment, transportation and field surface facilities;
- design and research work for the construction of field surface facilities at new well pads in the Kharyaga fields (Total E&P Russie).

In 2014, the improvement in Giprovestokneft’s key indicators was a result of work on a number of projects that included: the expansion of the CPC pipeline system in the Russian Federation: surveying and engineering work on field surface facilities, treatment and external transportation from CKU fields: survey, engineering and design of field surface facilities, treatment and external transportation at Orenburgneft. Overall Giprovestokneft’s saw the work carried out using its own resources increase (from 72.5% in 2013 to 78.5% in 2014 as the ratio of revenues/ income) and reduction of unit costs.

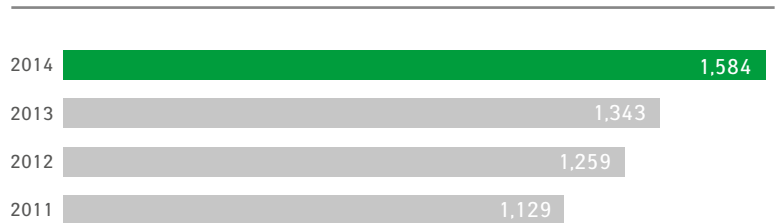
In 2014, with the aim of strengthening the company’s competence in field development and well drilling, Giprovestokneft (Zarubezhneft’s subsidiary) and SamaraNIPI (OC Rosneft’s subsidiary) were brought together for the first time. This integration will enable the company to completely provide support to projects in terms of the construction of field facilities, well construction and reconstruction, as well as to increase the scope for obtaining orders from Rosneft’s assets (creation of RN-Giprovestokneft).

Structure of income, GPVN, %

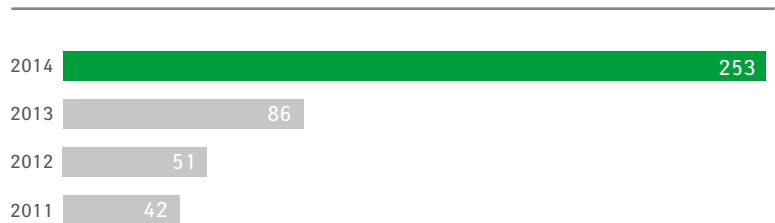


- 80% Engineering and design
- 14% Engineering survey
- 2% Drilling projects
- 4% R&D
- 0% Miscellaneous

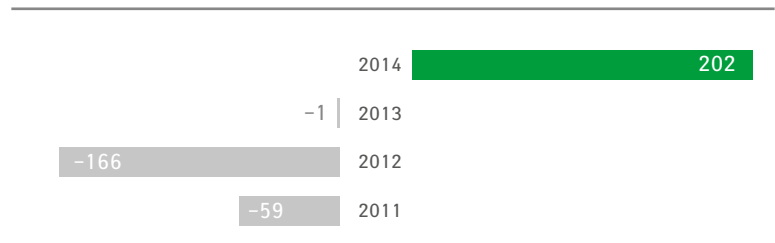
Income of GPVN, million roubles



EBITDA of GPVN, million roubles



FCF of GPVN, million roubles



## VNIINEFT

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In 2014, the Company completed 56 scientific research, design and other works totaling more than RUB323.7 million. For the most part, orders were for work on field development projects and enhanced oil recovery (EOR) methods.



The main customers for VNIIneft’s research and development (R&D), and engineering and design work in 2014 were: Zarubezhneft, JC RUSVIETPETRO, JV Vietsovetro, Slavneft-Megionneftegaz, Lukoil-Engineering, Orenburgneft.

In the structure of income received from the implementation of all types of activities, the largest percentage is was for by income from R&D deliverables.

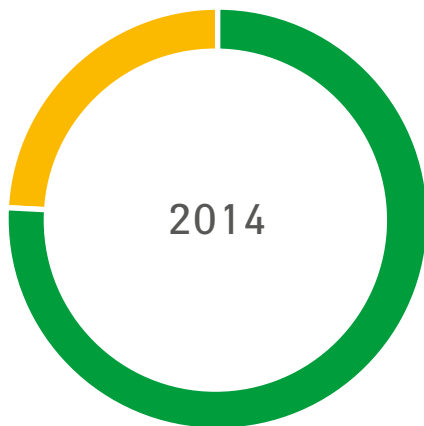
The primary objective of VNIIneft is the creation of a scientific-and-technical centre (STC) responsible for geological research, optimisation of field development and the creation of integrated development plans for all of Zarubezhneft’s assets.

In addition to the supporting of Zarubezhneft’s main lines of upstream business, the STC should help to drive company-wide innovation, support planning and R&D relevant to the entire business, as well as drive the development and uptake of new technologies.

In 2014, revenues/income growth was a result of the growth in orders from third-party customers.

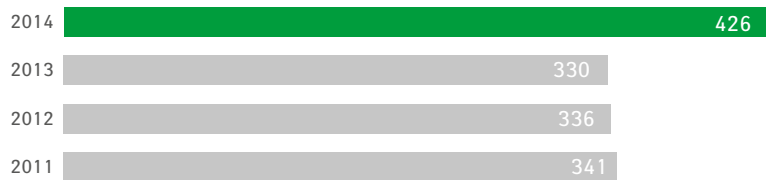
The improvement in VNIIneft’s EBITDA and free cash flow (FCF) in 2014 was also helped by efforts at cost optimisation and cost reduction.

Structure of income VNIIneft, %

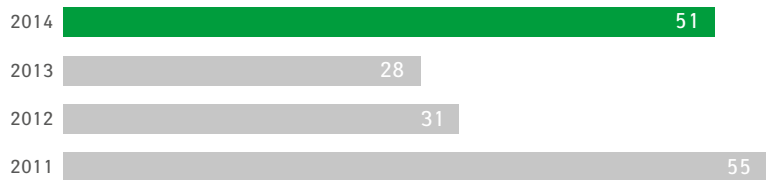


76% R&D deliverables  
24% Miscellaneous

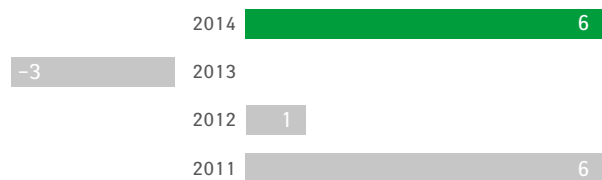
Income of VNIIneft, million roubles



EBITDA of VNIIneft, million roubles



FCF of VNIIneft, million roubles





## JSC OIL RECOVERY

The Company provides service works at fields in Central Khoreyver Uplift with technical and staff assistance, carries out contract works under agency contracts in experimental programmes for approbation and thermal-steam EOR methods at the Boca de Jaruco field, renders services for the operation of the compressor station at PA Belorusneft's Vishanskoye field operation.



At present, the company conducts its industrial and business activity based on contract obligations of Zarubezhneft with its footprint located in the several main regions as follows:

- in the territory of Arkhangelsk region (NAA), oil and gas services are provided on well testing, geological-and-engineering surveys, application of EOR methods, well WSO (water shutoff operations), drilling supervising, and the supervision of well workovers at JC RUSVIETPETRO's fields;
- in the Republic of Cuba, pilot work on the introduction of thermal-steam EOR methods at the Boca de Jaruco field;
- in the Orenburg and Ulyanovsk regions, supervision and geological-and-technical support is being provided in well construction at the Orenburgnefteotdacha and Ulyanovskneftegaz fields;
- in the Republic of Belarus, services are being rendered for the operation of the compressor station at PA Belorusneft's Vishanskoye field operation.

In the medium term, there is considerable scope for providing integrated drilling services at JC RUSVIETPETRO's fields. Oil Recovery expects to receive revenues of RUB500 million per year from this work. This will help to provide positive support to both the EBITDA and FCF indices.

In the longer term, Oil Recovery plans to create a mobile structure with the possibility of a wide range of activities (wells surveys; arrangement of works on well construction and repair; introduction of EOR methods) as well as to provide qualified staff for Zarubezhneft projects (implementation and engineering services).

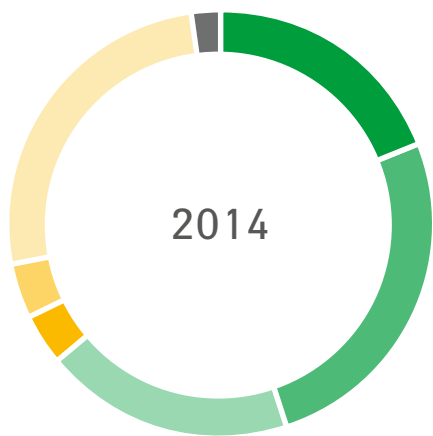
The additional revenue alongside cost optimisation enabled EBITDA to increase to RUB40 million.

In terms of investment in 2014, a mobile straight-flow steam-generating unit (SFSGU) was purchased in order to provide supervision services for the production at the Boca de Jaruco project in the Republic of Cuba.

In 2014, Oil Recovery increased its scope of work and in turn saw it exceed its planned revenue/income (by 33%). Business lines that saw increased activity were:

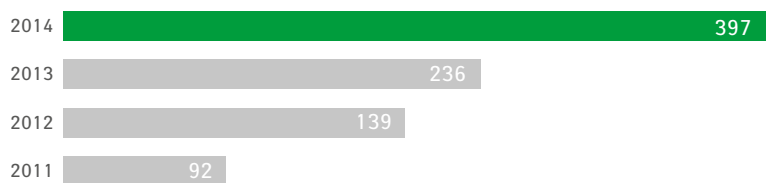
- Geological-and-engineering survey,
- Drilling supervising,
- Well workover supervising,
- Thermal-steam formation treatment, oil production, field geophysical tests/well testing.

Structure of income, Oil Recovery, %



- 19% Well testing
- 26% Geological-and-engineering survey
- 19% Drilling supervising
- 4% Well workover supervising
- 4% EOR methods and water shutoff operations
- 26% Boca de Jaruco project (Cuba)
- 2% Miscellaneous

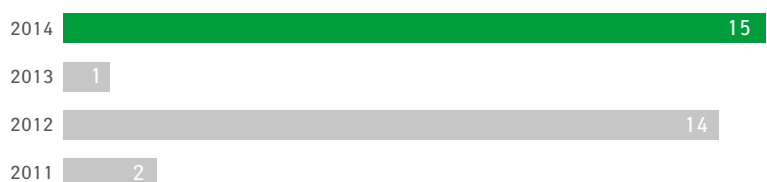
Oil recovery Revenue, million roubles



Oil recovery EBITDA, million roubles



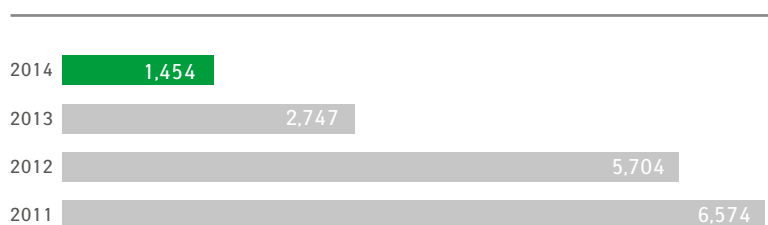
Oil recovery FCF, million roubles



## ZARUBEZHNEFTSTROYMONTAZH

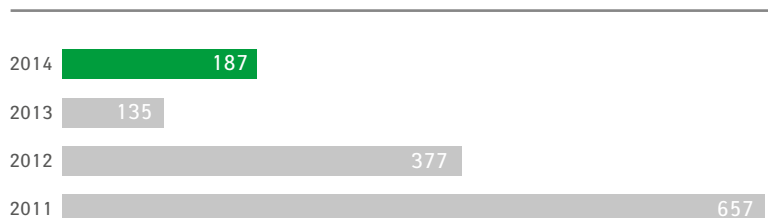
This company was established in 1999 in order to provide a full range of services in the construction of facilities for the production, treatment and transportation of oil, gas and their derivative products in the territory of the Russian Federation and abroad.

ZNSM Revenue, million roubles



In 2014, the order book of Zarubezhneft-stroymontazh (ZNSM) order book was dominated by jobs for companies belonging to the Zarubezhneft Group. It completed work on the construction of facilities for JC RUSVIETPETRO. Most part of ZNSM's revenues (96.8%) came from this work (RUB1,454 million). The second significant line of activity was involved upgrading the facilities in Bosnia and Herzegovina (Refinery and Lube Plant). In 2014, construction work was also completed on field surface facilities as part of pilot project work on the E1 and M formations in the Boca de Jaruco field in the Republic of Cuba.

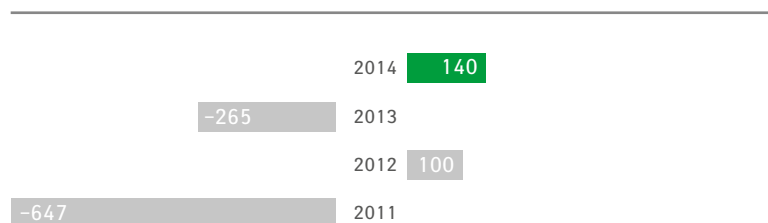
ZNSM EBITDA, million roubles



In the medium term, ZNSM's aim is to become a full-value EPC contractor, with capital construction competencies (and provide construction and development services for Zarubezhneft's fields).

In 2014, ZNSM constructed 23.5 km associated gas pipeline from the booster pump station Western-Khosedayu to CGP Northern-Khosedayu using its own resources. The construction of this facility allowing JC RUSVIETPETRO to put into operation Energy Centre No. 2 supplied with associated gas for continuous operation.

ZNSM FCF, million roubles



In 2014, ZNSM also provided construction and installation works at Energy Centre No. 2 such that the facility was available for pre-commissioning activities. This work on Energy Centre No. 2 underpinned a stabilisation of the RUSVIETPETRO's power supply (for oil production).

Implementation of this energy efficiency programme allowed a reduction of RUSVIETPETRO's production costs for oil production, treatment and transportation; cost optimisation was in large part a result the shift from using diesel fuel at the earlier power facilities to the use of project associated gas.



## ZARNESTSERSVIS

This company was established in 1999 in order to give Zarubezhneft the opportunity to supply Russian equipment, materials and services to the Socialist Republic of Vietnam (SRV) to meet JV Vietsovetpetro's operational requirements. The Zarubezhneft Group of companies dominates Zarnestservis's order portfolio.

### Areas of activities:

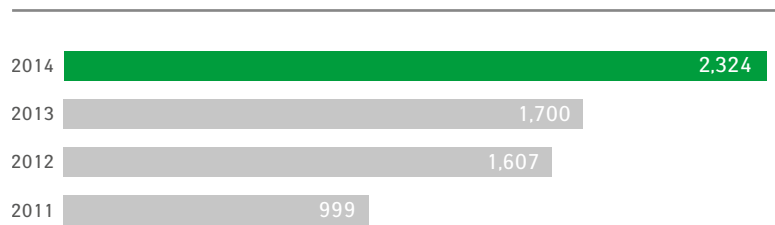
- Commissioning for oil sales in the domestic and foreign markets;
- Commissioning for supply and freight vessels for JV Vietsovetpetro;
- Supply of Russian goods for JV Vietsovetpetro.

In 2014, Zarnestservis's increase in income was due to an increase in days of granting four vessels on freight as well as a beneficial movement in exchange the rate (tubulars supplied under the sales-purchase contract in the SRV and commission fees for the export sale of RUSVIETPETRO's part of oil are paid in USD).

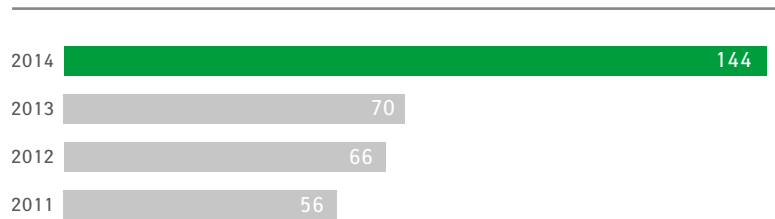
Zarnestservis's EBITDA grew to RUB144 million in 2014. This was a result of both core activities as well as better management performance and cost reductions compared with 2013.



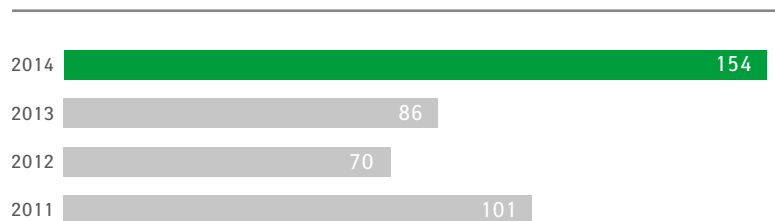
Zarnestservis Revenue, million roubles



Zarnestservis EBITDA, million roubles

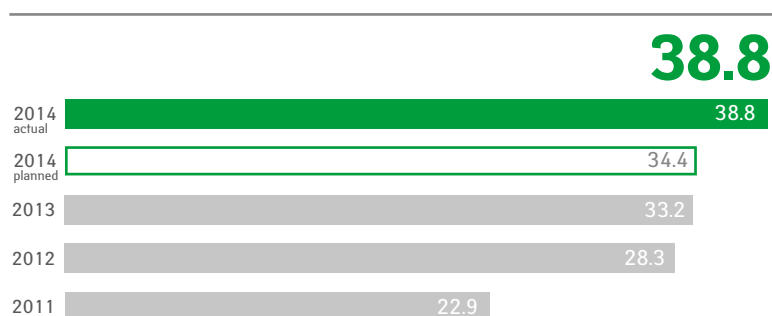


Zarnestservis FCF, million roubles



## KEY PRODUCTION PERFORMANCE INDICATORS OF THE ZARUBEZHNEFT GROUP OF COMPANIES

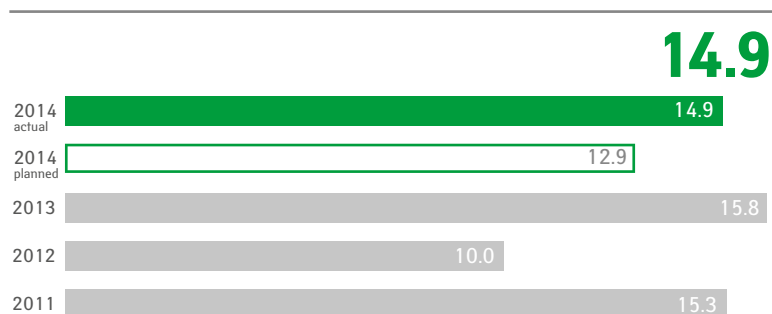
Dynamics of consolidated EBITDA of the Zarubezhneft Group of companies, billion rubles



In 2014, the consolidated EBITDA moved towards sustainable growth both in relation to the planned (+12.7%) and to the actual value of 2013 (+16.7%).

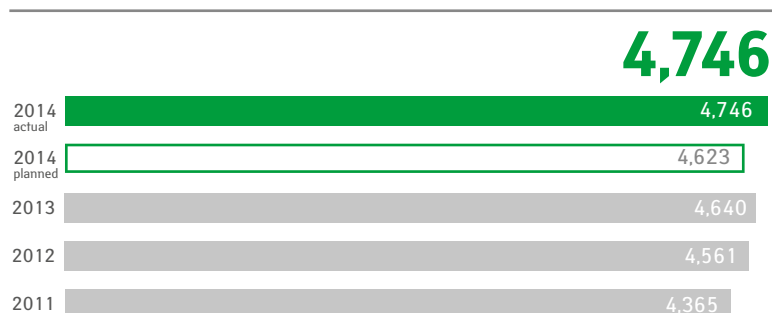
Growth of this index against the planned value resulted from ZN's EBITDA growth. Growth of this index against the actual value of 2013 resulted mainly from ZN and AMNGR's EBITDA growth.

ROE of the Zarubezhneft Group of companies, %



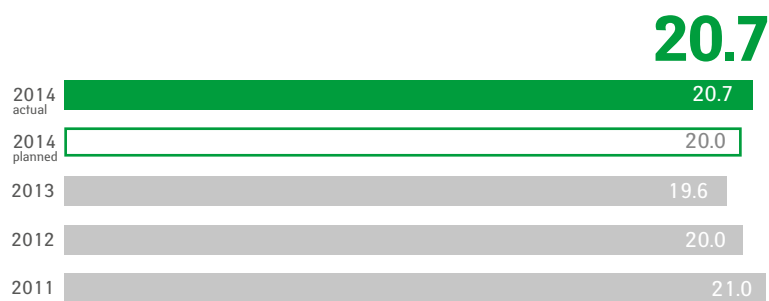
Profitability of the chartered capital is higher than the planned figure for 2014 thanks to ZN's net profit growth.

Gross oil production by Zarubezhneft's Group of companies (considering share), thousand tonnes



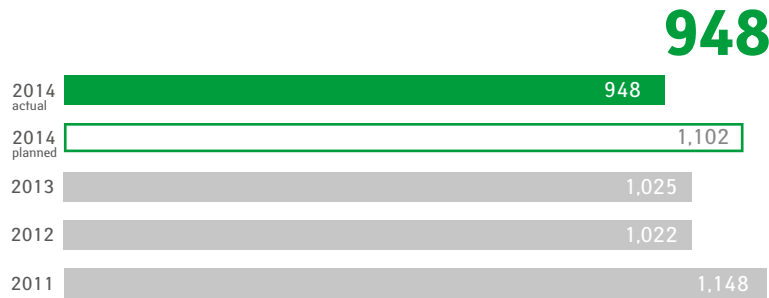
Gross oil production by the Zarubezhneft Group of companies in 2014 was higher than planned by 2.7% thanks to a production increase by JV VSP and production growth by JC RVP.

Reserves life of the Zarubezhneft Group of companies, years



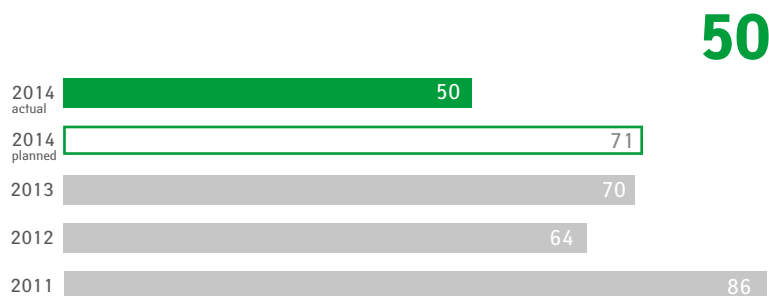
The index of reserves life of the Zarubezhneft Group of companies has remained steady in excess of 19 years.

Volume of crude refining by the Zarubezhneft Group of companies, thousand tonnes



Volume of crude refining was lower than in previous periods because of measures to optimize the volume of oil-product exports, as a consequence there was a decrease in the volume of oil distillate refining.

Volume of oil distillate refining by the Zarubezhneft Group of companies, thousand tonnes





**Basic production-economic parameters of the Zarubezhneft Group of companies you may see at the site**

<http://www.zarubezhneft.ru/en/deyatelnost/klyuchevye-fakty/>





## BASIC FINANCIAL RESULTS AND INVESTMENT PROGRAMME PERFORMANCE OF THE COMPANY



### Total revenues

In 2014, Zarubezhneft's total revenues exceeded RUB31 billion bringing them in line with the company's target and 1.8% above the 2013 figure. Revenues from the company's joint operation with JV Vietsovpetro accounted for 45.7% of total revenues (RUB14.2 billion) with 9.9% (RUB3.1 billion) coming from the implementation

of the 09-3 Block project (in the Socialist Republic of Vietnam, SRV), another 44.3% of total revenues (RUB13.8 billion) came from the Russian Kharyaga PSC project. As for revenues from other activities (RUB0.04 billion), these were from agreements for the sales of goods, production services, and the rental of administrative buildings and premises.

**Net profit exceeded plan**

In 2014, Zarubezhneft's net profit exceeded plan by 3.2% and was up by 24% against the 2013 figure.

**Investment activity**

Meanwhile, Zarubezhneft's 2014 investment activity focused on the continuation of ongoing investment projects (the exploration and development of fields in the SRV and in Cuba, as well as the upgrading of assets in Bosnia and Herzegovina and Russia).

**Investment plan**

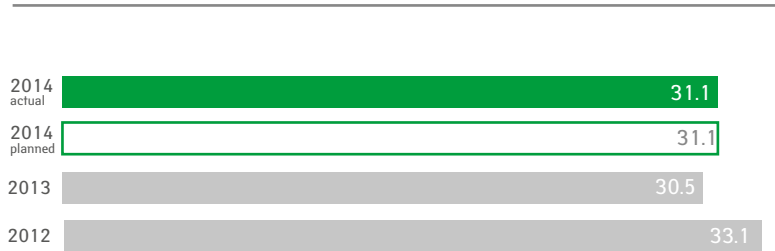
The 2014 investment Zarubezhneft plan provided for financing for Group projects to the amount of RUB11.17 billion. The planned figure was surpassed with total investment projects totalling RUB11.82 billion (105.85% of plan).

The investment program was carried out without affecting the approved production program.

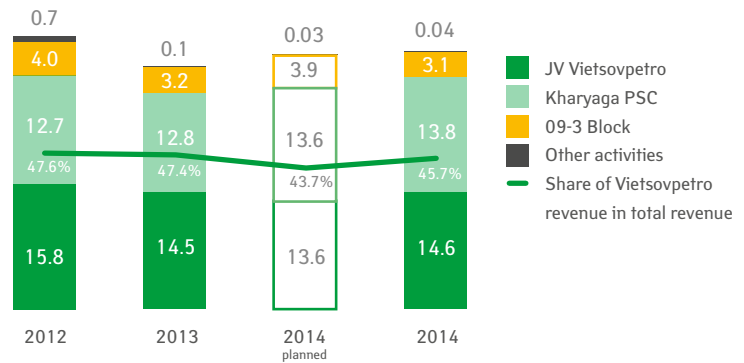
**Funding**

has been shifted towards the granting of loans to the Group's subsidiaries on a repayable basis. Regarding investment projects, funding was carried out taking into account the balances carried forward and adjustments to the production program. In terms of loans granted on a repayable basis, the performance rate was 57%. The plan's target was exceeded by 127% as a result of the Optima Group's default on a loan and AMNGR's increased and additional funding requirements.

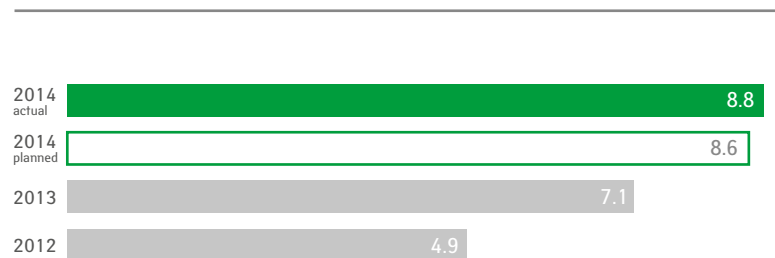
Revenue and net profit of Zarubezhneft, billion roubles



Revenue structure of Zarubezhneft for 2012-2014, billion roubles



Zarubezhneft net profits dynamics after reserves accruals, billion roubles



## BASIC FINANCIAL RESULTS AND INVESTMENT PROGRAMME PERFORMANCE OF THE COMPANY (continuation)

In 2014, all ongoing and prospective investment projects at the Zarubezhneft Group were revised based on deeper investment evaluations and technological audits with an aim to improve asset management at the Group.

The major objectives for Zarubezhneft's investment programme over the 2014-2018 have been considered and approved by the Government of the Russian Federation on 7 July 2014.

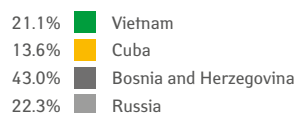
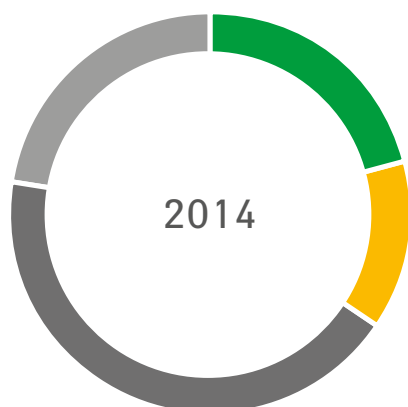
The investment programme for the 2014-2018 period includes projects of Zarubezhneft's subsidiaries and Zarubezhneft's investment projects approved at the meeting of the company's Investment committee, Management Committee or the Participants Board in accordance with the projects management, decision making scheme. Investment programmes of the subsidiaries and

Zarubezhneft have been grouped by their business segments.

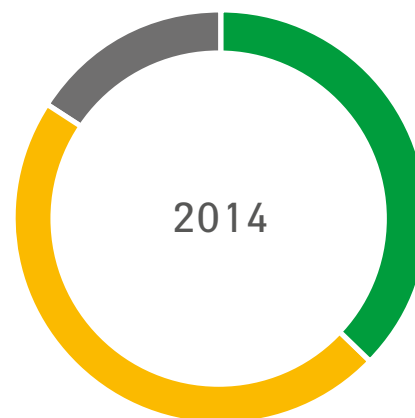
In addition to the investment projects, the investment programme includes provisions for Zarubezhneft to supply loans to the subsidiaries on a repayable basis to cover cash deficiencies. The Group's Upstream segment will see the largest share of investments (around 97%), while the Downstream segment will see only a small fraction (1.8%).

The Services and other assets segment will benefit from the Arktikmorneftegazrazvedka investment program; this has been approved (in accordance with scheduled repair works) for the Group's scientific enterprises and the Oil Recovery; the required investments have been included for the maintenance of capital assets.

Structure of investments by regions, 2014



Structure of investments by segments, 2014



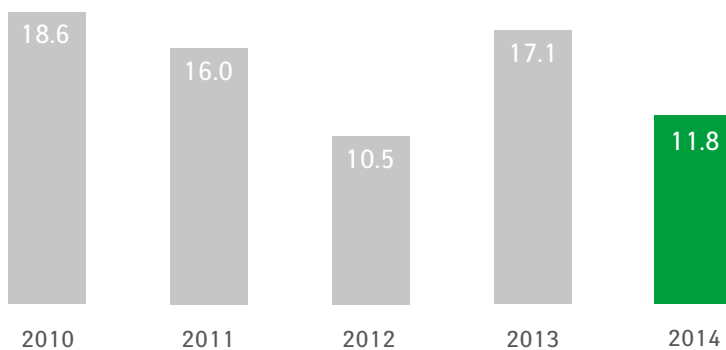


Loans have been refinanced more favourably thanks to activities carried out to shift resources focused on the Cuban shelf to the Boca de Jaruco project and generally better specification of the value of the projects in the Downstream segment.

In 2014, an important event for the Group was the decision by JV Vietsovetpetro (40%) and PVEP (30%) to join with Zarubezhneft (30%) on the Block 12/11 project.

In 2014, work to generate synergies between the Upstream and Services and other assets segments generated tangible results with new lines of business emerging at Oil Recovery. These synergistic activities included geological and technical research services, the supervision of well drilling at JC RUSVIETPETRO, Ulyanovskneftegaz and the supervision of compressor stations at a VISHA-Thermogas project (a joint project with the Industrial Association Belorusneft).

Volume of the investment program of Zarubezhneft for 2010-2014





**Basic production-economic parameters of the Zarubezhneft Group of companies you may see at the site**  
<http://www.zarubezhneft.ru/en/deyatelnost/klyuchevye-fakty/>



## KEY ASPECTS OF THE INVESTMENT PROGRAMME FOR 2014–2018

### 09-1 BLOCK – JV VIETSOVPETRO

The investment programme includes further development of the assets in Vietnam including the discovered reserves of Bach Ho, Rong, Gau Trang, Tho Trang, NR-DM fields. Plans include the drilling of 58 producing wells and 20 side-tracks over the 2015-2018 period.

Production volume, thousand tonnes



To stabilise production at these fields in 2015, 30 producing wells are scheduled to be put into production, 7 sidetracks will be completed and 39 km of pipeline will be built to ensure transportation of oil from the new wells.

In 2015, the plan is to carry out 3D 4C seismic operations in the areas of prospective structures in the 09-1 Block with an aim to decrease exploratory drilling costs and scope by 30%. The main CAPEX component in 2015 will be for the drilling of new wells and expanding the fields' infrastructure. Seismic survey work using bottom cables and stations is planned to cover 500 km<sup>2</sup> (from a total of 830 m<sup>2</sup>).

Capital investment volume, million roubles



Vietnam remains the main production asset.

## JC RUSVIETPETRO

RVP plans to maintain oil production at its current plateau level through the gradual commissioning of the small fields of CKU's 3-4 blocks, remedial stimulation of wells (side-track drilling jobs, acid formation hydrofracturing, water shutoff operations, well bottomhole treatment, well stimulation jobs) and carrying out pilot projects using new EOR technologies (squeeze cementing, microbiological treatment, vibro-seismic stimulation jobs and others).

RVP's investment programme includes projects for commissioning of the North-Khosedayu, West-Khosedayu, North-Oshkotynskoye, Sikhoreyskoye, East-Yanemdeyskoye fields, the use of formation pressure maintenance (FPM) systems at the North-Khosedayu and Visovoye fields, the completion of inter-field roads and pipeline, the upgrading of temporary oil custody transfer stations (TOCTS) and oil custody metering stations (OCMS) as well as provisioning energy for the western fields.

Production drilling volumes have been calculated based on the approved rating of drilling developed by the geological service.

Capital investment costs will follow construction costs which will be determined by the completion of the installation of a preliminary water gathering unit (PWGU-2) and PWGU-3 process networks, a booster compressor station (BSC) for gas desulfurisation at CPF and other works.

RVP's capital investment programme has been developed with a view to optimising the regular development of the enterprise.

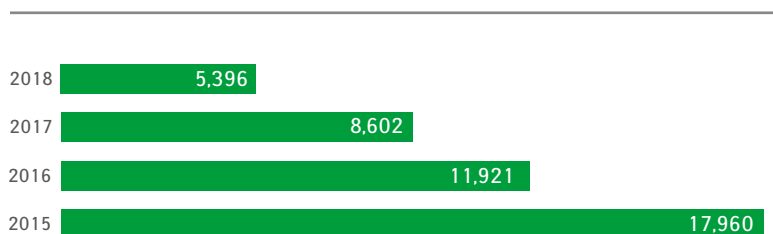
Special attention has been paid to reduce construction in progress costs – this has meant focused efforts to determinate the volume and value incomplete construction projects that have remained inactive for more than a year and preparing proposals on their writing-off, drawing up the documents for recording accounting records, decreasing the current incomplete construction by drawing up the acts of acceptance in instances where construction is complete (KS-11) for separate facilities.



Production volume, thousand tonnes



Volume of capital investment, million roubles



## 09-3 BLOCK – VRJ PETROLEUM CO

09-3 Block Investment programme for 2015-2018 has been elaborated on the relevant Reservoir management plan of NR-DM field which was issued based on the latest data of the NR-DM production testing.

Major CAPEX for 09-3 Block will be the drilling of two wells with a total meterage of 8 thousand meters.



Production volume, thousand tonnes



Capital investment (reg the structure 09-1/09-3), million roubles





## 04-3 BLOCK (OFFSHORE, SRV)



Further development of the block will move ahead after the construction of WHP is completed in 2015. The planned well stock is 12.

In 2015, most costs will be accounted for in the Thien Ung WHP construction. 2016-2017 costs will be focused on production drilling.

In accordance with the current schedule for project delivery, commercial gas production is set to start at the end of 2015 or beginning of 2016. By 2018, the project must reach production plateau, and this should be maintained for 3 years. Current forecasts anticipate production of 668 million m<sup>3</sup> of gas per year.

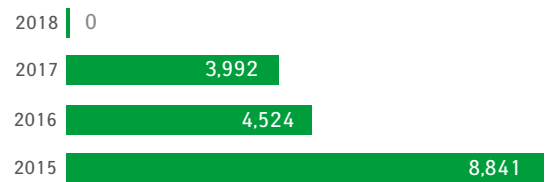
Taking into account geological risks, the 04-3 Block project can be considered the most favourable given quality and proof of the majority of its reserves.

	Reserves category	OIIP as on 01 January 2015, thous.tonnes	Initial recoverable oil reserves as on 01 January 2015, thous. tonnes
04-3 Block. Thien Ung-Mang Cau, oil	B+C1 (P1)	2,340	421
04-3 Block. Thien Ung- Mang Cau, condensate, thousand tonnes	A+B+C1(P1)	650	123
04-3 Block Thien Ung- Mang Cau, free gas, million cubic meters	A+B+C1(P1)	4,873	3,264

Extent of production, thousand tonnes



Capital investment, million roubles

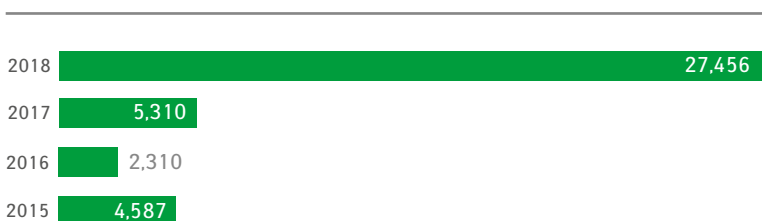


## 12/11 BLOCK (OFFSHORE, SRV)

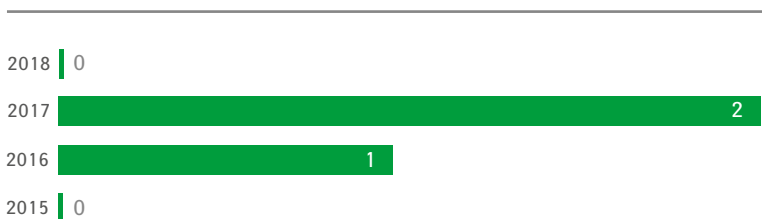
For this block, drilling three exploration wells is a condition of meeting the minimum license obligations. A decision on the block's further development will be taken during the meeting of the Investment Committee upon results of exploration operations at the end of 2016 and beginning of 2017.

The start of commercial gas and condensate production under the project has been planned for 2020 together with the drilling of six production wells. The start of the oil production has been planned from 2022.

Structure of CAPEX 2015-2018, million roubles



Exploration wells, psc.



The following field surface facilities have been planned for construction in the 12/11 Block:

- A floating storage and offloading unit (FSO) capable of condensate offloading and storing; a central process platform (CPP) on the QUYT site with equipment for production, acceptance and measurement of production; oil treatment and dehydration; oil transportation to FSO; formation water treatment equipment; gas treatment, drying and compression for gaslift and transportation onshore; equipment for the formation pressure maintenance system; other supporting systems, as well as residential complex with the required life-support systems;
- Well-head platforms (8 WHPs);
- Subsea pipelines.

An option for project optimisation is to defer the scheduled date for drilling one of the three exploration wells from 2015 to 2016.



## BOCA DE JARUCO FIELD (THE REPUBLIC OF CUBA)



The work programme for the Boca de Jaruco field outlines the use of enhanced oil recovery (EOR) from the E1 formation using thermal-steam methods, as well as additional exploration of the M formation to selection the appropriate EOR method. The envisioned result will be income from the sales of an increase in oil production.

The Boca de Jaruco field consists of two areas – A and B, which were earlier denoted as “blocks”. The B area includes a pilot works area (PWA).

### The E1 formation (major target for the pilot works phase):

- Is composed of limestone and occurs at a depth of 1,200–1,560 m.
- Formation dimensions – 4,560 x 1,100 m, oil productive area – 3.837 km<sup>2</sup>.
- Average effective oil-saturated thickness along the deposit is 90.6 m.
- OIIP is 43.4 million tonnes, recoverable reserves 9.5 million tonnes.
- E1 formation of Block III of the field has been developed since 1969.

The project’s production profile forecasts have been revised: the duration of the pilot works phase has been extended for one year up to 1 July 2016 as a result of the need to complete the production test and drill the exploration test well. The basic plan for the asset’s development was chosen specifically with a view towards the recovery of category P50 reserves.

The commercial field development (CFD) phase is supposed to see the drilling of 24 wells in eight local areas with the possibility of building infrastructure to support the introduction of the thermal-steam EOR method (this would mean construction of a steam-generator complex).

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The basic plan for the asset’s development was chosen specifically with a view towards the recovery of category P50 reserves.



The Downstream segment investment programme prioritises a minimisation of losses through the following measures:

- To ensure the production capacities are in line with market demand;
- To carry out a programme of operational improvements at the refineries;

- To consider additional possibilities for capacity rationalisation;
- Purposeful work to increase the efficiency of the existing retail network.

## NESTRO PETROL



Within the framework of the investment programme, the following activities have been planned aimed at increased production efficiency:

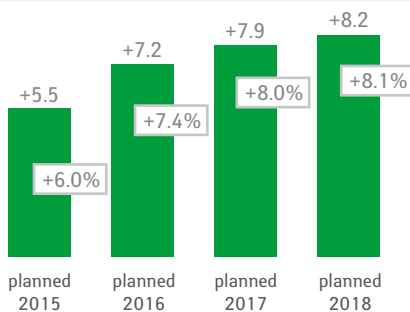
- Construction of seven small fuel stations: contribution towards establishing a network of mini-fuel stations so as to increase sales of oil-products in the city, which is a new sales segment for the company;
- Equipping fuel stations with double-walled tanks: this will reduce the risk of punitive sanctions from the control authorities that could result from changes in legislation of the Republic of Srpska;
- Equipping fuel stations with self-service terminals: this will increase fuel sales at the fuel stations during the otherwise non-operational night hours;

- Equipping fuel stations with gas equipment: this will increase sales volumes and widening the product portfolio through this alternative fuel at the company's stations.

The following will be the outcome from implementation of these activities:

- increase in retail volumes;
- Ensuring retail margins are not any lower than the level reached previously;
- Maintaining the optimal number of personnel (the main stage of optimisation fell on 2014) .

Growth of the retail sales of oil-products, thousand tonnes\*



Investments, million EURO



\* vs. Total volume of retail sales of oil-products.



## MODRICA OIL PRODUCTION PLANT

The major initiative for the development of the Modrica Oil Production Plant is a reconstruction of the dewaxing unit. The unit is meant to isolate paraffin hydrocarbons from base oils with the goal of obtaining products with a reduced pour point.

The following are the primary prerequisites for the reconstruction:

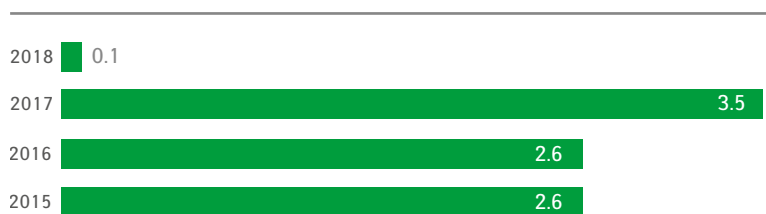
- Wear and tear of the dewaxing unit;
- Process risks;
- Image risks;
- Loss of the sales market.

Within the framework of the 2014-2018 investment programme, activities have been planned with profit maximisation and costs reduction as the primary objectives.

In terms of base oils and paraffin production:

- Reconstruction and repair of control rooms and feed discharge pipelines – reduction of heating costs,
- Reconstruction of the dewaxing unit with replacement of vacuum filters.

Investments, million EURO



## BROD REFINERY

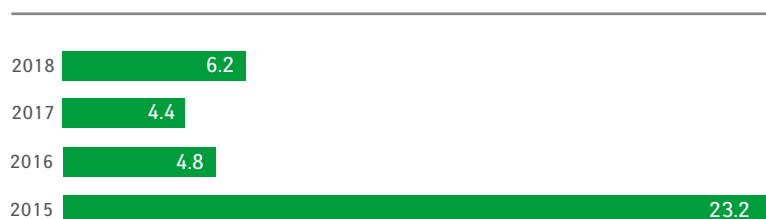
1. Construction of a new boiler house (commissioning date is 2015).
2. Upgrading of the catalyst system at the diesel hydrotreating unit (commissioning date is 2015).
3. Works for production automation: level measuring system in the tank farm (the date is 2015).

In order to ensure reliable and accident-free operation of the Brod Refinery, periodic workovers at the refinery are being planned; these will include the replacement of worn-out and out-of-date equipment, and the possible purchase of catalyst taking into consideration date of initial loading and the term of actual and planned catalyst regeneration.

Separate but important Downstream segment projects are the Brod Refinery gasification project and the the acid sludge utilisation project. At present, both investment projects are at the stage of a detailed planning and are top priorities in the company's reserve investment projects portfolio.

The major goals of optimisation measures at the refinery are the provision of reliable and accident-free operation, increased efficiency through the reduction of losses related to in-house needs, to shift to production of only Euro-5 diesel fuel, to reduce the fuel-oil residue/mazut production.

Investments, million EURO



## THE FOOTPRINT EXPANSION

In 2014, Zarubezhneft took an active stance in searching out new projects, including:

- Participation in tender of the Ministry of Oil of Iraq under the Al-Nasiriya Integrated Project for development and construction of field surface facilities of the giant field, construction of refinery and supporting facilities, as well as infrastructure for a period of 25 years. Estimated geological reserves amounted to ≈14 billion barrels (1.941 billion tonnes), and recoverable reserves ≈3.5 billion barrels (504 million tonnes) in the Mishriff and Yamama main reservoirs. In June 2014, given the political and military situation in the country, the Ministry of Oil of Iraq postponed the tender of the Al-Nasiriya Integrated Project to a later date;
- Implementation of a Memorandum of Understanding (MoU) in relation to the Khayam oil field. On 23 April 2013, an MoU was signed with the Iranian Central Oil Fields Company (ICOFC) in relation to the preparation of the draft Khayam field master development plan (MDP). On 10-12 August 2014, the Group's and affiliates' specialists in Teheran presented the MDP for the Khayam field; the respective materials have been delivered to the Iranian side with the act of delivery signed. Upon presentation of the MDP, the minutes of the meeting were signed. On 21 November 2014, at the meeting of the Investment Committee of the company a decision was taken to finish participation in the project;
- Finalisation of a MoU for strategic cooperation with ICOFC. On 19 June 2014, a MoU was signed with ICOFC in relation to cooperation on the use of advanced technologies for development and EOR in Paydar, West Paydar, Aban and Naft Shahr Iranian fields. On 13 August 2014, in Teheran the first meeting of the Joint Working Group was held. Upon the meeting's results, minutes of the meeting were signed, and a programme of further actions was scheduled;
- Elaboration on the issues relating to participation in Block 37 development in Cuba. On 23 May 2014, a triangular Memorandum was signed with CUPET (Cuba) and Rosneft for the studying Block 37 materials with a view to taking a decision on signing a PSC. Between 30 June 2014 to 9 July 2014 in Havana, the first round of negotiations was held regarding the PSC's wording. Upon results of negotiations, triangular minutes of the meeting were signed reflecting the main disagreements of the parties. On 12 December 2014, a letter was sent to CUPET on submission to the Cuban party of preliminary results of works under the project;
- Elaboration of matters of participation in development of the Block 16-1/14 situated in the continental shelf of Socialist Republic of Vietnam with developed infrastructure in the territory (geological oil reserves of 95.7 million tonnes, recoverable oil reserves of 20 million tonnes). On 12 September 2014, project entry was approved at the meeting of the Investment Committee of the company. On 26 November 2014, technical and economic as well as contractual conditions under the project approved by JV Vietsovpetro, PVEP and BITEXCO, were sent to Petrovietnam). Since 3 December 2014, approvals of PSC, Accounting Procedures and JOA have been collected from the partner-companies JV Vietsovpetro, PVEP, BITEXCO);
- Elaboration of matters relating to the acquisition of exploration licenses in the territory of the Republic of Croatia. Following the evaluation of petroleum potential, a decision was taken on the inexpediency of participation in offshore and onshore exploration bidding rounds.

## INNOVATION ACTIVITY

Zarubezhneft is confidently heading towards the introduction of innovative technologies for production as well as management and support processes.

The Programme of Innovation Development is integrated into the package of strategic documents of the company and aimed at the Strategy's realization.

The Programme's portfolio of projects is designed to overcome the industrial and technological challenges facing the company. It includes projects aimed at increasing the efficiency in all types of the Group's fields.

The major directions of the study and development of technologies are driven by the Programme of Innovation Development (Protocol No. 69 dated 12 April 2013), which was approved in April 2013 by the Zarubezhneft Board of Directors. These innovations address the major technological challenges facing the field of oil and gas production:

- Development of fractured hydrophobic reservoirs;
- Development of terrigenous reservoirs of block structures of minor thickness;
- Development of the complex fields with out-of-balance systems including those at a late stage of development.

### Strategy of Zarubezhneft's development

Key competencies are defined:

- fractured hydrophobic carbonates
- fractured basements
- fields with out-of-balance development system

### Long-term Development Programme of the company

Prospective production profiles are defined based on key competencies:

- "Basic production" option;
- "ORF growth" option;
- "Reserves growth due to exploration operations" option;
- "Efficient realisation of the projects at exploration stage" option;
- "Entering new assets as per the key competencies" option.

### Programme of Innovation Development

Key innovation technologies are defined. Introducing these will ensure fulfillment of production goals

	Fractured hydrophobic carbonates	Fractured basements	Complex fields with out-of-balance development system
Raising Oil Recovery Factor	Working out technology for reducing reservoir rocks' hydrophobic properties in CKU fields: <ul style="list-style-type: none"> <li>• smart water technology.</li> </ul>	Application of technology for thermal- and-hydrodynamic control over fractured granitoids development.	Realisation of studies and commencement of pilot surveys on thermal gas stimulation technology.  Introduction of technology for integrated well completion.
Reserves growth	Studying the effect of geo-mechanic processes on development of CKU fields.	Creation of integrated technology for hydrocarbon deposits in the basement.	Use of special methods for seismic interpretation.  Innovation in the interpretation of geophysical well surveys.
Reserves growth	<ul style="list-style-type: none"> <li>• Working out and introducing technology for isolation of behind-the-casing and in-situ cross flows for carbonate reservoirs,</li> <li>• IT in oil and gas production,</li> <li>• Introduction of integrated engineering technology in a pilot project.</li> </ul>		

During the reporting year, financing for the scientific research and development activities amounted to RUB 114.95 million. Part of the projects were successfully completed during the reporting year others have been brought forward to future periods.

Zarubezhneft satisfied the Ministry of Economic Development of Russia's "target financing ratio for scientific research and development activities" (not less than 0.3% of revenues).

Amongst the most significant results reached in 2014 was the start of the pilot works on the project for the "creation of technology for the development of low-permeable carbonate reservoirs via thermal gas stimulation".

On 11 July 2014, a ceremonial commissioning of the compressor station was held for air injection into the Vishanskoye field formation. Already by October, the gas-oil ratio and the CO<sup>2</sup>

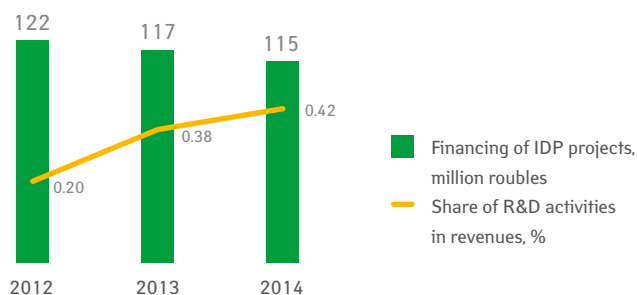
emerging from the producing wells (spontaneous oil combustion in situ) confirmed the efficiency of the technology and the possibility of spontaneous oil combustion. At present, sustainable growth of the well's oil production rates within the pilot area is 1.5-2 times that seen at to the commencement of work (15 July 2014).

Results have been obtained under the project "Studies assessing the impact of geo-mechanic processes on field development". A 4D geo-mechanic field model was built, and a forecast of geo-mechanic properties of the pay formations in space and time were formed (which change due to development). The results obtained will allow managing water-flooding the fractured reservoir and increase efficiency of the development of CKU fields and support an increment in production thanks to the ability to tap hard-to-recover reserves with the optimisation of hydrofracturing design under complex environmental conditions.

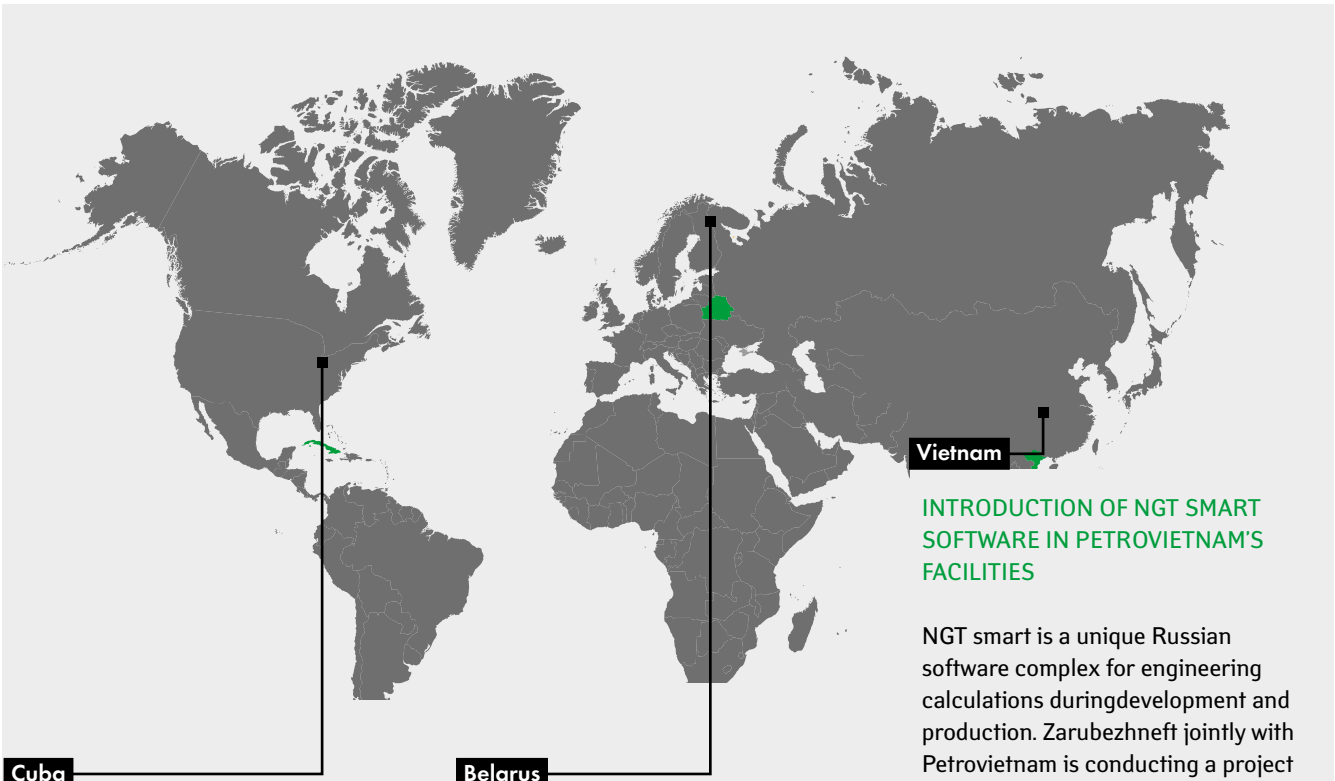
IT development projects have also been successfully implemented in oil and gas production: a monitoring and management system of field development of the Zarubezhneft Group of companies has been worked out and introduced into operations that allowed us to increase the efficiency of geological-and-technical measures by more than 80 thousand tonnes.

It is especially important to note that R&D carried out by the company are not only for in-house needs but technologies are also developed for export. Therefore, implementation of foreign projects in the Upstream segment provides us with a possibility to export Russian (including our own) technologies.

Dynamics of IDP projects financing







**Cuba**

**INNOVATIVE SOLUTIONS  
IN THE REALIZATION  
OF THE BOCA DE JARUCO PROJECT**

Application of modern steam-generators and Russian ESP, heat-resistant, will increase the efficiency of the development of the Boca de Jaruco field, which is characterised by high-viscosity oil.



**Belarus**

**VISHA THERMOGAS  
PROJECT**

A joint project of Zarubezhneft and Belarusneft for pilot testing the thermal gas stimulation technology owned by Zarubezhneft in the Vishanskoye field.



**Vietnam**

**INTRODUCTION OF NGT SMART  
SOFTWARE IN PETROVIETNAM'S  
FACILITIES**

NGT smart is a unique Russian software complex for engineering calculations during development and production. Zarubezhneft jointly with Petrovietnam is conducting a project for the introduction of this software at JV Vietsovpetro and other producing enterprises in Vietnam.

**APPLICATION OF TECHNOLOGY FOR  
THE THERMAL-AND-HYDRODYNAMIC  
CONTROL OVER FRACTURED  
GRANITOIDS**

Realisation of technology to improve the accuracy of reserves localisation for drilling sidetracks in the Bach Ho field.



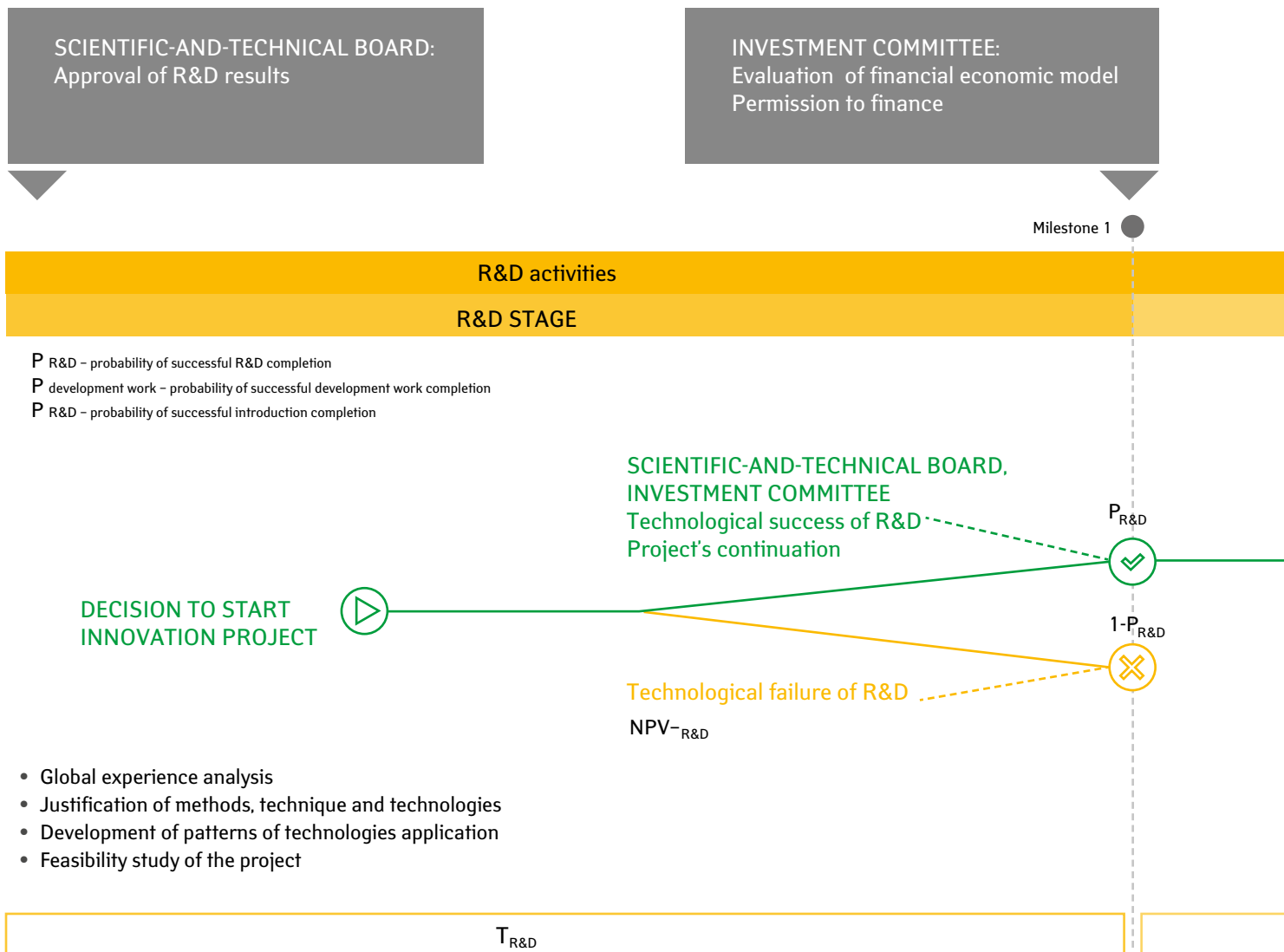
Zarubezhneft pays a special attention to the cooperation with higher education institutes and scientific organisations within a framework of joint implementation on innovation projects, scientific-and-technical forecasting, personnel training and retraining. In 2014, therefore, for the realisation of projects falling under the Programme of Innovation Development the Group has attracted and worked with higher education institutes, leading scientific and industrial organisations (including those in design, scientific research and service entities).

In 2014, a project named "Software development for determination of relative phase permeability values in fractured and fracture-porous reservoirs" was launched jointly with Moscow Physical-and-Technical Institute. Based on the results of this project, it is planned to develop the software to define the structure and

parameters of fractures in carbonates or granitoids and to simulate flows in them as well as to establish filtration parameters for a tensor hydrodynamic model (TGDM) of the fractured reservoir that would allow increased the efficiency in the development of the Zarubezhneft Group of companies' fields.

Currently, our partners include Gubkin Russian State Oil and Gas University, Moscow Physical-and-Technical Institute, Lomonosov Moscow State University, Ukhta State Technical University, and the Moscow State University of Foreign Affairs and others.

Zarubezhneft is planning to extend its list of strategic partners in the field of research and development from educational institutions and scientific organisations to innovative small and medium-sized business enterprises.



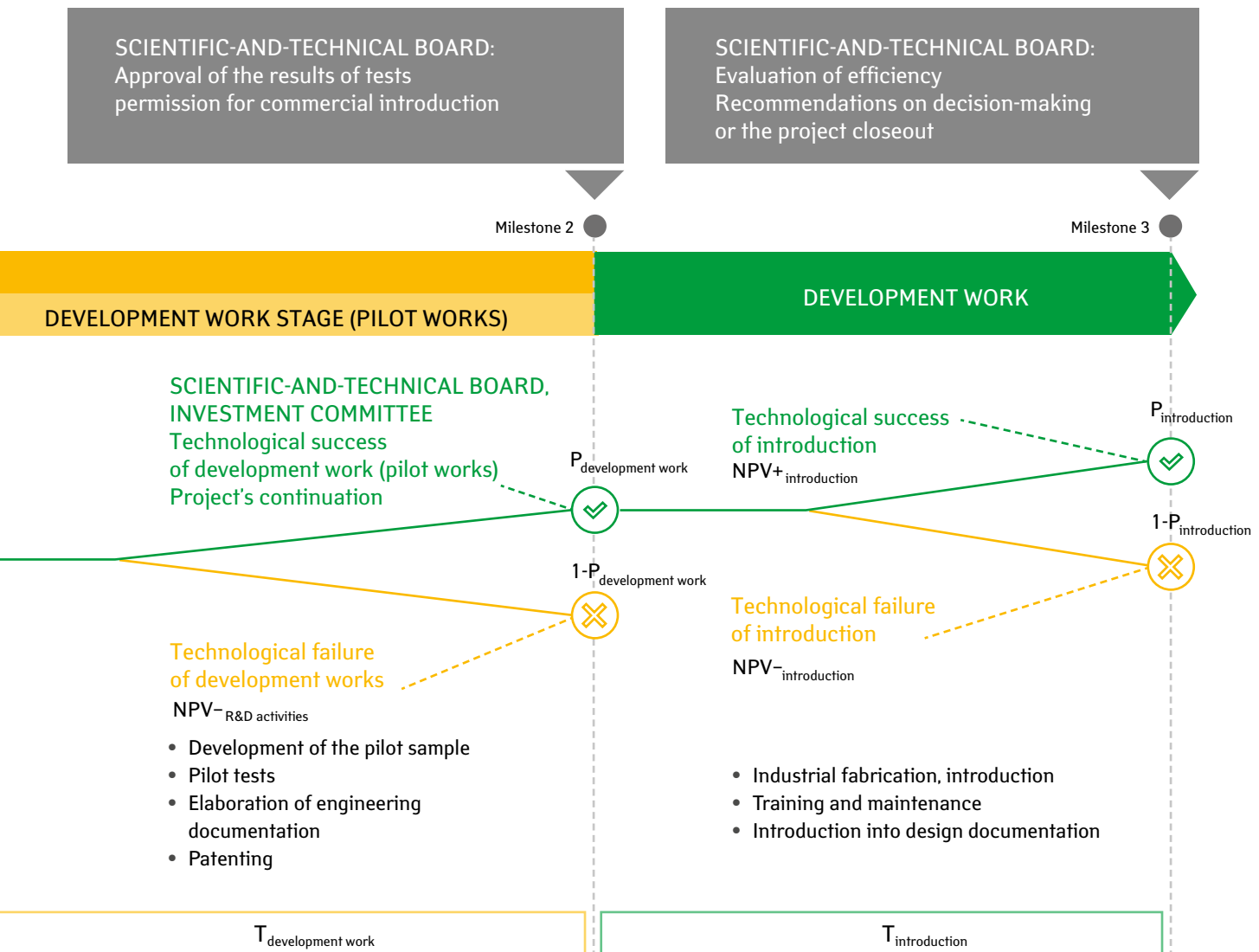
- Global experience analysis
- Justification of methods, technique and technologies
- Development of patterns of technologies application
- Feasibility study of the project

In general, 2014 was for our company a year of searching for the points of growth and increasing efficiency of innovation activity: processes for monitoring and controlling the realization of innovation projects were optimised; and in the evaluation of projects for economic efficiency the optimal approach were applied.

Also in 2014, internal regulatory documents were improved to regulate the work of the Scientific and Technical board of Zarubezhneft (which has functioned since 2001). This is meant to coordinate and control scientific and technical works with a focus on improving the efficiency of operations and the development of oil and gas resources; moreover, it will help with setting the main scientific and technological priorities for Zarubezhneft's development.

In the reporting year, work began on formation of exclusive rights to the results of intellectual activity in the Zarubezhneft Group of companies. The aim is to increase the efficiency of the company's activity through the application of the results of its intellectual activity at the Group of companies' own production facilities and to commercialise the results of this intellectual property.

At present, the Group of companies has on its books 50 objects of intellectual property based on results of the audit held in 2014. Meanwhile, there are 53 items of intellectual property that have been identified for possible protection in 2015.



## KEY PERFORMANCE INDICATORS (KPI) OF THE ZARUBEZHNEFT GROUP OF COMPANIES

The Zarubezhneft Group's system of key performance indicators (KPI) was twice updated in 2014 (Regulation on KPI system of Zarubezhneft, version 2.0 was approved by the Board of Directors on 26 June 2014, minutes of the meeting No. 85, version 3.0, approved by the Board of Directors on 24 December 2014, minutes of the meeting No. 94).

The update was implemented in order to fulfill the directives of the Government of the Russian Federation dated 25 April 2014 No. 2579п-П13 in accordance with the Methodical Guidelines elaborated by Federal Property Management Agency for application of the KPIs of state-owned companies as well as in connection with development of the system and its rollout from the corporate centre to the subsidiaries.

The company's KPI system is motivated by the need for management to fulfil the tasks set by the Government – as 100% shareholder of the company (in the form of directives and recommendations). Target indicators include items from Zarubezhneft's Strategy, Long-term Development Programme, Zarubezhneft's Business-plan, and investment programme.

**The company's KPI system covers all key management levels of the group of companies::**

- Management of the corporate centre (Deputies General Director and Heads of Divisions) – 38 persons;
- General Directors of subsidiaries – 14 persons.

Therefore, KPI system covers the 50 most senior managers of the group of Companies. The total number of indicators is 163.

Monitoring of KPI performance is performed on monthly, half-year and annual basis.

### THE COMPANY'S KPI SYSTEM CONSISTS OF THREE MAIN GROUPS:

- **CORPORATE KPI (FINANCIAL AND SECTORAL INDICATORS):**

Main indicators of the company are approved and controlled by the Board of Directors, the Audit Committee under the Board of Directors. KPI data is included in charts of the General Director, all Deputies General Director, Heads of Divisions and General Directors of subsidiaries in accordance with authority and responsibility matrix.

- **FUNCTIONAL KPI (OPERATIONAL INDICATORS BY BUSINESS DIRECTIONS)::**

Indicators of functional lines of activities, they are established for Deputies General Director, Heads of Divisions and General Directors of subsidiaries in accordance with authority and responsibility matrix, approved and controlled by General Director.

- **DESIGN KPI (STRATEGIC INITIATIVES BY BUSINESS DIRECTIONS):**

Indicators of performing business-initiatives and design objectives, they are established for Deputies General Director, Heads of Divisions and General Directors of subsidiaries, approved and controlled by General Director.

In accordance with the Methodological Guidelines for the application of KPIs by state-owned companies, the corporate KPI system is added as a bonus reduction indicator.

Additionally, in accordance with best practices, Zarubezhneft's KPI system includes a block of quality indicators (which are not part of quantitative evaluation).

Actualized KPI system was approved by the Board of Directors of the Company in December 2014



This block of indicators provides an expert estimate of employees under the following directions:

- Correspondence with the strategic aims in business-direction development;
- Managerial and professional qualifications in developing the HR potential of the block;
- Interaction with adjacent blocks by company processes.

Zarubezhneft's KPI system is calculated in accordance with the Directives of the Government of the Russian Federation (dated 24 October 2013 No. 6362п-П13, dated 31 October 2014 No. 7389п-П13), the Energy Strategy of the Russian Federation, the State Programme "Energy efficiency and energy development", recommendations from the Innovation Development Programme for the companies with state participation, and instructions of the President

of the Russian Federation (dated 2 April 2011 No. Pr846 (subparagraph «e» of paragraph 1)).

In addition, in accordance with the requirements of the Federal executive authorities the list of KPIs is synchronised with the KPIs of the Long-Term Development Programme.

In 2014, Zarubezhneft over-delivered on its target values under the main corporate KPIs. Performance data is given in the table.

Indicator	units	2013	2013	% of planned value performance for 2013	2014	2014	% of planned value for 2014
		planned	actual		planned	actual	
Dynamics of EBITDA to previous year	%	the indicator was absent in 2013 KPI system	the indicator was absent in 2013 KPI system.	–	103.6	116.7	112.7
Dividends amount	million roubles	the indicator was absent in 2013 KPI system	the indicator was absent in 2013 KPI system	–	3,407	3,432	100.7
FCF	million roubles	the indicator was absent in 2013 KPI system	the indicator was absent in 2013 KPI system	–	4,975.8	17,613.3	354.0
ROE	%	11.8	15.8	134.7	12.7	14.9	117.6
Non-exceedance o the limit under NetDebt/EBITDA	–	1.6	1.1	threshold is not exceeded	1.5	1.1	threshold is not exceeded
Labour efficiency (revenue per one employee)	million roubles / person	the indicator was absent in 2013 KPI system	the indicator was absent in 2013 KPI system	–	16.3	16.8	103.1
Gross hydrocarbon production volume (oil, condensate, gas)	thousand tonnes	4,575	4,640	101.4	4,623	4,746	102.7
Reserves life	years	19.5	19.6	100.3	20	20.7	103.6

## REPORT ON PROCUREMENT ACTIVITIES OF THE ZARUBEZHNEFT GROUP OF COMPANIES: ensuring the efficiency of procurement activities including purchases from small and medium-sized businesses

In 2014, a tender commission considered 290 procedures for the procurement of goods, works and services for Zarubezhneft totaling RUB28.6 billion.

During 2014, the execution of instruction of the President of the Russian Federation dated 2 April 2011 No. Pr-846 (paragraph 1e) was continued regarding the reduction by the companies having state participation of costs for goods (works, services) purchased by not less than 10% per year in real terms.

In accordance with the method of calculating the cost reduction indicator for goods (works, services) purchased per unit of product that was approved by the decision of the Zarubezhneft Board of Directors on 7 June 2012, the indicator of costs reduction for 2014 totaled 10.58%.

In 2014, it was required to provide not less than 40% share of purchases in electronic form against the total annual volume of purchases by open competitive methods. Upon results of 2014, share of purchases in electronic form in the total annual volume of the open competitive purchases amounted to 53.79%.

The directives of the Government of the Russian Federation No. 7377p-P13 dated 07 December 2013 and paragraph 7 of the Plan of activities (road map) call for broadening access of small and medium-sized business enterprises to purchases of infrastructural monopolies and companies with state

participation (the Directive of the Government of the Russian Federation dated 29 May 2013 №867-p). Taking this into account as well as the instruction of the Zarubezhneft's Board of Directors and the plan of activities for the company in 2014 (approved by General Director on 17 December 2013), the following have been fulfilled:

- A consultative body was created (its composition is approved by the order No. 62 dated 18 February 2014), responsible for the public audit of efficiency of the purchases pursued, as well as in relation to use of advanced technological solutions. A number of consultative body meetings were held;
- In accordance with the directive of the Government of the Russian Federation No.7377п-П13 dated 07 December 2013 and the Decree of the Government of the Russian Federation No.1352 dated 11 December 2014 "On features of participation of small and medium business enterprises in purchases of goods, works and services by separate types of legal persons", respective amendments have been prepared and entered into Regulation on purchases in Zarubezhneft;
- By the order dated 1 December 2014 No. 544 the Programme of Partnership of Zarubezhneft with small and medium-sized business enterprises has been worked out and approved. The preliminary draft of the Programme of Partnership had been approved by members of the consultative body at the meeting held on 29 September 2014. The Programme is available on the website of our company in the section "Information disclosure".

## FOOTPRINT AND SUPPLY STRUCTURE OF MATERIAL AND TECHNICAL RESOURCES



### The structure and volume of supply is in accordance with the relevant location:

- Equipment, materials and services supplied to the Socialist Republic of Vietnam (SRV) for JV Vietsovpetro.  
The total amount of supplies and services rendered in the SRV amounted to USD 108.85 million.  
The agreement for supplies includes tubular products, vessels and jack-up rig rentals.
- Supplies for the Russian oil production projects of JC RUSVIETPETRO, Arktikmorneftegazrazvedka, Ulyanovskneftegaz, Orenburgnefteotdacha (purchases organised by Zarubezhneft are indicated).  
The total amount under agreements amounted to RUB 19.07 billion, including RUB 18.50 billion (97%) effected by the Russian vendors.  
In the structure of supplies, there was equipment and materials for drilling operations, field surface facilities construction, tubular products, chemicals, cable products, and diesel fuel. In addition, services offering research engineering, design and survey works and exploration operations were provided.
- Supply of equipment, materials and services to Bosnia and Herzegovina (the Republic of Srpska) for Optima Group, Modrica Oil Production Plant, the Brod Refinery and Nestro Petrol.  
The total amount under agreements for the Republic of Srpska amounted to USD 22.02 million, including those provided by Russian vendors worth USD 2.31 million (11%).  
Raw materials, additives, packing, catalyst and reactor pipes were amongst the most significant supplies.
- Supplies for the Cuban projects (the Boca de Jaruco field)  
The total amount under agreements for Cuba (excluding purchases from the local market) amounted to RUB 712.10 million, including those sold by Russian vendors worth RUB 371.46 (52%).  
In the structure of supplies to the Cuban projects, there was oil producing equipment, construction materials, and services for well construction and repair.



An aerial photograph of a lush green landscape. A winding river flows through a dense forest of tall, thin trees. In the center, there is a large, open meadow with patches of lighter green vegetation. The overall scene is vibrant and natural.

# SUSTAINABLE DEVELOPMENT

# 04







## IMPLEMENTATION OF PROJECTS OF INTERNAL IMPROVEMENTS

In 2013–2014, based on the functions maturity model, elaborated in the Corporate Development Strategy of Zarubezhneft, areas for improvement (development) of key functions were defined and 25 improvement projects were initiated.

The projects are aimed at optimisation of the Zarubezhneft Group of companies' activities and touch upon areas as corporate management, project management, financial and economic management, HR management, and automation of business processes.

In addition to the implementation of improvement projects in 2014, Zarubezhneft formed and fixed in-house regulations for the process of Improvement Project Management:

- Regulations on Improvement Project Management dated 6 October 2014, Order No. 445 was approved,
- Monthly monitoring and reporting on improvement projects is to be functional,
- Expert support tools from among the company's employees are to be used,
- Polls and feedback is to be used for the purpose of quality assessment and confirmation of results,
- Incentives for initiating new improvement projects and business-initiatives (divisions ratings, internal portal section "Here's a thought!") were created.

For 2013–2014, eight improvement projects were completed and formalised as a processes, including:

- Introduction of an electronic document flow system,
- Introduction of ISFR: the formation and preparation for audit of consolidated financial statements,
- Organisation of the risk management process,
- Audit of reserves according to international standards,
- Implementation of energy conservation and efficiency enhancement of the Zarubezhneft's Group of companies for the 2011–2015 period,

- Procurement optimisation,
- Organising the internal audit process,
- Introduction of an informational system for capital construction planning and reporting.

In 2015, in accordance with the project schedules another 15 projects\* will be completed and one project in 2016:

- Introduction of a single system of business and tax accounting,
- Improvement of the planning and budgeting system,
- High level programme of the financial and economic block,
- Corporate project management system,
- Upgrading of the KPI system for the corporate centre, subsidiaries and affiliates,
- Elaboration of the company's IT-strategy,
- Creation of specific cost indicators for construction and assembly operations and facilities completely constructed,
- Creation of a corporate reference data management system for Zarubezhneft,
- Creation of an oil engineering school,
- Creation of a drilling management information system (DMIS) at JV Vietsovpetro and JC RUSVIETPETRO (2016),
- Standardisation of business-processes,
- Improvement of corporate management in the Zarubezhneft's Group of companies,
- Elaboration and introduction of the population management policies,
- Organisation of an integrated motivation system,
- Introduction of an HR training system,
- Creation of a unified system of subsidiaries management for Zarubezhneft.

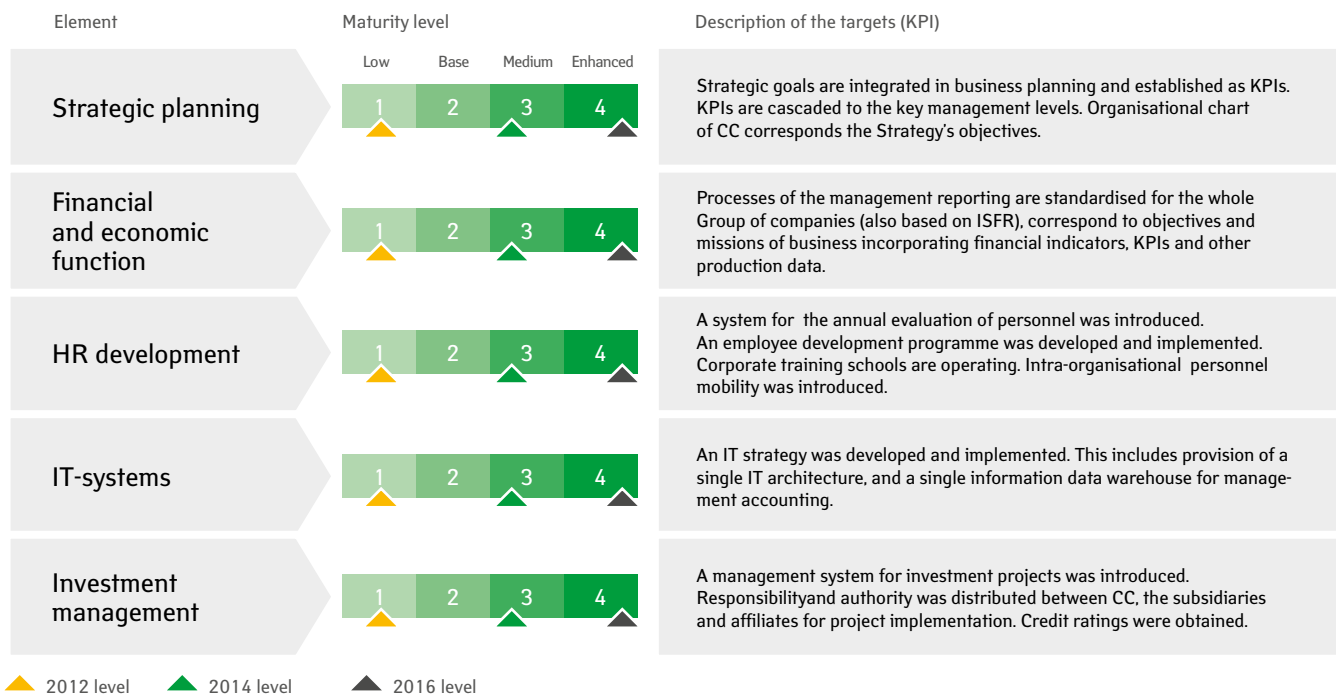
Development targets of the Company after 2016 will be worked out taking into consideration achieved level of maturity and best management practices created in the Company

\* For reference: The "Elaboration and introduction of the financial strategy of the Zarubezhneft Group of companies" project is implemented as a "Credit rating obtaining" business initiative

Improvements to the project portfolio over the 2015–2019 period will be based on the following:

- Zarubezhneft’s corporate development strategy up until 2030 and the top priority activities for the strategy’s realisation,
- Function maturity model,
- Results of the audit and assessment of efficiency of business processes active in the company,
- Requirements of the external regulating bodies (the Government of the Russian Federation, Federal Property Management Agency (Rosimuschestvo) and others).

Evaluation of progress against targets according to Zarubezhneft’s model for measuring the level of maturity of functional elements








# SUSTAINABLE DEVELOPMENT

## OPERATIONS MANAGEMENT




## ECONOMICS AND FINANCE




2014

-  Estimation of HC reserves according to the international standards was made
-  Measures were introduced aimed at reduction of energy consumption
-  Information system was created for costs control in capital construction
-  Sustainable functioning of the internal audit process was arranged

-  A process of issuing of consolidated financial reporting in accordance with ISFR was organized and audit was held

2015

-  Unification of subsidiaries management
-  Completion of the full cycle of KPI – Transition into the process
-  Standardization of business-processes, including: description, optimization, building of the process structure




-  Completion of the Economics and Finance Block's projects
-  Integration of the systems with each other (SAS, ABMS, RD, SOCM, Unified treasury and others)
-  Confirmation of the system's capacity for work (Q1 2015)











As a result of project implementation in 2015, a matured operations management system will be formed in Zarubezhneft.



IT

HR

-  The company switched to electronic documents management
-  Realization of separate IT projects by blocks
-  Decision-making support system is operating

-  Principles of grades setting and project motivation developed
-  Matrix of the training programmes is elaborated and approved by types, forms and methods for each target HR category
-  KPI system was introduced, half-year and annual results are summarized

-  Creation of the single IT architecture, infrastructure and IT-strategy, including by blocks:
  -  Upstream
  -  Downstream
  -  Services
  -  Support

-  Assessment and development of the personnel professional competencies (including creation of oil engineering school and project management school)
-  Realisation of the projects for population management, optimization of the CC schedule.

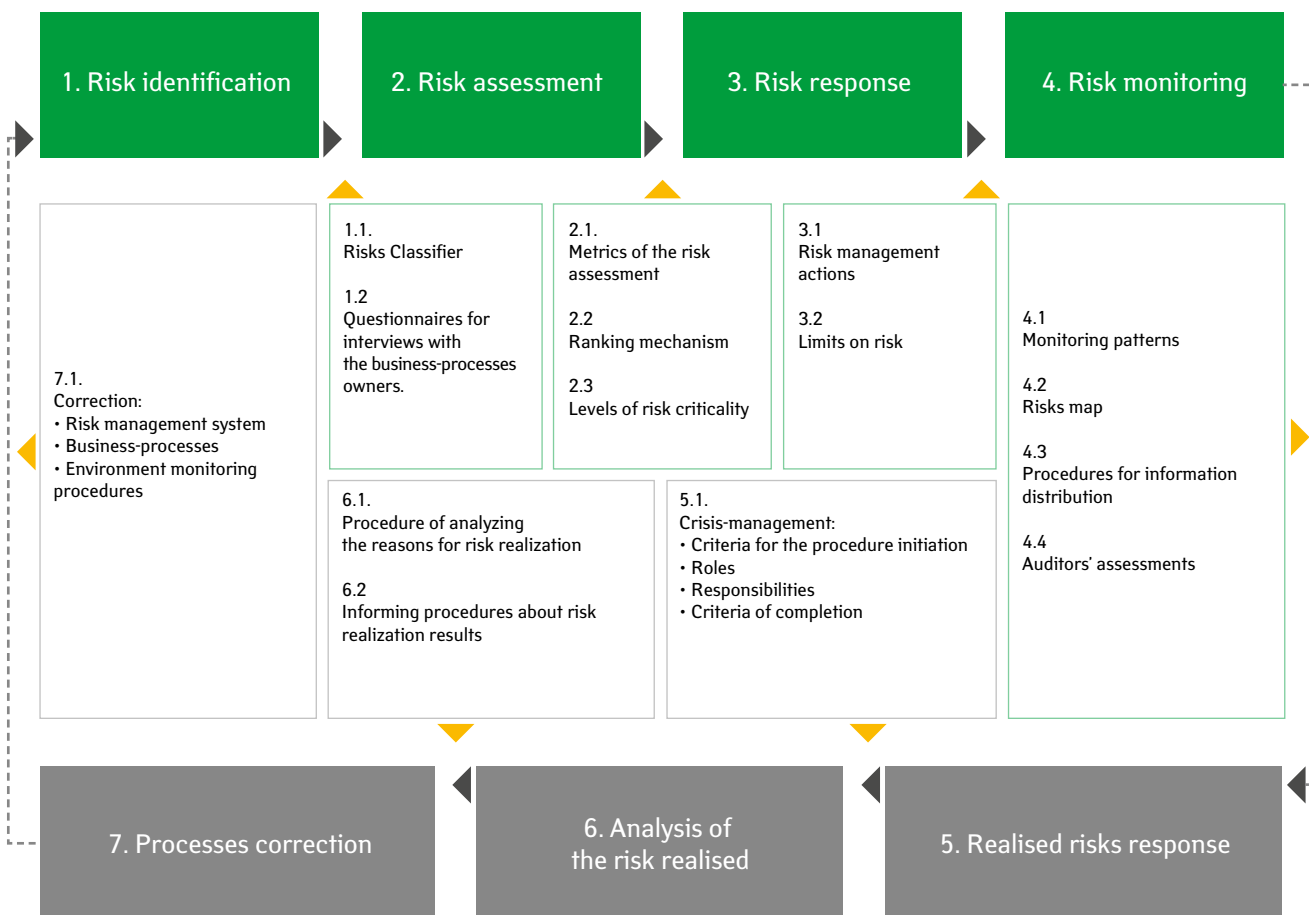
## DEVELOPMENT OF THE RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL

Zarubezhneft has established a system of risk management in order to ensure the stable, continuous functioning and development of the Company by means of the timely identification, prevention and minimisation of risks that pose a threat to the business and reputation of the Company or to personnel health and property interests of shareholders in the Company.

Efficiency and risk management are inseparably linked with achieving the strategic goals of our company. Considering possible risks, we pursue long-term objectives and strive to meet the shareholder's interest.

The risk management process is not aimed at covering all possible scenarios that may arise during the practical application of the company's operational risk management system (ORMS). The risk management process is a part of the everyday management. The risk management system developed is based on the principle of integration of risk management with the company's business processes.

Principle diagram of the company's risk management process



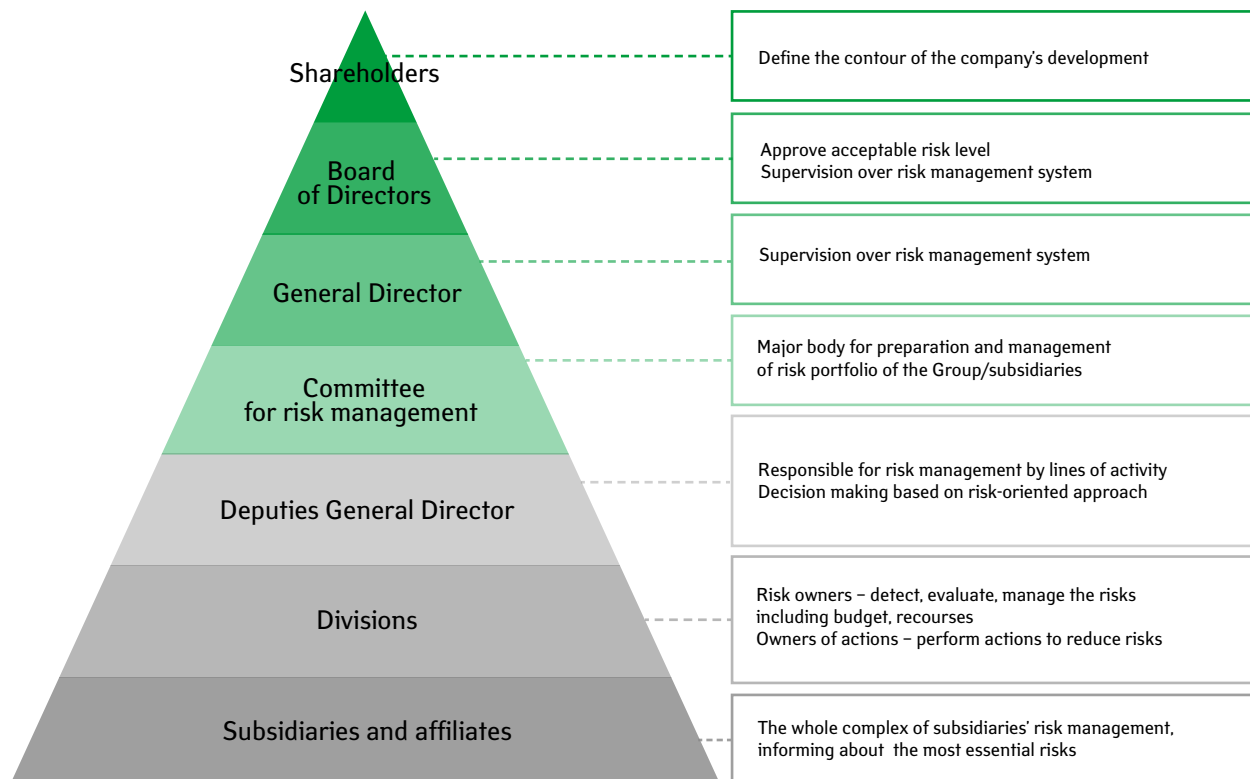
The key objectives and tasks of the risk management process are as follows:

- Protection the implementation of the company's strategy from the risk of negative impacts;
- Provision business continuity and support for decision-making processes by the company's management;
- Justified financial and investment decision making considering risk information;
- Preservation and increase of invested financial funds and the company's capitalisation.

Risk management processes in the company have been elaborated on the basis of the internationally recognised enterprise risk management model (COSO ERM). The ORMS covers all management levels and is consistent with the aim of reaching the company's long-term goals. The company manages the following risk categories in accordance with the ORMS: strategic risks, operational risks, risks connected with reporting, risks of compliance with legislation and regulatory bodies' requirements.

Since risk management is a continuous process and requires participation and interaction of different levels of managers or different division representatives of the company, it is necessary to coordinate the efforts of the ORMS's participants.

Participants of the risk management process in Zarubezhneft



## RISK MANAGEMENT SYSTEM DEVELOPMENT

In early 2013, the Company worked out and the General Director of Zarubezhneft approved an integrated risk management system (IRMS). During 2013, a standard IRMS was developed and introduced, which defines a single approach to risk management process in the Group.

A Working Committee for Risk Management was established. The committee in a strategic session with the Company's top management determined the key risks to the Zarubezhneft Group of companies in May 2013. The company has established a risk portfolio: key risks register, risk and opportunities matrix, the top 5 opportunities and top 20 risks were determined, supervisors and owners were nominated, and risk maps of the top 5 opportunities and top 20 risks were developed (including risk nature description, risk-contributing factors, consequences, response strategies, terms and persons responsible for the implementation of measures).

A survey of the risks of the Company was carried out in June 2014. The key risks have been adjusted in accordance with its results.

In the framework of its activities, the Working Committee for Risk Management performs monthly monitoring of performance measures for risks and opportunities. Given the systematic nature of the process, the monitoring will be done quarterly in 2015.

In 2014, the risks facing the Company and subsidiaries were included in the Business plan for 2015–2019 that was approved by the Board of Directors in December 2014. In addition to this, risks have been determined in relation to Zarubezhneft's long-term development programme 2014–2030 and have been reviewed by the Government of the Russian Federation and approved by the Board.

In course of 2014, the risk management system was integrated into the company's investment process: for the projects presented to the Investment Committee, an expert evaluation is done to determine project risks and opportunities with the aim of making balanced investment decisions.

Risk management KPI are included in the short-term management programme and are considered when summing up annual results. This is how integration of the risk management system across the company's activities is performed.

In 2014, the introduction of the risk management system began in the subsidiaries, and it will be actively developed in 2015.

At the end of 2014 a Schedule of Audit committee meetings was approved, according to it, in April of 2015 a risk management systems arrangement within the Company will be issued for full-time consideration. This will include the review of the key risks and methods for managing them.

In 2015, the Company plans to develop a risk management policy that will be brought for consideration to the Zarubezhneft Board. Also, in the development of the risk management process, the Company will continue the integration risk management processes into the corporate project management system in 2015.

The Internal Audit Department has developed a plan of audit inspections for 2015 using a risk-oriented approach. The plan was discussed with the Company's management, reviewed and approved by the General Director of the Company. This approach will be applied for two years in the planning the 2014 and 2015 audit inspections.



## WORKING COMMITTEE FOR RISK MANAGEMENT

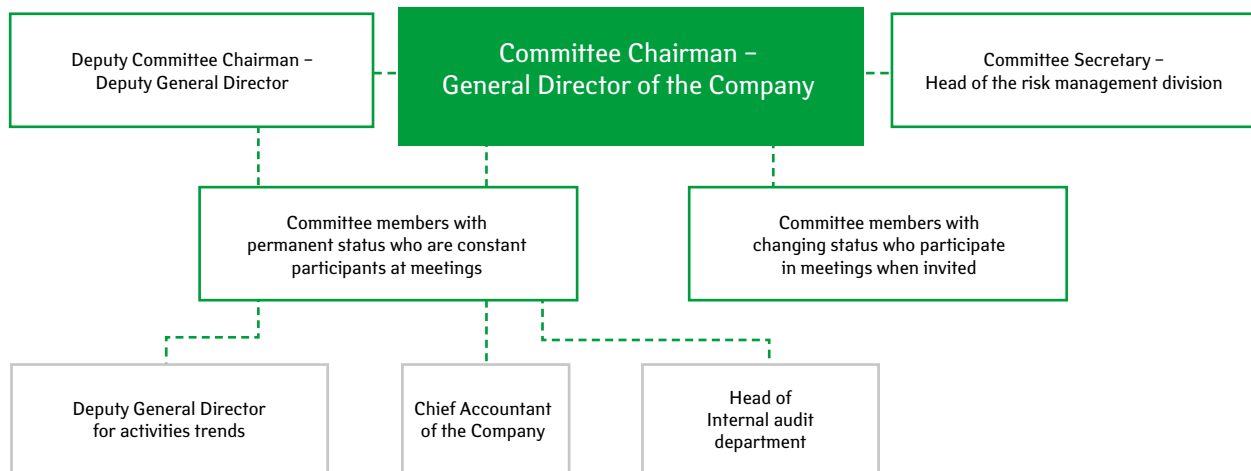
For the purpose of compliance with the best international practices, a Working Committee for Risk Management (Risk Committee) has been established.

The main function of the Risk Committee is the management of the risk portfolio of the Zarubezhneft Group of companies.

**In the framework of its activities the Committee:**

- Analyses the influence of external (activities markets, laws, requirements of governmental authorities etc.) and internal (possible opportunities of the Company, resources, technological development etc.) factors on the activities of the Group of companies to determine risk criteria;
- Determines the significant risks that may affect the achievement of the business objectives of the Company and Group of companies in the medium and long term;
- Assesses the influence of the significant risks on the activities of the Company;
- Determines the risk management strategy and nominates the persons responsible for the management and control of certain risks (risk owners);
- Evaluates the entirety of the risk register of the Group of companies, approves changes in the register; evaluates the sufficiency and consistency of control measures for risk management;
- Analyses the status (possibility and possible consequences) of the key risks, the values of which may be higher than the acceptable level;
- Considers the issues of internal control efficiency and its relevance for the objectives and scale of activities of the Group of companies in the risk environment;
- Arranges its work in interaction with the other Committees of the Company (Budget, Investment etc.) for the purpose of integration of the risk management process into the Company's business processes (planning, efficiency management etc.);
- Reviews the reports of the internal and external auditors in relation to the efficiency of risk management processes, internal controls, business processes;
- Reviews the internal regulatory documents of the Company for risk management and internal controls and makes proposals to change them.

Structure of the Working committee for risk management



## INTERNAL CONTROL SYSTEM

Efficient operation of the Company's internal control system is aimed at giving the management and the shareholders reasonable warranties of achieving the Company's objectives in the following categories:

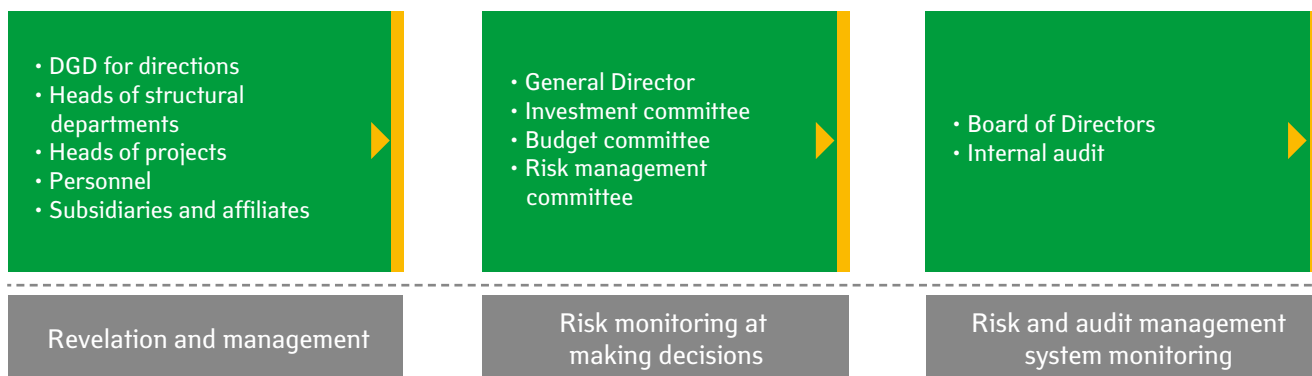
- Performance of the Company strategy;
- Efficiency and productivity of the financial and operating activities of the Company, including asset safety;
- Compliance with the applicable requirements of the laws and local regulatory acts, including the requirements for industrial, economical, ecological, informational safety;
- Decreasing the number of unforeseen events (risks) and losses in the financial and operating activities of the Company;
- Accuracy of financial and non-financial reporting submitted to the management, representatives of the shareholders and external users.

The main objectives of the internal control system of the Company are:

- Timely revelation and analysis of the risks that may cause significant negative effects on the achievement of the objectives of the Company before they occur in the course of financial and operating activities;
- Establishment and introduction of control procedures to allow minimisation of the risks in business processes taking into consideration the economic viability of implementation of such procedures;
- Establishment and introduction of the risk situations monitoring system;

- Ensuring the support of the decision making process for the asset portfolio structure and obligations of the Company;
- Ensuring the trust of the investors to the Company and managing authorities;
- Ensuring the support of the decision making process for the asset portfolio structure and obligations of the Company;
- Protection of the capital investments of shareholders and safety of the assets;
- Compliance with the requirements of the current laws and local regulatory acts of the Company;
- Standardisation and regulation of the control procedures;
- Performance of the business plans and main programmes for the Company activities, the budget and Company investment programmes in the most efficient way;
- Ensuring the more efficient use of the resources of the Company;
- Ensuring the entirety, reliability and accuracy of the financial, accounting, statistical and management information and reporting of the Company;
- Arrangement of permanent and regular control of compliance of financial and operating activities of the Company carried out in the Company and in the subsidiaries, analysis of the results of the said activities;
- Assessment and analysis of the financial condition of the Company in general, its branches, subsidiaries;
- Assisting the design of the optimal (economically efficient) organisational structure of the Company.

Risk management system and Internal control system – three defense lines in Zarubezhneft



## AUDIT COMMITTEE

The functions of the Audit committee were revised and significantly expanded in 2014. A new Regulation for the Audit committee was developed in 2014, it was approved at the meeting of the Board on the 17 October 2014.

The Audit committee is a corporate management authority of the Company that reports to the Board of the Company.

### Audit committee areas of activities

Financial reporting	Risk and internal control management	Internal audit	Compliance with the regulatory laws	External audit
<ul style="list-style-type: none"> <li>Review of the annual reporting and financial statements, including analysis of significant operations and events must subject to value judgment, review of the results of the independent evaluation of the Company property;</li> <li>Consideration of the significant aspects of the reporting policy of the Company and its changes;</li> <li>Consideration of significant changes in the financial statements preparation procedures;</li> <li>Consideration of achievement of key financial indicators and decline causes;</li> <li>Consideration of issues related to the informational systems critical for the formation of the financial statements and similar.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the risk management system arrangement;</li> <li>Review of the key risks and methods for their management;</li> <li>Analysis of measures for managing the risks related with fraud and misconduct;</li> <li>Review of the results of the risk management system, internal control system etc. efficiency evaluation.</li> </ul>	<ul style="list-style-type: none"> <li>Review and agreement of the Regulation on the internal audit of the company;</li> <li>Review of the plans and activity results of the internal audit service of the Company.</li> </ul>	<ul style="list-style-type: none"> <li>Consideration of the issues related to the anti-corruption and anti-fraud systems;</li> <li>Consideration of the issues related to the compliance with the currency and tax laws and accounting and reporting laws;</li> <li>Consideration of the corporate management issues;</li> <li>Consideration of the corporate ethics issues;</li> <li>Consideration of the issues related to the revelation of operations with the related parties.</li> </ul>	<ul style="list-style-type: none"> <li>Consideration of the procedures for the selection of the auditor, including the procedure for the management of the interest conflict in course of provision of the auditing and non-auditing services;</li> <li>Review of the results of the external auditor's work; review of the results of the auditor's qualification confirmation.</li> </ul>

The main objective of the Audit committee operation is the assistance of the Board in controlling the financial and economic activities of the Company, including financial reporting, risk management and internal control, internal and external audit, regulation compliance control and other issues.

An Audit committee meeting schedule was agreed on the 28 November 2014. According to the schedule, the Company's risk management system arrangement, key risks and risk management methods, and the results of the internal audit work of the 2014 review are planned to be considered in April 2015.

The Internal audit department has developed a plan for its audit checks on the basis of the risk-oriented approach. An efficiency evaluation of

the internal control, risk management and corporate management systems is being performed.

During 2014 the audit of risk management process and the risk management plans performance on the basis of the approved risk maps by the management were carried out.

The results provided recommendations and proposals aimed at decreasing risk and measures for increasing efficiency. Management regularly monitors the performance of recommendations made by the internal auditors. The internal audit department regularly presents the results of audit checks (main summaries, risks, recommendations, development and measures performance of the management statuses) at the meetings of the Company Risk committee.

## MAIN RISK FACTORS

Risk management in our company is aimed at achieving the sustainable development and long-term business goals.

Depending on the goals of the Company, risks are subdivided as follows:

- **Strategic risks**  
 These risks for the Company are connected with long-term goals achievement, as well as with the impact of competitors from other companies working in the same industry. Strategic risks are to be analysed from the point of view of the company's development prospects;
- **Operational risks**  
 These risks are caused by features of the whole cycle of the Company's value creation and connected with the processes of exploration, development, surface facilities construction, production, transport, realisation, refining and oil-products sales;
- **Risks related to reporting preparation and financial resources management**  
 Financial risks as a group of commercial risks may rise as a result of instability in the capital's markets. Rouble's high volatility in relation to other world currencies in 2014 had an essential negative impact on activity of many Russian corporations. In order to assess risks at the company's level, scenario analysis has been used and stress-tests have been carried out in new macroeconomic parameters;
- **Risks of compliance with the law and regulatory authorities requirements**  
 These risks are caused by varying law requirements and statutory regulations with ambiguity, uncertainty, contradiction in statutory regulations, change of legislative and regulatory compliance practices by court and administrative authorities in the countries where Zarubezhneft implements its projects.

## STRATEGIC RISKS

Name of the risk	Risk description	Risk management measures
Political risk	Zarubezhneft conducts its activity in the Asia-Pacific Region, Eastern Europe, Middle East countries as well in the Russian Federation.	Zarubezhneft is a State-owned company and it represents the interests of the Russian Federation abroad. The company considers the potential political risks not as a threat but as an opportunity to extend its activity area. Political risks are managed through activities aimed at development of international cooperation, interaction with state authorities in the countries of presence and participation of the Company in inter-state negotiations of Russia with such countries.
Investment risk	The possibility that the anticipated (estimated) profit (rate of return) for the investment will not be obtained. Such risks are related to the investment in the form of capital investments and financial investments (investing into shares and equity shares of other entities).	On the 26 June 2014 the Board approved the Strategy for the Development of the Company. In the framework of the Investment Committee the most efficient projects are selected, the proposals for improving the economic indicators of the considered projects are made and control is carried out over the performance of the approved investment projects. The Company has introduced a Corporate project management system policy, the main aim of which is the achievement of strategic goals of the Company by increasing the efficiency of project management within the Company, by improving the project management structure, by business-process optimisation, by establishing "areas" of responsibility, by monitoring and receiving timely reporting on the projects.



## OPERATIONAL RISKS

Name of the risk	Risk description	Risk management measures
Geological risks	Risks connected with uncertainty of volumes and quality of reserves, possible additional costs connected with reservoir pressure reduction etc. (geological risks are considered in interconnection with economical conditions, which are put into calculation of production efficiency).	<p>Considering change in macro-parameters justification of exploration works is carried out by the company. Elaborated financial and economic models of the projects for assets development include only efficient exploration activities. The company formed an investment projects portfolio which is introduced to the Scientific-Technical Board, Investment Committee for consideration.</p> <p>A composition and recovery of exploration assets provide a resource base of the company and HC production in the long-term period. Selection and evaluation of potential and prospective projects define success of exploration jobs and make for reduction of resources preparation cost. The company conducts a monitoring of the company's resource base including recoverable resources growth. DeGolyer and MacNaughton Corp. conducted evaluation for recalculation of recoverable HC reserves for the Zarubezhneft's Group of companies in accordance with PRMS and SEC international standards.</p> <p>In addition, the company conducts work on development of competencies regarding development of the complex structure fields.</p>
Risks of oil prices change	Probability of oil/oil products price change and their unfavourable impact on the company's revenues/cash flow.	<p>At the end of 2014, the company carried out an analysis of 2015–2019 Business- Plan's stability towards change of macro-parameters. For the basic option of 2015 Business-plan, a calculation of additional indicators in macro-parameters was carried out.</p> <p>In order to provide a sustainable development of the Zarubezhneft's Group of companies' enterprises and projects, a complex of activities for increased efficiency and costs optimisation has been elaborated. All the activities are aimed at minimisation of the negative impact of the oil price reduction for production segment's enterprises and provision of financial stability for all the Group.</p> <p>Quarterly sensibility analysis of well remedial stimulation jobs is carried out for all the production segment's enterprises and also a ranking of activities of the capital investment and exploration works programme.</p>
Accident risks	Risks related to the accidents (emergencies) – blow-out in course of drilling, completion and operation of wells, offshore oil and gas producing platforms in the Socialist Republic of Vietnam.	<p>The company leads a constant work on improving on incident and accident prevention system connected with execution of operations while drilling, completion and operation of wells, as well as oil and gas producing platforms in the shelf of SRV.</p> <p>The Zarubezhneft's Group of companies developed a double-level HSE control system.</p> <p>The Group also developed and introduced Regulations on prevention of oil, gas and water shows, open flowing and audit of the blowout preventing equipment in which main reasons of oil, gas and water shows were considered and means of their early detection, organisational and technical-and-technological requirements were established, first priority actions were defined for the production staff in case of their occurrence.</p> <p>The company developed and put into force "Technical Regulations for marine vessels safety, jack-up rigs and drilling vessels". AMNGR (ZN's subsidiary) developed and introduced SUB-01 "Regulations of the company for safety management", SUB-05 "Emergency actions plan", SUB-03 "Technical regulations" in which requirements of the International Code for safety management were reflected (approved by the Russian Marine Register of Navigation).</p> <p>Work of HSE rooms has been organized at the Group's enterprises and equipped with training manuals. The employees have completed HSE induction and tests.</p> <p>In October 2014, a repeated certification under ISO 14001 and OHSAS 18001 was conducted at Modriča Oil Production Plant.</p> <p>In 2014, HSE contests, trainings and exercises were held for the main technical personnel regarding actions in case of emergency and hazardous situations, joint fire-fighting drills were conducted.</p> <p>Absence of emergency situations confirms efficient performance by personnel of response plans.</p>

## RISKS RELATED TO REPORTING PREPARATION AND FINANCIAL RESOURCES MANAGEMENT

Name of the risk	Risk description	Risk management measures
Financial reporting preparation and formation risks	Circumstances of economic activity or certain business-process which may become a reason for uncertainty/incompleteness/impertinence of financial and managerial reporting.	Our company forms its reporting based on Russian and International Accounting Standards. The auditor was selected based on tender which conducts both intermediate and for the whole year in general. Regulations on internal control (on the basis of which Internal Audit Department carries out an audit of the internal control of the company and subsidiaries) have been elaborated and are in effect within the company. Risk matrices and controlling procedures has been worked out within the framework of the system of the internal control over financial reporting preparation.
Interest rate risk	Risk of interest rate change paid under attracted funds. This risk has a negative impact on politics of external borrowings, credit policy and funds management process, the company's expected cash flow.	The company elaborated on actions for obtaining an international credit rating with the purpose of diversification of finance sources. Analysis of necessity of attracting additional credit means or refinancing the current debt was carried out, debt instruments time of maturity are revised. In connection with growth of the currency exchange rate debt intra-group obligations expressed in local currency are transferred into rouble obligations.
Liquidity risks	Risks connected with possible lack in funds for obligations performance by the company/ impossibility to realise investments at their market price, devaluation of the assets and others.	The company conducts monthly an analysis of liquidity indicators. The company carries out a planning of the cash flow budget and implements a constant control of turnover funds for operational activities performance. The Company opened credit facilities in the leading Russian banks.
Currency risks	A probability of change in cross-rates of the basic currencies and their negative impact on financial reporting indicators and/or cash flow.	In connection with currency rates growth, the Zarubezhneff's Group of companies has an increased currency risk in terms of costs growth expressed in foreign currency. However, this risk is levelled by the fact that part of the revenues of the Zarubezhneff's Group of companies is an export proceeds from oil and oil-products realisation.

## RISKS OF COMPLIANCE WITH THE LAW AND REGULATORY AUTHORITIES REQUIREMENTS

Name of the risk	Risk description	Risk management actions
Ecological risks	Risks connected with a probability of environment pollution, fines and application of other sanctions on the part of regulatory bodies, non-obtaining/ withdrawal of the required permission documents/ revoking of licenses, suspension of activities in connection with incompliance with the applicable legislation in environment sphere and so on.	The company and its subsidiaries established HSE divisions, introduced internal normative HSE regulating documents: HSE and social responsibility policy; "HSE management system" Standard; a number of nature conservation actions has been developed and are realised.
Health, safety risks	Risks of non-performance/non-compliance with the rules of safe works performance, which can become a reason of accidents, damage or loss of the durable equipment, and also to result in deterioration of the company's business reputation.	The company developed three-level activities for health and safety risks management. This risk is managed by actions developed in terms of reduction of emergencies, technological and ecological risks.
Legal risk	Related to the ambiguity, uncertainty, contradictions of the applicable laws, changes in the legal application practice of the court and administration authorities that may negatively affect the Company.	The Company performs constant monitoring of changes in the Russian laws (tax, currency, customs, subsoil use, licensing etc.) and the monitoring of court practice with the purpose of settling the disputable issues arising in course of the activities of the Company. For example, the Company has certain divisions aimed at studying the changes of tax laws and analysis of the tax burden and at monitoring the compliance with the license agreements.

## ORGANISATION OF THE INTERNAL AUDIT PROCESS



Within the existing corporate management structure, there is a functional internal audit division. In 2014, the division successfully completed a project to improve the organisation of the internal audit and its process in Zarubezhneft.

Within the frameworks of this improvements project, the audit division carried out the following activities aimed at the development and improvement of the internal audit function:

- Developed a system of internal audit standards;
- Formed a risk-oriented audit plan. It was considered at the meeting of the Audit Committee under the Zarubezhneft Board of Directors and approved by the management of the company;
- A system of indicators for the estimation of internal audit activity was introduced considering the results of feedback from the management;
- A system of regular accountability of the internal audit to the company's management was introduced, consideration of the plans and results of work of the internal audit at the meeting of the Audit committee under the Board of directors was organised.

In its activities the division is governed by the regulations of the internal audit of Zarubezhneft and regulations on internal audit division according to which the major objective of the internal audit of Zarubezhneft is to carry out estimation and expression of its opinion about the reliability and efficiency of the risk management, internal control, and corporate management systems in the company.

The division is also an organiser of the auditing process and actively interacts with the audit commissions and external auditors both of the company itself and the Zarubezhneft's subsidiaries.

The division is continuously monitoring the introduction of recommendations based on results of internal audit and auditing activities aimed at improving the internal control, risk management and corporate management systems.

## ENVIRONMENTAL PROTECTION

The Company's ecological policy defines ecological well-being as the basis for economic prosperity. In its daily activities, our company realises its principles in practice, with constant improvement of nature conservation activities, the rational use of natural resources, reduction of the number of contaminants and decreasing the toxicity of both contaminants and waste emissions. An international approach to solving these tasks allows our company to introduce into production and environmental protection work advanced scientific achievements.

Therefore, our company conducts its activities in strict compliance with the principles of environmental friendliness so as to fully realising the social obligations of the joint stock company, which plays an important role in the economic development of the country, in provision the well-being of the population and its footprint.

An important direction in the environment protection work of Zarubezhneft is the prevention of environmental contamination, decreasing the negative impacts on the environment and ensuring of ecological safety across all of our production facilities.

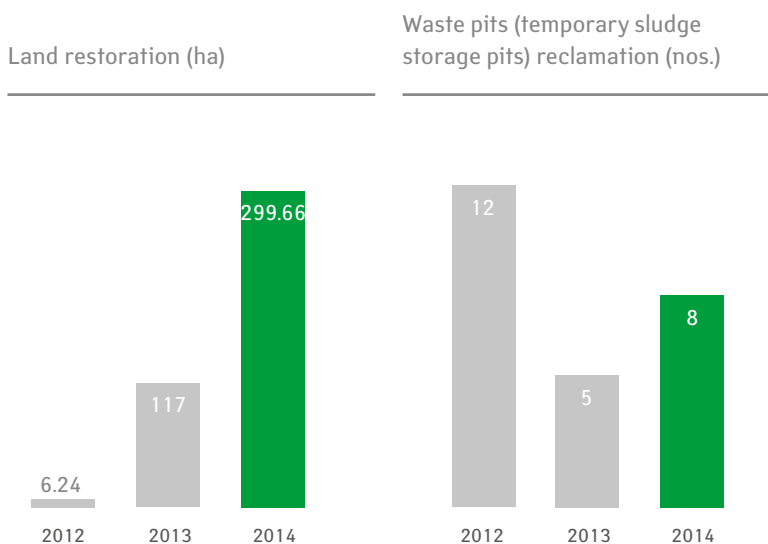
Our environment protection and recovery measures programme of the Russian Segment for 2014–2016, will see company carry out a series of environment protection measures each year:

- Ecological training of personnel;
- Prevention of air pollution and safeguarding water and land resources;
- Production waste neutralisation;
- Monitoring of environmental conditions and production facilities impacts;
- Prevention and liquidation of pipeline break consequences;
- Construction of new and reconstruction of existing environmental facilities.

In 2013, funding for environmental activities for subsidiaries located within the Russian Federation increased by 45% compared to 2013: approximately RUB147,534 thousand in 2014 compared with RUB101,464 thousand in 2013.

Costs for the conservation of biodiversity and safeguarding nature territories for JC RUSVIETPETRO in 2014 totalled RUB2,040 thousand.

In the area of environmental protection, our subsidiaries regularly conduct managers' training under The hazardous waste management programme; ecological audits were accomplished, ecological risks were established; elaboration and updating of the normative ecological documentation was completed; all necessary licenses and permissions for emissions

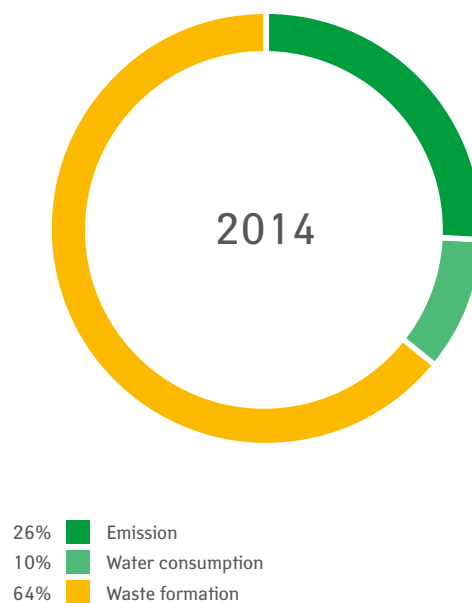
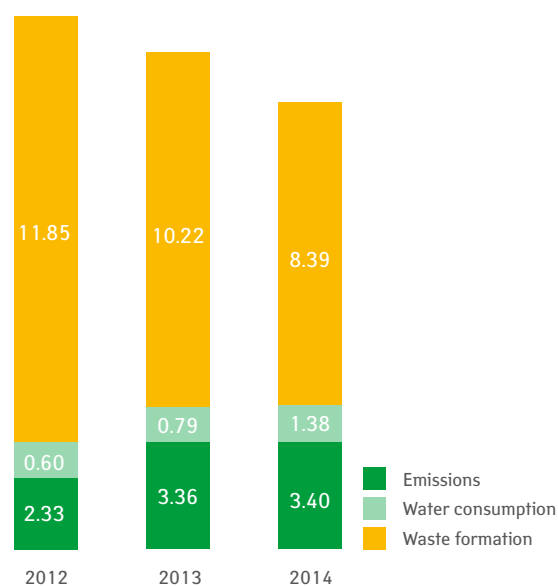




SPECIFIC INDICATORS IN ENVIRONMENT PROTECTION SPHERE, FOR THE GROUP IN THE RUSSIAN FEDERATION

Specific indicators on environment protection in the Zarubezhneft Group in the Russian Federation, tonnes/thousand tonnes of oil

Specific indicators for the group of companies in the Russian Federation for 2014, %



Gross atmospheric emissions in the Group's Upstream segment, thousand tonnes

	2012	2013	2014
Gross atmospheric emission, including:	5.153	9.757	11.308
Solid substances	0.015	0.030	0.122
Sulphur dioxide	0.058	0.0346	0.351
Carbonic oxide	1.984	2.806	3.335
Nitrogen oxides	0.580	0.725	0.648
hydrocarbon (without volatile organic compounds)	2.365	4.110	4.473
Volatile organic compounds	0.151	1.740	2.059
Benzopyrene	0.000	0.000	0.000

Production and use of Associated Petroleum Gas (APG) in the Zarubezhneft Group of companies:

Name of the company of the Zarubezhneft Group of companies	APG production, mln. m <sup>3</sup>	APG use for in-house needs, mln. m <sup>3</sup>	% of APG use
JC RUSVIETPETRO	95.8	44.4	46.32
Orenburgnefteotdacha	1.48	-	-
Ulyanovskneftegaz	0.3	-	-
AMNGR	29.9	0.98	3.29
Total:	127.4	45.3	35.59

and pollutant discharge, limits for waste disposal were obtained.

Payments for negative environment impact were calculated and made in time. Preparation and submission of reporting to the state supervision and statistical authorities was made in a timely fashion.

One of the most important tasks for the minimisation of the negative impact of drilling waste is its treatment and the subsequent reclamation of waste pits.

Thus, in 2014, JC RUSVIETPETRO through contractor organisations rehabilitated approximately 299.66 ha of disturbed lands and liquidated eight waste pits.

In the Brod Refinery (the Republic of Srpska) in 2014, implementation of plans for processing and converting acid sludge to safe inert materials was launched. The plan calls for the subsequent use of the refining process's product in reclamation of the containment ponds. At present, the project is at the stage where selected technologies are adapted to the concrete refining conditions considering the location and the physical and chemical characteristics of the acid sludge.

In general the Zarubezhneft Group of companies in territories and all license areas perform regular monitoring of air, soil, snow, surface water and bottom sediments within framework of local ecological monitoring and production controls.

Observation data are compared with the background values of the indicators. For the reporting period, the results from the analysis of the samples do not exceed the maximum permissible concentrations (MPC).

In 2014, our company continued its consistent work towards atmospheric emissions control.

Within the Group's Downstream Segment, at the Brod Refinery gasification of the technological process was carried out with the aim of improving energy efficiency and reducing the amount of sulfur oxides emitted as per EU norms and standards

Gross atmospheric emissions parameters increased for the whole Zarubezhneft Group of companies for 2014 as a result of production volume growth.

## DECREASE IN GREENHOUSE GAS (GHG) EMISSIONS

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

In 2014, the HSE division approved and introduced for the whole company Methodical recommendations on the of preparation and submission of initial data for calculation of greenhouse gas emissions. The International Petroleum Industry Environmental Conservation Association (IPIECA) and the American Petroleum Institute (API) recommendations served

as a basis for their elaboration.

As per request of the Ministry of Energy of the Russian Federation, our company's Methodical recommendations on the of preparation and submission of initial data for calculation of greenhouse gas emissions have been submitted to use in the elaboration of a single sectoral instrument for the calculation of the GHG atmospheric emission volume as a result of production activities of the Group's enterprises.

## INDUSTRIAL AND OCCUPATIONAL SAFETY



### Our company's long-term HSE goals are:

- Absence of industrial accidents
- Reduction of injuries rate to the parameters of the leading international companies of the oil and gas sector;
- Reduction of negative environment impact;
- Improvement of HSE system.

Our company's HSE strategic guidelines are fixed in Zarubezhneft's policy and standards.

### Zarubezhneft's HSE policy is aimed at:

- Provision of life and health safety for all the company's employees who conduct the industrial activities in all Zarubezhneft's facilities;
- Ensuring of works and operations safety through risk management in health and industrial safety sphere;
- Taking measures aimed at prevention of a possibility of emergency situation occurrence thanks to increase of reliability, safety of the process equipment operation, and in case of their occurrence – at minimisation of consequences for environment, health and people's safety;

- Prevention of environmental pollution and minimisation of the man-made load on the environment through ecology aspects management in the process of industrial activities;
- Provision of the resource saving, reduction of the negative impact on natural environment, taking all possible measures for preservation of a climate, biodiversity and compensation of possible damage to environment;
- Consideration of indigenous peoples' interests and rights for leading traditional ways of life and the preservation of habitat;
- Provision for the holding of internal investigations that take into consideration of each fact of any incident, occupational accident, emergency occurrence, analysis of reasons and conditions that promoted its occurrence, elaboration and implementation of the respective preventive measures for their non-admission;
- Constant advancement of the company's personnel's level of knowledge and competences in HSE;
- Striving for conducting HSE operations on the basis of internal convictions and individual responsibility of the employees as well as for increasing the motivation of the company's personnel;
- Imposition on contractor organisations working on Zarubezhneft's production facilities of the legal requirements and Zarubezhneft's internal HSE standards ensuring compliance control;
- Carrying on a dialogue with all concerned parties, openly and simply demonstrating the results of HSE operations to the staff, authorities and general public.

The whole company regulates HSE practices under the HSE management system which is based on the following principles:

- Development of HSE leadership and responsibility of all levels of management managers;
- HSE risks management in projects realisation and execution of works;
- HSE operations management;
- Investigation of incidents and learning lessons therefrom with the purpose of non-admission of incidents in future;
- HSE training, teaching and competency upgrading for personnel;
- Liaison with contractor organisations in the area of HSE;

- Documentation and transparency of information containing HSE data;
- Emergency situations management and provision of unconditional readiness for management under conditions of emergency and crisis situations;
- Creation and preparedness of resources and means for emergency situations;
- Establishment of target and scheduled HSE indicators;
- Control of contractor organisations' compliance with HSE legislation and the company's requirements;
- Consistent increase of HSE requirements in accordance with the international practices.

Within the HSE system's methodological framework, the following internal normative documents were updated or newly elaborated in 2014:

- Zarubezhneft's HSE policy was updated;
- The HSE management system standards were elaborated (updated) and introduced;
- The HSE risks management procedures were elaborated and introduced;
- The Operative notification and investigation of HSE incidents procedure was elaborated and introduced.

The company's subsidiaries joined all standards of the CC of Zarubezhneft, therefore, in 2014, the Zarubezhneft Group of companies operates within a single HSE framework outlined by internal normative instruments.

The subsidiaries' aspiration for a constant improvement in HSE management in accordance with nature conservation legislation as well as OHSAS 18001:2007 and ISO 14001:2004 international standards is confirmed by the following results:

- The Mordica Oil Production Plant confirmed its HSE management system's conformity with the OHSAS 18001:2007 and ISO 14001:2004 international standards in 2014;
- The Brod Refinery introduced the integrated HSE management and prepared for certification under OHSAS 18001:2007 и ISO 14001:2004 international standards.



Zarubezhneft establishes serious goals for the improvement of the HSE system corresponding to the scale and nature of its activities:

- Compliance of the company's activities with legislation and international standards for industrial safety;
- Conduct of HSE activities based on production risk management;
- Constant advancement of the company's personnel competences in HSE.

Our company conducts its activities in full correspondence with the appropriate legislation, including the latest amendments in the Federal Act of the Russian Federation № 116 and other subordinate acts of the Russian Federation. This also includes full identification of hazardous Russian production facilities, with the provisioning of hazards ratings and subsequent re-registration.

In general, the whole HSE system is aimed at reaching the following objectives:

- Absence of industrial injuries;
- Absence of occupational accidents;
- Absence of negative environment impact.

In the area of the labour safety, our subsidiaries have regularly held training and examinations under the following categories:

- Industrial safety;
- Labour safety and first premedical aid;
- Basics of fire safety;
- Knowledge of rules and norms of working at electrical units;
- Safe operation of electrical units.

In addition, obligatory employee medical examinations and special evaluations of working conditions (SEWC) at workplaces are made.

Subsidiaries' workers have been provided with working clothes, safety shoes and personal protective equipment, a range of other activities under this direction have been carried out.

The corresponding reports on labour protection and labour conditions improvement have been submitted to the State, supervisory and statistical authorities in a timely manner.

The whole company's and subsidiaries' personnel was insured under the voluntary health insurance programme of SOGAZ.

In 2014, with the aim of enhancing the HSE system and introducing best world practices and international standards, elements of the industrial safety 12 Life Saving Rules production programme was developed, approved and introduced for the whole Zarubezhneft's Group of companies by the HSE division. Special attention was paid to the observance of safe work methods, the breach of which may create the risk of severe injuries or cause the death of people.

The following documents have been updated:

- Regulations on Industrial safety management system;
- Regulations on Industrial control in the industrial safety field;
- Orders on imposing responsibility in the industrial safety field.

All the required emergency and response plans and plans for elimination of its consequences have been developed and agreed.

Within the established periods, formal industrial safety review at the hazardous production facilities and safety industrial declarations for hazardous facilities were held and detailed.

Industrial control is one of the most important elements of an effective HSE management system.

The company's employees when when it comes to HSE directions are governed by the respective legislative and regulatory documents of the Russian Federation and the regions of the company's presence, as well as the corporate provisions including the procedure for HSE risk management.

This procedure is an integral part of the Common corporate risk management system and regulates the order of HSE risk management:

- Violation of the facilities' integrity (emergency situations);
- Injury to the workers, counter-agents and visitors;
- Negative environment impact in carrying out works;
- Negative environment impact as a result of technological processes.

The production control system is supported by the HSE division's representatives holding of audits of the subsidiaries.

The results of the RUSVIETPETRO and Orenburgnefteotdacha's audits attest to the presence of the operative HSE management system in the subsidiaries and the willingness of management to develop the system by introduction of the leading international practices including in the enhancement of the production culture.

Commissions of the production control (CPC) permanently acting in the subsidiaries have been established, approved and are operating in accordance with the procedure.

Maintenance of the subsidiaries' preparedness for civil defence and emergencies is ensured through an integrated approach:

- Testing of the safety facilities and training of the people in charge of the civil defence and emergencies training centres;
- Timely development and approvals from the state supervisory authorities for oil and oil-products spill response plans (OSR) in the fields;
- Teaching and attestation of emergency accident rescue teams in the fields;
- Conclusion of agreements with the specialised professional units that provide gas rescue services and well blowout safety to hold drills twice a year.

Open fire-fighting drills at the Mordica Oil Production Plant in March 2014 and at the Brod Refinery in April 2014 were organised and carried out: Evacuation, rescue and fire extinguishing in case of emergency.

The work with contractor organisations operating at facilities of the Zarubezhneft Group of companies is an integral part of the specialists' work within the health and safety management system.

Our subsidiaries developed and introduced regulatory documents that govern the order of work of and interaction with contractor organisations in production activities. The established requirements are included in all agreements allowing them to control the contractor organisations' HSE activity.

The year 2014 was a starting point for the formation and correction of the incident database at contractor organisations: in 2015 the accumulation of information will permit a comparative analysis of injuries and incidents, the assessment and prioritisation of risks, finding the root causes of risks, and ways to minimise or eliminate the danger factors.

Already, the quantitative evaluation of results of incidents in the subsidiaries and contractor organisations indicates that some 80% of the incidents in the Upstream segment occur at contractor organisations (main participants of the process directly) and that some 14% of the incidents in the Downstream segment are subsidiaries' workers (main participants of the process).

Therefore, the HSE division's plans for 2015 include closer cooperation with the contractor organisations' representatives and their engagement in the implementation of all of the Zarubezhneft Group of companies's HSE programmes and trainings aimed at the improving the production culture.

# ENERGY EFFICIENCY

The strategic purpose of the development and introduction of the Zarubezhneft Group Energy Saving and Energy Efficiency Programme is the reduction in cost of finished products in the Group's production segments and as a result improved in competitiveness at the local and world level.

The programme has run between 2013–2015 on the basis of the Decree of the President of the Russian Federation dated 4 June 2008 No. 889, "On certain measures to increase the energy and ecology efficiency of the Russian Economy", and the federal law dated 23 November 2009 No. 261-Φ3, "On energy saving, increasing energy efficiency and amending certain legislative acts of the Russian Federation".

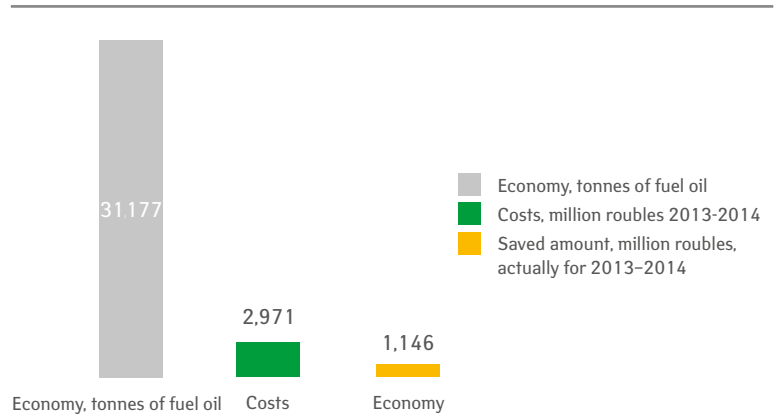
The programme was approved by the Zarubezhneft Board of Directors on 14 December 2012 following a mandatory energy inspection.

For the year 2014, the target guidelines of the energy saving programme provided for the development, preparation and introduction of new activities (along with the continued functioning of ones introduced in 2012–2013) considering division's area of activity and organisation as well as the profile of the activities of the Zarubezhneft Group of companies in general.

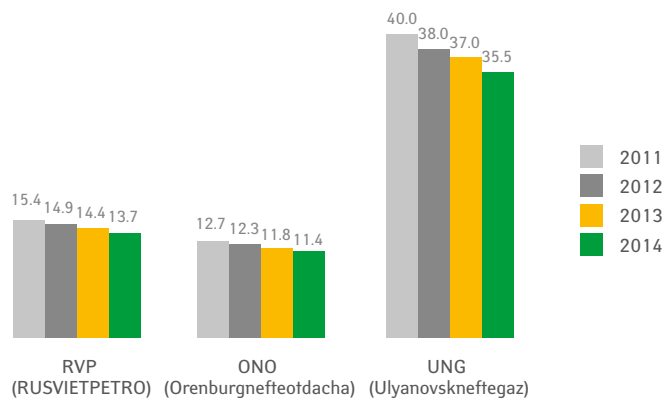
The organisational work implemented on energy resources saving in all the company's subsidiaries in 2014 allowed for the reduction of energy consumption against set target energy efficiency indicators and accordingly increase energy efficiency parameters for each company separately and the Group of companies in general.

The primary economisation in 2014 for the Zarubezhneft Group of companies was connected with savings in diesel fuel consumed for the generation of in-house electrical energy (93%) and in the purchase of electrical energy (7%).

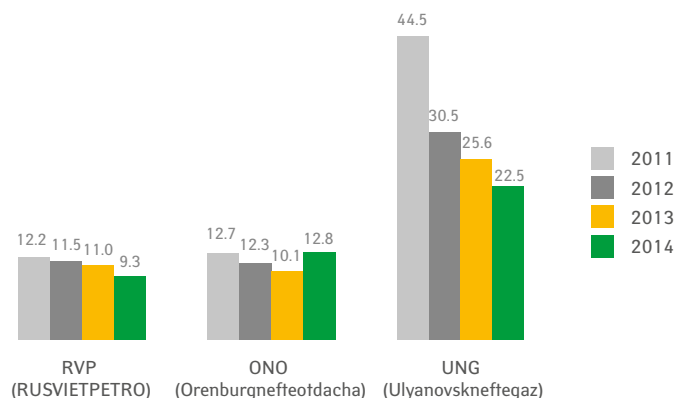
Achieved results of energy efficiency programme implementation in 2014



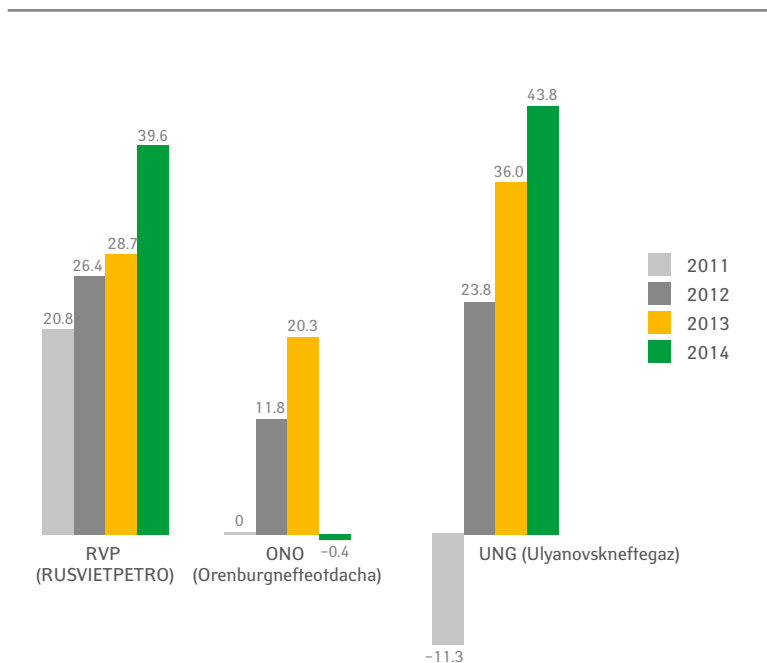
Target parameters of energy efficiency of the Zarubezhneft Group in Upstream for 2011–2014



Actual parameters of energy efficiency of the Zarubezhneft Group in Upstream Segment for 2011–2014



Reduction of energy resources consumption in Upstream Segment vs. basic value (2010), %



Over the 2011–2014 period across all subsidiaries of the Upstream Segment, we saw a steady reduction of energy resource consumption in percentage terms against target energy efficiency parameters (indicators). As for Orenburgnefteotdacha, in 2014, the increase of energy consumption was related to work on the formation pressure maintenance system as per the temporary scheme.

Main activities for energy efficiency in the Zarubezhneft Group of companies:

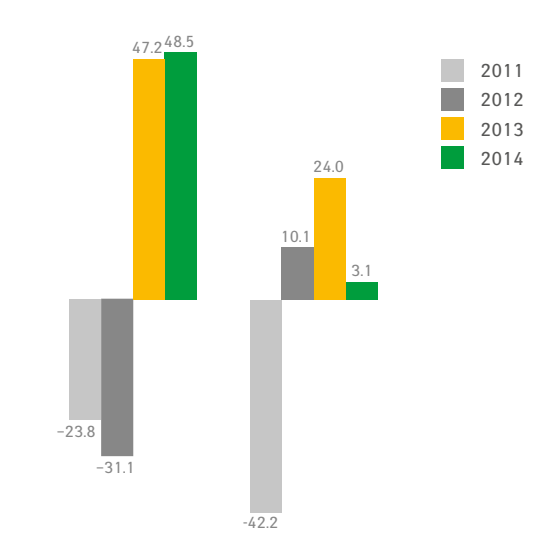
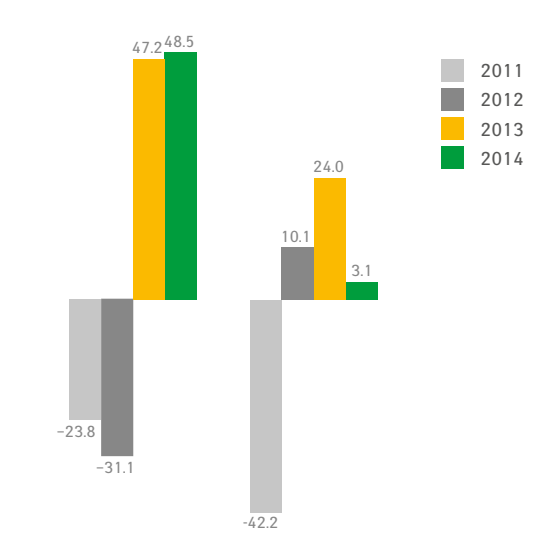
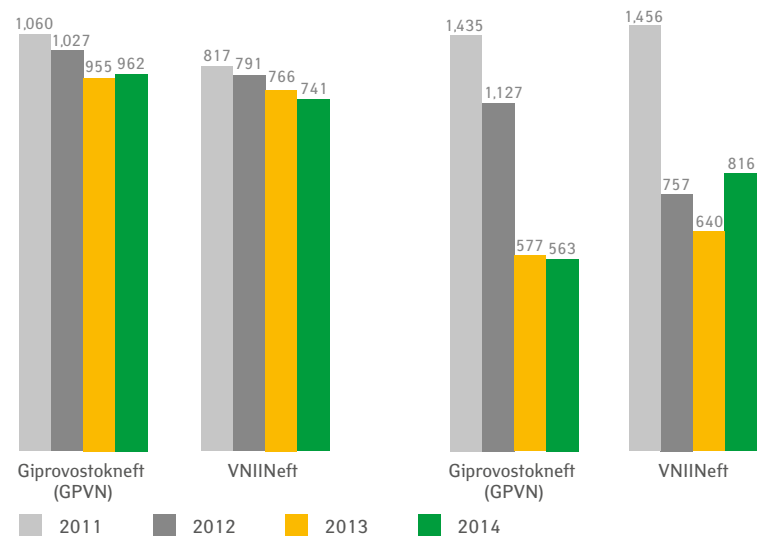
- Application of FLO MXC anti-turbulence additives in oil delivery (RVP);
- Introduction of energy efficient ESP units with PMSM (PVP);
- Installation of frequency shifters at well control stations (ONO).

In 2014, a reduction in energy resource consumption was seen in percentage terms against planned parameters of energy efficiency (indicators) for the whole business segment.

Planned parameters of energy efficiency in “Services and other assets” segment in Services and other assets segment for 2011–2014, tonnes of fuel oil equivalent

Actuals of energy efficiency in “Services and other assets” segment in Services and other assets segment for 2011–2014, tonnes of fuel oil equivalent

Reduction in energy resources consumption percent in Service and other assets vs. basic value (2010)





## KEY ASPECTS OF HR MOTIVATION AND EFFICIENT MANAGEMENT

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Major directions in HR in our company are being implemented in accordance with the Personnel policy of the Zarubezhneft Group of companies for 2014–2019.

The HR main tasks of the Group of companies within the framework of the Personnel policy implementation for 2014–2019 are:

- Improvement of HR payment system and worker's motivation;
- Improvement and development of an integrated system of HR planning considering the requirement of business-directions of the Group of companies, their rational distribution and efficient use;
- Provision of the social protection and improvements in working conditions;
- Raise the professionalism of workers at all management levels. This will be done through the development of a corporate system of continuous education and the enhancement of the corporate training system based. This will be based on professional standards which will set the requirements for contents and conditions, workers' qualification and competencies under various qualification levels.



## PERSONNEL NUMBER AND STRUCTURE

In 2014, the number of workers at the Zarubezhneft Group of companies amounted to 12,698 persons which is 652 persons less (-4.9%) than in 2013. The total average number of personnel for Group of companies has a tendency to reduction. These changes are caused by activities started in 2013 for optimisation of the personnel number in the Downstream and Service and other assets Segments. The Upstream Segment which is 62% of the total number of personnel is a priority for the development of the Group of companies.

Taking into account the fact that oil production requires a large volume of labour at the drilling rigs (especially JV Viewsovpetro in Vietnam); male employees are the majority at the Group of companies, accounting for 80% of the personnel.

The age structure of personnel is formed traditionally such that half of personnel fall within the 30-50 age category to ensure the best proportion of work experience and physical capabilities. A significant specific weight is accounted for by the younger under-30 years of age category (21%).

Number of personnel in the Group of companies in 2014

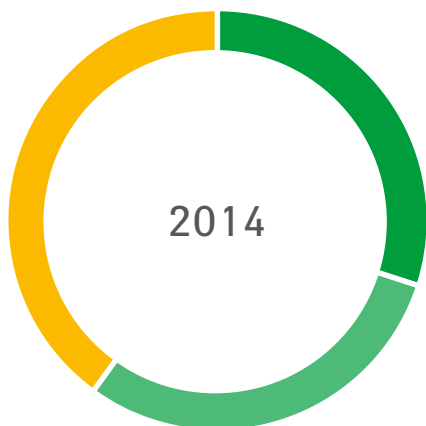
Line of activity	2010	2011	2012	2013	2014
Managing company	252	297	316	329	360
Upstream	7,754	8,392	9,018	8,094	7,923
Downstream	3,139	3,004	2,867	2,667	2,517
Service and other assets	1,459	1,681	1,640	2,260	1,898
Total	12,604	13,374	13,841	13,350	12,698

Age structure of personnel as on 31 December 2014

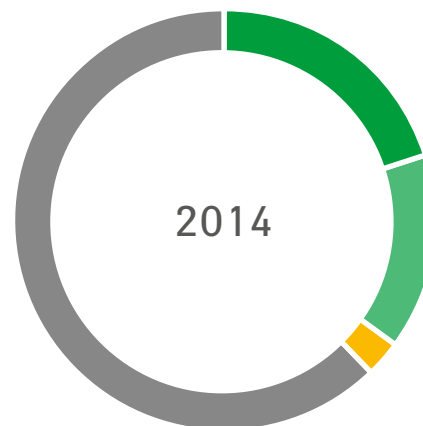
Structure of the personnel for the Zarubezhneft Group of companies in 2014 by line of activity

**43**

years is the average age of personnel in 2014 in the Group of Companies



21% Younger than 30 years  
51% 30 to 50 years old  
28% Older than 50 years



20% Downstream  
15% Services  
3% Managing company  
62% Upstream

## PERSONNEL'S MOTIVATION AND INCOME STRUCTURE

Zarubezhneft works consistently to improve its labour payment system and the motivation of personnel. During 2013–2014, the Zarubezhneft Group of companies introduced the single labour payment system (SLPS), which includes:

- a system of official grade levels;
- bonus payments based on key performance indicators (KPIs);
- annual assessment of personnel.

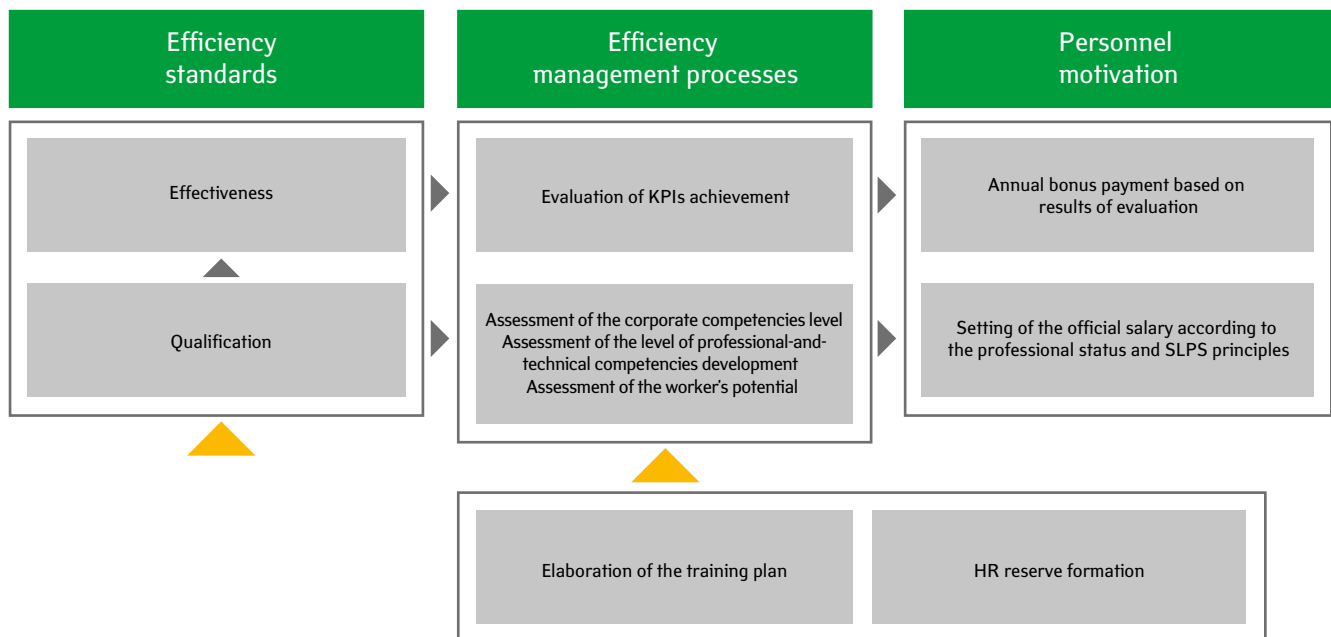
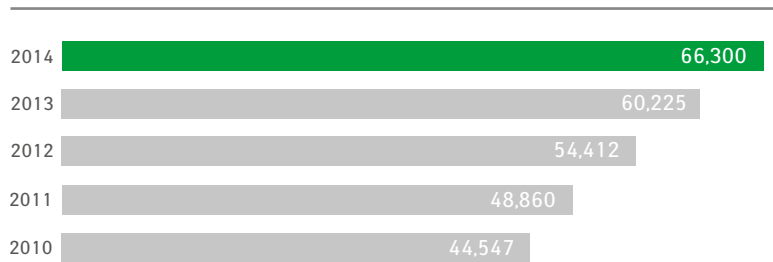
The new system reflects our company's business interests and priorities, matches personnel's KPI achievement with the annual bonus amount and is one of the tools to manage workers' activity and efficiency in the interests of the company.

Zarubezhneft maintains an average market level of the salary for the sectoral labour market. Average monthly salary growth in 2010–2014 was ensured by indexation of the basic salary and tariff rates of the Group of companies' workers on average by 10% annually.

Within the framework of the Arrangement of the integrated motivation system at Zarubezhneft project, implementation of the following has been worked out and approved:

- Single rules for establishing the salary for the workers of the Zarubezhneft Group of companies based on a single grades line;
- The motivation system that provides a matching of the personnel's KPI achievement with the annual bonus amount;
- A project team members' motivation system;
- Programme for the long-term motivation of management personnel.

Dynamics of the average monthly salary for 2010–2014, roubles



## SOCIAL PROGRAMMES

An efficient social protection system is the basis for successful industrial activity and promotes retaining of highly qualified personnel. Therefore, special attention in the Zarubezhneft Group of companies is paid to the development of social programmes.

In the Zarubezhneft Group of companies a Single Concept of the social policy is in force that has permitted the unification of the benefits list and the order of its granting. The main components of the social package, within the frames of the adopted Concept are as follows:

- The creation of conditions for personnel health improvement, maintenance of corporate sports and fitness complexes;
- Health protection, including voluntary medical insurance for workers and their family members and non-working retirees;
- Material support of veterans and non-working retirees;
- Personnel welfare (for family reasons);
- Rewards in connection with the presentation of governmental, corporate awards and in connection with the celebration of Oil & Gas Workers Day.

In 2014, for the workers of the Group of companies and their family members recreation in sanatorium and spa institutions of the Republic of Crimea was organised with partial compensation of the tour cost.

In July 2014, a parity corporate programme of the non-state pension provision for the company's workers was launched.

Non-financial motivation occupies an important place in our personnel motivation system. The company has established the following awards and ranks: "Honorary worker of Zarubezhneft", "Veteran of Zarubezhneft", Diploma of Zarubezhneft, and Appreciation from Zarubezhneft. These are seen as a way of strengthening corporate culture and encouraging staff and working groups to strive to make significant contributions to the company's development through important industrial, financial and economic achievements.

Over the past year, 254 employees of the Zarubezhneft Group have been honoured with state and corporate awards.

## PERSONNEL SELECTION AND PROMOTION

Selection of quality personnel within a competitive environment is one of the main factors underpinning the company's success and the most important process of HR management in the company.

In the Zarubezhneft Group of companies a system of HR selection and adaptation is used. The HR selection system is based on single transparent criteria of candidate evaluation by professional and managerial skills and general development potential. In the process of selection, a modern method is used for evaluation of the intellectual abilities and personality and also of the level of development of the candidate's professional-and-technical knowledge and managerial skills.

In order to create comfortable conditions for new workers, developing of the positive attitude to work and enhancing newly recruited workers' loyalty to the company, adaptation activities are carried out on a permanent basis including adaptation workshops, supervisory responsibilities and training at the workplace for the whole worker's adaptive period.

In terms of the personnel policy's implementation, we have developed and introduced an annual personnel assessment procedure. Personnel assessments include a range of indicators: determination of the development in terms of corporate and managerial competence, professional and technical knowledge and skills, performance on the KPIs and individual worker's goals. Assessment results are aimed at making efficient managerial decisions in terms of planning, forming reserves and HR professional development as well as preparation of suggestions regarding revision of salaries.



The company's dynamic development means there is a need for continuity and succession management, operative rotation, training and nomination of personnel able to successfully and efficiently implement the prospective objectives and functions of the company, accordingly, it is determined by necessity to maintain the company's HR reserve at a proper level.

The HR reserve's formation and development across the Zarubezhneft Group of companies for 2014–2019 is a strategic direction in the company's personnel policy. The major goals of the HR reserve are the quality of personnel rotation, assessment and subsequent development of reservists for occupying managerial positions in case of the need to fill a vacant job, as well as in case of broadening the business lines of activities (assets acquisition and new companies establishment in the territory of the Russian Federation and abroad).

In 2014, Zarubezhneft continued its work on the formation and training of the managerial and administrative personnel reserve. Within the framework for directions of development of the company's HR reserve, a management and corporate competences evaluation of the managerial staff was conducted on regular basis. Based on results of the evaluation with the purpose of the personal growth and increasing the professional level of the workers, training activities have been organised, strategic sessions have been carried out annually and individual development plans have been elaborated.

## PERSONNEL TRAINING AND DEVELOPMENT SYSTEM

Personnel training and development is an integral part of the implementation of the company's personnel policy and aimed at solving the following strategic objectives:

- To ensure the required level of professional and technical competence of personnel complies with the company's current and prospective development requirements;
- To improve the personnel qualification level and strengthen managerial competences, including inner staff reserve development for efficient fulfillment of the functional obligations in accordance with the company's priority goals;
- To fulfill mandatory state requirements for training levels of fuel and energy complex personnel, aimed at the provision of occupational quality and safety.

With the purpose of solving the said objectives in the reporting year, a project for improving the personnel training system was implemented. This project is aimed at the efficient construction and functioning of personnel training and development.

Within the frameworks of this "Personnel training system introduction" project of improvement, Zarubezhneft developed on an integrated approach to organising the the training system. This includes the methodological basis, analysis and planning scheme, training budget formation, as well as the method and the control point for the evaluation of the efficiency of the training process.

Our company employs a wide range of modern personnel training techniques for retraining, long-term and short-term advanced training, business-education programmes (special training programmes, skill trainings).

For planning and completion of the corporate training a menu of corporate programmes is provided which includes training programmes for top and medium-level managers as well as specialists, personnel reserve's workers and courses for young specialists aimed at personal and professional personnel development.

In order to realise professional and technical training, the Oil engineering school was created in our company. The school's major responsibilities are development of the strategically important professional competences: oil and gas fields development using modern well technologies, well production rate and systems approach, as well as integrated project management and portfolio management.

With the help of our specialists jointly with oil and gas sector experts and professors of the leading higher education institutions of Russia, these training programmes are developed and basic courses are completed under the following directions:

- Oil and gas production geology;
- Basics of oil and gas fields development;
- Oil, gas and formation water properties;
- Well drilling in oil and gas fields;
- Oil production technologies.

In the reporting year, seven courses under the advanced training programme Exploration and Production were organised and completed; 91 people were trained.

In 2014, our company introduced and actively developed the Webtutor automated personnel evaluation and training system. With the help of this system, various evaluation procedures are carried out remotely. With the purpose of professional and personal development, the personnel are assigned to pass this remote training.

In order to implement the innovation development and personnel policy programme, Zarubezhneft has for a long time cooperated with Gubkin Oil and Gas Russian State University for a number of training activities including in scientific and technical courses as well as social and cultural ones. In October 2014, our company and the university signed an agreement on creation of the Management of the foreign projects for oil production basic academic department and opened the Management of the foreign projects for oil production master's programme with Management degree.



## WORK WITH YOUNG SPECIALISTS

Our company pays special attention to its work with young specialists. Activities regarding the work with young specialists of the Group of companies include several levels:

- 1<sup>st</sup> level – Work with educational institutions;
- 2<sup>nd</sup> level – Work with young specialists of the Zarubezhneft Group of companies.

Cooperation with higher education institutions ensures continuous work with young specialists in terms of recruiting and selection, provision of passing by students of the production practice or participation in the projects of the Group of companies during the whole period of training.

Our company continues to actively interact with higher education institutions.

In the field of training, the fields of cooperation include:

- Organisation and carrying out of the dedicated specialists' training with higher and secondary professional education for Zarubezhneft's divisions;
- Advanced training and professional development training of the company's workers and specialists;
- Organisation and carrying out of familiarisation, practical, industrial and predegree practices for the university's students.

In the field of the scientific and technical activity:

- Holding and organising the scientific research activities on actual problems facing the oil and gas industry;
- Joint holding of the scientific and technical conferences;
- Exchange of educational and scientific materials and the preparation of joint publications.

In the field of the socio-cultural activity:

- Development of creative cooperation of the university and Zarubezhneft;
- Joint participation and organisation of social and cultural activities.

Priority direction of the company's activity is the training of young qualified specialists for the Russian oil industry.

Zarubezhneft offers assistance in training to students/children of the Russian specialists of JV Vietsovetro in higher education institutions of the Russian Federation.

Zarubezhneft continues to implement its young Serbian specialist training programme for the Group of companies situated in Bosnia and Herzegovina at Gubkin Oil and Gas Russian State University. During 2014, within the frames of this programme 13 persons received higher education.

Work with young specialists of the Zarubezhneft Group of companies provides for enrollment in the young specialists competition of the Zarubezhneft Group of companies. Individual development plans are based on professional standards and requirements. This includes monitoring of individuals' professional development alongside the preparation of scientific and technical papers for participation in the contest.

A council of young specialists is operating successfully in the company. Its objective is to create special work conditions for successful integration into the corporate culture of the company, to generate loyalty among young employees, and to develop corporate competences.

In September 2014, the second contest was held for scientific and technical papers by young specialists from the Zarubezhneft Group. This young generation was represented by 33 people from subsidiaries and joint ventures of the Zarubezhneft Group of companies working in various regions of Russia, as well as abroad in Vietnam and the Republic of Srpska (Bosnia and Herzegovina). They presented their scientific and technical papers (25 papers in all) aimed at increasing the project efficiency in the following areas: Geology and development, Production, Drilling, Energy Efficiency, Refining, Process management.

## CORPORATE CULTURE FORMATION

A main strategic goal in the field of corporate culture development is the formation of a creative, open and innovative atmosphere for every worker at all levels of the organisation (regardless of its geographic dislocation and organisational attachment). In addition to helping provide relevant business solutions, this will help to create the perception of unity and internal conformity across the Group of companies.

In order to strengthen the intracorporate interaction within the Zarubezhneft Group of companies, the following communication channels are being actively developed: corporate edition of Zarubezhneft – Oil without borders, the corporate website, and the internal corporate portal.

With the purpose to of receiving a feedback, personnel surveys are carried out regarding personnel satisfaction, involvement and loyalty at the Zarubezhneft Group of companies' periodically.

**In order to strengthen team work and socialisation sports activities are encouraged and supported:**

- Sport games of the workers of oil industry of the Republic of Srpska are traditionally held every year in September;
- Zarubezhneft's employees participate in corporate beach volleyball, bowling and carting tournaments, organised by the council of young specialists of the company.

With a view to develop the workers' adherence and loyalty to corporate values, starting from 2013, the "Best Zarubezhneft's employee" and "Best in occupation" contests are held in the Zarubezhneft Group of companies.

In 2014, the first contest of professional excellence was held under the nomination "Best operator for oil and gas production" among oil producers of the Zarubezhneft Group of companies.

All oil producers of Zarubezhneft took part in the contest including JV Vietsovetpetro making it of international significance. Based on results of internal contests each enterprise delegated to the competition 2-3 persons to participate in the professional contest.

In December 2014, in order to stimulate the creativity and public presentation skills as well as the team spirit amongst the personnel, Zarubezhneft's Corporate theatre was organised and acting courses were held.





## PARTICIPATION IN SOCIAL AND ECONOMIC DEVELOPMENT

The Zarubezhneft Group of companies within the areas of its operation exerts an influence on social and economic development. Therefore, our company adheres to a policy of social responsibility for local communities and the whole of society.

Zarubezhneft contributes to sustainable development in the areas of its operation as an employer, taxpayer and as a significant participant in the economy.

In interaction with regions, importance is given to development of the local initiatives and social activity. The Zarubezhneft Group of companies maintains constructive cooperation with local governing bodies and public organisations. Our subsidiaries annually conclude agreements with regional administrations that regulate activity and development of the region.

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

In order to establish a single policy of the Zarubezhneft Group of companies in the area of the social responsibility in 2014, our company approved Regulations on charity and sponsorship and also a commission for considering the social subjects was created. Therefore, our company has transferred from one-time charitable donations to the policy of integrated social responsibility for the Zarubezhneft Group of companies.

Also these regulations defined the following directions of charity activities and sponsorship:

- Support for culture, sport and healthy way of living of population,
- Conservation of cultural and historical heritage, support of military and patriotic activities and actions,
- Support for the poor and financially disadvantaged, orphaned children and invalids,
- Development of scientific and education programmes and advanced vocational training programmes.

A total amount of funds assigned by the Zarubezhneft Group of companies in 2014 for charity and sponsorship was RUB144 million (inclusive of social and economic agreements signed with administrations of the areas of operations of subsidiaries and joint companies), including the following directions:

- Support for culture, sport and healthy way of living including assistance in the health sphere – RUB5 million,
- Support for the financially disadvantaged, veterans and pensioners as well as other socially important projects in the areas of operation – RUB134 million,
- Development of scientific and education programmes, cooperation with higher education institutions – RUB5 million.

Its also worth mentioning that Zarubezhneft's employees took part in charity work with Gift of Life foundation. Members of the Young Specialists Council, who carried out the campaign, used raised funds to buy medication and toys for children in hospital.



# CORPORATE MANAGEMENT

# 05







A close-up photograph of a man in a dark blue suit and tie, sitting at a desk and writing on a document with a black pen. The image is slightly blurred, focusing on the man's hands and the pen. The background is a soft, out-of-focus grey.

**BOARD OF DIRECTORS  
AND COMMITTEES UNDER  
THE BOARD OF DIRECTORS**



The members of Zarubezhneft's Board of Directors were elected by the Regulation of the Federal Property Management Agency dated 12 September 2013 No. 11145-p, On resolutions of the annual general meeting of the shareholders of the Zarubezhneft Joint Stock Company.

Prior to holding the annual general shareholders meeting, the following persons were the members of the Board of Directors of the Company:

Name	Position
Alexander Bazhenov	Director of the Centre of Public-Private Partnership of Vnesheconombank Born 1964 Not a shareholder
Pavel Kadochnikov	Pro-rector for Research, All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia Independent director Born 1978 Not a shareholder
Sergey Kudryashov	General Director of Zarubezhneft Born 1967 Not a shareholder
Victor Martynov	Rector of Gubkin Russian State Oil and Gas University Independent director Born 1953 Not a shareholder
Kirill Molodtsov	Deputy Minister of Energy of the Russian Federation Born 1968 Not a shareholder
Alexander Nekipelov	Director of Moscow School of Economics of the Federal State Budget Educational institution of higher professional education Lomonosov Moscow State University, Doctor of Economics, professor Born 1951 Not a shareholder
Mikhail Poluboyarinov	First Deputy Chairman – Executive Board Member of the State Corporation Bank of development and foreign economic activity (Vnesheconombank) Born 1966 Not a shareholder

In accordance with the resolution of the Board of Directors of Zarubezhneft dated 25 November 2013 (Minutes of Meeting No. 74), Mikhail Poluboyarinov was elected Chairman of the Board of Directors of Zarubezhneft.

The following members of the Board of Directors were elected by the Order of the Federal Agency for State Property Management dated 30 June 2014 No. 698, On resolutions of the annual general meeting of the shareholders of the Zarubezhneft Joint Stock Company:

Name	Position
Alexander Ivanov	Deputy Chairman of the State Corporation Bank of development and foreign economic activity (Vnesheconombank) Born 1977 Not a shareholder
Pavel Kadochnikov	Pro-rector for Research, All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia Independent director Born 1978 Not a shareholder
Sergey Kudryashov	General Director of Zarubezhneft Born 1967 Not a shareholder
Victor Martynov	Recto of Gubkin Russian State Oil and Gas University Independent director Born 1953 Not a shareholder
Kirill Molodtsov	Deputy Minister of Energy of the Russian Federation Born 1968 Not a shareholder
Alexander Nekipelov	Director of Moscow School of Economics of the Federal State Budget Educational institution of higher professional education M. V. Lomonosov Moscow State University, Doctor of Economics, professor Born 1951 Not a shareholder
Mikhail Poluboyarinov	First Deputy Chairman – Executive Board Member of the State Corporation Bank of development and foreign economic activity (Vnesheconombank) Born 1966 Not a shareholder

In accordance with the resolution of the Board of Directors of Zarubezhneft dated 11 August 2014 (Minutes of Meeting No. 86), Mikhail Poluboyarinov was elected Chairman of the Board of Directors of Zarubezhneft.

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

In 2014, the total amount of remuneration payments to 5 members of the Zarubezhneft Board of Directors based upon the results of their work in 2013–2014 was RUB5,000 thousand.

Annual compensation (earnings) of the Sole executive body of Zarubezhneft in 2014 amounted to RUB 38 million.

## THREE COMMITTEES WERE ESTABLISHED UNDER THE ZARUBEZHNEFT BOARD OF DIRECTORS:

### 1. STRATEGIC PLANNING COMMITTEE

#### Members of the Strategic Planning Committee under the Zarubezhneft Board of Directors in 2014

##### Chairman of the Committee

Alexander Nekipelov – member of the Zarubezhneft Board of Directors, Director of the Higher School of Economics of Moscow State University

##### Members of the Committee

Sergey Kudryashov – member of the Zarubezhneft Board of Directors, General Director of Zarubezhneft

Victor Martynov (independent director) – member of the Zarubezhneft Board of Directors, Rector of Gubkin Russian State Oil and Gas University

Kirill Molodtsov – member of the Zarubezhneft Board of Directors, Deputy Minister of Energy of the Russian Federation

According to the Regulations on the Strategic Planning Committee under the Zarubezhneft Board of Directors approved on 25 November 2013 (Minutes of Meeting No. 74), the following matters (without limitations) refer to the competence of the Strategic Planning Committee:

- Elaboration of recommendations on determination of priority lines of activities of the company;
- Elaboration of recommendations under the subjects of approving the KPIs of the company and their target values;

- Consideration of reports on achieving by the company of the KPI target values;
- Improvement of the KPI system of the company.

In 2014, four meetings of the Strategic Planning Committee were held with each of them attended by all the elected members of the Strategic Planning Committee.

Meeting	Date of meeting	Agenda
Joint meeting of the Strategic Planning Committee and Staff and Remuneration Committee	07 May 2014	<ul style="list-style-type: none"> <li>• Consideration of the audit conclusion in relation to the accounting reporting of Zarubezhneft for 2013.</li> <li>• Consideration of the Annual report of Zarubezhneft for 2013.</li> <li>• Consideration of the results of the tender for selection of the audit organisation for holding a mandatory audit of Zarubezhneft for 2014.</li> <li>• Consideration of report on achieving the KPI target values of the company for 2013.</li> </ul>
Joint meeting of the Strategic Planning Committee and Staff and Remuneration Committee	24 June 2014	<ul style="list-style-type: none"> <li>• On consideration of the draft Corporate Development Strategy of Zarubezhneft.</li> <li>• On consideration of Regulations on KPI system in a new version and the KPI target values for 2014.</li> </ul>
Meeting of the Strategic Planning Committee	19 September 2014	<ul style="list-style-type: none"> <li>• On consideration of the Long-term development programme of Zarubezhneft.</li> </ul>
Joint meeting of the Strategic Planning Committee, Audit Committee as well as Staff and Remuneration Committee	16 December 2014	<ul style="list-style-type: none"> <li>• On consideration of the new KPI system.</li> <li>• On consideration of Regulations on annual remuneration of the managerial staff of Zarubezhneft.</li> <li>• On consideration of the long-term system of the managerial staff motivation of Zarubezhneft.</li> </ul>

Based on results of the meetings the Zarubezhneft Board of Directors was given recommendations to approve the Annual report of Zarubezhneft for 2013, Report on achievement of the KPI target values for 2013, Corporate strategy of Zarubezhneft, Regulations on KPI system of Zarubezhneft, KPI target values for 2014, Regulations on annual remuneration of the General Director and managerial staff of Zarubezhneft, Regulations on long-term system of the managerial staff

motivation of Zarubezhneft. Also by decision of the Strategic Planning Committee, the Long-term development programme of Zarubezhneft was preliminarily approved.

## 2. AUDIT COMMITTEE

Members of the Audit Committee under the Zarubezhneft Board of Directors in 2014	
Members of the Committee (before annual general meeting of shareholders of Zarubezhneft)	Members of the Committee (elected after the annual general meeting of shareholders of Zarubezhneft)
Alexander Bazhenov, General Director Federal centre of the project financing (Chairman of the Committee);	Pavel Kadochnikov, Pro-rector for Research, All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia, independent director (Chairman of the Committee)
Pavel Kadochnikov, Pro-rector for Research, All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia, independent director	Alexander Nekipelov, Director of the Moscow School of Economics of Moscow State University
Alexander Nekipelov, Director of the Moscow School of Economics of Moscow State University	Alexander Ivanov, Deputy Chairman – Member of the Board of Vnesheconombank

Regulations on the Committee were approved by resolution of the Zarubezhneft Board of Directors on 25 November 2013 (Minutes of Meeting No. 74). In 2014, at a meeting of the Zarubezhneft Board of Directors on 17 October 2014 (Minutes of Meeting No. 89 dated 17 October 2014), a new version of Regulations on the Audit Committee was approved

under the Zarubezhneft Board of Directors elaborated in pursuance of the methodological recommendations on organisation of audit committees' work of the boards of directors of joint stock companies with participation of the Russian Federation (approved by the Order of the Federal Agency for State Property Management dated 20 March 2014 No. 86).

In accordance with a new version of the Regulations on the Audit Committee, the following matters (without limitations) refer to the competence of the Audit Committee:

- Consideration of the annual report and financial statements, including analysis of essential operations and events most of all subjected to value judgements, review of results of independent assessment of the company's property;
- Consideration of achievement of the target financial values and reasons for its deviations;
- Consideration of the organisation of the risk management system;
- Consideration of the key risks and its management methods;
- Consideration of procedures for auditor's selection;
- Consideration of the results of the external auditor work;
- Consideration of plans and results of the activity of the company's inner audit service.

In 2014, 3 meetings of the Audit Committee were held:

Meeting	Date of meeting	Agenda	Members of the Audit Committee participated in the meeting
Joint meeting of the Strategic Planning Committee and Audit Committee	07 May 2014	<ul style="list-style-type: none"> <li>• Consideration of the audit conclusion in relation to the accounting reporting of Zarubezhneft for 2013.</li> <li>• Consideration of the Annual report of Zarubezhneft for 2013.</li> <li>• Consideration of the results of the tender for selection of the audit organisation for holding a mandatory audit of Zarubezhneft for 2014.</li> <li>• Consideration of report on achieving the KPI target values of the company for 2013.</li> </ul>	Bazhenov A. Kadochnikov P. Nekipelov A.
Meeting of the Audit Committee	28 November 2014	<ul style="list-style-type: none"> <li>• Review of a plan for holding the audit of the consolidated financial statements of Zarubezhneft and its subsidiaries for 2014</li> </ul>	Kadochnikov P. Nekipelov A.
Joint meeting of the Strategic Planning Committee, Audit Committee as well as Staff and Remuneration Committee	16 December 2014	<ul style="list-style-type: none"> <li>• On consideration of the new KPI system.</li> <li>• On consideration of Regulations on annual remuneration of the managerial staff of Zarubezhneft.</li> <li>• On consideration of the long-term system of the managerial staff motivation of Zarubezhneft.</li> </ul>	Kadochnikov P. Nekipelov A.

Based on results of holding the meetings the Zarubezhneft Board of Directors was given recommendations to approve the Annual report of Zarubezhneft for 2013, Regulations on KPI system of Zarubezhneft, Regulations on annual remuneration

of managerial staff of Zarubezhneft, Regulations on long-term system of the managerial staff motivation of Zarubezhneft.



### 3. STAFF AND REMUNERATION COMMITTEE

Members of the Staff and Remuneration Committee under the Zarubezhneft Board of Directors in 2014	
Members of the Committee (before annual general meeting of shareholders of Zarubezhneft)	Members of the Committee (elected after the annual general meeting of shareholders of Zarubezhneft)
Pavel Kadochnikov, Pro-rector for Research, All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia, independent director (Chairman of the Committee)	Victor Martynov, Rector of Gubkin Russian State Oil and Gas University, independent director (Chairman of the Committee)
Alexander Bazhenov, General Director Federal centre of the project financing	Pavel Kadochnikov, Pro-rector for Research, All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia, independent director
Victor Martynov, Rector of Gubkin Russian State Oil and Gas University, independent director	Alexander Ivanov, Deputy Chairman – Member of the Board of Vnesheconombank

In accordance with the Regulations on the Staff and Remuneration Committee under the Zarubezhneft Board of Directors (approved on 25 November 2013 (Minutes of the Meeting №74)), the following matters (without limitations) refer to the competence of the Staff and Remuneration Committee:

- Elaboration of recommendations on criteria for evaluation of activities and determination of the amount of remuneration for the members of the Board of Directors and the managerial staff of the company;
- Elaboration of recommendations on subjects of approval of the company's KPIs and their target values;
- Consideration of reports on achieving by the company of the KPI target values.

In 2014, six meetings of the Staff and Remuneration Committee were held:

Meeting	Date of meeting	Agenda	Members of the Audit Committee participated in the meeting
Meeting of the Staff and Remuneration Committee	09 April 2014	• Consideration of proposals on amount of the annual remunerations for the members of the Zarubezhneft Board of Directors upon results of the corporate year	Kadochnikov P. Bazhenov A. Martynov V.
Meeting of the Staff and Remuneration Committee	06 May 2014	• On consideration of reports on achieving by the company of the KPI target values for 2013. • On amount of the annual bonus of the managerial staff of the company based on results of achieving of individual key indicators for 2013	Kadochnikov P. Bazhenov A. Martynov V.
Joint meeting of the Strategic Planning Committee and Staff and Remuneration Committee	24 June 2014	• On consideration of the draft Corporate development strategy of Zarubezhneft. • On consideration of the Regulations on KPI system in new version and target values of corporate KPIs for 2014	Kadochnikov P. Bazhenov A. Martynov V.
Meeting of the Staff and Remuneration Committee	19 November 2014	• On consideration of the Regulations on remuneration of the General Director of Zarubezhneft	Kadochnikov P. Martynov V.
Meeting of the Staff and Remuneration Committee	12 December 2014	• On agreeing the combined job of the General Director of Zarubezhneft	Kadochnikov P. Martynov V.
Joint meeting of the Strategic Planning Committee, Audit Committee as well as Staff and Remuneration Committee	16 December 2014	• On consideration of the new KPI system. • On consideration of Regulations on annual remuneration of the managerial staff of Zarubezhneft. • On consideration of the long-term system of the managerial staff motivation of Zarubezhneft	Kadochnikov P. Martynov V.

Based on results of holding the meetings the Zarubezhneft Board of Directors was given recommendations on amount of remunerations of the members of the Zarubezhneft Board of Directors, approval of Report on achievement of the KPI target values for 2013, Corporate strategy of Zarubezhneft,

Regulations on KPI system of Zarubezhneft, KPI target values for 2014, Regulations on annual remuneration of the General Director and managerial staff of Zarubezhneft, Regulations on long-term system of the managerial staff motivation of Zarubezhneft.

## AUDIT COMMISSION

### LIST OF MEMBERS OF THE AUDIT COMMISSION

By Decree of the Federal Property Management Agency dated 12 September 2013 No 1145-p On resolutions of the annual general meeting of the shareholders of Zarubezhneft Joint Stock Company, the Audit Commission of Zarubezhneft was elected, comprised of the following members:

Name	Position
A. Voronkova	Deputy Head of Management Department of Federal Property Management Agency
L. Kalyada	Head of Management Department of Federal Property Management Agency
M. Tikhonova	Secretary of interdepartmental commission for operation performance and analysis of fuel and energy complex organisations

The Audit Commission has examined the annual accounting reports. Based on the results of the examination conclusions were prepared about the reliability of the data contained in the accounting statements and the annual report of Zarubezhneft for the year 2014.

By Decree of the Federal Property Management Agency dated 30 June 2014 No. 698, On resolutions of the annual general meeting of the shareholders of Zarubezhneft Joint Stock Company, the Audit Commission of Zarubezhneft was elected, comprised of the following members:

Name	Position
I. Babenkova	Deputy Head of Management Department of Federal Property Management Agency
A. Voronkova	Deputy Head of Management Department of Federal Property Management Agency
A. Yudin	Deputy Head of Division of Department of the Ministry of Energy of the Russian Federation

Reimbursement is not paid to the members of the Audit Commission.

## COMPANY MANAGEMENT



**SERGEY I. KUDRYASHOV**  
General Director

Sergey Ivanovich Kudryashov has extensive experience in top management positions in companies in the fuel and energy industries.

In 1991, he graduated from Kuibyshev Polytechnic Institute. In 2006, he took an Executive MBA degree at the Stockholm School of Economics.

He started his working career in 1991 at Nizhnevartovskneft, rising from the post of Production Operator to Deputy General Director – Head of a Unitised Oil Field.

From 2002 to 2003: Deputy Manager of Tomskneft VNK – Head of Strezhevoyneft Oil and Gas Production Directorate;

From 2003 to 2005: Manager of Yuganskneftegaz – Vice-President of YUKOS-EP;

Since 2005: First Vice-President of Rosneft, in charge of the producing sector of the company;

From 2008 to 11 July 2012: Deputy Minister of Energy of the Russian Federation, in charge of issues connected with Russian oil and gas complex activity;

Since 12 July 2012: First Deputy General Director of Zarubezhneft;

Since 28 December 2012: General Director of Zarubezhneft.

Mr. Kudryashov is also 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 ecological safety development strategy.

Not a shareholder.



**SERGEY I. YERKE**

First Deputy General Director

In 1985, Mr Yerke graduated from the Tyumen Industrial Institute as a hydrogeologist, with a specialisation in Mining Engineering, and in 2002, he graduated from the Moscow State University of Economics, Statistics and Informatics. In 2006, he additionally gained an MBA degree from the Stockholm School of Economics in Russia.

He began his working career at Nizhnevartovsk hydrogeological party in Megion.

Over 10 years, he held senior positions in the oil and gas enterprises of the Tyumen Region.

From 2007 to 2009: Deputy Director for Development of Production at Yuganskneftegaz.

In 2009, he was appointed Director of Department of Oil and Gas Production and Transportation in the Ministry of Energy of the Russian Federation.

In 2011, he became Head of Department of Advanced Development and Capital Construction at Gazprom Neft.

Since January 2013, he has been First Deputy General Director of Zarubezhneft.

He holds the title "Honorary oil industry worker" of the Ministry of Energy of the Russian Federation

Not a shareholder.



**ALEXANDER V. DASHEVSKY**

Deputy General Director For Production

In 1990, Mr Dashevsky graduated from Grozny Oil Institute with a specialisation as a mining engineer, and in 2003, he graduated from Gubkin Oil and Gas Russian State University with a specialisation as an engineer-economist.

For approximately 10 years he worked for oil companies of Gubkinsky of the Yamal-Nenets Autonomous District, rising from the post of Production Operator to Head of Division.

Since 2000, he worked in Tomskneft VNK.

In 2005, he moved to Rosneft, where he held positions of Director of Department of prospective planning and investment projects preparation and Director of Oil and Gas Production Department.

Since 2010: Held position of the Senior Vice-President for oil and gas production in Bashneft.

From 2013 to 2014: First Deputy General Director of JV Vietsovpetro.

Since July 2014: Deputy General Director for production of Zarubezhneft.

Not a shareholder.





### **SERGEY V. KRAVCHENKO**

Deputy General Director For  
Economics And Finance

In 1992, Mr Kravchenko graduated from the Siberian Automobile and Road Institute with a specialisation as an engineer-economist, and in 1999, he graduated from the MIRBIS Moscow International Higher Business School. He is a PhD in Technical Sciences.

Starting in 1992, he worked in the structures of Yuganskneftgaz.

From 1995 to 1997: Deputy Director for Economics of the petroleum services enterprise of the company (Central service base).

From 1997 to 2003: Held senior positions in the Strezhevoyneft Oil and Gas Production Directorate, Tomskneft JSC and Nefteyugansk CCR.

Since 2003: Deputy General Director in charge of economics and finance at TNK-Nyagan.

In 2008: General Director of TNK-Nyagan.

From 2012 to 2013: Commercial Director of Yamal-Gaz Division, TNK-BP Management.

In February 2013: Deputy General Director of Zarubezhneft.

Not a shareholder.



### **IGOR P. ZAIKIN**

Deputy General Director For Project Development and  
Well Operations

In 1991, Mr Zaikin graduated from Kuibyshev Polytechnic Institute named after V.V. Kuibyshev with a specialty in Mining Engineering. He has a certificate of completion of the Russian-Norway module MBA programme at Moscow State University of Foreign Affairs.

He began his working career as a driller's assistant in a State Oil and Gas Wells Drilling Company VAN-EGAN in Nizhnevartovsk.

Since 1996: worked at LLC Lukoil-Bureniye in Samara and LUKOIL Overseas in Kazakhstan.

Since 2003: Head of Drilling Technology Section at LUKOIL.

From 2005 to 2012: Director of Drilling, Well Technologies and Supervising Department for Rosneft.

Since 2012: Director of Drilling Department at Bashneft.

Since July 2013: Deputy General Director for Project Development and Well Operations of Zarubezhneft.

Not a shareholder.



**IGOR S. AFANASYEV**

Deputy General Director For Geology and Development

In 1994, Mr Afanasyev graduated from Novosibirsk State University.

From 2002 to 2004: worked at YuganskNIPIneft (Ufa).

From 2005 to 2006: Head of Department for technologies of development of the Corporate Research Centre in Rosneft.

In 2006, he moved to the position of the Deputy Director of the Corporate Research Centre in Rosneft.

Since 2007: Director of Department of field development in Rosneft.

Since August 2014: Deputy General Director for Geology and Development of Zarubezhneft.

Not a shareholder.



**VLADIMIR M. NOZHIN**

Deputy General Director For Provision of Oil and Gas Assets Growth

In 1974, Mr Nozhin graduated from the Azerbaijan Institute of Oil and Chemistry with a specialisation in Geology and Oil and Gas Field Exploration. In 1996, he graduated from the Academy of the National Economy under the Government of the Russian Federation with a specialisation in Management under Market Conditions.

After graduation, he worked as a driller's assistant and drilling fluids engineer in the Oil Rocks Marine Drilling Department of Kaspornefteft Association.

In 1975, he was sent to Western Siberia, to Glavtumenneftegaz, where he worked in the production association Yuganskneftegaz in various positions from geologist to the Head of Pravdinskneft Field Office, and Chief Engineer of the Yuganskneftegaz Production Association.

Since 2000: Head of Department of Oil Production Monitoring, and then Vice-President responsible for science, field engineering and monitoring at YUKOS-EP.

Since 2007: General Director of Samaraneftegaz.

Since April 2013: Deputy General Director of Zarubezhneft for field development.

Mr Nozhin is an Honorary Worker of the Ministry of Fuel and Energy, YUKOS, Rosneft.

Not a shareholder.



### VALERY A. KLINCHEV

Deputy General Director

In 1989, Mr Klinchev graduated from Gubkin Moscow Institute of Petrochemical and Gas Industry, and in 1998, he graduated from the Academy of the National Economy under the Government of the Russian Federation with the qualification of top category manager.

In the period between 1989 and 1998, he worked at Komineft, where he rose from the position of geologist to Director of Production.

From 1998 to 2000: General Director of Tebukneft.

In 2000, Mr Klinchev was appointed first Deputy General Director in the Federal State Unitary Enterprise Ukhtaneftegazgeologiya.

In 2003, he worked at Zarubezhneft, occupying top positions in the Projects Development and Implementation Division.

From 2004 to 2008, he was First Vice-President, and later General Director of Oil Recovery.

Since 2008: General Director of Joint Company RUSVIETPETRO.

Since February 2010: Deputy General Director of Zarubezhneft.

Mr Klinchev was awarded a Diploma of the Ministry of Industry and Energy of Russia and the titles of "Honorary Oilman of Russia" and "Honorary Worker of the Fuel and Energy Complex". He has also been honoured with a governmental award by the Socialist Republic of Vietnam.

Not a shareholder.



### ANDREY V. OZEROV

Deputy General Director For Downstream Sector

In 1985, Mr Ozerov graduated from the Engineering faculty of Ulyanovsk Military Engineers' Academy and until 1998, was on military duty, occupying different command and engineering capacities. In 2000, he graduated from the Plekhanov Russian Academy of Economics with a specialisation in Financing and Credit, with a PhD in Economic Sciences. He also holds an MBA degree from the Stockholm School of Economics.

Since 2001, Mr Ozerov has been working in executive positions for YUKOS-RM companies.

Since 2012: Advisor to the Director General of Lider Managing Company (Gazprom) and then Major Projects Director for Ryazan refining company (Rosneft).

Since October 2013: Deputy General Director for Downstream Sector at Zarubezhneft.

Not a shareholder.



**ALEXANDER Y. VORONIN**

Deputy General Director For External Affairs

In 1983, Mr Voronin graduated from the Faculty of Computing Mathematics and Cybernetics at Kazan State University (KSU), named after V.I. Ulyanov-Lenin, with a specialisation as an economist-mathematician. In 1987, he completed postgraduate studies at KSU.

He is a PhD in Economic Sciences (1988), Grand PhD (2005), Associate Professor (1992), and Professor of the Economics Department of Kazan State Technical University (2010).

Mr Voronin had practical training at the University of Göttingen, Germany (1991) and the Academy of the State Service at the President of the Russian Federation (2005).

From 2000 to 2002: Head of the Department of Foreign Economic Activities at Slavneft Oil and Gas Company.

From 2002 to 2004: Deputy Minister of Energy of the Russian Federation, responsible for foreign economic activity.

Since April 2004: Deputy General Director of Zarubezhneft For External Affairs.

By the Decree of the President of the Russian Federation, in 2003 Mr Voronin was given the rank of Full State Advisor 2<sup>nd</sup> Class of the Russian Federation.

He was also awarded the title of "Honorary Power Engineer of the Russian Federation".

Not a shareholder.



**ALEXANDER P. KOVALENKO**

Deputy General Director For General and Human Resources Management Issues

Mr Kovalenko graduated from the Military Academy and the Military Institute of the Ministry of Defence of the Russian Federation. He occupied various posts in the Ministry of Defence of the Russian Federation.

From 1992 to 2000, he worked as First Deputy General Director at Pronto-Moskva International Holding.

Since 2002, he has been Deputy General Director of Zarubezhneft for General and HR management issues.

He has been honoured with state awards by the Russian Federation.

Not a shareholder.



## DIVIDEND POLICY

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Zarubezhneft's dividend policy was approved by Board of Directors on 28 October 2011 (Minutes of Meeting No 53).

In accordance with the dividend policy, Zarubezhneft ensures that dividends are paid in favour of the Russian Federation that they grow in line with net profits that and all investment projects are carried out in accordance with the Company's business plan.

For several years, Zarubezhneft has remained one of the top Russian companies in terms of dividends transferred to the budget of the Russian Federation.

The basic principles of the Zarubezhneft dividend policy are:

- Alignment of the of interests of the company and its shareholders;
- Respect for, and strict observance of, shareholders rights as presumed under Russian Federation law;
- Annual allocation of part of the Company's profit for the payment of dividends and use of the profit remaining at the Company's disposal both for formation of reserve funds and for funding the Company's investment activities.





# APPENDICES

## OFFICIAL COMPANY INFORMATION

Full company name	Zarubezhneft Joint Stock Company
Number and date of state registration certificate issue	Certification series 77 No 003280973 dated 22 October 2004, PSRN 1047708046870
Russian Federation subject	Moscow
Location	101990, Moscow, Armyansky per., 9/1/1, building 1
Telephone (fax)	+7 (495) 748-65-00
E-mail	nestro@nestro.ru
Information on the inclusion in the strategic joint-stock companies list	Yes
Full name and address of the registrar	Zarubezhneft, 101990, Moscow, Armyansky pereulok, 9/1/1, building 1
Registered Charter Capital as on 31.12.14, roubles	50,729,067,000
Total issued shares	50,729,067
Ordinary shares	50,729,067
Stocks at par, roubles	1,000
State registration number of ordinary (preferred) share and state registration date	1-01-65072-D dated December 09, 2004
State registration number of additional issue of ordinary (preferred) shares and state registration date (in case, by the date of preliminary approval of annual company report by Board of directors (supervisory authority)) the registration authority had not performed the abolition of company ordinary (preferred) shares with an additional issue individual number (code)	1-01-65072-D dated 19 April 2005 1-01-65072-D dated 10 July 2007 1-01-65072-D dated 25 September 2007 1-01-65072-D-004D dated 24 of April 2012
Preferred shares	No
Preferred shares at par, roubles	No
Shares in possession of Russian Federation	50,729,067
Russian Federation interest in the charter capital	100%
Company shareholders whose interest in the charter capital is more than 2 per cent	Russian Federation represented by Federal State Assets Managements Agency
Availability of special right for Russian Federation to take part in joint-stock company management ("golden share")	No
Company auditor full name and address	LLC Rosexpertiza, 127055, Moscow, Tikhvinsky pereulok, 7, building 3

## LIST OF THE COMPANY'S SUBSIDIARIES

Sr.Nº	Company name	Single Executive Body as of 31 December 2014	Zarubezhneft JSC share in charter capitals of the companies
1.	Scientific and Technological Company Russian Inter-industrial Scientific and Technical Complex Oil Recovery JSC	General Director – N. I. Syromyatnikov	100% – 1 share
2.	Orenburgneftodacha CJSC	General Director – O. P. Sarayev	100% – 1 share
3.	Arktikmorneftegazrazvedka JSC	General Director – V. I. Urmancheev	100% – 1 share
4.	NESTRO Kaspiy LLC	General Director – N. I. Syromyatnikov	99.9%
5.	Ulyanovskneftegaz LLC	General Director – Karyakin S. N.	99.9%
6.	Oil and Gas Innovation Corporation JSC	President – V. V. Zhudov	95%
7.	Zarnestservis LLC	General Director – I. V. Dobrov	80%
8.	Zarubezhneftstroyremontazh LLC	General Director – A. N. Padalka	80%
9.	EXPLON LLC	General Director – V. A. Ponomarev	80%
10.	JC RUSVIETPETRO LLC	General Director – V. A. Klinchev	51%
11.	ZarIT CJSC	General Director – S. V. Gorbachev	26%
12.	Academician A.P. Krylov All-Russian Oil and Gas Scientific Research Institute JSC	General Director – A. V. Fomkin	32.27%
13.	Institute for Design and Research in Oil Industry Giprovostokneft JSC	General Director – A. F. Ismagilov	22.09%
14.	Vietsovpetro JV (SRV)	General Director – Tu Thanh Nghia	49%
15.	VRJ Petroleum Company (SRV)	General Director – Mai Van Du	50%
16.	JV Nestro Nuraly LLP (Republic of Kazakhstan)	General Director	55%
17.	East West Oil Limited (Great Britain)	Collective Executive Body	100%
18.	Zarubezhneft Holdings & Services (Switzerland)	Collective Executive Body	100%



## LIST OF LICENCES HELD BY ZARUBEZHNEFT GROUP IN THE RUSSIAN FEDERATION

In the Russian Federation Zarubezhneft Group possesses:

- 8 licences for hydrocarbon production;
- 5 licences for hydrocarbon prospecting, exploration and production and 2 licenses for exploration and evaluation of hydrocarbon reservoirs;
- 1 licence for hydrocarbon prospecting, exploration and production is held by Kharyaga PSC Operator (Total).

Nº	License №	License Operator	Blocks, areas, fields	License validity
1.	ОРБ 14885 НП	Orenburgnefteotdacha	Kirsanovskoye	18 March 2010 – 01 March 2015
2.	ОРБ 00896 НЭ		Kirsanovskoye	23 September 2009 – 31 May 2033
3.	ОРБ 00898 НЭ		Pashkinskoye	23 September 2009 – 31 May 2033
4.	ОРБ 00897 НЭ		Chernovskoye	23 September 2009 – 31 May 2033
5.	УЛН 09132 НР	Ulyanovskneftegaz	Radischevskiy	30 April 2008 – 03 August 2030
6.	УЛН 09135 НЭ		Slavkinskoye,	30 April 2008 – 01 June 2018
7.	УЛН 14582 НЭ		Kondakovskoye	01 October 2008 – 01 July 2018
8.	УЛН 09133 НЭ		Ruzhevskoye	30 April 2008 – 10 September 2026
9.	УЛН 09134 НЭ		Sulakskoye	30 April 2008 – 10 September 2026
10.	НРМ 15344 НП	AMNGR	Peschanoozerskoye	27 March 2012 – 30 March 2017
11.	НРМ 15200 НЭ		Peschanoozerskoye	09 September 2011 – 24 September 2019
12.	НРМ 00688 НР	JC RUSVIETPETRO	CKU -1, North-Khoseadayu	08 September 2008 – 10 June 2033
13.	НРМ 00689 НР		CKU -2, Visovoye	08 September 2008 – 10 June 2033
14.	НРМ 00690 НР		CKU -2, Upper Kolva	08 September 2008 – 10 June 2033
			CKU -3, West-Khosedayu	
			CKU -3, Sikhoreyskoye	
			CKU -3, East-Sikhoreyskoye	
15.	НРМ 00691 НР		CKU -3, North-Sikhoreyskoye	08 September 2008 – 10 June 2033
		CKU -4, North-Oshkotynskoye		
		CKU -4, Surkharatinskoye		
		CKU -4, Puseyskoye		
		CKU -4, South-Surkharatinskoy		
16.	НРМ 10422 НЭ	PSC Kharyaga	CKU -4, Uremyrdskoye	16 July 1996 – 27 July 2016
			CKU -4, East-Yamdeyskoye	
			Kharyaga, Oil	

## INFORMATION ABOUT HOLDING THE SHAREHOLDERS' GENERAL MEETING

In accordance with Paragraph 3 of the Article 47 of the Federal law dated 26 December 1995 No. 208 FZ On Joint Stock Companies in the Company, all voting shares of which belong to one shareholder, the resolutions on issues related to the competence of the general meeting of the shareholders, are to be taken by this shareholder individually and to be drawn up in written form.

In 2014, two regulations were issued by the Federal Property Management Agency as follows:

- Dated 25 March 2014, No. 171-p, "On resolutions of the extraordinary general meeting of the shareholders of Zarubezhneft Joint Stock Company" at which conclusion of a transaction with interested party was approved – Surety Agreement No. 110100/1396-ДП between Vnesheconombank and Zarubezhneft;
- Dated 30 June 2014 No. 698 "On resolutions of the annual general meeting of the shareholders of Zarubezhneft Joint Stock Company", the following resolutions were adopted:
  - The Zarubezhneft annual report for 2013 was approved,
  - Zarubezhneft's annual accounting reports including profit and loss statements were approved (profits and loss account) for 2013,
  - Profit distribution by Zarubezhneft for 2013 in the amount of RUB7,137,759 thousand roubles, taking into consideration the recommendations of the Zarubezhneft Board of Directors regarding the payment of dividends in the amount of RUB3,431,760 thousand was approved,
  - Zarubezhneft's Board of Directors was elected,
  - Zarubezhneft's Audit Commission was elected,
  - Rosexpertiza Ltd. was approved to be auditor of Zarubezhneft for the year 2014.

## INFORMATION ON HOLDING THE MEETINGS OF THE BOARD OF DIRECTORS

In the year 2014, 19 meetings of the company's Board of Directors were held.

Meeting of the Board of Directors	Discussed issues	List of the attendees-BD members
15 January 2014 Minutes of Meeting No.77	<ol style="list-style-type: none"> <li>1. On broadening of access of small and medium business enterprises to purchases to be effected.</li> <li>2. On measures aimed at broadening of access of small and medium business enterprises to purchases to be effected</li> </ol>	Bazhenov A. Kadochnikov P. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
14 February 2014 Minutes of Meeting No. 78	<ol style="list-style-type: none"> <li>1. Report on the results of Zarubezhneft procurement activity in 2013.</li> <li>2. Report on the results of lowering the costs for goods (works, services) purchase in 2013.</li> <li>3. On approval of the programme of non-core assets disposal of Zarubezhneft for 2014.</li> <li>4. On approval of the Work Plan of the Zarubezhneft Board of Directors for 1 Half Year, 2014.</li> </ol>	Bazhenov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
05 March 2014 Minutes of Meeting No 79	<ol style="list-style-type: none"> <li>1. On approval of the new version of the Regulations for Zarubezhneft Procurement</li> </ol>	Bazhenov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.

Meeting of the Board of Directors	Discussed issues	List of the attendees-BD members
27 March 2014 Minutes of Meeting No.80	1. On strategic guidelines for Zarubezhneft's development up to 2020.	Bazhenov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
31 March 2014 Minutes of Meeting No.81	1. On expediency of applying recommendations on managing the intellectual property rights.	Bazhenov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
25 April 2014 Minutes of Meeting No.82	1. Report on the results of Zarubezhneft procurement activity for the 1st Quarter, 2014. 2. Report of realisation of the Innovation Development Programme of Zarubezhneft for 2012-2017 (with a perspective up to 2030) for 2013.	Bazhenov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
26 May 2014 Minutes of Meeting No.83	1. On approval of the new version of the Regulations for Zarubezhneft Procurement 2. On establishing the representative office of Zarubezhneft in the Republic of Belarus.	Bazhenov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
27 May 2014 Minutes of Meeting No.84	1. Consideration of conclusion of the Audit Commission based on results of the revision of the financial and economic activities of Zarubezhneft in 2013. 2. Preliminary approval of the Zarubezhneft Annual report for 2013. 3. Consideration of the annual accounting reports of Zarubezhneft for the year 2013, including profit and loss statements. 4. Recommendations of the Zarubezhneft Board of Directors regarding amount, method and terms of dividend payment. 5. Recommendations of the Zarubezhneft Board of Directors regarding profit distribution. 6. Determination of the amount of the service fee for the winner of the open tender to select an auditor for the mandatory annual audit of Zarubezhneft. 7. Approval of report on achievement of the company's KPI target values for 2013. 8. Amount of annual bonus payment to the top management of the company based on the achievement of individual key indicators for the year 2013.	Bazhenov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
26 June 2014 Minutes of Meeting No.85	1. Consideration of the draft Corporate Development Strategy of Zarubezhneft. 2. Approval of Regulations on KPI system in a new version and corporate target KPI values for 2014.	Bazhenov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
11 August 2014 Minutes of Meeting No.86	1. Election of the Chairman of the Zarubezhneft Board of Directors. 2. Approval of the Basic provisions on control of the intellectual property rights and Plan of activities for introduction of Regulations on intellectual property rights control in the Zarubezhneft Group of companies. 3. Report on the results of cutting the costs for goods (works, services) purchase in the 1 <sup>st</sup> Quarter, 2014 and forecast for the 2 <sup>nd</sup> Quarter, 2014. 4. Election of the members of the Committees under the Zarubezhneft Board of Directors.	Ivanov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
03 September 2014 Minutes of Meeting No.87	1. Amending the Regulations for Zarubezhneft Procurement. 2. On elaboration and approval of the Zarubezhneft Long-term development programme 3. Audit of implementation of the Zarubezhneft Long-term development programme and approval of the standard for audit execution. 4. Elaboration of Regulation on remuneration of the General Director of Zarubezhneft. 5. Approval of the Zarubezhneft registrar and terms and conditions of the agreement therewith. 6. Approval of the Work Plan of the Zarubezhneft Board of Directors for the II Half Year, 2014.	Ivanov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
17 September 2014 Minutes of Meeting No.88	1. Establishment of the unified treasury of the Zarubezhneft Group of companies.	Ivanov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.

Meeting of the Board of Directors	Discussed issues	List of the attendees-BD members
17 October 2014 Minutes of Meeting No.89	<ol style="list-style-type: none"> <li>1. Consideration of the new KPI system.</li> <li>2. Consideration of the long-term system of the managerial staff motivation of Zarubezhneft.</li> <li>3. Report on results of the Zarubezhneft Investment Programme realisation for the 1<sup>st</sup> Half Year, 2014.</li> <li>4. Approval of the new versions of Regulations on the Audit Committee under the Zarubezhneft Board of Directors</li> </ol>	Ivanov A. Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
31 October 2014 Minutes of Meeting No90	<ol style="list-style-type: none"> <li>1. Report on the results of Zarubezhneft procurement activity in the 2<sup>nd</sup> Quarter, 2014.</li> <li>2. Report on the results of cutting the costs for goods (works, services) purchase per unit in the 2<sup>nd</sup> Quarter, 2014 and forecast for the 3<sup>rd</sup> Quarter, 2014.</li> </ol>	Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
20 November 2014 Minutes of Meeting No.91	<ol style="list-style-type: none"> <li>1. Approval of the Zarubezhneft Long-term Development Program.</li> <li>2. On increasing the labour efficiency in the company.</li> <li>3. Approval of Regulation on remuneration of the General Director of Zarubezhneft.</li> </ol>	Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
28 November 2014 Minutes of Meeting No.92	<ol style="list-style-type: none"> <li>1. Approval of the new version of the Regulations for Zarubezhneft Procurement.</li> <li>2. On increasing the company's activity efficiency and transparency.</li> </ol>	Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
22 December 2014 Minutes of Meeting No.93	<ol style="list-style-type: none"> <li>1. On level of the new foreign exchange holdings of Zarubezhneft.</li> </ol>	Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
24 December 2014 Minutes of Meeting No.94	<ol style="list-style-type: none"> <li>1. Approval of the Zarubezhneft business plan for 2015.</li> <li>2. On new KPI system approval.</li> <li>3. On approval of Regulations on remuneration of the managerial staff of Zarubezhneft in a new version.</li> <li>4. On approval of the Regulations on the long-term motivation of the managerial staff of Zarubezhneft.</li> </ol>	Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.
26 December 2014 Minutes of Meeting No.95	<ol style="list-style-type: none"> <li>1. Report on the results of Zarubezhneft procurement activity in the 3<sup>rd</sup> Quarter, 2014.</li> <li>2. Report on the results of cutting the costs for goods (works, services) purchase per unit in the 3<sup>rd</sup> Quarter, 2014.</li> <li>3. On agreeing the combined job of the General Director of Zarubezhneft.</li> </ol>	Kadochnikov P. Kudryashov S. Martynov V. Molodtsov K. Nekipelov A. Poluboyarinov M.

## INFORMATION ABOUT CLAIMS AGAINST THE COMPANY

In 2014, Zarubezhneft participated in the following proceedings:

- A statement of claim of Kompomash-TEK CJSC on recovering RUB25,017,068 from Zarubezhneft in connection with early termination of an agreement for performing scientific research and development works concluded on 31 May 2011 was pending in 2014 in Moscow Arbitrage and is pending at present;
- A case on a claim of Kompomash-TEK on recovering RUB 19,000,000 from Zarubezhneft under an agreement for performing scientific research and development works dated 12 May 2011 was completed in favour of Zarubezhneft. Thus, by the resolution of the Moscow District Arbitrage dated 10 November 2014 which

became legally valid, the Zarubezhneft's cassation appeal was satisfied and the claim of Kompomash-TEK CJSC was dismissed in full;

- In 2014, Zarubezhneft filed three claims against StroySbytInvest on for recovering debts and forfeit under furniture supply agreements dated 04 February 2014 for a total amount of RUB4,292,528.7 roubles. By decisions of the Moscow Arbitrage the stated claims were satisfied in full. Court decisions came into legal force and at present are being enforced in the Court Bailiff Service-Executors.

In 2014 there were no other court proceedings in which Zarubezhneft participated.



In addition, in 2014 the following proceedings for large amounts in which the enterprises of the Zarubezhneft's Group of companies participated should be noted:

- A statement of claim of OC Severnoye Siyanie (North Light) on recovering from JC RUSVIETPETRO of losses in the amount of RUB402,956,779 within the framework of performing oil transportation system rent was pending in Moscow Arbitrage in 2014 and is pending at present;
- A statement of claim from JC RUSVIETPETRO to OC Severnoye Siyanie (North Light) Ltd. for invalidation of a notice of early termination of agreements of oil transportation system rent was considered by Moscow Arbitrage in 2014. By resolution of the Ninth Arbitrage Appeal Court dated 13 October 2014 which was left unchanged by the resolution of the Moscow District Arbitrage dated 10 December 2014, decision of the Moscow Arbitrage dated 29 May 2014 was cancelled and the claim of JC RUSVIETPETRO was dismissed;
- By decision of the Murmansk Region Arbitrage dated 12 November 2014 a claim of M-I Drilling Fluids UK Ltd (Moscow Branch) to Arktikmorneftegazrazvedka was satisfied on recovering damages in connection with the equipment loss in the sum of USD1,194,000 located in Kolskaya Jack-Up Rig (rent agreement dated 01 July 2011). At present this decision is being appealed;
- In 2014, a statement of claim of Arktikmorneftegazrazvedka on invalidation of the decision of Interdistrict Inspectorate of the Federal Tax Service for large tax payers in Murmansk region on recovering from this company of additionally charged taxes, fines and penalty fees for a total amount of

RUB1.34 billion was examined by the Arbitrages of the North-Western region. Under the decision of the Murmansk region Arbitrage dated 31 December 2013, the claim of Arktikmorneftegazrazvedka was partially satisfied. Consequently, the tax authority's claims for the amount of RUB1.25 billion were declined. The decision of the Murmansk Region Arbitrage in 2014 has become effective in law and was left unchanged by the court acts of the higher authorities (by the resolution of the Thirteen Arbitrage Court of Appeal dated 30 April 2014, the resolution of the Federal Arbitrage court of the North-Western district dated 24 July 2014 and decision of the Supreme Court of the Russian Federation dated 10 November 2014).

The above proceedings are connected in general with normal business operations and do not constitute any risks for the financial and economic activities of the Zarubezhneft Group of companies.

In 2014, in order to settle disputes by means of mutual concessions, our company also paid considerable attention to the maximum possible extrajudicial settlement of issues with our counteragents which arise in the Group of companies' activity.

## INFORMATION ON TRANSACTIONS WITH INTERESTED PARTIES

In 2014, at the extraordinary general meeting of the shareholders of Zarubezhneft Joint Stock Company (regulation of the Federal Property Management Agency dated 25 March 2014 No. 171-p) conclusion of a transaction with interested party was approved – Surety Agreement No. 110100/1396-ДП dated 16 April 2014 between Vnesheconombank and Zarubezhneft.

## INFORMATION ON LARGE TRANSACTIONS CONCLUDED BY THE COMPANY IN THE REPORTING YEAR

In accordance with the Article 78 of the Federal Law "On Joint Stock Companies" and information about the balance value of Zarubezhneft's assets submitted by the accounting department and defined under the data of accounting reports for 2014, transactions which cost exceeds RUB29 billion may be referred to as large.

In 2014, the company did not conclude any transactions which could be qualified as large.

## INFORMATION ABOUT NON-CORE ASSETS DISPOSAL

In 2014, our company realised a complex of actions aimed at the alienation of the non-core assets. On 10 January 2014, our company approved a register of non-core assets of the Zarubezhneft's Group of companies for 2014. Based on the said register, a programme for non-core assets disposal was issued for 2014; this was approved at the meeting of the Zarubezhneft Board of Directors on 14 February 2014 (Minutes of Meeting No. 78). In pursuance of the Programme, the following activities were implemented: in 2014, PARTHENON HOLDINGS C.A., STC Tekhnootdacha were liquidated, and also a share equal to 100% in the charter capital of RSTC (Regional Scientific-Technological

Centre) of Urals-Volga Region was realised. Transaction of disposal of 100% share in the charter capital of RSTC of Urals-Volga Region was effected according to The standard of the M&A transactions conclusion (approved by Order in Zarubezhneft dated 03 October 2013 No. 399). In 2014, also in pursuance of the Programme activities were implemented for the liquidation of Nestro Adria LLC (Republic of Croatia), Nestro Adria Slavonski Brod LLC (Republic of Croatia) and Arktikneft LLC. In January 2015, liquidation proceedings of the said companies were completed.

### Information about non-core assets disposal by Zarubezhneft in 2014

Sr.Nº	Asset name	Disposal method	Balance line (if applicable)	Asset balance value, thousand roubles	Actual disposal cost, thousand roubles	Deviation of the actual disposal cost from the balance asset cost, thousand roubles	Reasons for deviation of the actual disposal cost from the balance asset cost
1.	RSTC of Urals-Volga Region LLC	Share disposal	1170	29,561.00	30,000.00	+ 439.00	Actual disposal cost was defined in accordance with the report of independent assessor
2	PANTHENON HOLDINGS C.A.,	Liquidation	1170	233.00	12,082.73	+ 11,849.73	Decision was taken about a voluntary liquidation. After settlements with creditors dividends amounting to RUB12,082.73 thousand were received.
Total				29,794.00	42,082.73	+12,288.73	

# REPORT ON EXECUTION OF THE INSTRUCTIONS OF THE PRESIDENT AND THE GOVERNMENT OF THE RUSSIAN FEDERATION

## Instructions of the President of the RF and Directives of the Government of RF

Establishment of specialised committees under the Board of Directors (supervisory board) of the company, approval of the KPI system, development and adoption of the regulations on remuneration to the management (based on KPI system) and the members of the Board of Directors (supervisory board) of the Company (a directive of the government of the Russian Federation dated 23 July 2009 No B3-П13-6284, the letter of the Federal Property Management Agency dated 18 August 2009 NoГН-13/20732).

On implementation of the investment programmes (an instruction of the First Deputy of the Chairman of the Government of the RF dated 18 September 2009 NoИШ-П13-5361, fax message of the Federal Property Management Agency dated 1 April 2011 NoГН-15/8808).

## Information about execution by the company of respective instructions and directives

After holding the annual general meeting of shareholders of Zarubezhneft at the meeting of the Zarubezhneft Board of Directors on 11 August 2014 (Minutes of Meeting No. 86) new members of the committees under the Zarubezhneft Board of Directors was elected. (See section "Board of Directors of the Company, the Committees under the Board of Directors").

- At the meeting of the Zarubezhneft Board of Directors dated 27 December 2011 (Minutes of Meeting No56), regulations on remuneration of the top executives of Zarubezhneft were approved which regulate the procedure of assessing the amount of the annual awarding of bonuses for the top executives of the company, and also determine the criteria (including a set of individual KPIs) used in the calculation of the amount of the awarding bonuses for the company's top executives. Regulations on Zarubezhneft's activities relating to its KPI system were also approved.
- At the meeting of the Zarubezhneft Board of Directors dated 24 December 2014 (Minutes of Meeting No. 94), regulations on annual remuneration of the top executives of Zarubezhneft were approved and the regulations on remuneration of the top executives of Zarubezhneft approved by decision of the Zarubezhneft Board of Directors (Minutes of Meeting No. 56 dated 27 December 2011) acknowledged to be invalid.
- Regulations on annual remuneration of the General Director of Zarubezhneft were approved at the meeting of the Board of Directors on 20 November 2014 (Minutes of Meeting No. 91).
- In 2014, with the purpose of fulfilling the directives of the Government of the Russian Federation dated 25 April 2014 No. 2579n-П13 on elaboration of the KPI system, KPI system has been constantly perfected: at the meeting of the Zarubezhneft Board of Directors on 26 June 2014 (Minutes of Meeting No. 85) a new version of Regulations on KPI system was approved, updated revision of Regulations on KPI in Zarubezhneft and Passports of the corporate KPIs for 2015-2017 agreed with the Federal Property Management Agency have been approved on 17 December 2014 (Minutes of Meeting No. 94).
- At the meeting of Zarubezhneft's Board of Directors dated 27 May 2014 (Minutes of Meeting No84), a report on target indicator achievement by the company for the year 2013 and the amount of annual bonus payment to the top executives was determined based the achievement of individual key indicators for 2013.
- KPI target values for 2014 were approved at the meeting of the Zarubezhneft Board of Directors on 26 June 2014 (Minutes of Meeting No. 95).

Information about Zarubezhneft's investment programme progress has been quarterly updated on the personal account of Zarubezhneft in the Interagency Portal of the Federal Property Management Agency.

Report on results of Zarubezhneft's investment programme's implementation for the 1st Half Year, 2014 was considered at the meeting of the Zarubezhneft Board of Directors on 17 October 2014 (Minutes of Meeting № 89).

Instructions of the President of the RF and Directives of the Government of RF	Information about execution by the company of respective instructions and directives
<p>On payments (remunerations) to the top executives (individual executive body/ chairman of the collective executive body, deputies of the individual executive body/members of the collective executive body, the heads of the structural subdivisions, members of the Board of Directors (advisory board), entitled to receive the remuneration) (the directive of the government of the Russian Federation dated 8 April 2010 No ИШ-П13-2232, the letter of the Federal Property Management Agency dated 27 April 2010 No ИОМ-13/10638, fax messages of the Federal Property Management Agency dated 5 July 2010 No. 81, as well as 4 August 2010 No. 93).</p>	<ul style="list-style-type: none"> <li>• At the meeting of the Zarubezhneft Board of Directors dated 27 December 2011 (Minutes of Meeting No56), regulations on remuneration of the top executives of Zarubezhneft were approved which regulate the procedure of assessing the amount of the annual awarding of bonuses for the top executives of the company, and also determine the criteria (including a set of individual KPIs) used in the calculation of the amount of the awarding bonuses for the company's top executives. Regulations for KPI system of Zarubezhneft's activities were also approved at that meeting.</li> <li>• At the meeting of the Zarubezhneft Board of Directors dated 24 December 2014 (Minutes of Meeting No94), regulations on annual remuneration of the top executives of Zarubezhneft were approved and the regulations on remuneration of the top executives of Zarubezhneft approved by decision of the Zarubezhneft Board of Directors (Minutes of Meeting No 56 dated 27 December 2011) acknowledged to be invalid.</li> <li>• Regulations on annual remuneration of the General Director of Zarubezhneft were approved at the meeting of the Board of Directors on 20 November 2014 (Minutes of Meeting No. 91).</li> <li>• In 2014, with the purpose of fulfilling the directives of the Government of the Russian Federation dated 25 April 2014 No. 2579n-П13 on elaboration of the KPI system, KPI system has been constantly perfected: at the meeting of the Zarubezhneft Board of Directors on 26 June 2014 (Minutes of Meeting No. 85) a new version of Regulations on KPI system was approved, updated revision of Regulations on KPI in Zarubezhneft and Passports of the corporate KPIs for 2015-2017 agreed with the Federal Property Management Agency have been approved on 17 December 2014 (Minutes of Meeting No. 94).</li> <li>• At the meeting of Zarubezhneft's Board of Directors dated 27 May 2014 (Minutes of Meeting No. 84), a report on target indicator achievement by the company for the year 2013 and the amount of annual bonus payment to the top executives was determined based the achievement of individual key indicators for 2013.</li> <li>• KPI target values for 2014 were approved at the meeting of the Zarubezhneft Board of Directors on 26 June 2014 (Minutes of Meeting No. 95).</li> <li>• Regulations on remuneration of the members the Zarubezhneft Board of Directors was approved by the Order of the Federal Agency for State Property Management dated 30 June 2010 694-p. The subject of determination of the amount of remuneration of the members of the Zarubezhneft Board of Directors based on results of the 2013 corporate year was considered at the meeting of the of the Staff and Remuneration Committee dd 09 April 2014 (Minutes of Meeting № 1). Taking into account decision of the Staff and Remuneration Committee at the Zarubezhneft Board of Directors at the annual general meeting of the shareholders of Zarubezhneft (Order of the Federal Agency for State Property Management dated 30 June 2014 №698) a decision was taken to pay the remuneration to the members of the Board of Directors.</li> </ul>
<p>On implementation of the strategy of the joint stock company in the area of energy saving and energy efficiency (paragraph 8 of the directive of the government of the Russian Federation dated 18 June 2008 No ИШ-П9-3772 on implementation of the decree of the president of the Russian Federation dated 4 June 2008 No. 889, "On certain measures to increase the energy and ecology efficiency of the Russian Economy", the letter of the Federal Property Management Agency dated 27 November 2008 No ГН-13/28934).</p>	<p>At the meeting of the Board of Directors held on 14 December 2012 (Minutes of Meeting No. 68), a report on the results of the Zarubezhneft Group of companies' energy audit was taken into consideration and the programme of energy saving and increasing the energy efficiency of the Zarubezhneft Group of companies was approved.</p> <p>In 2014, activities were carried out by the Zarubezhneft Group of companies provided for by the approved Programme.</p>
<p>On purchase of the products produced in Russia (the letter of the Federal Property Management Agency dated 3 April 2009 No ГН-13/7796).</p>	<p>Procurement under the Russian and international projects of Zarubezhneft (Cuba, India, Bosnia and Herzegovina, Vietnam) is effected with a maximum involvement of the enterprises of Russian industry.</p>
<p>On working out the medium-term strategy of the development of the entity and the programme of innovation development (Minutes of Meeting with the Chairman of the Government of the Russian Federation dated 3 August, 2010 No4).</p>	<p>In 2014, by decision of the Zarubezhneft Board of Directors (Minutes of Meeting No. 85) Corporate Development Strategy of Zarubezhneft was approved.</p> <p>At the meeting of the Board of Directors of the Company held on 12 April 2013 (Minutes of Meeting No69) the updated programme of the innovation development of Zarubezhneft was approved.</p> <p>Report of results of implementation of the Programme of Innovation Development of Zarubezhneft for 2013 was approved at the meeting of the Board of Directors on 25 April 2014 (Minutes of the Meeting № 82).</p>
<p>On measures aimed at restructuring of the assets owned by joint stock companies with state share participation provided for by the paragraph 8 of the Minutes of the Meeting with the Chairman of the Government of the Russian Federation dated 20 October 2010, No ВП-Ш3-56np (the letter of the Federal Property Management Agency dated 24 January 2011, No ГН-13/1359) including consideration at the meetings of the Boards of Directors (supervisory boards) of the public companies of the issues on alienation of the non-core assets of both of the head organisations and of its subsidiaries and affiliated companies, and on approval of the programmes of asset disposal.</p>	<p>See section «Information on non-core assets disposal».</p>



Instructions of the President of the RF and Directives of the Government of RF	Information about execution by the company of respective instructions and directives
<p>On the implementation of measures aimed at the provision of informational openness for procurement operations and the transfer to e-procurements, including the provisions regulating procurement procedures for goods, works and services. It is required to specify the results of holding the meeting of the Board of Directors (supervisory board) in the joint stock company, at which the said issues were considered (directive of the Government of the Russian Federation dated 17 December 2010, NoИШ-П13-8685, the letter of the Federal Property Management Agency dated 25 January 2011 №ГН-13/1416).</p>	<ul style="list-style-type: none"> <li>• In pursuance of the directives of the Government of the Russian Federation dated 24 October 2013 No. 6362n-П13 "On broadening of access of small and medium business enterprises to purchases to be effected" and dated 7 December 2013 No. 7377n-П13 "On measures aimed at broadening of access of small and medium business enterprises to purchases to be effected" a meeting of the Zarubezhneft Board of Directors was held on 15 January 2014 (Minutes of Meeting No. 77), at which decisions were taken in accordance with the directives.</li> </ul>
<p>Directives on broadening of access of small and medium business enterprises to purchases to be effected (dated 24 October 2013 №6362n-П13, dated 07 December 2013 №7377n-П13)</p>	<ul style="list-style-type: none"> <li>• In Zarubezhneft plans of measures with the purpose of fulfilling the instructions provided for by the said directives were approved.</li> </ul> <p><i>See section "Report of procurement activities of the Zarubezhneft Group of companies; provision of the procurement activity's efficiency of the customer, including purchases from the small and medium business enterprises".</i></p> <ul style="list-style-type: none"> <li>• At the meetings of the Board of directors held on 5 March 2014 (Minutes of Meeting No. 79), 26 May 2014 (Minutes of Meeting No. 83), 28 November 2014 (Minutes of Meeting No. 92) updated Regulations for Zarubezhneft Procurement were approved.</li> <li>• At the meetings of the Board of Directors held on 14 February 2014 (Minutes of Meeting No. 78), 25 April 2014 (Minutes of Meeting №82), 31 October 2014 (Minutes of Meeting №90), 26 December 2014 (Minutes of Meeting № 95), reports on results of procurement activities for 2013 and for 1, 2 and 3 Quarters of 2014 were taken into consideration.</li> </ul>
<p>On liability insurance of the independent directors – the representatives of the state's interests with JSCs management bodies (instruction of the President dated 3 August 2011, NoПр-2206, letter of the Federal Property Management Agency dated 29 November 2011 NoГН-15/36784).</p>	<p>Draft liability insurance for the Zarubezhneft Board of Director's members' contract was developed, and consultations were held with the Ministry of Finance of Russia regarding tax consequences arising from the members of the Board of Directors signing this contract.</p>
<p>Information about resolutions aimed at improvement of labour remuneration of JSC's employees (directive of the Government of the Russian Federation dated 4 December 2010 No.КА-П13-8297).</p>	<ul style="list-style-type: none"> <li>• At the meeting of the Zarubezhneft Board of Directors held on 24 December 2014 (Minutes of Meeting No. 94), a regulation on the remuneration of the top executives of Zarubezhneft was approved and a regulation on the remuneration of the top executives of Zarubezhneft approved by the Zarubezhneft Board of Directors (Minutes of Meeting No. 56 dated 27 December 2011) was acknowledged to be invalid. Also at the said meeting a regulation on long-term motivation of the top executives of Zarubezhneft as well as KPI passport for the Long-term motivation Programme were approved.</li> <li>• Regulations on annual remuneration of the General Director of Zarubezhneft was approved at the Meeting of the Board of Directors on 20 November 2014 (Minutes of Meeting No. 91).</li> <li>• In 2014, with the purpose of implementing the directives of the Government of the Russian Federation dated 25 April 2014 No. 2579n-П13 on elaboration of the KPI system, KPI system has been constantly perfected; at the meeting of the Zarubezhneft Board of Directors dd 26 June 2015 (Minutes of Meeting No. 85) a new version of the Regulations on KPI system, updated revision of the Zarubezhneft KPI Regulations and corporate KPI passports for 2015-2017 agreed with the Federal Property Management Agency were approved on 17 December 2014 (Minutes of Meeting No. 94).</li> <li>• At the meeting of the Zarubezhneft Board of Directors held on 27 May 2014 (Minutes of Meeting №84) a report on achieving the company's target KPI values for 2013 and the amount of the annual bonus payment for the top executives of the company was determined based on results of achieving individual key KPIs values for 2013.</li> <li>• At the meeting of the Zarubezhneft Board of Directors dated 26 June 2014 (Minutes of Meeting No. 95) the target KPI values for 2014 were approved.</li> </ul>
<p>Information in relation to measures aimed at the development of the programmes of innovation development in joint stock companies included in the list of organisations developing innovation development programmes, approved by the resolution of the governmental commission for high technologies and innovations dated 3 August 2010, Minutes of Meeting No4 (letters of the Federal Property Management Agency dated 29 October 2010 NoГН-13/32160, dated 29 October 2010 NoГН-13/32156)</p>	<p>At the meeting of the Board of Directors of Zarubezhneft held on 12 April 2013 (Minutes of Meeting No69), the updated programme of innovation development for Zarubezhneft was approved.</p> <p>Report on results of implementation of the programme of innovation development for Zarubezhneft in 2013 was approved at the meeting of the Board of Directors on 25 April 2014 (Minutes of the Meeting No. 82).</p>
<p>Subparagraph "e", paragraph 1 of the list of instructions of the president of the Russian Federation on the implementation of the top priority measures aimed at improvement of the investment climate conditions in the Russian Federation dated 2 April 2011 NoПр-846, in accordance with which it is required to provide in the companies controlled by the state (joint stock companies with the RF share of participation in the chartered capitals of over 50% (hereinafter – JSCs) taking of decisions on reducing the costs for purchase of the goods (works, services) counting on per unit of product by not less than 10% annually during three years in real terms (letters of the Federal Property Management Agency dated 14 September 2011 NoГН-15/27795, dated 16 September 2011 NoГН-15/28326 dated 14 September 2011 NoГН-15/27797, dated 16 September 2011 NoГН-15/28327, and dated 14 July 2011 ДП-15/20610)</p>	<p>At the meeting of the Board of Directors held on 7 June 2012 (Minutes of Meeting No 61) the amended method of calculation of the costs decrease indicator for goods (works, services) purchase per unit of product was approved.</p> <p>In 2014, areport on the results of costs reduction per unit of product was considered at the meetings of the Board of Directors of Zarubezhneft on 14 February 2014 (Minutes of Meeting №78), 11 August2014 (Minutes of Meeting No. 86), 31 October 2014 (Minutes of Meeting №90), 26 December 2014 (Minutes of Meeting No. 95).</p>

Instructions of the President of the RF and Directives of the Government of RF	Information about execution by the company of respective instructions and directives
<p>On proposals and recommendations aimed at stimulation for developing the mechanisms of environmental responsibility based on international standards, including non-financial reports and systems of voluntary certification and marking, subject to independent examination and attestation (subparagraph "l" paragraph 1 of the List of instructions of the President of the Russian Federation dated 6 June 2010 No Пп-1640, letter of the Federal Property Management Agency dated 5 December 2011 No ГН-13/37524).</p>	<p>At the meeting of the Board of Directors on 20 April 2012 (Minutes of Meeting No59) the Ecological programme for the Zarubezhneft Group of companies was approved.</p> <p>In order to control programme implementation, a specialised division was created – the HSE Department.</p> <p>For information about activities completed within the frame of the programme implementation, see section "Environmental Protection".</p> <p>In 2014, Zarubezhneft issued a report on sustainable development for the year 2013, which was certified for compliance with GRI requirements and public attestation with the Russian Union of Industrialists and Entrepreneurs.</p>
<p>Decree of the government of the Russian Federation dated 31 December 2010 No 1214, "On improvement of management of JSCs, the shares of which are in federal ownership, and federal public unitary enterprises".</p>	<p>At the meeting of the Board of Directors held on 10 September 2013 (Minutes of Meeting No72), an amended regulation for Zarubezhneft on the organisation of the informational interaction through the Interagency Portal for public property management on the internet was approved, and in accordance with the said regulation, the Company in 2014 has regularly placed the corresponding information on its personal account in the Interagency Portal.</p>
<p>On introduction into practice of the co-investing principles in the Russian and international venture funds, in accordance with the instruction of the President of the Russian Federation dated 03 November 2011 No Пр-3291 (letter of the Federal Property Management Agency dated 12. May 2012 No ГН-5/14430 and dated 23 August 2012 No 15/34351).</p>	<p>Zarubezhneft's Programme of Innovation Development provides for the development of technological solutions that are of strategic importance and critical for ensuring the competitiveness of the Group. Funding for the projects included in the programme is undertaken solely for the Company's own and subsidiaries' account. Engaging third-party investors in innovation projects would result in a loss of the exclusive rights for the created results of intellectual activity and in disclosure of the company's know-how. Therefore, co-investing in venture funds at present is acknowledged to be inexpedient.</p>
<p>On the expediency of alienation of the core assets in the economic sectors with a sufficient competitiveness level in accordance with subparagraph "b", paragraph 1 of the list of instructions of the President of the Russian Federation dated 27 April 2012 No Пр-1092 (letter of the Federal Property Management Agency dated July 12, 2012 No ДП-15/26414).</p>	<p>At the meeting of the Board of Directors held on 27 September 2012 (Minutes of Meeting No 66) considering the formed company's assets portfolio, a resolution was taken to acknowledge it was inexpedient to work out Zarubezhneft's programme of core asset sales.</p>
<p>On holding the engineering and price audit of investment projects. In pursuance of Directives of the government of the Russian Federation dated 30 May 2013 No2988n-П13.</p>	<p>At a meeting of the Board of Directors held on 25 June 2013 (Minutes of Meeting No73) the issue of holding a public engineering and price audit of the company's investment projects was considered and a decision was taken as per the directives of the Government of the RF dated 30 May 2013 No2988n-П13.</p> <p>At the meeting of the Board of Directors held on 16 December 2013 (Minutes of Meeting No75), a decision was taken to finalise the draft corporate standard for the engineering and price audits of investment projects. A report on results of the engineering and price audit was sent to the Ministry of Economic Development and the Government of the RF (letters dated 30.12.2013, ref. NoKC-23-6975 and NoKC-23-6974).</p> <p>In 2014, investment projects falling under the criteria brought to inclusion into engineering and price audits (costing more than 1.5 billion roubles and with a start of realisation in 2014-2015) were not detected.</p>
<p>On joining the Anti-corruption Charter for Russian Business (letter of the Federal Property Management Agency dated 20 November 2013, No11/53971).</p>	<p>In 2014, Zarubezhneft joined the Anti-corruption Charter for Russian Business (certificate of the Chamber of Industry and Commerce of the Russian Federation dd 19 March 2014 № 0275).</p>
<p>On amending the Procurement Regulations (to enter amendments providing for purchase of the oil and gas chemical products predominantly from the Russian producers). In pursuance of the Directives of the Government of the Russian Federation № 4537n-П13 dated 14 July 2014</p>	<p>Decisions in accordance with the directive were taken at the meeting of the Board of Directors dated 03 September 2014 (Minutes of Meeting № 87).</p> <p>The amendment are entered into the new version of the Zarubezhneft Procurement Regulations (approved by the decision of the Board of Directors on 28 November 2014, Minutes of Meeting №92).</p>
<p>On development of the Long-term development programmes. In pursuance of the Directives of the Russian Federation № 4955n-П13 dd 17 July 2014</p>	<p>Decisions in accordance with the directive were taken at the meeting of the Board of Directors dated 03 September 2014 (Minutes of Meeting № 87).</p> <p>The Long-term development programme of Zarubezhneft was approved at the meeting of the Board of Directors on 20 November 2014 (Minutes of Meeting №91). Regulations on the audit of the Zarubezhneft Long-term development programme implementation were approved by the order of Zarubezhneft № 507 dd 11 November 2014.</p>
<p>On establishment of the company's and its subsidiaries' and affiliated companies' single treasury. In pursuance of the Directives of the Government of the Russian Federation № 5110n-П13 dated 08 August 2014</p>	<p>Decision in accordance with the Directive was taken at the meeting of the Board of Directors on 17 September 2014 (Minutes of Meeting № 88). Information of the carried out analysis of the acting cash flow management system in the Zarubezhneft Group of companies was sent to the Ministry of Finance of the Russian Federation on 05 November 2014 (a letter of Zarubezhneft dated 05 November 2014, ref. №CK-24-5689).</p>

Instructions of the President of the RF and Directives of the Government of RF	Information about execution by the company of respective instructions and directives
On KPIs approval. In pursuance of the Directives of the Government of the Russian Federation № 2579n-П13 dd 25 April 2014	<p>In pursuance of the Directives of the Government of the Russian Federation at the meeting of the Zarubezhneft Board of Directors Basic principles of the KPI system of Zarubezhneft were approved (Minutes of Meeting № 91). Zarubezhneft's KPI Regulations elaborated taking into account requirements of the directives of the Government of the Russian Federation dated 25 April 2014 No. 2579n-П13, were approved at the meeting of the Board of Directors on 24 December 2014 (Minutes of Meeting No. 94).</p> <p>At the meeting of the Zarubezhneft Board of Directors on 24 December 2014 (Minutes of Meeting No. 94) Regulations on annual remuneration of the top executives of Zarubezhneft were approved.</p> <p>At the meeting of the Zarubezhneft Board of Directors on 20 November 2014 (Minutes of Meeting No. 91) Regulations on annual remuneration of General Director of Zarubezhneft were approved.</p>
Amendments to the long-term development programmes in terms of the HR. In pursuance of the Directives of the Government of the Russian Federation No. 7439n-П13 dd 05 November 2014	Decisions in accordance with the directive were taken at the meeting of the Board of Directors held on 20 November 2014 (Minutes of Meeting No. 91). In pursuance of the directives at the meeting of the Zarubezhneft Board of directors held on 27 February 2015 (Minutes of Meeting No. 97) Appendix #5 to the long-term development programme was approved.
On increasing the labour productivity. In pursuance of the directives of the Government of the Russian Federation No. 7389n-П13 dd 31 October 2014	<p>Decisions in accordance with the directive were taken at the meeting of the Board of Directors dated 20 November 2014 (Minutes of Meeting № 91).</p> <p>Index of the labour productivity was included into composition of the corporate KPIs of Zarubezhneft (the index's passport was approved by the decision of the Zarubezhneft Board of Directors held on 24 December 2014 (Minutes of Meeting No. 94).</p> <p>Regulations on annual remuneration of the General Director of Zarubezhneft (Minutes of Meeting No. 91 dd 20 November 2014) and Regulations on annual remuneration of the top executives (Minutes of Meeting No. 94 dd 24 December 2014) approved by the decision of the Board of Directors provide interconnection between remunerations and KPI target values achievement.</p> <p>The employment agreement of the General Director of Zarubezhneft was amended as provided for by the directives (Amendment to the employment agreement with the General Director of Zarubezhneft dated 26 December 2014).</p> <p>In pursuance of the the directives at the meeting of the Zarubezhneft Board of Directors held on 27 February 2015 (Minutes of Meeting № 97) Amendment to the long-term development programme was approved.</p>
On increasing the efficiency and transparency of the activities. In pursuance of the the Directives of the Government of the Russian Federation No. 7558n-П13 dd 12 November 2014	<p>Decisions in accordance with the directive were taken at the meeting of the Board of Directors held on 28 November 2014 (Minutes of Meeting № 92).</p> <p>In pursuance of the the directives at the meeting of the Zarubezhneft Board of Directors held on 27 February 2015 (Minutes of Meeting No. 97) Amendment #7 to the long-term development programme was approved.</p>
On net assets level. In pursuance of the the Directives of the Government of the Russian Federation No. 7558n-П13 dd 12 November 2014 № 8495n-П13 dd 17 December 2014	Decisions in accordance with the directive were taken at the meeting of the Board of Directors held on 22 December 2014 (Minutes of Meeting No. 93). In Zarubezhneft a Plan of actions was approved for implementation of decisions provided for by the directives.
On amendments to the Procurement Regulations (regarding purchases from the domestic goods producers). In pursuance of the Directives of the Government of the Russian Federation No. 7850П-П13 dd 24 November 2014	Decisions in accordance with the directive were taken at the meeting of the Board of Directors held on 30 January 2015 (Minutes of Meeting № 96).

# ACCOUNTING (FINANCIAL) REPORTS OF THE COMPANY

## Balance sheet as of 31 december 2014

		Codes
Organisation	Organisation: Zarubezhneft Joint Stock Company	Form under NIAD <sup>1</sup> 0710001
Identification number of taxpayer	INT	Date (day, month, year) 31.12.2014
Type of economic activity	Provision of other services	Under ARCEO <sup>2</sup> 00148458
Legal organisation form	Joint Stock Company	INT <sup>3</sup> 7701350084
Form of property	Federal property	As per ARCEEA <sup>4</sup> 74.84
Units of measurement	Thousand Roubles	As per ARCLOF <sup>5</sup> / ARCPF <sup>6</sup> 47/12
Location (address)	101000, Moscow, Armyansky pereulok, 9/1/1. Bld. 1	As per ARCUM <sup>7</sup> 384

Notes	Name of parameter	Code	As of 31 December 2014	As of 31 December 2013	As of 31 December 2012
	<b>ASSETS</b>				
	<b>I. FIXED ASSETS</b>				
Par. 4.1	Intangible assets	1110	27,550	31,749	32,841
	including				
	unfinished operations on the acquisition of intangible assets		1,277	2,372	1,035
Par. 4.2	Research and engineering	1120	123,630	219,353	167,635
	including				
	unfinished and unexecuted R&D works		2,808	219,353	167,635
	Intangible development assets	1130	-	-	-
	Tangible development assets	1140	-	-	-
Par. 4.3	Capital assets	1150	4,123,664	3,547,653	3,358,430
	including				
	unfinished capital investments		124	2,083,573	1,812,492
	Income yielding investments into tangible assets	1160	-	-	-
Par. 4.4	Financial investments	1170	71,531,525	71,068,486	74,265,289
	Deferred tax assets	1180	146,257	77,144	74,816
Par. 4.5	Other non-current assets	1190	11,441,419	21,507,003	14,549,192
	Total for the section I	1100	87,394,045	96,451,388	92,448,203
	<b>II. CURRENT ASSETS</b>				
Par. 4.6	Reserves	1210	126,423	555,551	8,168
	Input VAT	1220	13,253	-	5
Par. 4.8	Receivables	1230	13,646,105	13,462,518	13,339,999
	including				
	long-term receivables		5,392,225	8,333,004	3,187,689
Par. 4.4	Financial investments (excluding cash equivalents)	1240	16,541,001	4,478,169	4,299,516
Par. 4.7	Cash and cash equivalents	1250	5,990,111	3,324,855	6,320,723
	Other current assets	1260	164,860	4,921	4,349
	Total for section II	1200	36,481,753	21,826,014	23,972,760
	<b>BALANCE</b>	1600	123,875,798	118,277,402	116,420,963



Notes	Name of parameter	Code	As of 31 December 2014	As of 31 December 2013	As of 31 December 2012
<b>LIABILITIES</b>					
<b>III. EQUITIES</b>					
Par. 4.11	Registered capital (share capital, authorized fund, partners contributions)	1310	50,729,067	50,729,067	41,139,067
	Shares repurchased	1320	-	-	-
	Revaluation of the fixed assets	1340	1,519,297	1,007,631	1,007,631
	Added capital (without revaluation)	1350	113,195	178,809	7,816
	Reserve capital	1360	9,885,215	9,171,439	8,684,971
Par. 4.12	Retained profits (unrecovered losses)	1370	60,295,670	55,598,214	54,109,910
	Total for section III	1300	122,542,444	116,685,160	104,949,395
<b>IV. LONG-TERM LIABILITIES</b>					
	Borrowed funds	1410	-	-	-
	Deferred tax liabilities	1420	64,653	2,049	4,125
Par. 4.10	Estimated liabilities	1430	185,204	-	-
	Other liabilities	1450	-	-	73,689
	Total for section IV	1400	249,857	2,049	77,814
<b>V. SHORT-TERM LIABILITIES</b>					
	Borrowed funds	1510	-	274,675	-
Par. 4.9	Payables	1520	759,621	1,037,988	11,095,537
	Deferred revenues	1530	-	-	-
Par. 4.10	Estimated liabilities	1540	323,876	277,530	298,217
	Other liabilities	1550	-	-	-
	Total for section V	1500	1,083,497	1,590,193	11,393,754
	<b>BALANCE</b>	<b>1700</b>	<b>123,875,798</b>	<b>118,277,402</b>	<b>116,420,963</b>

<sup>1</sup> NIAD (National Index of Administrative Documents).

<sup>2</sup> ARCEO (All-Russian Classifier of Enterprises and Organisations).

<sup>3</sup> INT (Identification Number of Taxpayer).

<sup>4</sup> ARCEEA (All-Russian Classifier of External Economic Activities).

<sup>5</sup> ARCLOF (National Index of Legal Organisation Forms).

<sup>6</sup> ARCPF (All-Russian Classifier of Property Forms).

<sup>7</sup> ARCUM (All-Russian Classifier of Units of Measurement).

# PROFIT AND LOSS ACCOUNT

## For January – December 2014

Organisation	Zarubezhneft Joint Stock Company
Identification number of taxpayer	INT
Type of economic activity	Provision of other services
Legal organisation form	Joint Stock Company
Form of property	Federal property
Unit of measurement	Thousand Roubles
Location (address)	101000, Moscow, Armyansky pereulok, 9/1/1. Bld. 1

	Codes
Form as per NIAD	0710002
Date (day, month, year)	31.12.2014
As per ARCEO	00148458
INT	7701350084
As per ARCEEA	74.84
As per ARCLOF / ARCPF	47/12
As per ARCUM	384

Notes	Name of parameter	Code	For January – December 2014	For January – December 2013
Par. 5.1	Income	2110	31,060,615	30,513,386
Par. 5.1	Cost of sales	2120	(15,112,189)	(14,317,357)
	Gross profits (losses)	2100	15,948,426	16,196,029
Par. 5.2	Selling expenses	2210	(43,745)	(39,860)
Par. 5.3	Management expenses	2220	(2,361,994)	(1,895,202)
	Sales profits (losses)	2200	13,542,687	14,260,967
	Participation capital	2310	3,831,737	430,722
Par. 5.4	Interest receivable	2320	1,928,055	2,524,436
	Interest payable	2330	(15,537)	(5,769)
Par. 5.5	Other revenues	2340	34,006,321	17,163,997
Par. 5.5	Other costs	2350	(41,732,379)	(25,540,965)
	Profits (losses) before tax	2300	11,560,884	8,833,388
	Current profits tax	2410	(1,955,191)	(992,148)
	including			
	permanent tax liabilities (assets)	2421	3,543,372	2,467,217
	Variance of deferred tax liabilities	2430	(62,604)	2,076
	Variance of deferred tax assets	2450	69,113	2,328
Par. 5.6	Other	2460	(763,220)	(707,885)
	Net profits (losses)	2400	8,848,982	7,137,759

Notes	Name of parameter	Code	For January – December 2013	For January – December 2012
	For reference			
	Outcome from reevaluation of capital assets, not included in net profits (losses) for the period	2510	511,666	-
	Outcome from other operations, not included in net profits (losses) for the period	2520	(65,614)	170,993
	Aggregate financial outcome for the period	2500	9,295,034	7,308,752
	Basic earnings (losses) per share	2900	-	-
	Diluted profit (losses) per share	2910	-	-

# CASH FLOW STATEMENT

## For January – December 2014

Organisation	Zarubezhneft Joint Stock Company
Identification number of taxpayer	INT
Type of economic activity	Provision of other services
Legal organisation form	Joint Stock Company
Form of property	Federal property
Unit of measurement	Thousand Roubles
Location (address)	101000, Moscow, Armyansky pereulok, 9/1/1. Bld. 1

	Codes
Form as per NIAD	0710004
Date (day, month, year)	31.12.2014
As per ARCEO	00148458
INT	7701350084
As per ARCEEA	74.84
As per ARCLOF / ARCPF	47/12
As per ARCUM	384

Name of parameter	Code	For January – December 2014	For January – December 2013
<b>CASH FLOWS FROM CURRENT OPERATIONS</b>			
Total – proceeds	4110	24,507,392	25,870,370
including:			
From products, goods, works and services sale/provision	4111	23,925,388	24,551,293
Rentals, licence payments, royalty, commissions and other similar payments	4112	11,790	5,362
From financial investments re-sale	4113	–	–
Short-term loan repayment	4114	–	211,413
Other proceeds	4119	570,214	1,102,302
Total amount of payments	4120	(14,413,434)	(15,581,729)
including:			
To vendors (contractors) for raw materials, works and services	4121	(821,306)	(765,867)
In connection with employees' labour payment	4122	(1,316,123)	(1,392,227)
Interest under debt obligations	4123	–	(1,085)
Profit tax	4124	(2,146,325)	(483,084)
Other taxes	4125	(533,976)	(660,002)
Short-term loans	4126	(936,192)	(4,303,176)
Settlement of accounts under PSC	4127	(6,963,230)	(6,788,953)
Other payments	4129	(1,696,282)	(1,187,335)
Cash flow balance from current operations	4100	10,093,958	10,288,641
<b>CASH FLOWS FROM INVESTMENT OPERATIONS</b>			
Total amount of proceeds	4210	3,908,073	3,199,933
including:			
From fixed assets sale (except for financial investments)	4211	5,209	471
From shares sale (participation interests) in other interests	4212	–	–
From granted loans repayment, from debt securities sale (rights to demand funds from the other persons)	4213	–	2,063,646
Dividends, interest on debt financial investments and similar proceeds from share participation in other organisations	4214	3,902,864	1,135,816
	4215	–	–
Other proceeds	4219	–	–
Total payments	4220	(10,259,723)	(11,690,934)

Name of parameter	Code	For January – December 2014	For January – December 2013
including:			
In connection with purchase, creation, upgrading, reconstruction and preparation for the use of fixed assets	4221	(349,819)	(79,994)
In connection with share acquisition (participation interests) in other organisations	4222	-	-
In connection with debt securities acquisition (rights to demand funds from other persons), granting of loans to other persons	4223	(5,722,933)	(3,472,613)
Interests under debt liabilities to be included into the investment assets cost	4224	-	-
PSC funding	4225	(4,186,971)	(8,138,327)
Other payments	4229	-	-
Cash flows from investment operations balance	4200	(6,351,650)	(8,491,001)
<b>CASH FLOWS FROM FINANCIAL OPERATIONS</b>			
Total amount of proceeds	4310	-	570,000
including:			
Credits and loans received	4311	-	570,000
Owners (participants) cash deposits	4312	-	-
From shares issue, increasing the participation interests	4313	-	-
From bonds, bills and other debt securities issue and others	4314	-	-
	4315	-	-
Other proceeds	4319	-	-
Total payments	4320	(3,701,760)	(5,456,017)
including:			
To owners (participants) in connection with redemption of the company's stocks (participation shares) from them or with cessation of membership	4321	-	-
For dividends payment and other payments for profit allocation in favour of owners (participants)	4322	(3,431,760)	(5,156,017)
In connection with payment (repayment) of bills and other debt securities, credits and loans repayment	4323	(270,000)	(300,000)
	4324	-	-
Other payments	4329	-	-
Cash flows from financial operations balance	4300	(3,701,760)	(4,886,017)
<b>CASH FLOWS BALANCE FOR THE REPORTING PERIOD</b>	4400	40,548	(3,088,377)
<b>FUNDS AND FUND EQUIVALENTS BALANCE AS OF THE BEGINNING OF THE REPORTING PERIOD</b>	4450	3,324,855	6,320,723
<b>FUNDS AND FUND EQUIVALENTS BALANCE AS OF THE END OF THE REPORTING PERIOD</b>	4500	5,990,111	3,324,855
Effect of foreign exchange rate changes against the rouble	4490	2,624,708	92,509



# AUDIT REPORT

by independent auditing company Rosexpertiza on the accounting records of Zarubezhneft Joint Stock Company for 2014

## AUDITED ENTITY:

- Name: Zarubezhneft Joint Stock Company
- State registration number: 1047708046870
- Location: 101990, Moscow, Armyansky per., 9/1/1, Bld.1.

## AUDITOR:

- Name: Rosexpertiza
- Certificate of state registration of Rosexpertiza No. 183142, issued by Moscow registration chamber on 23 September 1993.
- Certificate of 27 September 2002, of Entry in the Unified State Register of Legal Entities of the legal entity, registered before 1 July 2002, under the primary state registration number 1027739273946.
- Location:
- Legal address: Masha Porivaeva Str., 11, Moscow, 107078, Russian Federation.
- Postal address: Tihvinskiy per., 7, Bld.3, Moscow, 127055, Russian Federation.
- Member of SROA NP Russian Panel of Auditors in accordance with the decision of RPA Board of April, 23d, 2007, certificate No362-Y.
- Primary registration number in the Register of Auditors and Auditing Organisations 10205006556.

We have conducted an audit of the enclosed accounting records of Zarubezhneft Joint Stock Company, consisting of a balance sheet as of 31 December 2014, a profit and loss report, statement of changes in equity and cash flow for 2014, and other supplements to balance the sheet the and profit and loss report.

The above records were prepared by the executive body of Zarubezhneft Joint Stock Company on the basis of Federal Law dtd. 06 December 2011 No. 402-FL "On Accounting Records", "Regulations on Accounting Procedures and Accounting Records in Russian Federation", approved by the order of the Ministry of Finance of Russian Federation No. 34-N dtd. 29 July 1998, "Regulations on Accounting Procedures "Accounting Records of the Company" PBU 4/99", approved by the order of the Ministry of Finance of Russian Federation No. 43-N dtd. 06 July 1999, the order of the Ministry of Finance of Russian Federation No. 66-N dtd. 02 July 2010 "On the Format of Accounting Records of the Company".

## LIABILITY OF THE AUDITED ENTITY FOR ACCOUNTING RECORDS

Management of the audited entity is liable for the preparation and authenticity of the above accounting records in accordance with established regulations for accounting records preparation and for internal control system, necessary for the preparation of accounting records without material errors and omissions due to fraud or mistakes.

## AUDITOR'S LIABILITY

Our liability consists of the declaration of our opinion on the authenticity of the accounting records on the basis of the audit, performed by us.

We have conducted this audit in accordance with:

- Federal Law "On Auditing Activities" No. 307-FL dtd. 30 December 2008;
- Federal Rules (standards) on auditing activities (decree of the government of the Russian Federation No. 696 dtd. 23 September 2002 as revised in the decrees of the government of the Russian Federation No. 405 dtd. 04 July 2003, No. 532 dtd. 07 October 2004, No. 228 dtd. 16 April 2005, No. 523 dtd. 25 August 2006, No. 557 dtd. 22 July 2008, No. 863 dtd. 19 November 2008, No. 586 dtd. 2 August 2010, N. o30 dtd. 27 January 2011);
- Federal standards for auditing activities (FSAA) (Orders of the Ministry of Finance of the Russian Federation No. 16-N dtd. 24 February 2010, No. 46-N dtd. 20 May 2010, No. 90-N dtd. 17 August 2010, No. 99-N dtd. 16 August 2011);
- Code of Ethics of Auditors in Russia (approved by Auditing Activities Counsel on 22 March 2012, protocol No. 4 (as amended on 27 June 2013. protocol No. 9).

The given standards require adherence to the applicable ethical norms, and, also, planning and performance of the audit in such a way as to get adequate assuredness that the accounting records do not contain significant errors and omissions.

This audit has included auditing procedures targeted at obtaining audit evidences, proving numerical indicators in the accounting records and the disclosure of information therein. The selection of auditing procedures is subject to our judgment, which is based on the evaluation of risk of significant errors and omissions made due to fraud or mistakes. In the process of such risk evaluation, we have considered the internal control system, providing preparation and authenticity of accounting records, with the purpose of selecting the respective auditing procedures, but not with the purpose of declaring opinion on its efficiency.

The audit has also included evaluation of the propriety of the accounting policy applied and the validity of the estimated figures received by the management of the audited entity, as well as evaluation of the accounting records in general.

We consider that audit evidence obtained in the course of auditing gives sufficient basis to declare opinion on the authenticity of accounting records.

## OPINION

In our opinion, the accounting records authentically reflect in all material matters the financial position of Zarubezhneft Joint Stock Company as of 31 December 2014, and the results of its financial and operational activities and cash flow for 2014 in accordance with the established rules for the preparation of accounting records.

## AUDITOR

Director for Audit of Audit Services Department (as per the power of attorney #21 dated 17 December 2014)  
L.S. Saprónova  
Auditor Qualification Certificate No. 05-000184 of 3 October 12. issued for an indefinite period. Primary registration number in the register of auditors and auditing organisations No. 20105020800. Member of SROA NP Russian Panel of Auditors in accordance with the decision of RPA Board of 14 August 2009. Certificate No. 3018.

## ON BEHALF OF ROSEXPERTIZA MANAGEMENT:

Deputy General Director  
N. E. Suslova

16 February 2015

## INFORMATION ABOUT INDEPENDENCE AND OBJECTIVITY OF THE AUDITOR

Our company attracts annually external auditors for examination of the accounting (financial) reports prepared in accordance with the Russian accounting records.

Selection of the auditor's entity for conducting mandatory audit of the accounting (financial) reports of Zarubezhneft for 2014 was carried out by means of holding an open tender in accordance with the requirements of the Federal Law N 94-FL dated 21 July 2005 "On orders placement for supply of goods, performance of works, rendering of services for the state and municipal needs".

In 2014, Rosexpertiza LLC became a successful bidder and our company's auditor.

Independence of the auditors is confirmed by regular examinations of the Federal Service of the financial-budget supervision and self-regulated organisations (SROs), to which the auditor is a member.

Rosexpertiza LLC holds annually assessment reviews of the audit quality before it issues auditor's opinion in relation to the public interest organisations and a quality control of the working documentation under audits completed.

Cost of the Rosexpertiza services for the audit of the accounting (financial) reports for 2014 totalled RUB1,313 thousand.

Cost of non-audit nature services, rendered by Rosexpertiza to the company in 2014, amounted to RUB4,093 thousand.

## LIST OF THE INTERNAL DOCUMENTS REGULATING THE PREPARATION OF THE ANNUAL REPORT, INTERNAL AUDIT, THE RISK MANAGEMENT SYSTEM AND INNER CONTROLS

### List of the internal documents regulating activity for preparation of the annual report:

- Description and outline for the preparation, coordination, approval and publication of the annual report (in pursuance of the order No. 554 dated 9 December 2014, "Organising the optimisation of the business processes");
- Order "On preparation of the annual report of the company for 2014" No. 94 dated 4 March 2014;
- Plan for improving corporate management in line with recommendations made in self-appraisals on management quality in state-owned companies (dated 19 January 2015).

### List of the internal documents regulating the internal audit activity:

- Zarubezhneft's Regulations on internal audit;
- Regulations on the Department of internal audit;
- Method for planning and holding the internal audit;
- Description and outline for holding the "Internal Audit".

### List of the internal normative documents regulating the risk management:

- Standard for risk management (order No. 421 dated 14 October 2013);
- Regulations on the Zarubezhneft's Working Committee on risk management (order No. 152 dated 29 May 2013).

### List of the internal documents regulating internal control matters:

- Regulations on internal control at Zarubezhneft (order No. 106 dated 11 September 2013).



# CONTACTS

## Zarubezhneft JSC

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Telex 113303 STEK RU  
[http:// www.zarubezhneft.ru](http://www.zarubezhneft.ru)

## Branches of Zarubezhneft in the Republic of Cuba

### Regional office in Havana

Calle 5 ta Avenida y 248, Casa 4021., Marina Hemingway, Santa Fe, Ciudad de La Habana, Cuba

### Branch in Havana

Avenida 3ra e/ calles 78 y 80, Miramar Centro de Negocios, Edificio Habana, Piso No.5, Municipio Playa Ciudad de La Habana, Cuba  
tel. (537) 204 -01-33 /36/38  
E-mail: habana@nestro.ru

## Representations of Zarubezhneft in the Socialist Republic of Vietnam

### Representation in Vung Tau

3, Le Quy Don Street, Vung Tau City, Vietnam  
Tel. (84-64-3) 852920,  
Fax(84-64-3)852387  
nestrovn@hcm.vnn.vn

### Representation in Hanoi

Office 302, Kim Ma st., 360, DAEHA Business Centre, Hanoi DAEWOO Hotel, Hanoi, Vietnam  
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