

JOINT STOCK COMPANY

“ZARUBEZHNEFT”

ANNUAL REPORT

OF

JSC “ZARUBEZHNEFT”

FOR 2004

MOSCOW

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1. General information on Joint Stock Company “Zarubezhneft”

Joint Stock Company “Zarubezhneft” (the Company) is one of the leading state foreign economic enterprises in Russian oil and gas industry.

The Company is a successor to state enterprise “Russian Foreign Economic Association “Zarubezhneft”, established in 1967 for rendering technical assistance in execution of oil and gas projects abroad, and, also, for realization of foreign economic and industrial functions in the field of export of goods and services, import of equipment and materials.

The Company’s position as the oldest foreign economic enterprise in oil and gas industry and its status of joint stock company with 100% state participation determines main targets of its development for near term and future period. Strategic aim is ensuring stable development (capitalization increase) of the Company, as state holding company, in Russian fuel-energy complex and abroad through:

- expansion of industrial business, including: exploration, development and production of oil and gas fields and establishment of own raw materials sources, construction of oil and gas facilities;
- execution, as a service company, of wide range of technologically complex operations during hydrocarbons’ development and production activities, field facilities construction, engineering, construction and operation of tank farms and pipe lines.

The Company has conducted operations on joint development of oil and gas fields with enterprises of local oil and gas complex in following countries: Vietnam, Iraq, India, Syria, Jordan, Germany; in the field of evaluation of prospective oil and gas projects – Yemen, Libya, Brazil, Argentine; with CIS oil producing countries – Uzbekistan, Turkmenistan; in Komi Republic, Russia.

Priority directions of the Company's activities are: cooperation with Vietnam Oil and Gas Corporation "Petrovietnam" in executing functions of Russian Partner within the frames of JV "Vietsovetpetro", established in 1981 under Inter-Governmental Agreement; exploration and development of oil and gas fields in Block 09-3, South Vietnam; export-import contract with Vietnamese enterprises, including JV "Vietsovetpetro"; contracts with North Oil Company under approval of Iraqi Ministry of Oil; contracts with India within the frames of Inter-Governmental Agreements with State Oil and Natural Gas Corporation ONGC, including supplies of oil field's equipment and materials, execution of services, conduct of contractual drilling and work-over operations, rehabilitation of idle wells at Indian fields; execution of development projects at Timano-Pechora basin in Russia; realization of functions of sole executive body of JSC "RMNTK "Nefteotdacha"; settlement of repayment of debit indebtedness of Commercial Bank "Imperial" and Administration of Chukotka Autonomous Region; execution of contract on refinery construction in Vietnam; location and evaluation of prospective investment projects in Russia and abroad.

JSC “Zarubezhneft” is a constant member of Inter-Governmental Commissions on trade-economic and scientific-technical cooperation with Vietnam, Iraq, India, Syria, Saudi Arabia and other countries.

The Company’s cooperation with Vietnam Oil and Gas Corporation “Petrovietnam” is realized in more than 20 years of successful operation of joint venture “Vietsovetro”, which currently takes its position among ten most economically efficient oil producing companies of the World. By joint forces of Vietnamese and Russian specialists more than 70% of Vietnamese oil and 50% of Vietnamese gas are produced. JV “Vietsovetro” is operated under conditions of full self-financing, represents one of the main sources of income for SRV and brings significant currency earnings to Russian budget. Within the period of 1981-2004 the Russian budget had received almost 4 billion USD. Only in 2004, 611 747 thousand USD were transferred to the Russian budget.

In 2004 work program and budget, approved by IV Meeting of Management Committee for Block 09-3 Project, were fully executed; minimum work and financial commitments for first exploration phase were completed.

One of directions of the Company’s activities is participation, as contractor, in oil refinery construction in Zung Khat province, SRV. Our responsibilities are provision and construction, jointly with the Company’s subsidiary Limited Liability Company “Zarubezhneftstroyontaj”, of tank farm for crude oil and refined oil products.

During the reported period contract on side tracking of idle wells in Assam state, India, was completed.

Engineering services under the contract on “Study and evaluation of idle and not optimized wells with the purpose to increase the level of oil production at Lakva-Lakhmani, Geleki and Rudrasagar fields, Assam, India” were also completed.

During 2004 the Company had completed works on the contract “Preparation of development plan for Alian field in Syria”, ordered by Hasaki field management authority (within the frames of program, approved by Syrian Ministry of Oil and Mineral Resources). Also in 2004, within the frames of the protocol among JSC “Zarubezhneft”, group of companies “Itera” and JSC “Oil Company “Rosneft”, evaluation of Production Sharing Agreement between Turkmenistan and consortium of Russian companies regarding offshore united Block 29-30-31 at Turkmen part of Caspian Sea shelf has been continued.

In 2004 JSC “Zarubezhneft” was granted licenses for geological evaluation of Bistrinskoye and Verhnehatayahskoye-II blocks in Komi Republic with the purpose to prospect and evaluate hydrocarbon pools. For these licensed blocks geological program for oil pools location had been prepared, specification of well-15 location had been performed, well program for well-16 had been submitted for expert examination, agreement for carrying out 2D seismic survey is under preparation. All the above activities on development of fields in Timano-Pechora basin, Russia, shall be continued in 2005.

In 2004 JSC “Zarubezhneft” proceeded with rendering services and provision of supplies of materials, equipment and spare parts for Vietnam, Iraq, India and other countries. During the reported period overall cost of supply

contracts under execution had reached 18 826,39 thousand USD and 54 440,58 Euro. Amounts from realization of goods under contracts, signed with the Company's participation on account of SRV debt offset to Russian Federation, had reached 50 161,94 thousand USD.

By the Russian Federation Government Decree #155-r of 30.08.01 JSC "Zarubezhneft" was determined as authorized body, engaged for rendering assistance in securing Russian federation interests in the process of preparation and realization of production sharing agreements regarding certain parts of sub-surface and hydrocarbon fields. The Company participates in preparation and evaluation of feasibility studies, production sharing agreements, analytical tracking of negotiations with investors, executes control over oil and gas projects realization.

JSC "Zarubezhneft" continues to replenish its stock of orders by preparation and finalization of new long term projects in cooperation with domestic and foreign companies.

**Reorganization of State Enterprise "RVO "Zarubezhneft"
into Joint Stock Company.**

Joint Stock Company Zarubezhneft is established by reorganization and is the successor to the state enterprise "Russian Foreign Economic Association "Zarubezhneft" on the basis of the Decree of the President of the Russian Federation. ref. No. 137 dated 03.02.2004 "On reorganization of the state enterprise "Russian Foreign Economic Association "Zarubezhneft" into the Public

Joint Stock Company”, Resolution of the Government of the Russian Federation ref. No. 316-r dated 04.03.2004 and Decision of the Federal Agency for Federal Asset Management ref. No. 437-r dated 04.10.2004 “On privatization conditions for the state enterprise “Russian Foreign Economic Association “Zarubezhneft”.

During 2004 the following measures have been executed with the purpose to reorganize state enterprise “RVO “Zarubezhneft” into JSC “Zarubezhneft”: preparation of articles of association; inventory of state enterprise “RVO “Zarubezhneft” property; preparation and conduct of audit on intermediate balance sheet of state enterprise “RVO “Zarubezhneft”; preparation of contract with General Director of JSC “Zarubezhneft”; development and inside approval of drafts of Board of Directors Conditions and JSC “Zarubezhneft” Audit Commission Conditions; documents have been reviewed and tender has been conducted for selection of auditing company to perform independent obligatory audit of JSC “Zarubezhneft”; notices have been sent to creditors on reorganization of the state enterprise “Russian Foreign Economic Association “Zarubezhneft” into the Public Joint Stock Company and appropriate information had been published in “Russian News Paper” and in Registration Bulletin.

With the purpose to execute the Decree of the President of Russian Federation and Resolution of the Government on depositing into JSC “Zarubezhneft” authorized capital 100% minus one share of JSC “RMNTK “Nefteotdacha”, seated in federal property, the Company performed evaluation of RMNTK shares by engagement of independent broker JSC “Investment-Financial Company SOLID” (License for brokerage activities #000066 of 13.08.01).

For execution of the Resolution of the Government of Russian Federation #316-r of 04.03.04 a Decision of the Federal Agency for Federal Asset Management #1146-r of 24.12.04 was issued “On decisions of special general meeting of JSC “Zarubezhneft”. It was decided to additionally emit ordinary JSC “Zarubezhneft” shares in the amount of 600 000 shares with nominal cost of 1 000 Rubles each, and in accordance with the decision of general meeting of the Company’s share holders to deposit for the payment of additional emission 100% minus one share of JSC “RMNTK “Nefteotdacha”, seated in federal property, as contribution to the Company’s authorized capital.

On 23.12.04 the Company’s Board of Directors determined cost of stock floatation for one ordinary JSC “Zarubezhneft” share of second emission under nominal price amounting to 1 000 Rubles.

JSC “Zarubezhneft” is included into the list of strategic joint stock companies by the Decree of the President of Russian Federation #1009 of 04.08.04 “On approval of the list of strategic enterprises and strategic joint stock companies”.

With the purpose of keeping share holders register provisions for keeping JSC “Zarubezhneft” share holders register were developed and approved by the Company’s General Director Order #251 of 17.11.04. The Company independently keeps register of JSC “Zarubezhneft” shares.

Full name of the company	Public Joint Stock Company “Zarubezhneft”
Number and date of certificate of state registration	Certificate Series 77 #003280973 of 22.10.04 OGRN 1047708046870
Subject of Russian Federation	Moscow
Legal address	101990 Moscow Armyansky Per 9/1/1 Building 1
Postal address	101990 Moscow Armyansky Per 9/1/1 Building 1
Telephone (fax)	(095) 748 65 00
E-Mail	nestro@nestro.ru
Authorized capital, thousand rubles	2 887 750
Total amount of shares, shares	2 887 750
Nominal price of one share, rubles	1 000
State registration number of ordinary shares emission and date of state registration	1-01-65072-D of 09.12.04
Number of preference shares	None
Russian Federation share in authorized capital	100%
Special right for Russian Federation in the management of the Company (golden share)	None

Types of the Company's activities

Due to the Company's reorganization its management structure has also been changed with the purpose to resolve following targets of JSC "Zarubezhneft" charter:

participation in joint ventures in Russian Federation, as well as in foreign countries;

realization, on the instructions of the Government of Russian federation, of the functions of general supplier and general contractor with regard to all issues, dealing with economical activity of joint Russian-Vietnamese venture "Vietsovetpetro", with Russian party share, which is administered by the Company, in accordance with entrusted authority;

realization of functions of authorized body, engaged to assist in securing Russian Federation interests during preparation and execution of production sharing agreements regarding part of subsurface and hydrocarbon fields;

prospecting for and exploration of oil, gas and gas-condensate fields, including conduct of engineering-geological surveys and geophysical studies, all types of wild-cat and exploration drilling;

drilling, testing, operation, workover and abandonment of parametric, wild-cat, exploration, record, observation, producing and injection wells;

oil, gas and gas-condensate fields surface facilities construction;

production, treatment, transportation, storage and sale of oil, gas, condensate and other minerals;

foreign economic activities including export (import) of hydrocarbons and products of their processing as well as export (import) of products of industrial and civil purpose, technologies, design-and-survey works and services;

conduct of research, development and experimental work for updating of existing and creation of new methods and technical means for prospecting, exploration, development and operation of oil, gas, and gas-condensate fields;

acting as builder-customer for construction and putting into operation of wells and other industrial and non-industrial facilities;

carrying out safety examination of industrial facilities, equipment and works in oil and gas industry;

organization of personnel training along with obtaining necessary permits, certificates, licenses and other approving documents from authorized authorities;

selection and secondment of Russian specialists for working abroad;

rendering financial services and conducting investment activities, development and implementation of investment projects;

providing consulting, marketing, engineering services;

charities.

The above objectives are being successfully resolved by JSC “Zarubezhneft” holding.

2. Description of management and controlling bodies of the Company

General annual meeting of shareholders.

Because the Company was established by way of reorganization in the form of reformation on October, 22nd, 2004, the general annual meeting was not held.

Board of Directors

Members of JSC “Zarubezhneft” Board of Directors were appointed as per Decree of Federal Agency for Federal Property Management dated October, 4th, 2004, #437-r “On conditions of privatization of the State Enterprise «Russian Foreign Economic Association “Zarubezhneft”, later their authorities were confirmed by Decree of Federal Agency for Federal Property Management dated December, 24th, 2004, #1146-r “On decisions of general meeting of JSC “Zarubezhneft”. For the reported period membership of the Board of Directors did not change.

<p>Andrey G. Reus, Deputy Minister of Industry and Energy of the Russian Federation</p>

<p>Year Of Birth – 1960</p>

<p>Does not have shares of Company in possession</p>
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<p>Oleg G. Gordeyev, Deputy Head of the Federal Energy Agency</p>

<p>Year Of Birth – 1951</p>

<p>Does not have shares of Company in possession</p>
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<p>Nikolay P. Tokarev – Director General of the Joint Stock Company “Zarubezhneft”;</p>

<p>Year Of Birth – 1950</p>

<p>Does not have shares of Company in possession</p>
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<p>Gleb S. Nikitin, Head of the Department of Commercial Organizations' Assets of the Federal Agency of Federal Property Management</p> <p>Year Of Birth – 1977</p> <p>Does not have shares of Company in possession</p>
<p>Andrey L. Kondakov, Director of the Department of Economic Cooperation of the Ministry of Foreign Affairs of the Russian Federation</p> <p>Year Of Birth – 1960</p> <p>Does not have shares of Company in possession</p>
<p>Igor A. Nagorniy, Deputy Head of Presidential Foreign Policy Directorate of the Russian Federation</p> <p>Year Of Birth – 1959</p> <p>Does not have shares of Company in possession</p>
<p>Kirill G. Androsov, Director of the Department of State Tariff Regulation and Infrastructural Reforms, Ministry of Economic Development and Trade of the Russian Federation</p> <p>Year Of Birth – 1972</p> <p>Does not have shares of Company in possession</p>

In 2004 the following meetings of the Board of Directors of the Company were held:

Meeting of the Board of Directors of JSC “Zarubezhneft” dated November, 2nd, 2004. Minutes of the Meeting of the Board of Directors of JSC “Zarubezhneft” #1.

Agenda of the meeting:

election of the Chairman of the Board of Directors of JSC “Zarubezhneft”;

appointment of the Secretary of the Board of Directors of JSC “Zarubezhneft”;

approval of Decision on emission of JSC “Zarubezhneft” shares;

approval of Report on results of JSC “Zarubezhneft” shares emission;

approval of provision on branches of JSC “Zarubezhneft” and provisions on representation offices of JSC “Zarubezhneft”;

organization and conduct of open tender for selection of auditor to carry out a mandatory annual audit of JSC “Zarubezhneft” for 2004.

Meeting of the Board of Directors of JSC “Zarubezhneft” dated December, 23rd, 2004, Minutes of the Meeting of the Board of Directors of JSC “Zarubezhneft” #2.

Agenda of the meeting:

determination of stock floatation cost for ordinary registered JSC “Zarubezhneft” shares of second emission.

Executive Body of the Company

By Decree of Federal Agency for Federal Property Management dated October, 4th, 2004, #437-r “On conditions of privatization of the State Enterprise «Russian Foreign Economic Association “Zarubezhneft”, Nikolay P. Tokarev was appointed General Director of JSC “Zarubezhneft”.

Nikolay P. Tokarev	-	General Director of JSC “Zarubezhneft” Year Of Birth – 1950 Does not have shares of Company in possession
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Audit Commission of the Company

By Decree of Federal Agency for Federal Property Management dated October, 4th, 2004, #437-r “On conditions of privatization of the State Enterprise «Russian Foreign Economic Association “Zarubezhneft”, Audit Commission of the Company was appointed. Later its authorities were confirmed by Decree of Federal Agency for Federal Property Management dated December, 24th, 2004, #1146-r “On decisions of general meeting of JSC “Zarubezhneft”.

Members of Audit Commission:

Safiullin M.Sh. – Deputy Head of Financial markets and Property Relations Division of the Ministry of Finance of the Russian Federation;
Ananyev S.A. – Deputy Director of Department for State Tariff Regulation and Infrastructural Reforms, Ministry of Economic Development and Trade of the Russian Federation
Stefanenko S.M. – Deputy Head of the Department of Commercial Organizations’ Assets of the Federal Agency of Federal Property Management

3. Main activities of the Company in 2004

I. Vietnam

1. JV “Vietsovpetro”

JSC “Zarubezhneft” is very active in SRV. The main partner of the Company in SRV is Vietnam Oil and Gas Corporation “Petrovietnam”, jointly with which the Company manages Joint Venture “Vietsovpetro”, established in 1981 under Inter-Governmental Agreement.

Currently JV “Vietsovpetro” retains its firm position among the world’s top ten most effective oil producing companies. “Vietsovpetro”’s production now represents more than 80% of Vietnam’s total crude oil output and almost all of the gas output. According to estimations of the Company Vietnam shelf contains in-place oil reserves up to 7.0 billion tons and almost 2.1 trillion cubic meters of natural gas.

Currently “White Tiger” and “Dragon” oil fields are under intensive development. Daily oil production is 30 thousand tons/day. Residual recoverable oil reserves are estimated at 80 million tons.

1.1. Execution of work program for 2004

JSC “Zarubezhneft” is carrying out the functions of a partner in the Joint Venture “Vietsovpetro” and during 2004 has been working towards insuring fulfillment of the plans approved by XXVII & XXVIII Meetings of the JV

“Vietsovetro” Board of Directors regarding oil production, exploration activities, drilling, capital construction and other parameters.

JV “Vietsovetro” production in 2004 reached 12 220.0 thousand tons of oil versus planned 12 100.00 thousand tons or 101.0% of the plan. Actual volume of injected water for reservoir pressure maintenance amounted to 20513.6 thousand cubic meters or 101.0% of the plan. Oil production from gas lift wells during the reported period totaled 839.5 thousand tons.

The volume of gas delivered from “White Tiger” field to shore came to 1682.8 million cubic meters or 115% of the plan.

16400 m of the rocks have been drilled through exploration operations versus 15960 m planned or 102.8% of the plan. Two exploration wells were completed.

Reserves addition of C1 category amounted to 4.5 million tons, 2.0 million tons of which were proved by drilling well DR-23 and remaining 2.5 million tons were added by shifting reserves from C2 category to commercial category.

Development drilling meterage reached 52753 m. 16 wells were completed and 14 wells were put into operation, four of which as injectors. During the reported period 10 wells were included into production wells stock of “White Tiger” oil field.

1.2. Expansion of zone of activities in Vietnam

Aiming to expand raw material sources, to add recoverable oil reserves on Vietnamese shelf and to strengthen economic position of Russia in Vietnam the

Company shall continue the work started earlier in 1999 for development of new oil fields in Blocks 17 and 04-3 within zone of activity of JV “Vietsovpetro” and in Block 09-3 under a separate Petroleum Contract.

According to the plans for further expansion of JV “Vietsovpetro” zone of activity surveys of new Blocks on Vietnamese shelf were implemented. During 2004 Block 04-3 witnessed completion of well DB-2X and drilling of exploration well TY-1X at Tien Ying structure has began. As for geophysical studies, in well DB-2X vertical seismic profiling has been performed and over the Block area 340.48 linear kilometers of high-resolution seismic survey has been carried out.

In Block-17 459 square kilometers of 3D seismic has been acquired and processed.

Approval of new project for development of “White Tiger” oil field and surface facilities construction is planed for the end of 2007 with the purpose of clarification and reconsideration of technological parameters to increase production levels.

1.3. Supplies of equipment, materials and spare parts for Vietnam

During 2004 equipment, materials and spare parts were supplied for Vietnam through the Company’s subsidiary “Zarnestservice Ltd.”. 61 delivery contracts were concluded or had been under implementation (taking into account the carry-over contracts from 2003). Total value of the said contracts comprised 18 777.35 thousand USD.

During the reported period JSC “Zarubezhneft” supplied goods under contracts, signed on account of SRV debt offset to Russian Federation. The hard currency revenue reached 50 161.94 thousand USD.

2. Operations on execution of Block 09-3 Petroleum Contract

Development of Block 09-3 is implemented within the frame of Petroleum Contract (Production Sharing Agreement) concluded in 2002 between the Government of Vietnam, represented by Vietnam Oil and Gas Corporation “Petrovietnam”, on the one side and foreign contractors on the other side. Under this contract operating company “VRJ Petroleum Company” was established by Vietnam Oil and Gas Corporation “Petrovietnam”, JSC “Zarubezhneft”, Russia, and IDEMITSU, Japan. In 2004 work program and budget, approved by the IV Meeting of Management Committee for Block 09-3 Project, were fully realized. Two exploration wells drilled, minimum work and financial obligations for first exploration phase were carried out. After drilling and testing the well DM-1X on Doi Moi structure the results were analyzed and recommendations were made for the further exploration work on the “Sea Turtle” structure.

At the V Meeting (17th December 2004) of the Management Committee for Block 09-3 Project a decision was made to address the Government of Vietnam requesting extension of Phase I for one year to allow for more analysis of the acquired data and for decision on further steps of Project execution.

Commercial discovery in Block 09-3 shall enable to reach annual oil production level of 330 thousand tons by 2012.

II. INDIA

Cooperation between JSC “Zarubezhneft” and state-owned Oil & Natural Gas Corporation Ltd. (ONGC) is developed since 1967. Within the frame of Inter-Governmental Agreements the Company is active in implementing the program of complex development of Indian oil industry.

During the period of 2003-2004 the Company successfully fulfilled a contract for sidetracking of 4 non-operating wells at old fields in Assam State. In December 2003 sidetracking in well L-225 was completed. In 2004 the following wells were sidetracked: L-300, G-106, L-412. Within the frame of the aforementioned contract the Company also provided engineering services at Assam State oil fields.

During 2004 some work has been done on evaluation and preparation for signing of new contract draft for sidetracking of other wells taking into consideration the former experience.

At the same time new service contract was prepared for rendering services to ONGC in Assam State. Package of technical documentation was reviewed and work program was approved for performing bottom hole zone stimulation in 14 wells to enhance oil production rates.

The issue of technical supervision of drilling of 5 deep complex profile wells was studied.

III. IRAQ

The history of cooperation between JSC “Zarubezhneft” and Iraqi Ministry of Oil started in 1967, when respective political steps were made and Inter-Governmental Agreements were signed.

With direct participation of the Company a giant oil production and treatment complex was built – North Rumaila – with annual production of 42 million tons, Luhais and Nahr Umr oil fields were put on stream with joint annual production of 4 million tons, considerable scope of work had been carried out on construction of first stage of West Qurna oil field.

The Company participated continuously in the UN humanitarian program “Oil for Food”. Various types of equipment, consumer goods and medicine were delivered to Iraq for the total value of 130 million USD. 22.73 million tons of crude oil were lifted and realized.

1. Contract on drilling of 45 oil wells at North Oil Company fields

As a result of international tender a contract for drilling 45 wells in the north of Iraq was signed between North Oil Company and JSC “Zarubezhneft” in 1999. The UN Security Council approved the contract.

Due to the complications in political and military situation in Iraq, the work under this contract is suspended since 1st of March 2003.

2. Supplies of materials and equipment

During the reported period supplies of casing and tubing pipes, crossovers, fittings, spare parts for pumps and consumer goods were delivered for the total value of 38 668.61 thousand Euro.

Communications with the Iraqi customers, UN Treasury and with Bank BNP Paribas NY are in the process with the purpose to speed up payment for delivered goods. Joint actions are taken in coordination with equipment supplier “MG International Transports GmbH”, Germany.

IV SYRIA

The long-term cooperation between JSC “Zarubezhneft” and Syria Petroleum Company for exploration and development of oil fields is realized under the program, approved by Syrian Ministry of Petroleum and Mineral Resources.

1. Contract on “Preparation of development plan for Alian field” #39/03 of 06.04.2002.

In accordance with provisions of the contract “Conduct of complex reservoir studies and preparation of development plan for Alian oil field by the order of Hasaki field management authority” the final report was handed to Syrian customer in February, 2004, and protocol of acceptance was signed in witness of fulfillment of JSC “Zarubezhneft” obligations under the contract.

During 2004 within the frame of the Russian-Syrian trade and economic cooperation the Company took part in tenders announced by Syrian Petroleum

Company for delivery of BOPs, lathes, high voltage switches, electrical motors and gauges.

V. TURKMENISTAN

1. Production sharing agreement for united offshore Block 29-30-31, Caspian Sea shelf, Turkmenistan.

In 2004 for the purposes of creation of international cooperation in offshore fields development in Caspian Sea as well as promotion of business relations with oil and gas companies of Caspian Region – in neighboring countries and Iran – the Company continued within the framework of the protocol between the group of companies ITERA and JSC Oil Company Rosneft to negotiate the terms and conditions of the production sharing agreement between Turkmenistan and the consortium of the Russian companies with respect to the united offshore block 29-30-31 of the Turkmen offshore zone of the Caspian Sea.

VI. RUSSIA

To work out methods for increasing oil recovery and principles of production cooperation as well as to create and develop raw materials sources in Russian Federation the Company in 2004 acquired licenses for geological exploration of two areas in Komi Republic. If this geological exploration is successful, the recoverable oil reserves will amount to as much as 3 million tons.

1. Execution of integrated geological exploration operations on two geological licensees in Timano-Pechora basin.

The following works have been completed during the reported period: geological program for oil fields research has been made up; justification of 2D seismic profiles network has been performed; reprocessing and interpretation of seismic data for Bistrinskaya area has been done to specify location of well №15; drilling program for construction of wild-cat well-15 has been sent for examination; preparation of drilling program for wild-cat well-16 at Verkhnekhatayatskiy-II area has begun.

In 2004, 70% of shares was acquired in oil producing company Dinelneft Ltd, which has licenses for development of Badjuskoe, East-Voseyskoje and West-Khatayakhskoe oil fields. Dinelneft Ltd cumulative geological in-place reserves in Northern oil fields are 20.6 million tons (category C_1+C_2), recoverable reserves C_1+C_2 – 5.6 million tons.

The Company and Dinelneft Ltd during the reported period have jointly fulfilled the following: a plan of measures has been worked out to ensure production of the planned volumes of oil in 2005; investment program for 2005-2007 for Dinelneft Ltd has been worked out; Dinelneft Ltd budget for 2005 has been made up; contractor for work-over operations has been selected and plan for work-over of 5 wells has been approved; licenses for oil production at Badjusskoje and West-Khatayakhskoje oil fields have been prolonged; organizational management scheme for geological exploration has been worked out; in Bistrinskaya area well №15 location has been determined; technical assignment for

2D and 3D seismic survey has been made up for co-ordination with contractors; a supplement has been received for prolongation of the license period for West-Khatayatskaya-II structure; an addendum for completing drilling of well №64 has been signed.

2. Participation in preparation and execution of projects on construction of oil and gas industry objects.

During 2004, JSC “Zarubezhneft” specialists were providing technical assistance, monitoring and operations management in:

works execution under concluded contracts №№ 16, 17 on design and construction of tank farms for oil refinery in Zung-Kuat province of the Socialist Republic of Vietnam;

preparation of investment offers on construction of co-generation thermoelectric power station of 6 Megawatt capacity in Novorossiysk (contractor’s agreement dated 15.03.2004 №005-366 is accomplished);

preparation of the declaration of intentions for the project on construction of oil overload and bunker complex in marine trade port of Novorossiysk in Krasnodar Territory.

During the reported period the following work has been done: information gathering, offers processing and location of new objects for construction in oil and gas industry of Brazil, Argentina and India. Technical documentation was being considered and tender offers on several projects in Russian Federation were being prepared.

During 2004, for the purposes of execution of the project on oil transshipment terminal construction in the marine trade port of Novorossiysk (hereinafter Terminal) the following actions were carried out:

preparation and co-ordination of the project on Terminal construction;
preparation of declaration of intentions to invest in Terminal construction;
conclusion of several agreements on conciliation for Terminal construction and operation.

Pre-design documentation for Terminal construction has been coordinated with majority of the controlling organizations of Novorossiysk and Krasnodar Territory; preliminary technical conditions for connecting objects of Terminal under construction to the city's infrastructure have been obtained.

To deploy Terminal petroleum storage depot the Company's subsidiary has purchased 27 hectares of ground area in Tsemdolina settlement.

3. Preparation and execution of production sharing agreements.

In 2004 in accordance with the agreement between Ministry of Economic Development of Russia and JSC «Zarubezhneft» dated 29.09.2002 #2 for execution of activities and rendering of services for preparation and realization of production sharing agreements the Company's specialists were fulfilling the following works:

Production sharing agreements preparation

The Company's specialists were actively participating in preparation of materials for Prirazlomnoye oil field and Yalamo-Samurskiy area of Caspian Sea

and, in particular, they took part in coordinating the project with concerned federal executive authorities; materials examination and comments preparation regarding the project; examination of economic evaluation of project efficiency; preparation and signing management of contracts for services with respect to preparation of production sharing agreements with third parties.

Execution of the current production sharing agreements

With respect to projects Sakhalin-1, Sakhalin-2 and Kharyaginskoje oil field materials preparation took place for presentation at the meeting of concerned governmental authorities, including: approval of work program and calculation of costs for 2004; consideration, coordination and preparation for approval of work program and estimated costs for 2005; preparation of offers for reimbursement of costs under the project; working over the materials to be included in Russian Federation Government report to State Duma of the Federal Counsel of Russian Federation with respect to the results of production sharing agreements execution.

VII. Execution of management company functions in the holding JSC

“RMNTK “Nefteotdacha” and JV “Vietsoyvetro”

At present JSC “Zarubezhneft” is acting as the executive authority for JSC “RMNTK Nefteotdacha”. Delegation of these functions took place in 2004 based on the Order of the Federal Agency of Federal Property Management dated 30th June, 2004, #87-r «On the decisions of the general annual shareholder meeting of

JSC “RMNTK Nefteotdacha”», as well as the agreement “On delegation of functions of company’s sole executive authority” №19-241/04 dated 5th July, 2004, concluded between JSC Zarubezhneft and JSC “RMNTK Nefteotdacha”.

The main purpose of forming JSC “RMNTK Nefteotdacha” is creation, testing and applying new technologies and technical means for development of oil fields and increasing of oil recovery to provide the increase of the country’s raw material resources potential. Realization of aims and targets of JSC “RMNTK Nefteotdacha” is fulfilled by engagement of its subsidiaries:

Public Joint Stock Company “All Russian Oil and Gas Scientific Research Institute under A.P.Krilov” (JSC “VNIIneft”), founded in 1943;

JSC “Giprovostokneft”, an institute dealing with design and research work for oil industry, founded in 1946;

JSC “Nizhnevartovsknefteotdacha”, founded in 1994;

JSC “Orenburgnefteotdacha”, founded in 1999.

During 2004 within the framework of delegated functions of the sole executive authority of JSC “RMNTK Nefteotdacha” JSC “Zarubezhneft”:

has fulfilled an integrated auditing of companies comprising JSC “RMNTK Nefteotdacha” as well as inventory of their assets and obligations, measures have been taken and are currently implemented to increase efficiency of the companies;

has held a number of special stockholder’s meetings to change management in holding’s companies for the purposes of increasing efficiency and controllability of their activities;

has established direct contacts with specialists of the companies comprising JSC “RMNTK Nefteotdacha” holding for the purposes of obtaining maximum effect from cooperation for fulfillment of the company’s targets;

JSC Zarubezhneft’s representatives are actively participating in activities of holding’s management authorities.

The main objective of the complex formation is creation, testing and applying new technologies and technical means for development of oil fields and increasing of oil recovery to provide the increase in the country’s raw material sources potential.

Main figures of JSC “RMNTK Nefteotdacha” in 2004 (thousand rubles)

Parameters	2004
Sale proceeds (products, goods, works, services)	1,099,175
including:	73,361
JSC “RMNTK Nefteotdacha”	
JSC “VNIIneft”	120,014
JSC “Giprovostokneft”	775,546
JSC “Nizhneartovsknefteotdacha”	5,781
Close Cooperation “Orenburgnefteotdacha”	124,473
Net income (loss)	39,097

Due to successful fulfillment of functions of Russian Participant in Joint Enterprise “Vietsovpetro” which was founded in 1981 under Inter-Governmental Agreement, in 2004 the Company transferred 611,747,000 USD to the budget of Russian Federation.

VIII. Main risk factors, connected with the Company’s activities in 2004

1. Industrial risks

The Company’s industrial risks were connected with activities carried out by the Company or by its independent subsidiaries with respect to execution of Russian and foreign oil and gas projects as well as fulfillment of service and procurement contracts.

Such risks are connected with technological peculiarities of petroleum operations and possible damage during geological surveys, construction and maintenance of industrial facilities and equipment, rendering services for elimination of breakdowns at oil and gas facilities etc.

In 2004 industrial risks could have been realized through execution of obligations by the Company, in particular, on:

drilling of second exploration well in Block 09-3 on Vietnamese shelf, carried out by VRJ Petroleum;

drilling operations in Timano-Pechora Basin, carried out by Dinelneft Ltd;

drilling of well 15 at Bistrinskoye oil field in Komi Republic, carried out by JSC “Neftegazinkor”;

sidetracking in 4 idle wells under service contract with ONGC, India;

oil production by Dinelneft Ltd, JSC “RMNTK Nefteotdacha”, JV “Vietsovetro” as well as its storage and treatment;

drilling of wells by JSC “RMNTK Nefteotdacha” and JV “Vietsovetro”;

shipment and transportation of stock-tank oil and equipment;

possible execution of works under contract on technical assistance for blow-out elimination at offshore facilities of JV “Vietsovetro” and on other contracts.

2. Investment risks

In 2004 the Company carried out investment activities in Russia and abroad, connected with possible losses, for the total amount of 583,226,000 rubles, including:

investment in authorized capital of subsidiaries and independent companies;

execution of exploration operations for Block 09-3 Project (VRJ Petroleum);

execution of exploration operations in Timano-Pechora Basin;

financing of “ZarIT” activities in Turkmenistan regarding development of Blocks 29-31;

preparation and approval of documentation for the project of oil-products transshipment terminal construction in the port of Novorossiysk;

development of new oil fields in Blocks 17, 04-3 as part of JV “Vietsovpetro” activities.

3. Financial risks

In 2004 the Company’s financial activities were exposed to the following risks:

frustration of money inflow schedules;

fluctuation in money value, expressed through the increase of Libor rate and, as a result, alteration of bank interest rates for capital, invested into projects as well as into commercial and procurement activities;

devaluation of Vietnamese and Indian national currencies;

alteration of prices for receivable and deliverable goods, and for the services rendered under the long-term contracts for construction of oil refinery in Vietnam.

unforeseen expenses under the contracts with residents of Iraq and India.

4. Commercial risks

In 2004, the Company concluded 706 agreements (contracts). The balance of the accounts payable (suppliers and contractors) was 28,736,000 rubles. Accounts receivable amounted to 23,259,000 rubles. Commercial risks were connected with execution by the parties of their contract obligations and possible penalties for their violation, as well as alteration of terms of the established letters of credit.

5. Country risks

One of the Company's major activities is foreign-economic activity in oil and gas sector, which was in 2004 carried out in the countries with increased political risks and unstable economic situation, such as Middle East countries (Iraq, Syria) and Central Asian countries (Turkmenistan, Kazakhstan, Uzbekistan), India, Vietnam etc.

Such countries have the highest probability of military and terrorist actions, strikes and social upheavals, governmental corruption. The conditions of running business are becoming more and more significant as they are exposed to such factors as ideology, religion and geopolitics.

Moreover legal and taxation risks are recognized in the abovementioned countries. Currency control system, customs and investment protection legislation are subject to a strong influence by those risk factors.

In particular, Russia and Kazakhstan do not have mutual bilateral international agreements on the guaranteed protection of investments and capital financing. Also both countries are not a counterpart in any international multilateral convention in this respect.

In Uzbekistan the difficult political situation is the risk factor besides the weak national currency and the imperfect legislation. Tense political situation is noticed in Syria as well. Both Kazakhstan and India have imperfect tax systems. SRV imposes high level of taxation on income and generated profits, difficulties are encountered in implementing investment activities from Vietnam to other countries.

6. Information on court hearings, not yet completed

6.1. Pending trials in which JSC “Zarubezhneft” is standing for the defendant:

Court Case No. 44g-916- by Gotwig T.L. on recovery of compensation for the forced non-attendance. The amount of claim is 565 589 rubles. Case returned to the first instance.

6.2. Pending trials in which JSC “Zarubezhneft” is standing for the plaintiff or creditor in bankruptcy cases or for recovery of indebtedness under enforcement proceedings:

Court Case No. A-4017176 04-38-14B – action of insolvency (bankruptcy) against JSC “Transinterterminal”. Claimed amount is 2 432 998.4 rubles. The case is under bankruptcy proceedings.

Court Case No. A40-25776 02-123-53B - action of insolvency (bankruptcy) against “VNIPImorneftegas”. Claimed amount is 12 554 903.28 rubles. The case is under bankruptcy proceedings.

During 2004 active work has been continued directed to recovery and settlement of overdue accounts receivables of the Company.

The indebtedness of Commercial Bank “Imperial” comprises 2 765 943 804.58 rubles. The bank was announced bankrupt and claims of the Company are entered into the creditors’ list of claims. The Company, being the

largest creditor of the bank, is actively cooperating with the bankruptcy manager for detection and recovery of the bank assets to the bankrupt's estate.

The indebtedness of the Government of the Chukot Autonomous Region in the amount of 210 540 000.00 rubles was formed as a result of assignment of the said amount to the Company by the bank "Imperial" as a form of debt discharge. The Company acquired a court judgment towards recovery of the debt. The Company received acts of execution according to decision of Arbitration Court (Case No. A40-2421/00-58-28 dated 15.06.2001). Active attempts are made to recover the debt.

In 2004 upon judgment of courts the Company recovered total amount of 281 723.2 thousand rubles, including 281 542.7 thousand rubles (9 851.3 thousand USD) from JSC "Rosneftsalinmorneftegas" from which the amount.

4. Report on achieving main targets of the Company's activities

The revenues of the Company in 2004 from selling of goods, products, works, services including remittances under sales agreements for goods from SRV exclusive VAT comprised 2 566 362.00 thousand rubles.

The main parameters of effectiveness of the company's activity are as follows:

No.	Description	2001 Report	2002 Report	2003 Report	2004 Report
1.	Net revenues from selling of goods, products, works, services exclusive VAT, thousand rubles	787 015	927 737	6 690 142	2 566 362.0
1.1.	Revenues from industrial activity	787 015	927 737	896 808	1 098 193
2.	Net profit (thousand rubles)	174 824	574 134	647 688	648 138.0
3.	Net assets (thousand rubles)	1 077 843	1 174 131	2 356 354	3 068 157.0

Net Profit in 2004 comprised 648 138 thousand rubles. During 2004 the “Net Assets” parameter increased by 711 803 thousand rubles and comprised 3 068 157 thousand rubles.

Total Profit in 2004 comprised 648 138 thousand rubles. Part of Total Profit in the amount of 553 171 thousand rubles was transferred to JSC “Zarubezhneft” authorized capital stock. Net Profit in 2004 comprised 94 967 thousand rubles.

According to item 11.7 of the Company’s Articles of Association, part of Net Profit of the Company in the amount of 9 497 thousand rubles was transferred to reserve fund.

In 2004 dividends were not declared and not paid.

In accordance with provisions of the Federal Law “On Joint Stock Companies” in 2004 no major transactions or other transactions, implementation of which is subject to the approval procedure in accordance with Articles of Association of the Company, or transactions, implementation of which attracts

major interest, took place and no approval has been requested from or given by the Company's management.

5. Prospects for the Company's development

Main objective is further expansion of industrial business: oil and gas fields exploration, development and production; creation of own raw materials sources, construction of oil and gas facilities, execution of wide range of technologically complicated operations during development, production and construction of hydrocarbon fields, engineering, construction and operation of refineries, tank farms and pipelines.

JSC "Zarubezhneft" will be consecutively increasing its presence in the following segments of the market:

1. Industrial activities.

1.1 Prospecting, development and production of oil and gas fields.

Socialist Republic of Vietnam (SRV).

With the purpose of preserving and strengthening economic positions of Russia in SRV, increasing resource base of recoverable oil reserves on Vietnam shelf the Company will continue development of Block 09-4.

In Russia with the purpose of completing the newest methods of seismic survey, drilling, well workover, secondary methods of enhanced oil recovery, establishing cooperation for carrying out service works abroad, creation of own

industrial base for fields development it is planned, jointly with JSC “RMNTK “Nefteotdacha”, to perform the following:

oil field development and production in Komi Republic of Timano-Pechora basin;

development and production of Kodakovskoye oil field in Ulyanovsk Region;

development and production of Pashkinskoye, Kirsanovskoye and Chernovskoye fields jointly with JSC “Orenburgnefteotdacha” on 50/50 basis. It is planned to purchase 50% share of authorized capital of JSC “Orenburgnefteotdacha” from TNK-BP.

In Turkmenistan, for testing and implementation of new technologies for development of offshore oil and gas fields, establishing international cooperation for development of offshore fields on Caspian Sea shelf, development of business relationships with Iranian oil and gas companies activities on development of oil fields on Turkmenistan shelf (Block 29-30-31) will be continued.

The participants of the project:

JSC “Zarubezhneft” through subsidiary – 22.10%,

JSC “NGK ITERA” through subsidiary – 31,45%

JSC “NK “Rosneft” through subsidiary – 31,45%

State company “Turkmenneft” – 15%

1.2 Engineering, construction and operation of refineries, tank farms and pipeline systems.

It is planned to finance purchase of 100% of authorized capital of JSC “Rosneftbunker”, which has permit to construct oil and oil-products terminal in the sea trading port of Ustj-Luga.

Construction of oil-products terminals in the sea trading port of Ustj-Luga and in the sea trading port of Novorossiysk shall enable to:

ensure transferring about 10% of Russian oil-products exports through sea trade ports of Ustj-Luga and Novorossiysk;

develop cooperation for oil and gas facilities construction abroad.

It is also planned for the Company to participate in engineering and construction of development project for South-Khylchuinskoye field in Nenetskiy Autonomous Region of Arkhangelsk Area jointly with “Globalstroy-Engineering” - design-and-construction association, “Uorly-Parsons” company for design and resources management and JSC “Zarubezhneftestroyontazh” subsidiary, with participation of JSC “Giprovostokneft”.

As one of the prospective directions of JSC “Zarubezhneft” activities remains execution of service works and services for increasing oil production from the fields of SRV, Russia, India, Iraq, Turkmenistan, Libya, Venezuela, the Union of Myanmar, Nigeria.

In India the works on strengthening positions of JSC “Zarubezhneft” as the service company will be continued for executing a broad spectrum of technologically complex operations during development, production and construction of surface facilities in oil and gas fields, workover of non-operating wells. It is planned to conclude several new contracts.

It is planned to take part in carrying out service works at Myanmar fields with the purpose to enhance oil recovery, development of solid, liquid and gaseous natural resources.

It is planned to participate in tender for exploration, field surface facilities construction and development of oil and gas fields in 239, 240 license offshore blocks in Republic of Nigeria. The contract is planned to be signed on terms of Production Sharing Contract for development of Nigerian oil and gas fields.

Within the frames of oil and gas equipment supplies, providing services for granting it for rent, consumer's goods supply to the third countries it is planned to:

continue activities for providing supply of equipment, materials and spare parts for Vietnam;

develop cooperation with a number of Vietnamese companies with engagement of Russian subcontractors for execution of projects on construction of various facilities in the territory of Vietnam;

render agency services to Russian shipbuilding enterprises regarding participation in tenders for vessels and floating facilities construction for JV "Vietsovpetro";

participate in tenders for design and construction of industrial and domestic waste disposal factories, for supply boat chartered services, transportation and accommodation barges, diving boats, etc;

provide supplies of special equipment, materials, chemicals and perforation charges for India within the frames of contracts for side-track operations, well drilling and respective services;

expand cooperation in providing supplies of materials and equipment for petroleum projects abroad.

It is also planned, within the frames of execution of the functions of authorized organization on PSCs, to participate in preparation and implementation of active PSC projects “Sakhalin-1”, “Kharyaginskoye field”, “Prirazlomnoye field”; in preparation of PSC projects for Yalamo-Samurskiy prospect, Prorazlomnoye and Shtokmanovskoye fields.

The Company shall be arranging cooperation with operators of PSC projects “Sakhalin-1”, “Sakhalin-2”, “Kovyktinskoye” regarding carrying out of design, survey and engineering works, as well as implementation of procurement contracts for gas and oil pipelines construction. In “Sakhalin-2” project the Company plans to establish Joint Venture with Parsons E&C engineering company with the purpose to provide engineering and management services for offshore and onshore facilities construction.

Also, materials will be prepared for participation in tenders in Kazakhstan, feasibility study will be performed for providing services for petroleum projects in Uzbekistan, Nigeria, Venezuela, Russia and other near and far foreign countries.