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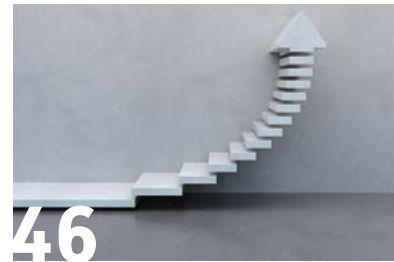
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NEXT
CHAPTER

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

DEAR COLLEAGUES, PARTNERS AND FRIENDS,

We are pleased to present to you our company's 2014 annual report on sustainable development. This is now our third sustainable development report, and its preparation has already become a mandatory part of our general process preparing annual reports. This reflects the increased attention that our company pays to compliance with principles of sustainable development in the implementation of its projects.

The report was submitted for the GRI Content Index Service, and GRI confirmed the accuracy of the GRI G4 Content Index and the public attestation procedures of the Russian Union of Industrialists and Entrepreneurs.

The report gathers together important information on the Zarubezhneft Group's industrial activity, including Health, Safety and Environmental Protection (HSE) indicators, corporate management, organizational development, business ethics, work with personnel and social responsibility for the 2014 reporting year.

Despite the economic instability of 2014, we managed to achieve good results in production and financial activity as well as in the area of sustainable development. Production expanded by 1.4% compared with the same period of the previous year and net profit increased by 24%.

One of the most important events of 2014 was the creation of our strategic documents package. In June, the company's strategy was approved, and in November a Long-Term Development Programme was put in place. In doing so, we have fulfilled the directives from the government in full, within agreed deadlines and fixed key trajectories for the Company's future development. The corporate strategy prioritises the Upstream sector as the foundation for the further development of the Company. In this segment, our company is focused on fields with imbalanced development systems and those with complex reservoirs.

In 2014, the area of HSE was developed largely in compliance with Russian legislation and international norms given that it is a mandatory condition for the conduct of the Company's activities. In terms of HSE, the Company carried out workshops and training sessions for the employees of the corporate centre and the subsidiaries in order to define priorities for achieving relevant goals. Among significant events were the elaboration and approval of the "12 Life Saving Rules", which aim to minimise and prevent serious industrial accidents. These rules have been introduced at the Group's production facilities.

In 2014, the Company continued to implement intra-corporate organizational improvement projects. Finance, HR management, risk management and internal control projects were successfully completed.

Development of Zarubezhneft's HR section is a strategic priority for the Company since the having personnel with strong expertise is a crucial in driving efficient corporate activity and sustainable development.

One of the Group's major personnel policy tasks is the improvement of the corporate training system for personnel at all levels of management. Under the Company's intra-corporate organizational improvement programme in 2014, Zarubezhneft opened an oil engineering school where four engineering training courses were conducted for specialists from the corporate centre and subsidiaries. In 2014, the Company held a "Best in occupation" contest for professional excellence for the first time.

Our company also pays considerable attention social issues. To support favorable social condition in the regions where our company operates, the Company always cooperates with representatives of local governments and local communities to aid in issues of development, education, health care, culture and sport.

In 2014, the Group's social responsibility policy became consistent. At the beginning of the year, Regulations on Charity and Sponsorship were approved and a commission on social issues was established.

In summarising the year 2014, we may speak with confidence about the stable development of the Zarubezhneft Group of companies across all areas of activity. Increased production and better financial results, provision of environmental protection and industrial safety, HR development and social responsibility practices all remain key principles for the Company.

I'm convinced that an integrated approach to these tasks will allow us to reach our targets and to achieve top results across our activities.

SERGEY KUDRYASHOV
General Director
of Zarubezhneft

REPORT PROFILE

01



PRINCIPLES FOR DETERMINATION OF CONTENT AND QUALITY OF THE REPORT

This report contains detailed information about Zarubezhneft' activity in the area of sustainable development in 2014 and was prepared in accordance with Global Reporting Initiative GRI G4. The report is intended to inform all stakeholders as well as general public about the Company's activity.

The content of the report was determined by and based on the main international principles of the public non-financial reporting. In addition to the disclosure of data according to the so-called "triple bottom line", it includes important information about corporate management and business ethics, which has also become an integral part of non-financial reporting by the world's leading companies.

Principles defining the report's content:

- Stakeholder inclusiveness
- Sustainability context
- Materiality
- Completeness

Principles defining the report's quality:

- Balance
- Comparability
- Accuracy
- Timeliness
- Clarity
- Reliability

One of the key components of this transformation to GRI G4 has been the determination of essential subjects in the report. In line with GRI G4 guidelines, the Company has focused the report on the most significant areas and priorities of its operation. In order to identify and define the most important topics to report, opinions of the company's management and its key concerned parties (internal – the employees, and external – business partners, shareholders, representatives of the expert community, local population and others) have been analysed.

The report represents this information in an intelligible form for the parties concerned and the general public; avoids using any complicated technical terminology and mainly does not contain any data requiring special industry technical, technological or economic knowledge and skills. In the report schemes, tables and diagrams are widely used for a visual and more accessible presentation of material. Any information used herein has been checked and confirmed by internal audit division.

PARAMETERS OF THE REPORT

Zarubezhneft prepares its report on sustainable development on a Company-wide level. This report represents information and data analysis reflecting the Company’s activity for the period from 1 January to 31 December 2014.

In the report, the Company’s activity is presented in all main subdivisions and subsidiaries, in all regions and countries of operation. The information is structured according to sustainable development categories, including economic, ecological and social impacts.

The following criteria were used in order to define the list of organizations included in the reporting scope:

- The presence of relations of control and significant influence of Zarubezhneft on the financial and operational activity of organizations and subsidiaries;
- The presence of significant ecological and/or social impact of enterprises and infrastructure, as well as within the framework of new facilities and infrastructure construction projects;

Preparation for the report included interviews with managers of key Zarubezhneft business units and subsidiaries, and feedback analysis, as well as a review of opinions from clients and Company partners, the examination of reports on sustainable development by comparable companies, and the analysis of mass media publications.

The ten most important lines of the company’s activities were identified and defined through extensive discussions at meetings of the working group that prepares the report and consultations with the company’s management, its shareholder and other core parties concerned.

The Company’s most significant lines of activity has not changed since 2013, as a result this report employs a similar analysis to last year’s.

In geographical terms, the company’s productive-economic activity and its presence are wide-ranging, covering the Russian Federation and the territory of three foreign countries: Vietnam, Cuba and Bosnia and Herzegovina (the Republic of Serpska). The Company participates in the development of oil and gas fields both inside and outside the Russian Federation alongside a large number of state and private partners.

The most significant lines of activity and GRI G4 aspects

Line of Activity	Respective GRI G4 aspect
Results of the production activity and production potential development	Economic performance
Innovation development	Strategy and analysis
Corporate management	Governance
Business ethics	Ethics and due diligence
Anticorruption activity	Anti-corruption
Reduction of negative impact on environment	Reserves/Emissions/Effluents and wastes/Overall
Enhanced energy efficiency	Energy
Development of the HR potential	Employment/Training and education/Diversity and equal opportunity
HSE	Occupational health and safety/Emergency preparedness
Social activities in the regions of operations	Stakeholder engagement/Indirect economic impacts/Child labour/Local communities

G4-17, G4-19, G4-20, G4-21



Information about approaches to the management and results of activity of the Company are presented by three major segments:

- Upstream
- Downstream
- Services and other assets

In general, the level of information disclosure corresponds to results of the working group's analysis of the significant impacts connected with the aspects of the company's activities.

Level of information disclosure by the most significant GRI G4 aspects

GRI G4 Aspects	Upstream	Downstream	Services and other assets
Economic performance			
Indirect economic impacts			
Reserves			
Energy			
Emissions			
Effluents and waste			
Overall			
Employment			
Occupational health and safety			
Training and education			
Diversity and equal opportunities			
Child labour			
Local communities			
Anti-corruption			
Emergency preparedness			

The "Occupational health and safety" aspect is also essential outside the Group, in terms of those contractors involved in the company's supply chain. To reflect this, the report discloses information on approaches to the management, introduction and compliance of labour protection standards in contractor companies working at the Group's facilities.

Disclosure of the most essential themes and aspects of the Report has been based on use of managerial reporting consolidated for all the company's assets according to Russian accounting standards, statistical reporting, internal reporting on various non-financial lines of activity, as well as GRI G4 indicators. The report also includes information on joint ventures. At least one indicator of efficiency from the GRI G4 Guidelines is disclosed by the company for each essential aspect. Most of the indicators are presented with justification in three-year dynamics. Recommendations and comments received by the company in connection with the report on sustainable development for 2013 as well as recommendations of the Board on non-financial reporting of the Russian Union of Industrialists and Entrepreneurs that conducted the public attestation of the report for 2013 have been taken into consideration.

Information and data for the report are gathered both within the framework of the corporate reporting system and from special requests to the subdivisions and subsidiaries/joint ventures in accordance with the standards and indices of GRI performance once a year. After initial information is gathered, the data is then specified and consolidated.

The report also includes selective information about events that have taken place after the reporting period in 2014. Such information was used only in order to represent project and process developments and dynamics not completed in 2014.

The report also contains a range of medium-term and long-term plans. Since their realisation is influenced by a number of external factors independent of the Company, the results achieved in future reporting periods may not coincide with the target milestones specified in the present report.

IMPLEMENTATION AND INTRODUCTION OF INTERNATIONAL STANDARDS FOR CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

The following guidelines and regulations were used in the report's preparation:

- GRI G4 Guidelines
- AA1000APS Standard of accountability principles
- National Charter of the Russian Business.
- Basic indicators of efficiency of the Russian Union of Industrialists and Entrepreneurs
- ISO 26000:2010 standard
- ISO 14001:2004, ISO 9001:2008 and OHSAS 18001:2007 special standards

The Global Reporting Initiative (GRI) is one of the most recognised and at present widely used indicators of de-facto international standards, structured according to the triple bottom line principle: a company's economic, production ecology and social policy.

The G4 general reporting standard elements (GRSE) include eight major points:

- Strategy and analysis
- Organizational profile
- Identified material aspects and boundaries
- Stakeholder engagement
- Report profile
- Governance
- Ethics and integrity
- General standard disclosures for the oil and gas sector

It is important to note that in the G4 GRI (compared to GRI G3/3.1), there are new and increased requirements for information disclosure in the governance section. In accordance with G4, Zarubezhneft informs the general public and the parties concerned about the membership and powers of its committees under the Board of Directors related to and responsible for economic, social and ecological results and about the processes of defining the qualification and competence of the members of the highest governing body for working out and implementing the strategy of sustainable development – as well as about the mission and values, code of corporate ethics and management procedures and evaluation of its sustainable development activities and other aspects concerning the corporate management of sustainable development issues.

In preparing the report, Zarubezhneft used a sufficient number of performance indices as provided for by G4 and its industry appendix for the oil and gas sector for the applied level of conformity taking into consideration the Company's most essential GRI G4 aspects. The Company did not use or apply the GRI indices which are not public information and cannot be discovered or applied to our business and which do not meet Russian oil and gas sector business practices.

The AccountAbility 1000 (AA1000S) series of standards serve as an actual format of GRI and other international standards support, define procedures of interaction with the parties concerned (stakeholders), work out the social report/report on sustainable development and establish the principles of their verification and evaluation. The AA1000SES standard of interaction with companies' stakeholders is the key standard in these series. The Company used the main principles of cooperation and determination of the interests and requests of stakeholders concerned and plans to further use public dialogue in the course of elaboration of the subsequent reports for more formalisation and structuring of this interaction, as well as increasing its efficiency.

The AccountAbility 1000 (AA1000S) series of standards serve as an actual format of GRI and other international standards support, define the main principles of accountability, procedures of interaction with the parties concerned (stakeholders), and establish the principles of their verification and evaluation. The Company used the main accountability principles from the AA1000APS and standards for interaction with the Company's stakeholders from the AA1000SES.

The Company shares the principles and general provisions of the Social Charter of the Russian business of the Russian Union of Industrialists and Entrepreneurs, and considered them in the development of the contents of this report within the framework of the general process of introduction and realisation of responsible business practice. Basic performance indices of the Russian Union of Industrialists and Entrepreneurs have also been used in the elaboration of the report's content.

Zarubezhneft views the ISO 26000:2010 international standard as one of the main methodological recommendatory standards in the non-financial sphere. It defines major areas for corporate social responsibility: organizational management, human rights, labour practices, environment, bona fide business practices, mutual relations with consumers, and the participation in and development of the life of communities.

All subjects included in this standard were reflected in the present report on sustainable development for 2014, and in future the Company intends to hold a detailed

self-evaluation within the framework of this standard in order to define additional areas to be worked out. In addition to the standards of sustainable development and CSR, the company applies different special standards recognised by global practice, such as ISO 14001:2004 (ecological management system), ISO 9001:2008 (quality management system) and OHSAS 18001:2007 (HSE management system) among others.

LEVEL OF APPLICATION OF THE GRI G4 GUIDELINES

Zarubezhneft understands that with the total growth of the number of the general and standard elements of reporting according to GRI G4 standards, the report on sustainable development itself should become more compact, qualitative and flexible.

It is aimed at disclosing the most essential elements of our company's activity solely in the area of sustainable development according to the triple bottom line – taking into account the corresponding justification of importance of these subjects for the company itself, the parties concerned and the Company as a whole.

The report is prepared 'In Accordance' with the GRI G4 Guidelines – **Core option**, ensuring data provision about disclosures on management approach (4G-DMA) regarding all essential aspects (subjects), as well as information disclosure according to the requirements to general standard and specific elements of reporting for all material subjects of this report.

In accordance with GRI G4 Guidelines, information and indices were also included in the report in accordance with the Industry GRI appendix for the oil and gas sector.

The report was examined by the Global Reporting Initiative Content Index Service.

The subject of the public external verification of the report by the Board for non-financial reporting of the Russian Union of Industrialists and Entrepreneurs (RUIE) is the importance and completeness of the information disclosed about results of the Company's activity, based

on the principles of advanced and responsible business practice in accordance with the Social Charter of the RUIE Russian Business.

The report was approved by the Director General of Zarubezhneft.



ORGANIZATIONAL PROFILE



02

HISTORY OF ESTABLISHMENT

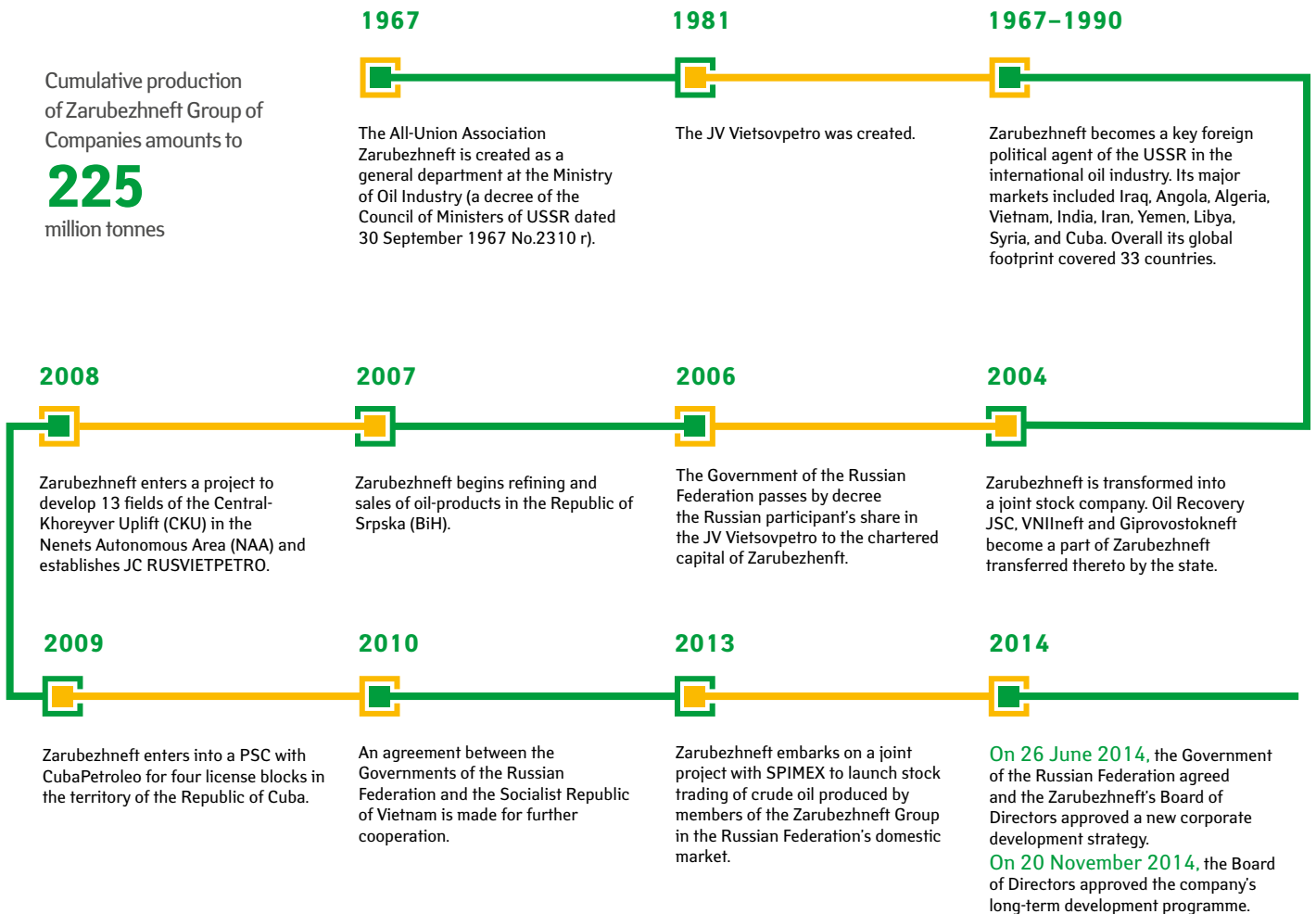
In the second half of the 1960s, after the re-establishment of the system of all-union sector ministers, an analysis was carried out on the conditions and prospects for the development of foreign economic relations considering the conditions, scale and purposes of the time, including political ones. Such work was also done in the Ministry of Oil Industry. At the initiative of its head V.D. Shashin, the administration and all divisions of the ministry worked 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) on integrated proposals that were elaborated upon and presented to the

leadership of the country. These outlined 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



MAIN DIRECTIONS OF ACTIVITIES

The Zarubezhneft Group of companies is a diversified state-owned oil and gas holding with assets and projects in the following segments:



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.



SERVICE 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.

KEY EVENTS IN THE AREA OF CORPORATE SOCIAL RESPONSIBILITY IN 2014

MARCH

Zarubezhneft joined the Anti-corruption Charter for Russian Business
Created a consultative body on the efficiency of purchases conducted by the Company and held first meeting.



JUNE

Zarubezhneft's own Oil Engineering School was created for specialists from the Corporate centre and subsidiaries.



SEPTEMBER

Held the second scientific and engineering paper competition for young specialists at the Zarubezhneft Group of companies.
Zarubezhneft's Report on sustainable development for 2013 was issued.

NOVEMBER

"12 Life Saving Rules" programme was introduced for the whole Zarubezhneft Group of companies aimed at a strict compliance of safety rules while carrying out highly hazardous jobs.

APRIL

Approved Regulations on charity and sponsorship, created a Commission for the consideration of social issues.

AUGUST

Held a professional excellence contest among oil and gas production operators from Zarubezhneft's subsidiaries and joint ventures.



OCTOBER

Agreement was signed between Zarubezhneft and Gubkin's Oil & Gas Russian State University for the creation of an academic department which will include a management degree and a master's programme with a specific focus on the "Management of foreign oil production projects".



DECEMBER

Construction and commissioning works were completed at RUSVIETPETRO's and Arctic Oil Company's facilities that allowed an increase in the usage the associated petroleum gas.

G4-6, G4-8, G4-17



MAP OF ACTIVITIES FOR THE ZARUBEZHNEFT GROUP'S MAIN PROJECTS



Upstream



Refining



Oil products sales

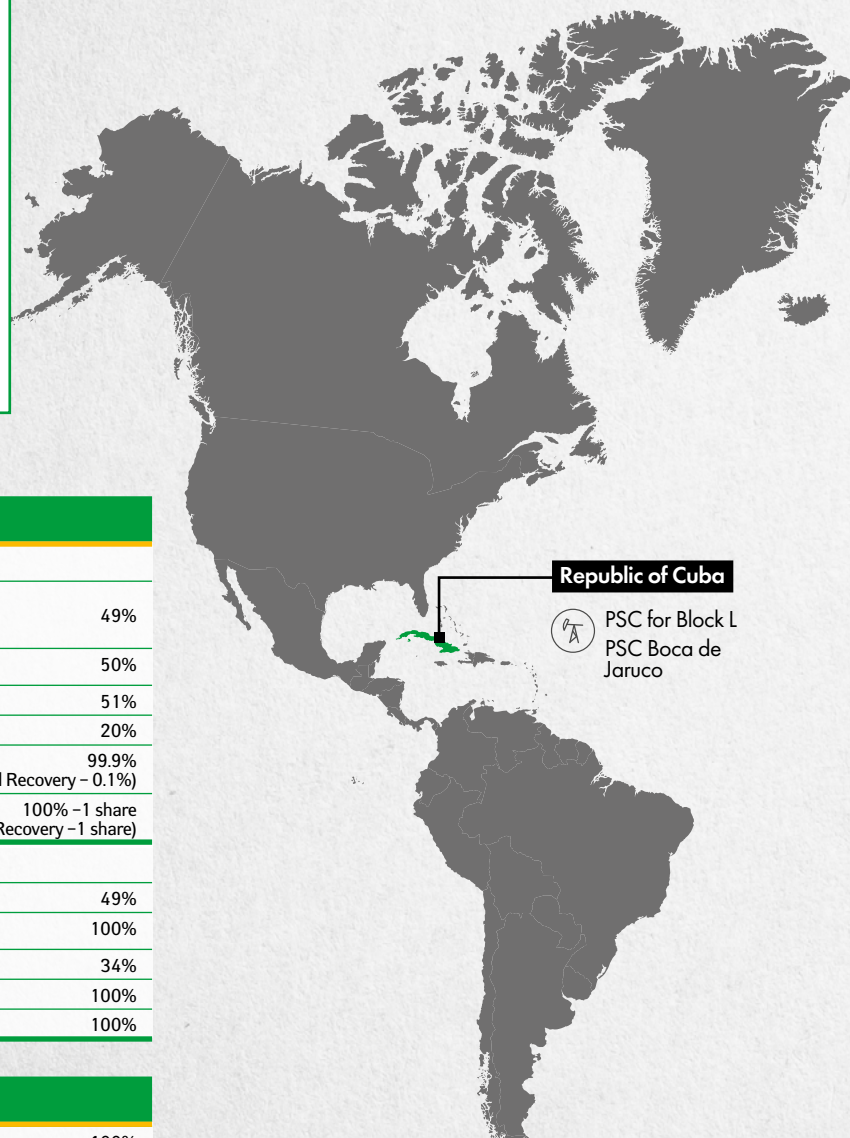


Services rendering



Scientific engineering centers

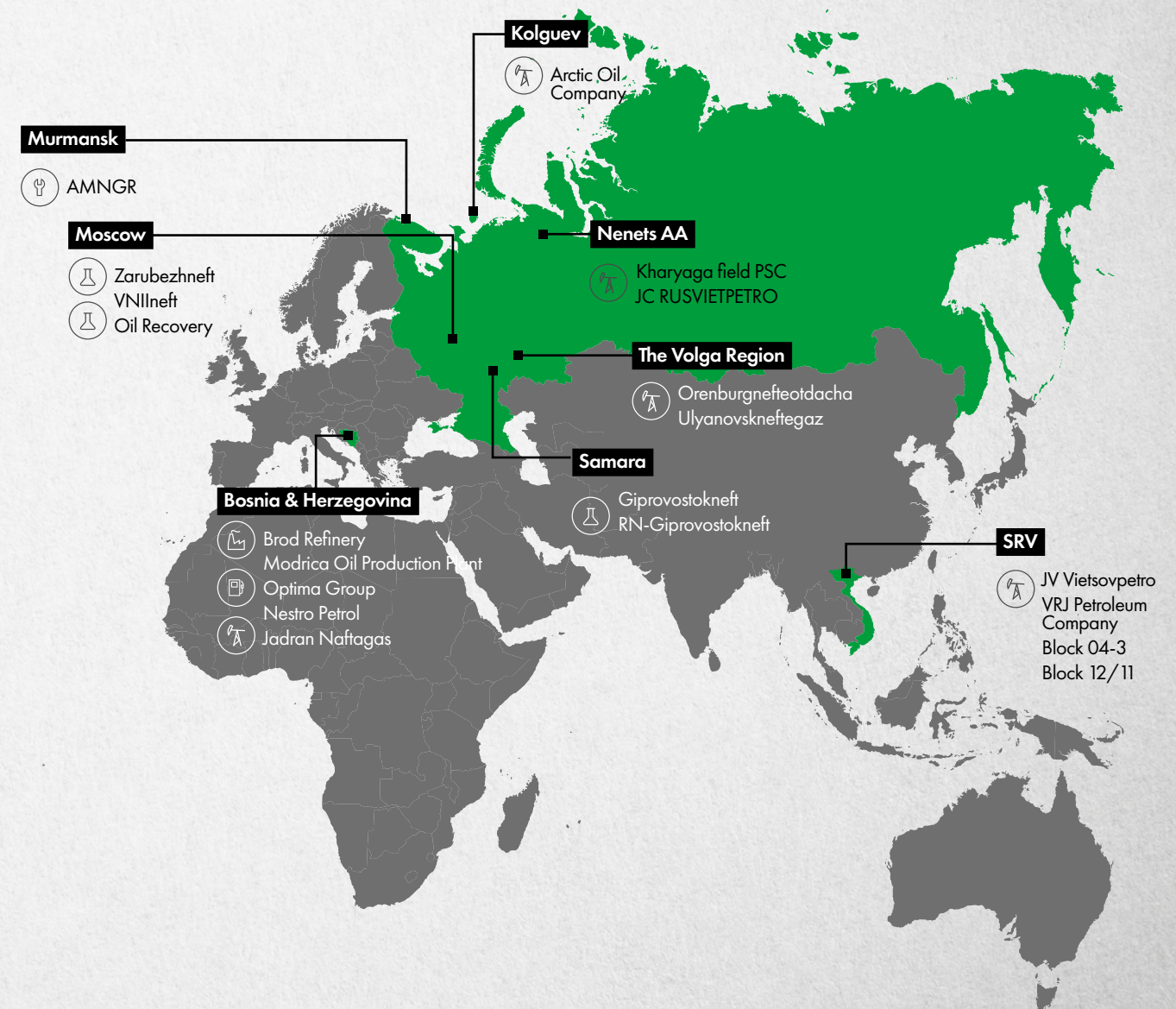
Activities geography you may see at the company site
http://www.zarubezhneft.ru/en/about_company/struktura/



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%)
Orenburgnefteodacha (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)	- 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%



Murmansk

AMNGR

Moscow

Zarubezhneft
VNIIneft
Oil Recovery

Republic of Cuba

PSC for Block L
PSC Boca de Jaruco

Bosnia & Herzegovina

Brod Refinery
Modrica Oil Production Plant
Optima Group
Nestro Petrol
Jadran Naftagas

Samara

Giprovostokneft
RN-Giprovostokneft

The Volga Region

Orenburgnefteodacha
Ulyanovskneftegaz

Nenets AA

Kharyaga field PSC
JC RUSVIETPETRO

Kolguev

Arctic Oil Company

SRV

JV Vietsovpetro
VRJ Petroleum Company
Block 04-3
Block 12/11

THE RESULTS OF THE ACTIVITIES IN THE YEAR 2014



UPSTREAM

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



CURRENT UPSTREAM ASSETS AND PROJECTS PORTFOLIO

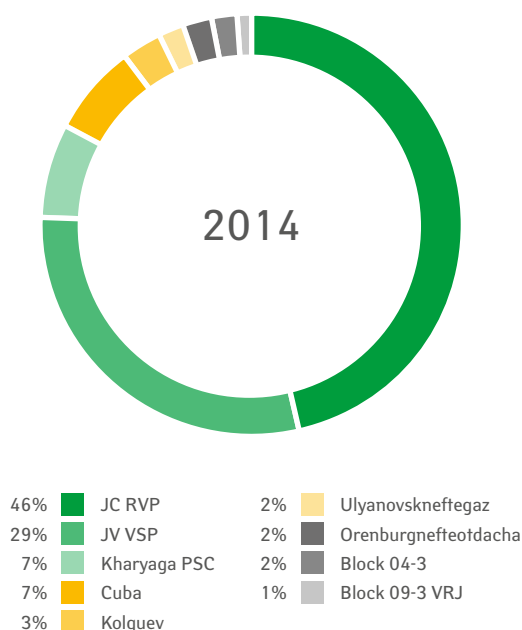
With the purpose of ensuring sustainable production growth in the medium and long term, the company is carrying out strategic exploration operations and expansion of the HC resource base.

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
General company for oil and gas exploration and production (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, Uremyrdsokoye, East-Yanemdeyskoye	Exploration and production
Total	Kharyaga oil field	Production
JSC Orenburgnefteotdacha	Pashkinskoye oil field	Exploration and production
	Kirsanovskoye oil field	Exploration and production
	Chernovskoye oil field	Exploration and production
Ulyanovskneftegaz	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
JSC Arktikmorneftegazrazvedka (Kolguev Oil and Gas Production Department)	Peschanozerskoye oil-and-gas-condensate field	Exploration and production

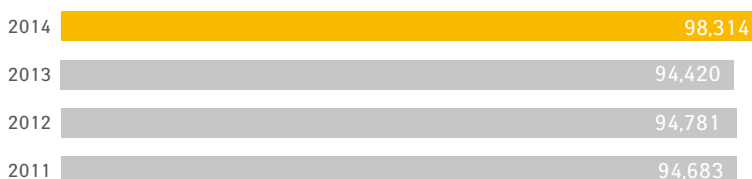
RESOURCE AND RAW MATERIALS BASE STATUS

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.

Structure of reserves as on 31 December 2014, %



Dynamics of volume of the current recoverable reserves (a+b+c1) of the group of companies of Zarubezhneft considering participation share, thousand tonnes F.O.E.



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
TOTAL, thous. tonnes F.O.E.	94,420	92,778	98,314

The total geological hydrocarbon reserves of the Zarubezhneft Group of companies in Russia and abroad (considering the contributions, under A+B+C1+C2 category) 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, under A+B+C1+C2 category) were estimated at 125.299 million tonnes of fuel oil equivalent as of 01 January 2015. The amount of total recoverable reserves considering contributions under A+B+C1 category was 98.314 million tonnes of fuel oil equivalent

at the beginning of 2015. The growth of these recoverable oil reserves was 9.349 million tonnes of f.o.e. in 2014.

The Zarubezhneft Group has a balanced portfolio of assets consisting of exploration areas and fields 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's main recoverable

reserves as of 31 December 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 on its books oil, gas and condensate reserves from 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, Uremyrskoye and Surkharatinskoye.

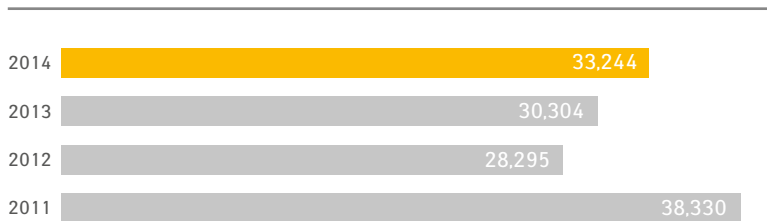
As a result of exploratory drilling and operations at production wells in 2014, Zarubezhneft's reserves volume increased by 4% compared with 2013 and by 6% compared with the 2014 forecast.

EXPLORATION

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 the Socialist Republic of Vietnam, Cuba, modernisation of the assets in Bosnia and Herzegovina).

Meterage of exploration drilling, m



+9.7%

increase of the exploration drilling in 2014 over the 2013 figure

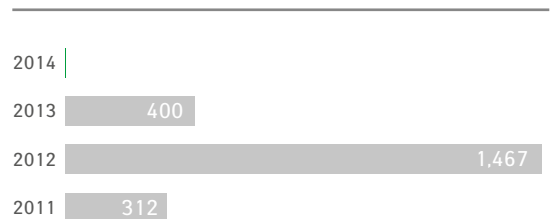
33.2

thousand m – Meterage of the exploration drilling

3D seismic surveys, km²



2D seismic surveys, line km



Project, Operator	Area	Legal form and participation share	Results of the Project in 2014
Socialist Republic of Vietnam			
09-1 Block JV Vietsovpetro	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 Vietsovpetro	offshore	Petroleum Contract of JV Vietsovpetro (55%) PVEP (30%) Bitexco (15%)	The first exploration well was drilled; new oil deposit was discovered.
04-3 Block JV Vietsovpetro	offshore	Petroleum Contract between PetroVietnam (51%) and Zarubezhneft (49%)	Preparatory works carried out for production platform construction.
12-11 Block JV Vietsovpetro	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 Vietsovpetro	offshore	Petroleum Contract between PVEP (51%) and JV Vietsovpetro (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

54%

Production share
of JV VSP

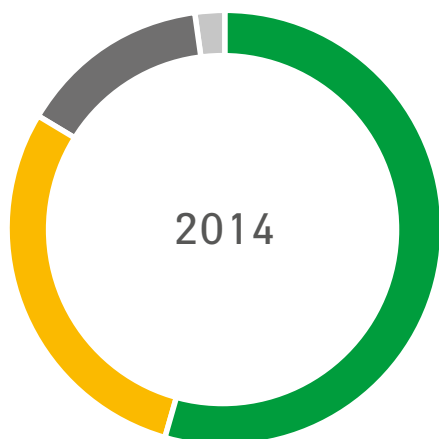
29%

Production share
of JC RVP

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 JC RUSVIETPETRO (the West-Khosedayu, Visovoye fields). These are major producing assets in the Upstream Segment.

These investment projects required geological, technological, organizational and technical activities for putting new producing 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%)

Structure of production in 2014, %



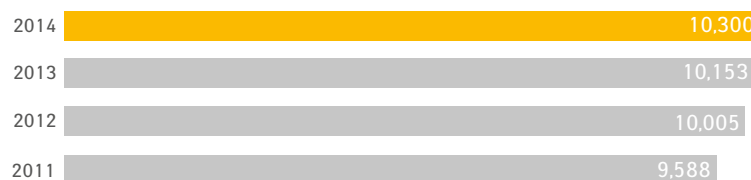
- 54% ■ JV VSP
- 29% ■ JC RVP
- 14% ■ Kharyaga PSC
- 3% ■ Others:
 - VRJ (09-3 Block)
 - ONO
 - UNG
 - Kolguev

Production considering ZN's share, thous. t.	Actual 2013	Planned 2014	Actual 2014
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
Orenburgnefteodacha	74	87	75
Ulyanovskneftegaz	23	40	31
Peschanoozerskoye field	20	18	18
TOTAL	4,640	4,623	4,746

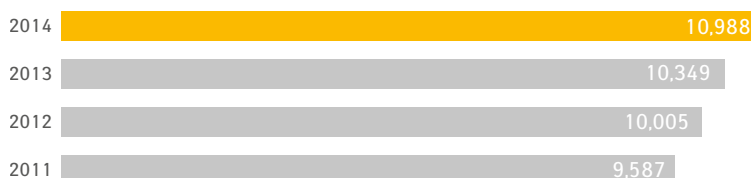
The major producing asset in both the Upstream Segment and the overall company's structure is JV Vietsovetpetro.

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

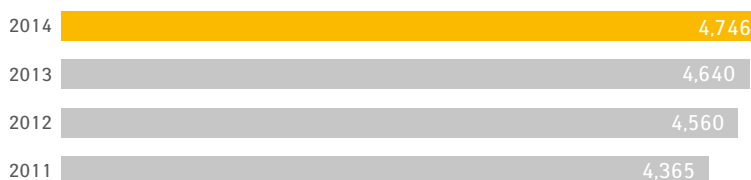
Gross oil production by the Zarubezhneft Group of companies, thousand tonnes



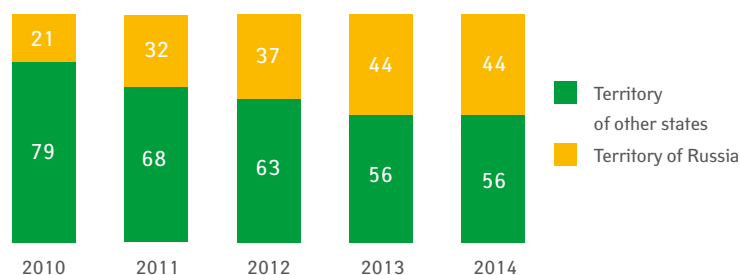
Gross oil production by the Zarubezhneft Group of companies, thousand tonnes of F.O.E.



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



Dynamics of production share according to the ZN's footprint, %

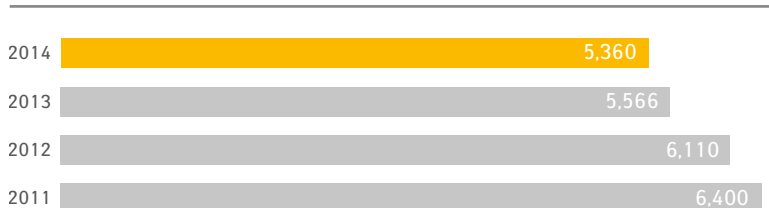


Actual oil production in 2014 considering Zarubezhneft's share was 2.3% higher than the 2013 level and 2.6% higher than that in the planned 2014 output (or +106 thousand tonnes and +123 thousand tonnes, respectively).

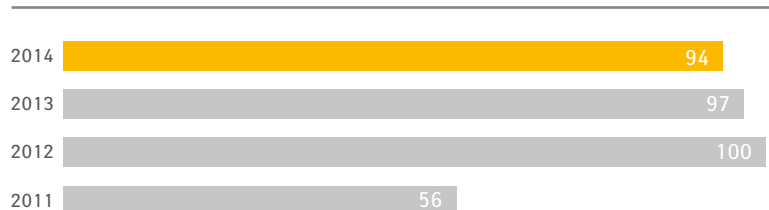
THE SOCIALIST REPUBLIC OF VIETNAM

09-1 BLOCK – JV VIETSOVPETRO

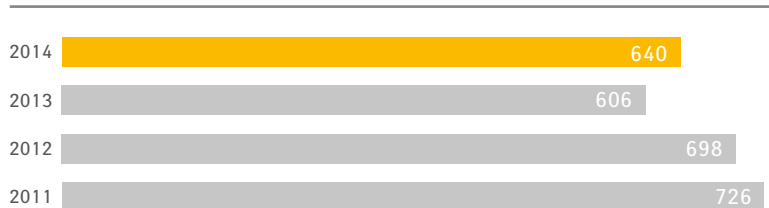
Production volume, thousand tonnes



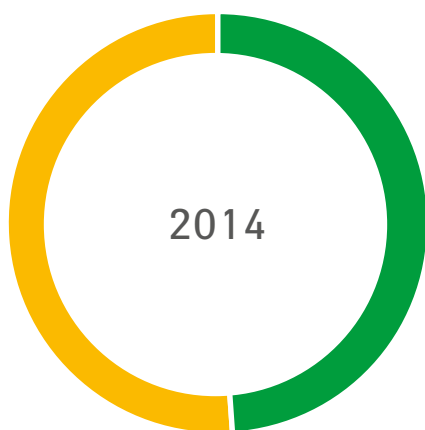
Production drilling meterage, thousand m



Capital investments, million usd

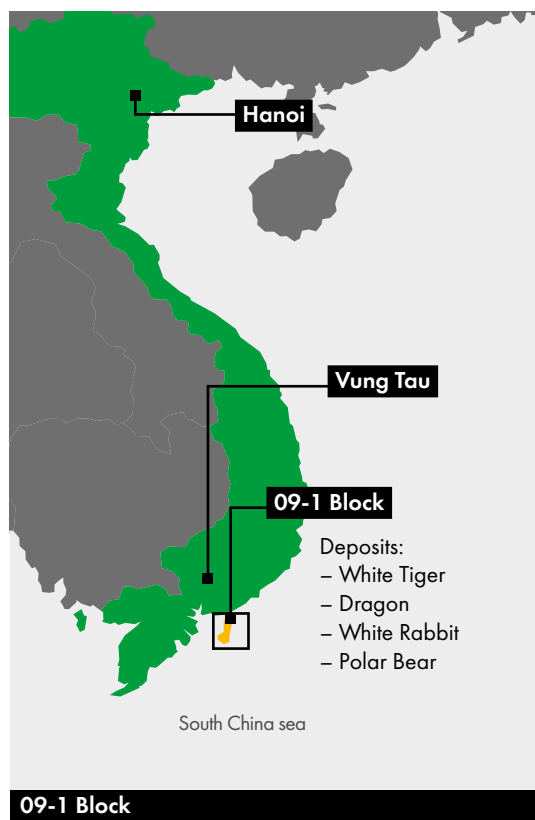


Ownership structure, %



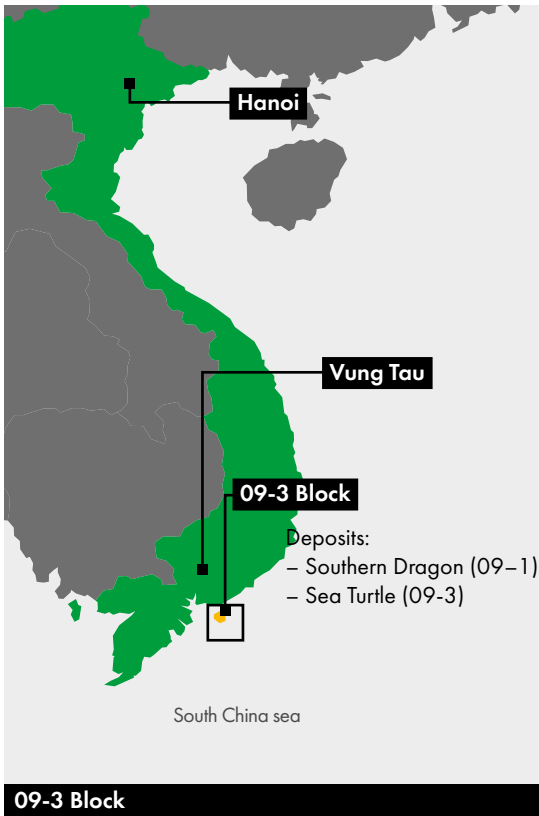
49% Zarubezhneft
51% Petrovietnam

Location

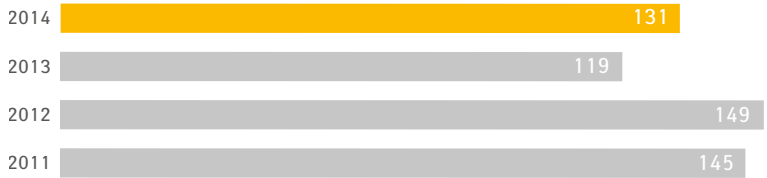


09-3 BLOCK – VRJ PETROLEUM CO

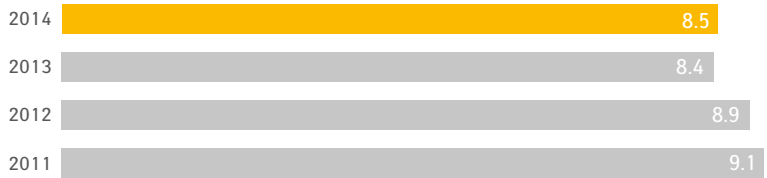
Location



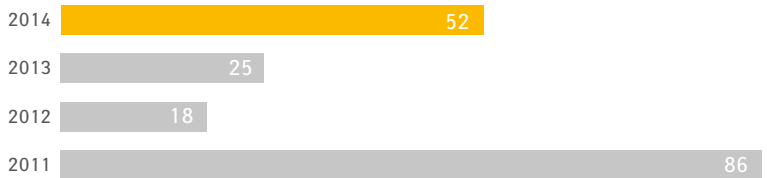
Production volume, thousand tonnes



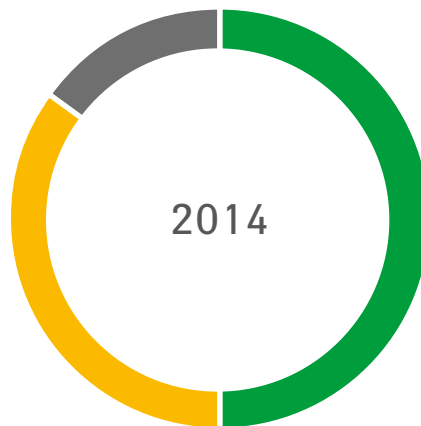
Production drilling meterage, thousand m



Capital investments, million usd



Ownership structure, %



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



12/11 BLOCK

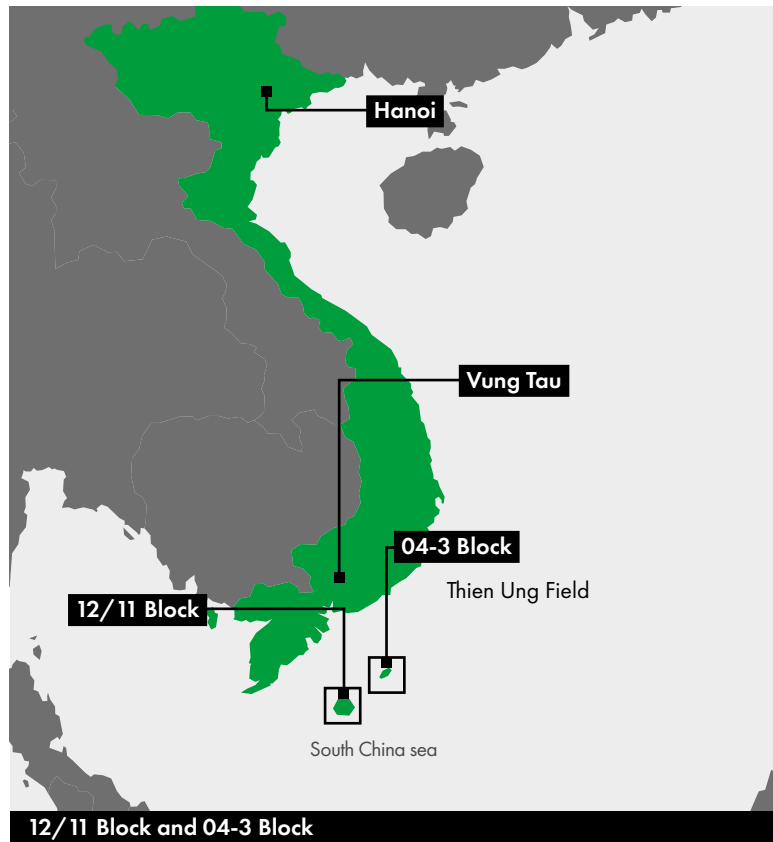
Ownership structure, %



100% Zarubezhneft

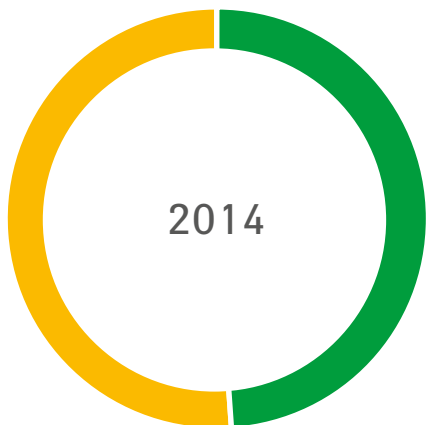
At present, the exploratory stage is in Phase 1. This includes 3D seismic survey acquisition, processing and interpretation of 1,000 km² of data and the drilling of three exploration wells.

Location



04-3 BLOCK

Ownership structure, %



49% Zarubezhneft
51% Petrovietnam

Capital investments, million usd



Commercial gas production from the block is planned for 2016.

REPUBLIC OF CUBA

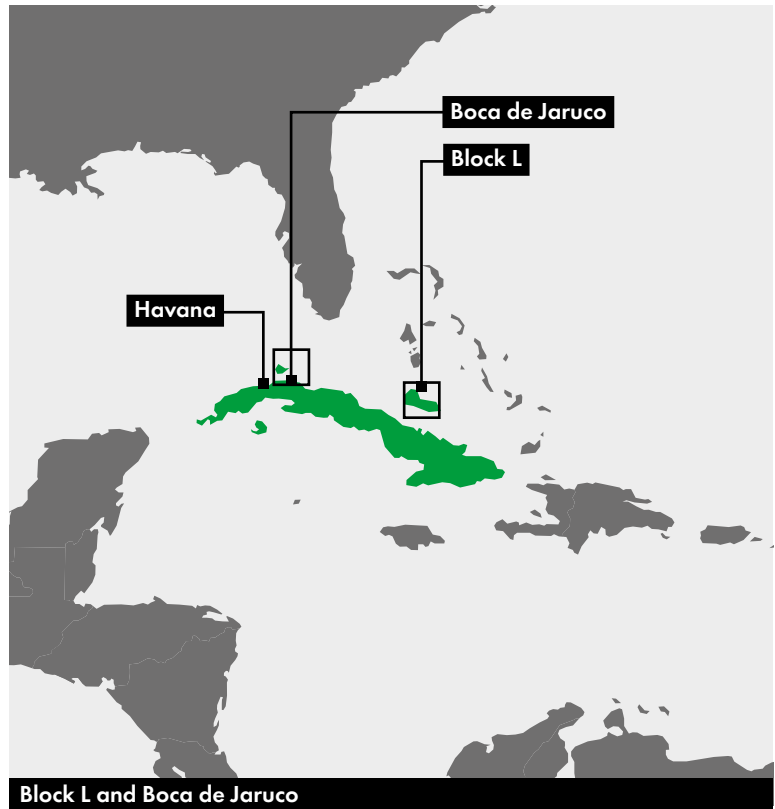
BLOCK L

Ownership structure, %



100% Zarubezhneft

Location



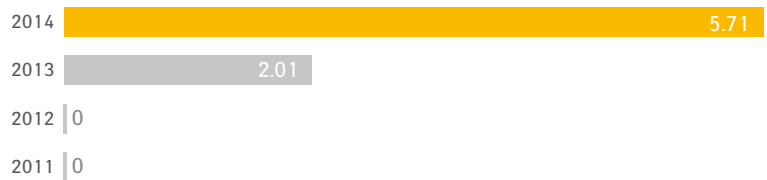
BOCA DE JARUCO

Ownership structure, %



100% Zarubezhneft

Production drilling meterage, thousand m



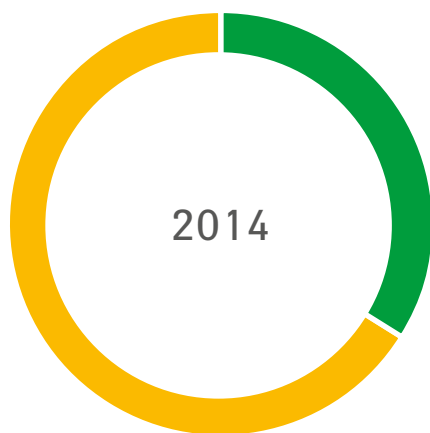
THE REPUBLIC OF SRPSKA

JV JADRAN NAFTAGAS

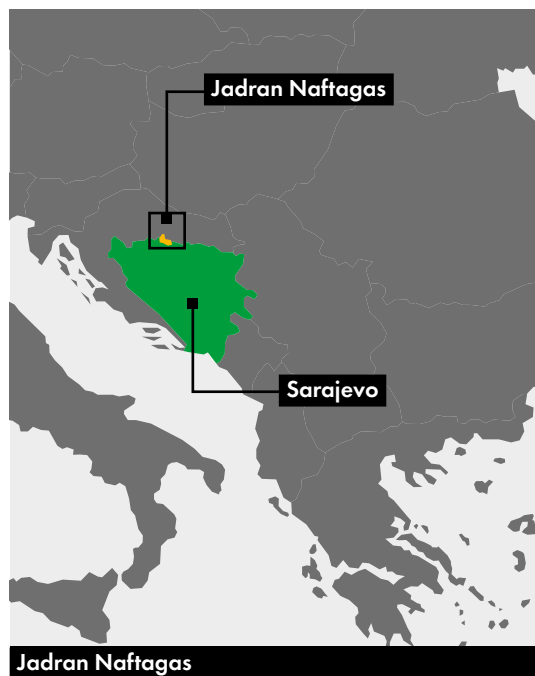
Ownership structure, %

Location

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



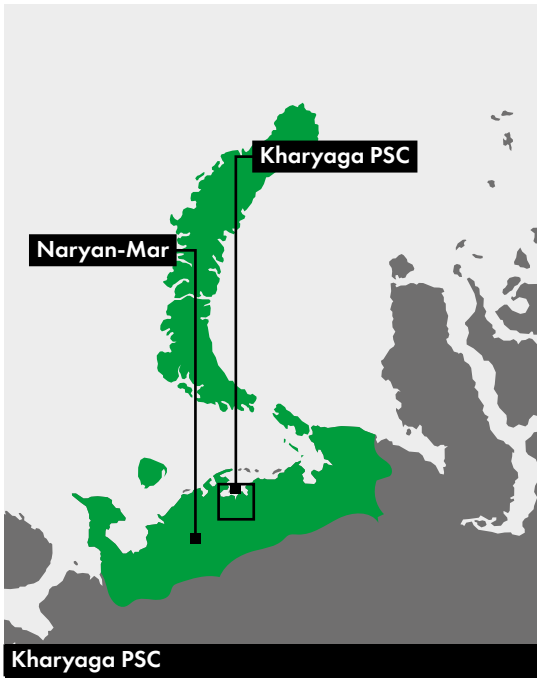
34% ■ OGIC (subsidiary of Zarubezhneft)
66% ■ NIS (subsidiary of Gazprom neft)



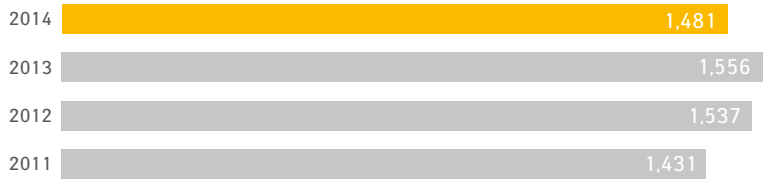
RUSSIAN FEDERATION

KHARYAGA PSC

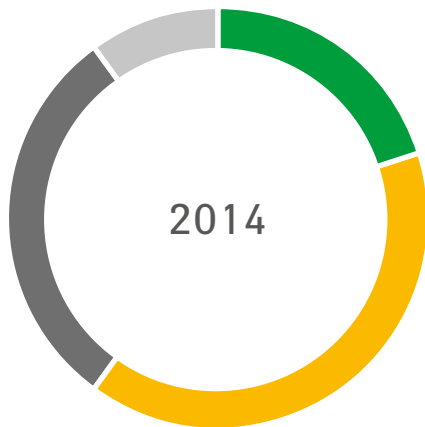
Location



Production volume, thousand tonnes

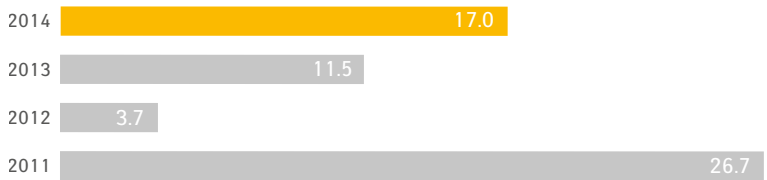


Ownership structure, %

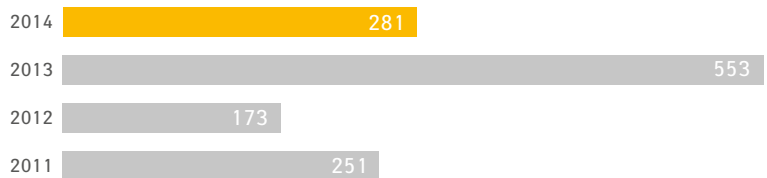


20% Zarubezhneft
 40% Total
 30% Statoil
 10% Nenets Oil Company

Production drilling meterage, thousand m



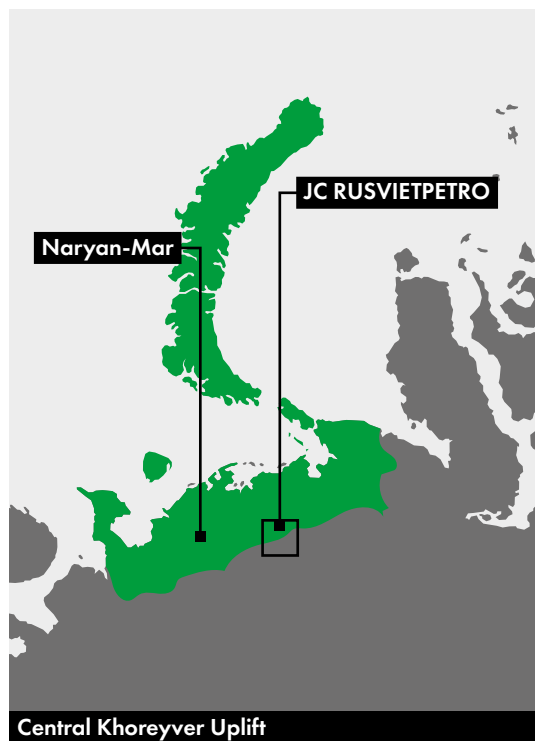
Capital investments, million usd



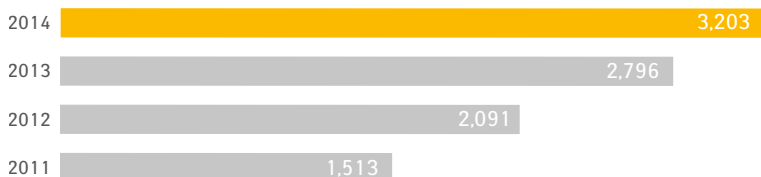
JOINT COMPANY RUSVIETPETRO



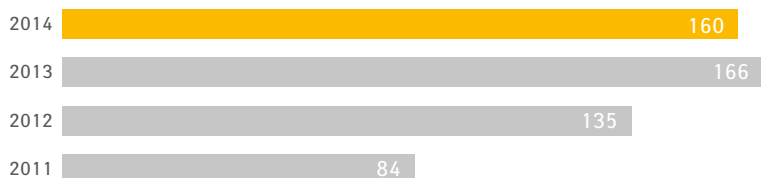
Location



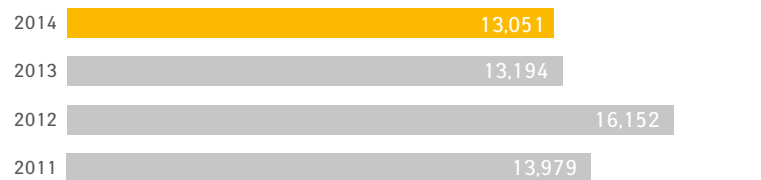
Production volume, thousand tonnes



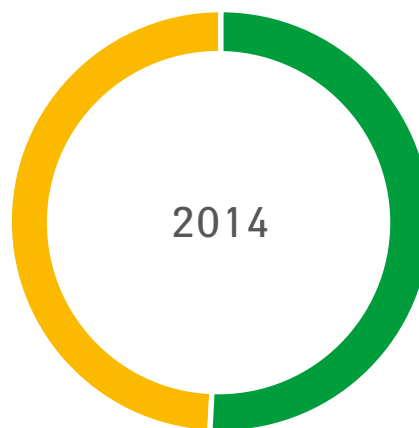
Production drilling meterage, thousand m



Capital investments, million roubles



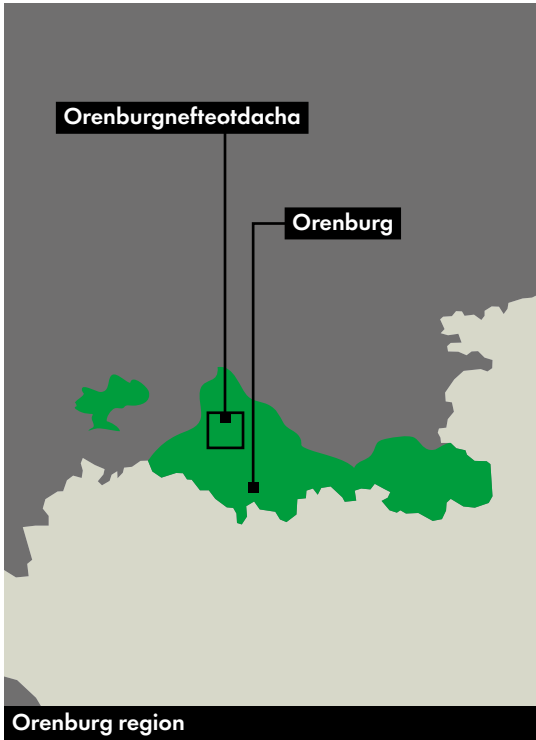
Ownership structure, %



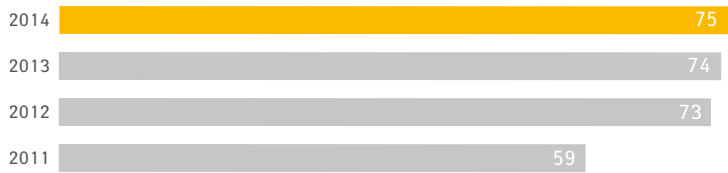
51% Zarubezhneft
49% Petrovietnam

ORENBURGNEFTEOTDACHA

Location



Production volume, thousand tonnes



Ownership structure, %

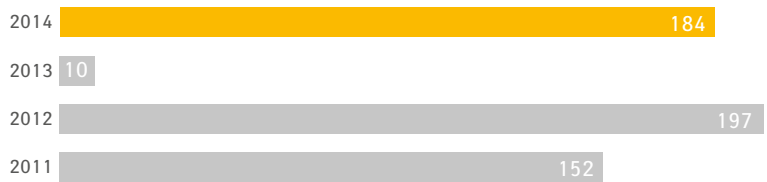


100% Zarubezhneft

Production drilling meterage, thousand m



Capital investments, million roubles

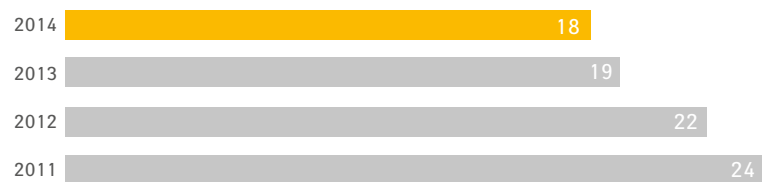


KOLGUEV OIL AND GAS PRODUCTION DEPARTMENT

Location



Production volume, thousand tonnes



Ownership structure, %



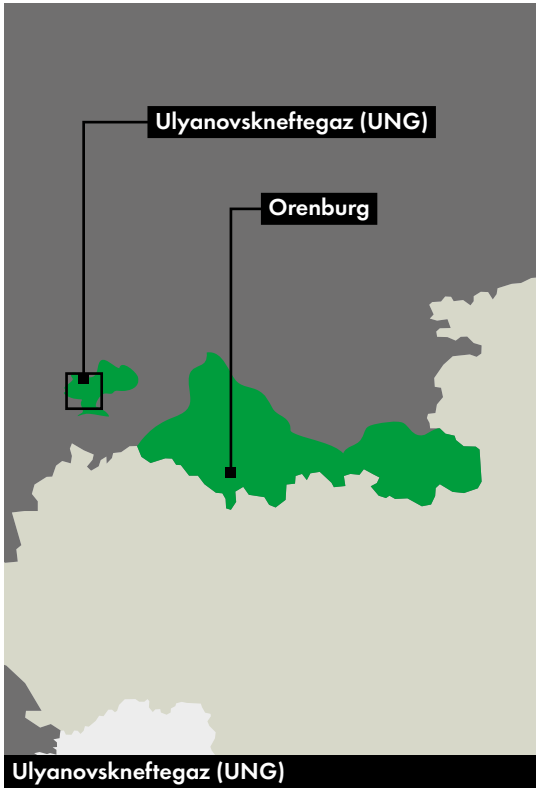
100% Zarubezhneft

Capital investments, million roubles

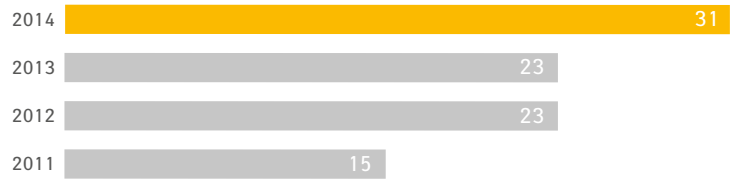


ULYANOVSKNEFTEGAZ (UNG)

Location



Production volume, thousand tonnes

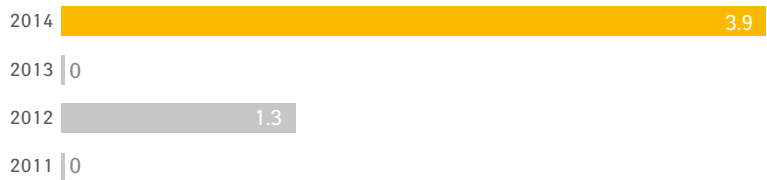


Ownership structure, %



100% Zarubezhneft

Production drilling meterage, thousand m



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] State) 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

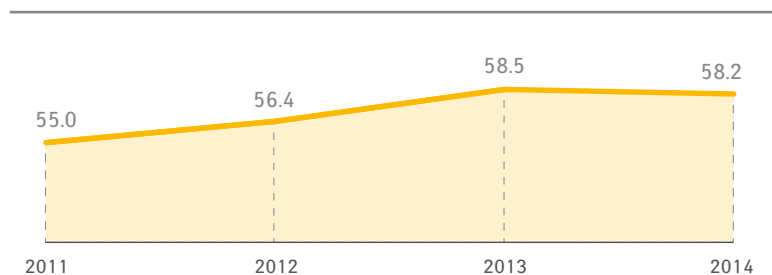
95%

Ownership share of Zarubezhneft in OGIC

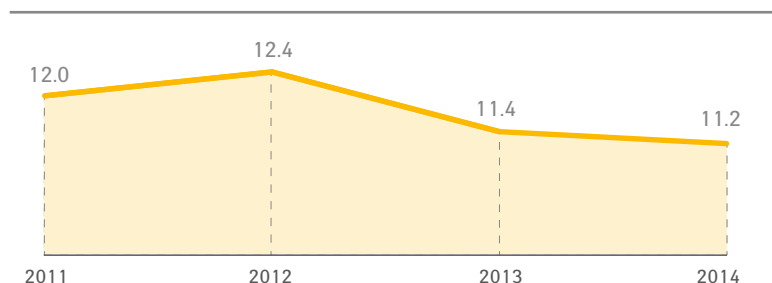
BROD REFINERY

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

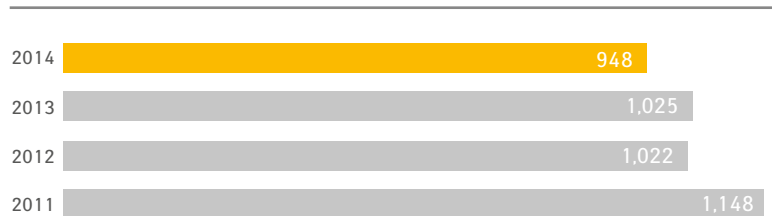
Light products yield, %



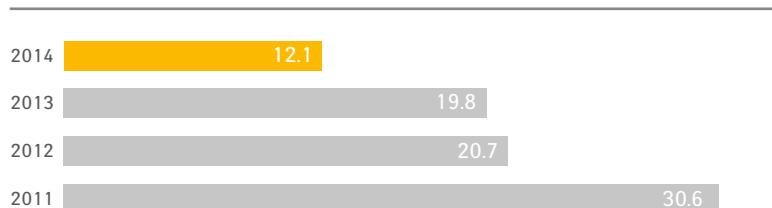
Fuel and loss, %



Refining throughput, thousand tonnes



Investments, million Euro



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 (the least marginal) market.

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 plants producing the third group of oils.

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.

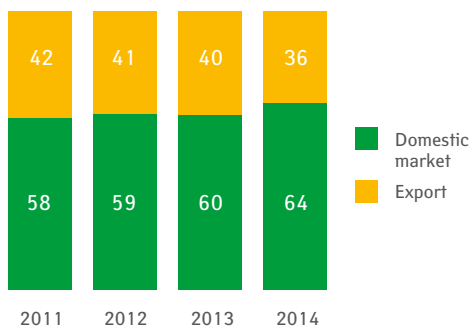
In 2014, lube distillate throughput was 28.5% lower than 2013's level. This drop was connected with the decrease in oil throughput volume at the Brod Refinery. This meant that the Modrica plant saw a reduction in the raw material received (i.e. lube basestock).

In 2014, the drop in production volumes sales of motor oil and lubricant compared with 2013 was influenced by changing relations with customers (cancellation of extending commercial credits to customers).

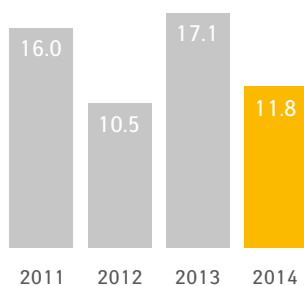
The range of the oil refinery's products is over 220 items. At present, Modrica Oil Production Plant is producing the following types of products:

- 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.

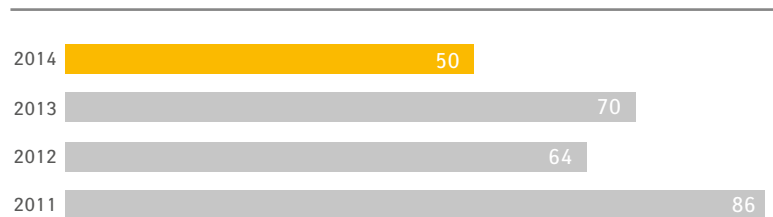
Structure of motor oils sales by markets, %



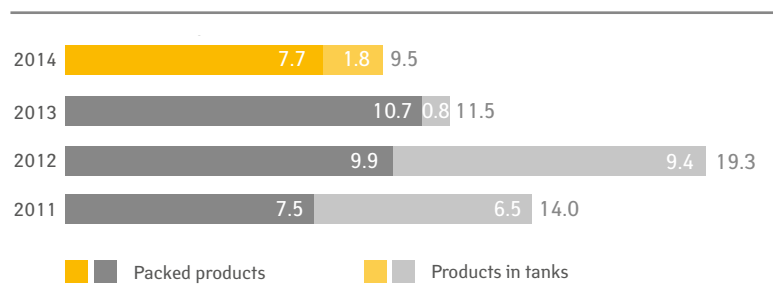
Share of oils sales on the domestic market, %



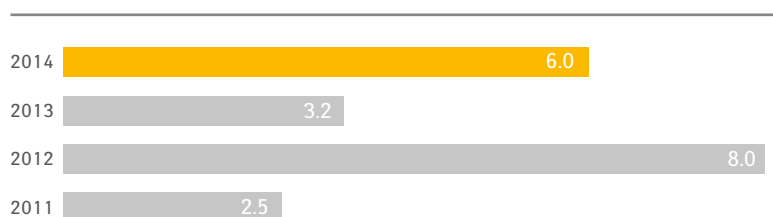
Oil distillate refining, thousand tonnes



Motor oils and lubricants sales, thousand tonnes



Investments, million Euro

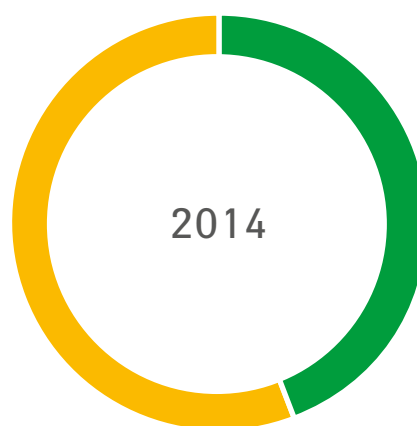


OPTIMA GROUP

The 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.

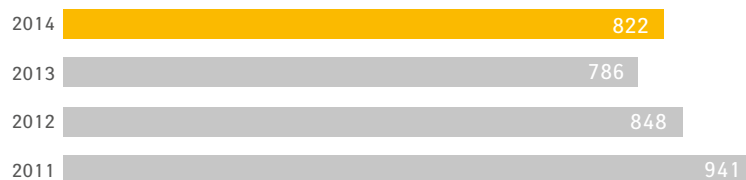
Share of oil products sales in domestic market as of 31 December 2014, %



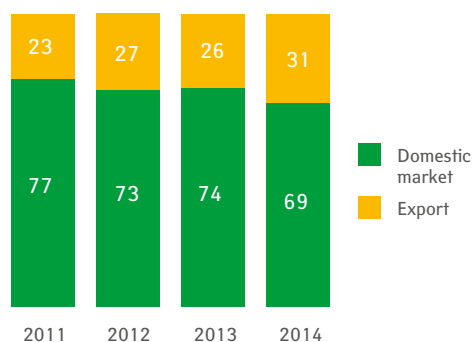
44.3% ■ Optima Group
55.7% ■ Other sellers

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

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.

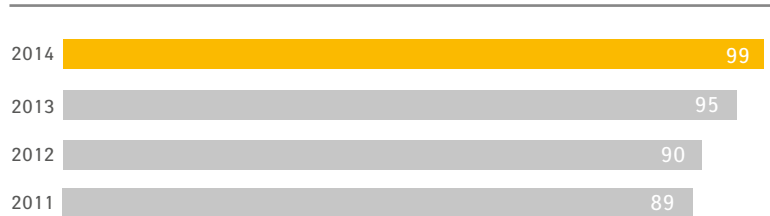
In the reporting period, the company purchased two fuel stations and strengthened its position in the local market.

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

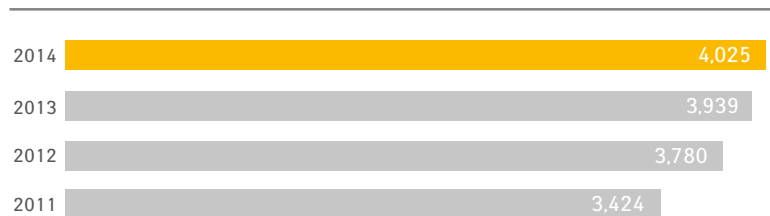
Retail fuel sales were up **4.2%**



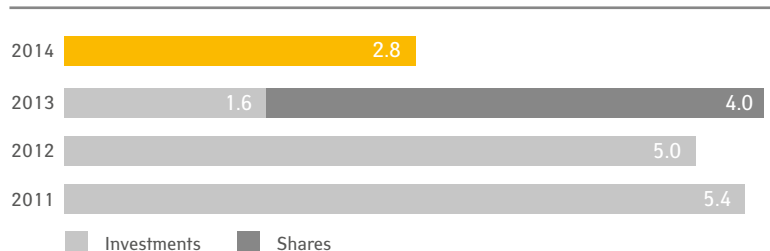
Oil-products retail sale, thousand tonnes



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.

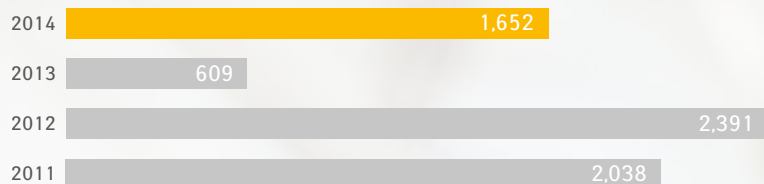
The service segment development priorities are the maximisation of synergies with Zarubezhneft's key upstream segment:

- The utilisation of VNIInet 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 customer service in the well construction and reconstruction sector with the through efficiency enhancing investments in technological solutions.

Subsidiary name	Company profile
AMNGR (Arktikmorneftegazrazvedka)	<p>Company renders services in the oil and gas sphere under the following areas of activity:</p> <ul style="list-style-type: none"> • 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); • Marine transport services by supply vessel Neftegaz-55 – provision of the safe tankers loading from remote terminals on Sakhalin Island; • Cargo-handling port servicing (as part of process and cargo berths); • Auxiliary production: maintenance engineering station, a professional technical training school and operation base.
VNIIneft	<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"> • Scientific and research focuses on development and 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; • 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.
Giprovostokneft	<p>Scientific organization 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. In 2014, an integration of the company with SamaraNIPI (OC "Rosneft" subsidiary) was started in order to strengthen competency in oil and gas fields development and well drilling. This integration will allow a full provision of the company's needs in the projects for fields development, well construction and reconstruction as well as increase in orders volume growth thanks to Rosneft's assets (creation of RN-Giprovostokneft).</p>
Zarubezhneftstroyontazh	<p>An enterprise that provides organization 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>

ARCTIKMORNEFTEGAZRAZVEDKA

Income of AMNGR, million roubles



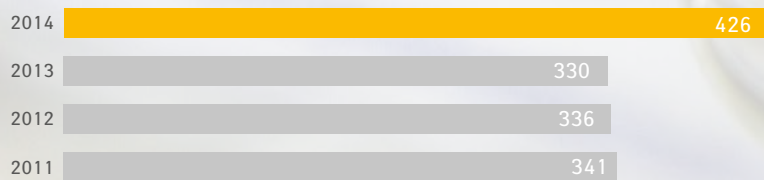
GIPROVOSTOKNEFT

Income of GPVN, million roubles



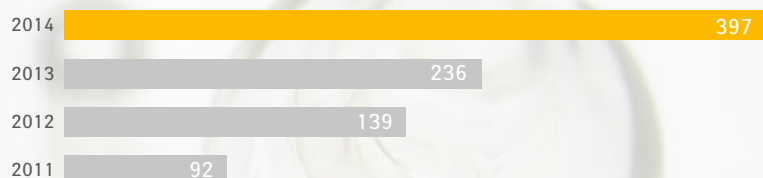
VNIINEFT

Income of VNIIneft, million roubles



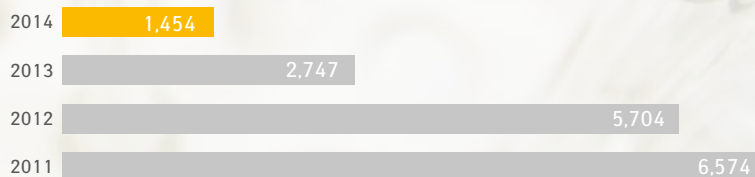
OIL RECOVERY

Income of Oil Recovery, million roubles



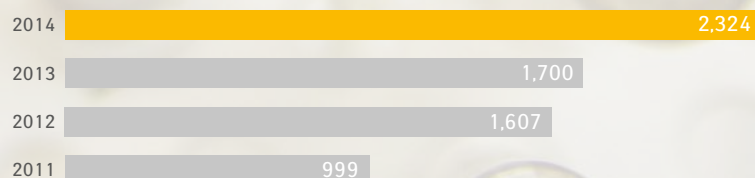
ZARUBEZHNEFTSTROYMONTAZH

Income of ZNSM, million roubles



ZARNESTSERVICE

Income of Zarnestservice, million roubles



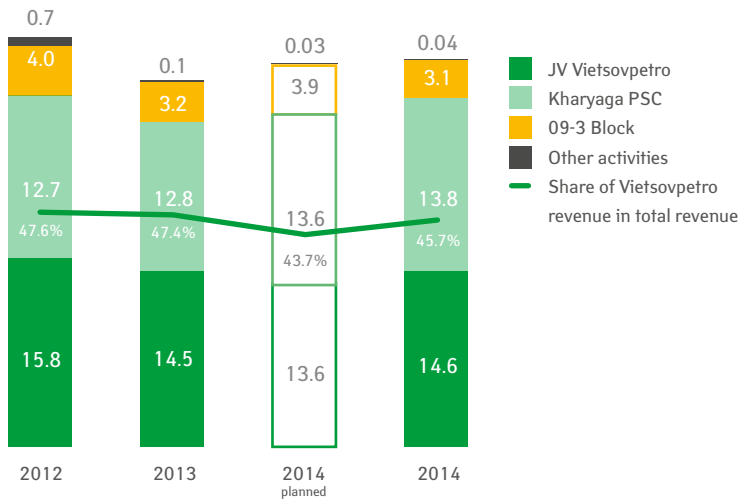
More detailed information about production and economic results of the Zarubezhneft's Group of companies' activity is available in the Company's Annual Report for 2014 and on the corporate website

http://www.zarubezhneft.ru/en/information_disclosure/

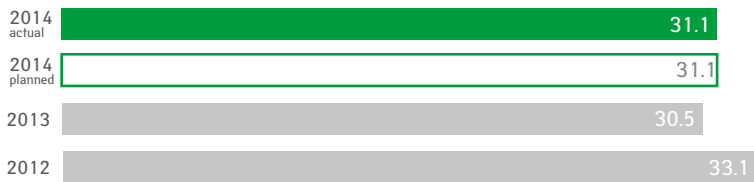


PRIMARY FINANCIAL RESULTS IN 2014

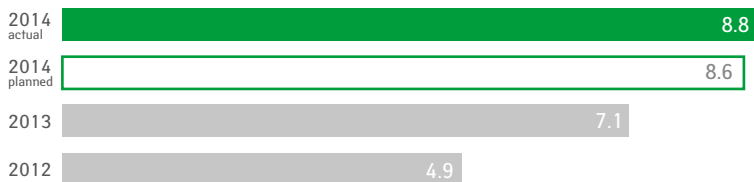
Revenue structure of Zarubezhneft for 2012-2014, billion roubles



Revenue and net profit of Zarubezhneft, billion roubles



Zarubezhneft net profits dynamics after reserves accruals, billion roubles



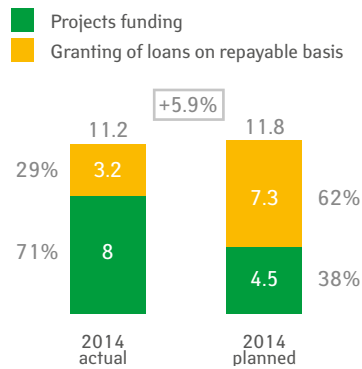
In 2014, Zarubezhneft's total revenues exceeded RUB31 billion bringing them in line with the company's target and 1.8% above the 2013 figure. Revenues from the company's joint operation with JV Vietsovpetro accounted for 45.7% of total revenues (RUB14.2 billion) with 9.9% (RUB3.1 billion) coming from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

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

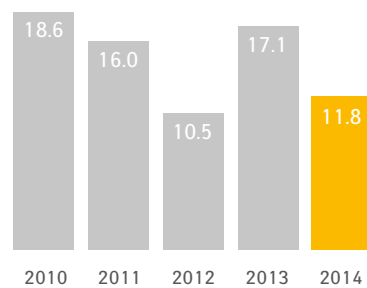
INVESTMENT ACTIVITY IN 2014

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).

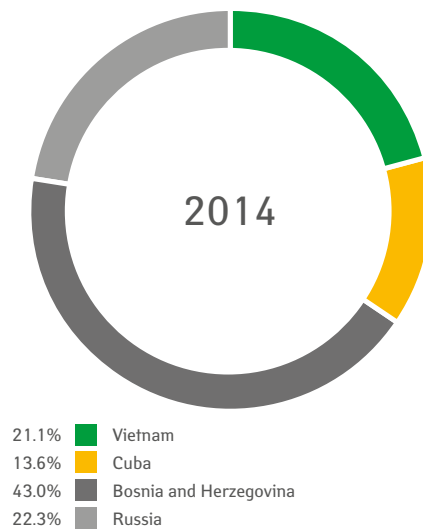
Structure of the Investment programme, billion roubles



Volume of the investment programme of Zarubezhneft for 2010-2014, billion roubles



Structure of investments by regions in 2014, %



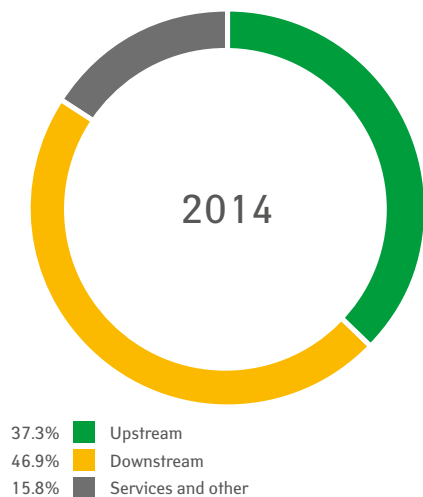
The 2014 investment Zarubezhneft plan provided for financing of Group projects in the amount of RUB11.17 billion. The planned figure was surpassed with total investment projects totaling RUB11.82 billion (105.85% of plan).

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

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 period have been considered and approved by the Government of the Russian Federation on 7 July 2014 based on the results of the meeting regarding Zarubezhneft's investment programme.

Structure of investments by segments in 2014, %



KEY CONSOLIDATED EFFICIENCY INDICATORS (KPIs)

The company's KPI system is motivated by the need for management and subsidiaries to fulfill and realise tasks set by the Government (as 100% shareholder of the company) in the form of directives and recommendations as well as target indicators from Zarubezhneft's Strategy, Long-term Development Programme, Business plan, and investment projects.

In 2014, Zarubezhneft's system of key performance indicators (KPI) was updated essentially within the framework of the organizational improvements project.

The update was implemented in order to fulfill the directives of the Government of the Russian Federation dated 25 April 2014 No. 2579n-П113 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.

In order to take into account the state's requirements, the corporate KPI system is completed with indicators in accordance with the instructions of the President of the Russian Federation, directives of the Government of the Russian Federation, Energy strategy of Russia, "Energy efficiency and energy development" state programme and recommendations on innovation development programme elaboration for the companies with state participation.

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) and General Directors of subsidiaries – 14 persons. Therefore, KPI system covers the 52 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);
- Functional KPI (Operational indicators by business directions);
- Design KPI (strategic initiatives by business directions).

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

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

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

Indicator	Units	2014	2014	% of performance
		Planned	Actual	
Dynamics of EBITDA to previous year	%	103.6	123.2	119
Dividends amount	Million roubles	3,407	3,432	101
FCF	Million roubles	4,975.8	11,061	222
ROE	%	12.7	16.7	131
Non-exceedance o the limit under NetDebt/Ebitda indicator	-	1.5	0.6	241
Gross hydrocarbon production volume (oil, condensate, gas) in participation share	Thousand tonnes	4,623	4,746	103

In 2014, Zarubezhneft overfulfilled target values under major corporate KPIs

PROCUREMENT ACTIVITIES

In 2014, a tender commission considered 290 procedures for the procurement of goods, works and services for Zarubezhneft totaling RUB28.6 billion. Purchases were carried out mostly using competitive methods (open bidding, open invitation to tender), without limitations to participation for potential vendors/contractors regardless of their legal corporate form, ownership form and location. Upon results of 2014, openness of purchases organised by Zarubezhneft amounted to 95% (in 2012 – 10%, 2013 – 62%).

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 2011 – 10.81, 2012 – 12.34, 2013 – 12.56%). The share of purchases in electronic form is growing. The plan of activities («road map») “On 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 No. 867-p) required that purchases carried out in 2014 in electronic form should not have been less than 40% of 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%.

With the purpose of broadening participation of small and medium-sized business entities in Zarubezhneft’s purchases the following have been fulfilled:

- A consultative body was created composed of representatives of the business community, public associations, sectoral scientific and educational institutions. This consultative body is responsible for the public audit of efficiency of the purchases pursued by Zarubezhneft and for the elaboration of measures and actions aimed at increasing efficiency and innovativeness of procurement activities including using means of broadening access of small and medium-sized business enterprises to Zarubezhneft’s purchases. A number of consultative body meetings were held.
- The Programme of Partnership of Zarubezhneft with small and medium-sized business enterprises has been worked out and agreed by members of the consultative body and approved by an order of the General Director.

FOOTPRINT AND SUPPLY STRUCTURE OF MATERIAL AND TECHNICAL RESOURCES

In 2014, the sales geography was formed as follows:

- Supplies for the Russian projects of JC RUSVIETPETRO, Arktikmorneftegazrazvedka, Ulyanovskneftegaz, Orenburgnefteotdacha.
- The total amount under agreements amounted to RUB19.07 billion, including RUB18.50 billion (97%) effected by the Russian vendors.
- In the structure of supplies there are mainly tubular products (casing, tubing pipes, drilling and oil-and-gas pipes), chemical reagents for oil treatment and transport, cable products, and diesel fuel. In addition, services offering research engineering, design and survey works and exploration operations were provided.
- Russian products supply to the Socialist Republic of Vietnam (SRV) for our subsidiary JV Vietsovetpetro.
- The total amount of supplies and services rendered in the SRV amounted to USD108.85 million.
- The supplies structure consisted of tubular products, vessels and jack-up rig rentals.
- Supplies for the oil production project in the Republic of Cuba (the Boca de Jaruco field)
- The total amount under agreements for Cuba (excluding purchases from the local market) amounted to RUB712.10 million, including those sold by Russian vendors worth RUB371.46 million (52%).
- In the structure of supplies there was oil producing equipment, construction materials, and services for well construction and repair.
- Supply of equipment, materials and services to Bosnia and Herzegovina (the Republic of Srpska) for the downstream segment: Optima Group, Modrica Oil Production Plant, the Brod Refinery and Nestro Petrol.
- The total amount under agreements for the Republic of Srpska amounted to USD22.02 million, including those provided by Russian vendors worth USD2.31 million (11%).
- Raw materials for motor oils production, additives, packing, catalysts and reactor pipes were amongst the most significant supplies.

SUSTAINABLE DEVELOPMENT STRATEGY



03



ROLE OF SUSTAINABLE DEVELOPMENT IN THE ACTIVITIES OF THE COMPANY

At present, sustainable development issues are becoming more and more important. Both the state and other concerned parties have increased their focus on them.

At Zarubezhneft, the understanding of sustainability principles correspond to accepted practices adopted by the international business community.

Zarubezhneft is dynamic company that has long-standing operations experience. The Company's main activity is conducted in three areas: Upstream, Downstream as well as Service and Other Assets. The company possesses almost half a century's worth of unique experience in the pursuit of its activities, and it continues to actively take on fresh challenges as well as meet society's needs.

The Company's activities exert a significant influence on a large number of people and fragile ecosystems in the regions of its operation. The Company considers expectations in relation to its socially responsible behaviour that are reflected in international and Russian law and its contractual obligations. The Company is structuring its development strategy taking into account national and regional interests.

Zarubezhneft's management recognises that the provisioning of energy efficiency is impossible without safeguarding the society's interests: economic growth and the fair redistribution of national wealth, environmental protection and economical consumption of resources, social development and dialogue with all stakeholders. The Company's updated corporate development strategy

until 2030 includes objectives for the optimisation of corporate management, leadership in technology, increasing the competitiveness of products through cost controls and a new objective of meeting the interests of a wide circle of stakeholders. The Company plans to gradually transition to an integrated system of business processes standardisation and further improvement of KPI system with the purpose of controlling and coordination of the Company's management team at all levels and along all directions.

Zarubezhneft's commitment to increasing operating and financial indicators based on a sustainable approach demonstrates the Company's desire to conduct its activities based on innovation, transparency and interaction with stakeholders on a long-term basis for mutual benefit; this is firmly fixed in the corporate values of the Zarubezhneft Group of companies.

Zarubezhneft's management is convinced that the application of sustainable development principles will become a source of competitive advantage in the long term.

PROJECTS OF INTERNAL CORPORATE IMPROVEMENT

In 2013, based on the functions maturity model (Pic. 1), 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 touch upon such areas as financial division activity, operations management, IT strategies, HR and corporate management.

Target guidelines for the company's development after 2016 will be worked out considering the the level of progress and "the best practices" adopted by management



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.

As a result of establishing a support system and the implementation of organizational improvements, which received special attention from the Company's management, in 2014, it is now possible to proceed from the "Creation of processes/functions" stage to the "Functions improvement" stage.

In 2013–2014, eight improvement projects were completed and formalised as processes. These projects led to creation/improvement in all spheres of organizational processes taking them to a new quality level.

- For the first time audit of reserves was carried out according to international standards;
- Actions were introduced aimed at reduction of energy consumption;
- Information system was created for cost control in capital construction;
- Sustainable functioning was organised in internal audit and risk-management processes;
- A process of preparation of consolidated financial statements was organised in accordance with ISFR and a respective audit was carried out;
- An electronic document flow system was introduced;
- Project decisions system was launched;
- Principles were elaborated for establishing grades and project motivation;
- Matrix of training programmes was developed and approved by types, forms and methods for each target personnel category;
- Oil engineering and Project management schools were established;
- KPI system was introduced, annual results were summarised;
- Automated budgetary accounting system was introduced.

Major tasks for 2015 will be a continuation of the project activity in order to achieve the required level of maturity of internal corporate processes, according to the best Russian and international practices, namely:

- Introduction of a unified system for subsidiaries management;
- Creation of the single IT architecture, infrastructure within a long-term IT-strategy;
- Integration into a single information space of all systems of the financial and economic section and evaluation of its working capacity;
- Assessment and development of the professional competencies of employees (Oil engineering and Project management schools);
- Implementation of a project for HR number management, optimisation of the staff schedule of the corporate centre.

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 in force in the company;
- Requirements of the external regulating bodies (the Government of the Russian Federation, Federal Property Management Agency (Rosimuschestvo) and others).

STRATEGIC DEVELOPMENT BENCHMARKS

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 to diversify the business into trading and petrochemistry segments.

Zarubezhneft has taken steps to develop the company in all segments of activity. Despite achieved results, practical realisation of the Strategy appeared to be complicated by negative market developments.

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 primary challenge facing the downstream segment is to curb losses. 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 administrative staff;
- 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 customer servicing for well construction and reconstruction with the purpose of increasing investment efficiency through the use of optimal technological solutions.

In addition to the Corporate Strategy, the company's long-term development programme until 2030 was adopted, which has been approved by the Government of the Russian Federation

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 organizational 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.

In furtherance of the Corporate strategy, a Long-term development programme has been approved upon agreement with relevant subdivisions and agencies of the Government of the Russian Federation.

To ensure control over reaching the objectives established in the Corporate strategy, a plan of top-priority actions for the Strategy implementation shall be formed annually. The plan outlines development tasks, sets target completion dates for key tasks, defines responsible 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.

MAJOR ADVANTAGES

- A unique, almost half century experience in the implementation of international oil and gas projects in state interest;
- Knowledge of work specifics in various regions of the world – over 35 countries;
- State status – 100% of shares are property of the federal government;
- Inclusion in the list of strategic enterprises of the Russian Federation;
- Stable longstanding ties with leading oil companies of Russia and the world, scientific-research and design organizations and industry institutes of the fuel-and-energy complex (FEC) of Russia;
- Extensive expertise in offshore oil production;
- Footprint expansion.

RISK MANAGEMENT

Risk management system

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.

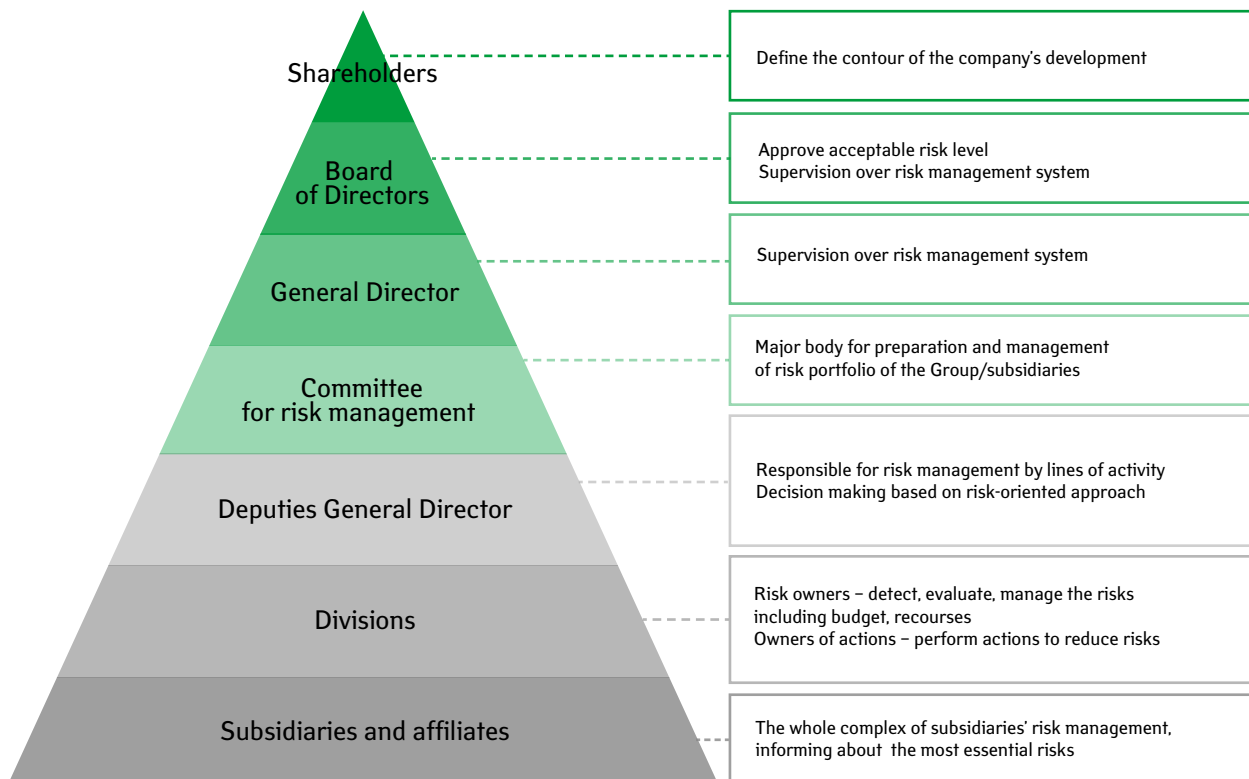
The key objectives and tasks of the risk management process are as follows:

- 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) and conducted with due regard for the international practice of the corporate management. The process 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 worked out concept of the risk management system: 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 participants of the process of the risk management system.

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 addition to this, risks have been determined in relation to Zarubezhneft's long-term development programme 2014-2033 and have been reviewed by the Government of the Russian Federation and approved by the Board.

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.

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

Risk management KPIs 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.

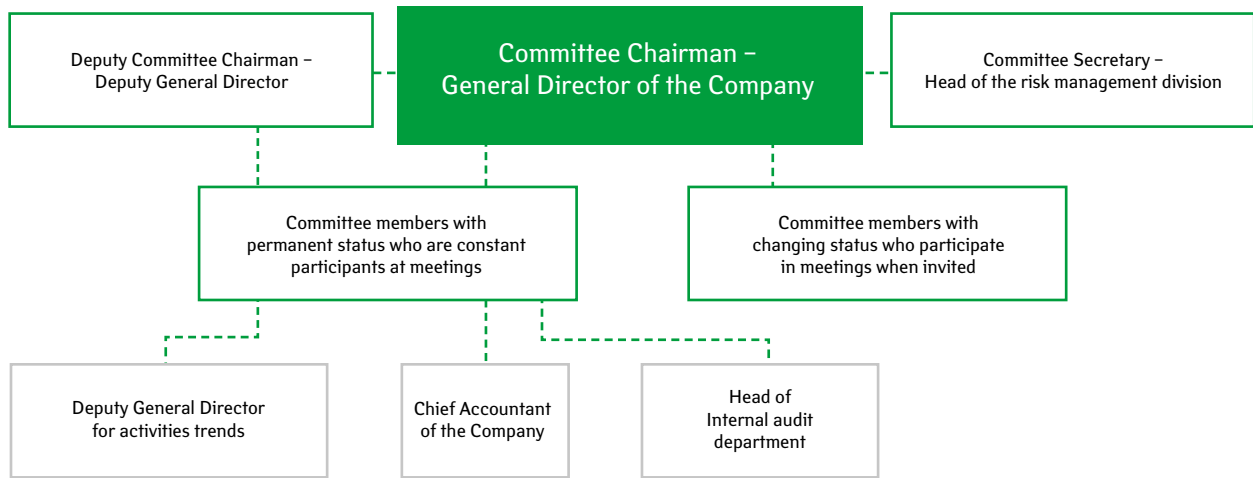
In 2014, the introduction of the risk management system began in the subsidiaries, and it will be actively developed in 2015.

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 of the 2014 and 2015 audit inspections.

Structure of the Working committee for risk management

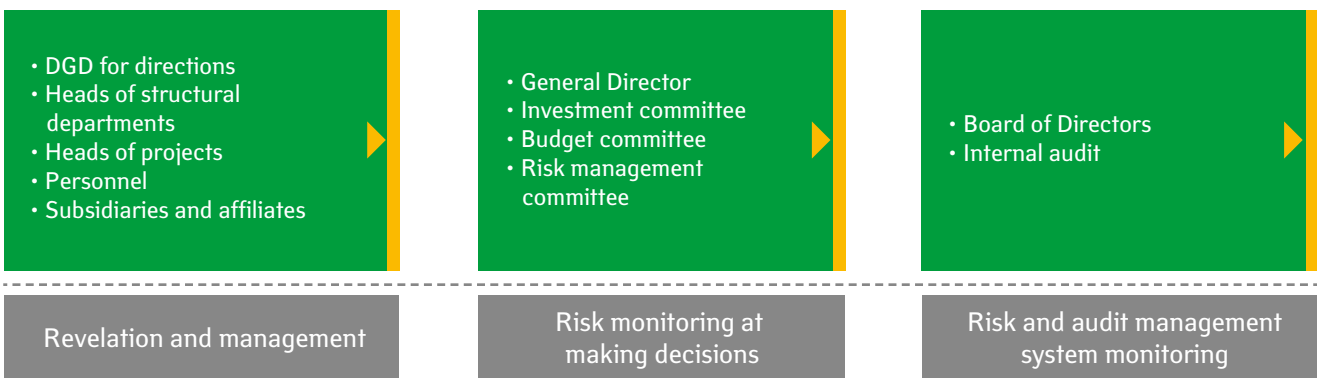


INTERNAL CONTROL SYSTEM

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.

Risk management system and Internal control system - Three defense lines in Zarubezhneft



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) organizational structure of the Company.

Within the existing corporate management structure, there is a functional internal audit division. In 2014, the division successfully completed a project to improve the organization 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 also helps with the organization of the audit 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 internal control, risk management and corporate management systems.

MAIN RISK FACTORS

The Group's activity is affected by a wide range of risks that are regulatory, legal, financial, economic, social, market, industrial, ecological, country and competitive character.


Risk management at Zarubezhneft is aimed at the provision of sustainable development and the achievement of the Company's goals in the long run.

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


- Strategic risks**
Strategic risks of the Company are connected with long-term goals as well as the impact of other industry competitors. Strategic risks are analysed with regard to the company's development prospects.
- Operational risks**
Operational risks are conditioned by features of the Company's product cycle and value-creation chain and are related to the operational processes of exploration, development, construction of field surface facilities, production, transportation, sale, refining and realisation of oil products.
- Risks connected with the preparation of reporting and management of financial resources**
Financial risks, a form of commercial risk, may arise as a result of instability in the capital markets. High RUB volatility in relation to other world currencies in 2014 had a negative impact on many Russian corporations' activity. In order to evaluate the risk at the Company's level, a scenario analysis was used and a stress-test was completed with new macro economical parameters.
- Compliance risks are related to legal requirements and regulatory authorities**
Compliance risks are conditioned by changing legislative requirements and normative regulation, ambiguousness, uncertainty, contradiction of norms of the legislation applied, changes in law enforcement practice by court and administrative authorities in the countries where Zarubezhneft implements its projects.



It worth highlighting that the integrated risk management system includes mechanisms for mitigating non-financial risks as well (in particular, ecological risks, occupational safety and health protection).



Detailed information about the Company's risk management mechanisms is available in the Annual Report for 2014 at the company site:
http://www.zarubezhneft.ru/en/information_disclosure/



GOVERNANCE

04

STRUCTURE OF THE MANAGEMENT AUTHORITIES OF ZARUBEZHNEFT

The members of Zarubezhneft's Board of Directors were elected by the Regulation of the Federal Property Management Agency dated 12 September 2013 No. 1145-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's 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 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	Rector of Gubkin's 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 2005 No.2253-p).

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

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's 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.

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)

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;

Alexander Nekipelov, Director of the Moscow School of Economics of Moscow State University.

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);

Alexander Nekipelov, Director of the Moscow School of Economics of Moscow State University;

Alexander Ivanov, Deputy Chairman – Member of the Board of SC Vnesheconombank.

Regulations on the Committee were approved by resolution of the Zarubezhneft Board of Directors on 25 November 2013.

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 organization 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, three meetings of the Audit Committee were held.

Based on the results the meetings the Zarubezhneft Board of Directors was given recommendations to approve the Annual Report of Zarubezhneft for 2013, Regulations on Zarubezhneft's KPI system, Regulations on annual remuneration of managerial staff at Zarubezhneft, Regulations on the long-term system for motivation of managerial staff at 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)

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);

Alexander Bazhenov, General Director Federal centre of the project financing;

Victor Martynov, Rector of Gubkin's Russian State Oil and Gas University, independent director

Members of the Committee (elected after the annual general meeting of shareholders of Zarubezhneft):

Victor Martynov, Rector of Gubkin's Russian State Oil and Gas University, 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 Ivanov, Deputy Chairman – Member of the Board of SC Vnesheconombank.

In accordance with the Regulations on the Staff and Remuneration Committee under the Zarubezhneft Board of Directors (approved on 26 November 2013 (Minutes of the Meeting No. 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 the Company's KPI target values.

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

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 OF THE COMPANY

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 organizations

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.

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

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

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 Nizhneartovskneft, 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 July 12, 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. ERKE

First Deputy Director-General

In 1985, Mr. Erke 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 RN-Yuganskneftgaz.

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 Director-General of Zarubezhneft.

He holds the title "Honorary oil industry worker" of the Ministry of Energy of the Russian Federation.

Not a shareholder.



ALEXANDER V. DASHEVSKIY

Deputy Director-General for Production

In 1990 Mr. Dashevskiy graduated from Grozny Oil Institute as mining engineer, in 2003 – from Russian Oil&Gas University named after Gubkin with engineer-economist.

About ten years he worked at oil enterprises in Gubkin City, Yamal-Nenets Region of Russian Federation, working his way up from oil production operator to department head.

From 2000 to 2005, he worked in Tomskneft West Oil Company.

In 2005 was transferred to Rosneft, where took positions of Prospective Planning and Investment Projects Department Head and Oil and Gas Production Department Head.

Since 2013 has been working as Senior Vice-President for Oil and Gas Production in Oil Company Bashneft.

From 2013 to 2014, he occupied the position of First Deputy Director-General of JV Vietsovetro.

In July, 2014, became Deputy Director-General for Production in Zarubezhneft.

Not a shareholder.

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SERGEY V. KRAVCHENKO

Deputy Director-General of
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 with a PhD in Technical Sciences.

Starting in 1992, he worked in the structures of Yuganskneftegaz.

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 and Nefteyugansk.

Since 2003: Deputy Director-General in charge of economics and finance at TNK-Nyagan.

In 2008: Director-General of TNK-Nyagan.

From 2012 to 2013: Commercial Director of Yamal-Gaz Division, TNK-BP Management.

In February 2013: Deputy Director-General of Zarubezhneft.

Not a shareholder.



IGOR P. ZAIKIN

Deputy Director-General 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 the state oil and gas wells drilling company VAN-EGAN in Nizhnevartovsk.

Since 1996: worked at Lukoil-Bureniye in Samara city 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 in Rosneft.

Since 2012: Director of Drilling Department in Oil Company Bashneft.

Since July 2013: Deputy Director-General for Project Development and Well Operations in Zarubezhneft.

Not a shareholder.



IGOR S. AFANASIEV

Deputy Director-General for
Geology and Development

In 1994 Mr. Afanasiev graduated from Novosibirsk State University.

From 2002 to 2004 he worked at YuganskNIPIneft (Ufa).

From 2005 to 2006 he occupied the position of Development Technologies Department Head at Rosneft's Integrated Scientific-Technical Centre.

In 2006 he was transferred to the position of Deputy Director of Rosneft's Integrated Scientific-Technical Centre.

From 2007 he worked as Fields Development Department Director at Rosneft.

In August, 2014, became Deputy Director-General for Geology and Development in Zarubezhneft.

Not a shareholder.



VLADIMIR M. NOZHIN

Deputy Director-General for Development

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 Kasporneft Association.

In 1975, he was sent to Western Siberia, to Glavtumenneftegaz, where he worked in the Yuganskneftegaz Production Association in various positions from geologist to the Head of Pravdinskneft Production Enterprise, and Chief Engineer of the Yuganskneftegaz Production Association.

Since 2000: Head of Oil Production Monitoring Department, and then Vice-President for Science, Field Engineering and Monitoring in YUKOS-EP.

Since 2007: Director-General of Samaraneftegaz.

Since April 2013: Deputy Director-General of Zarubezhneft for Development.

Mr. Nozhin is an Honorary Worker of the Ministry of Fuel and Energy, YUKOS, Rosneft.

Not a shareholder.

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VALERY A. KLINCHEV

Deputy Director-General

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: Director-General of Tebukneft.

In 2000, Mr. Klinchev was appointed first Deputy Director-General in the Federal State Unitary Enterprise Ukhtaneftgazgeologiya.

In 2003, he worked in Zarubezhneft, occupying top positions in the Projects Development and Implementation Division.

From 2004 to 2008, he was First Vice-President, and later Director-General of Oil Recovery.

Since 2008: Director-General of Joint Company RUSVIETPETRO.

Since February 2010: Deputy Director-General 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 of the Socialist Republic of Vietnam.

Not a shareholder.



ANDREY V. OZEROV

Deputy Director-General 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 positions. In 2000, he graduated from the G.V. 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 at executive positions in YUKOS-RM companies.

Since 2012: Advisor to the Director-General of Lider Managing Company (Gazprom) and then Major Projects Director in Ryazan Refining Company (Rosneft).

Since October 2013: Deputy Director-General for Downstream Sector in Zarubezhneft.

Not a shareholder.



ALEXANDER Y. VORONIN

Deputy Director-General 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 Gottingen, 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 Director-General 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 2nd 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 Director-General for General and Human Resources Management Issues

Mr. Kovalenko graduated from the Military Academy and the Military Institute of the Ministry of Defense of the Russian Federation. He occupied various posts in the Ministry of Defense of the Russian Federation.

From 1992 to 2000, he worked as First Deputy Director-General at Pronto-Moskva International Holding.

Since 2002, he has been Deputy Director-General of Zarubezhneft for General and HR Management issues.

He has been honored with state awards of the Russian Federation.

Not a shareholder.

DIVIDEND POLICY

The dividend policy of Zarubezhneft was approved at the meeting of the Board of Directors on 28 October 2011.

In accordance with the dividend policy, Zarubezhneft will ensure the annual growth of the dividends paid in favor of the Russian Federation, contingent on the the Company's increase in net profit and all investment projects of Zarubezhneft being carried out successfully in accordance with the Company's business plan as approved by the Board of Directors.

Over a period of several years, Zarubezhneft has remained one of the top Russian companies in terms of dividend amount transferred to the budget of the Russian Federation.

The basic principles of the Zarubezhneft dividend policy are:

- Optimum configuration 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.



INNOVATIVE DEVELOPMENT

05

TASKS AND PROGRAMME OF INNOVATIVE DEVELOPMENT

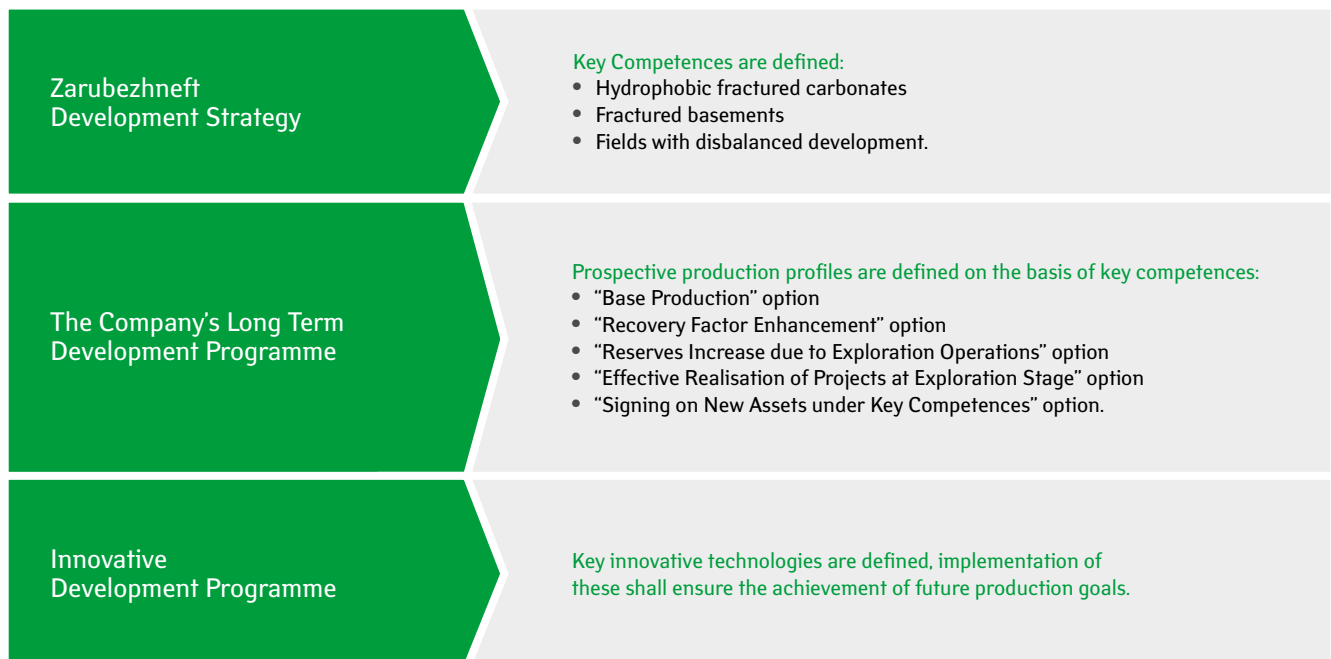
As a representative of state interests on the global stage, and following both modern trends for oil and gas business development and state policy priorities, Zarubezhneft pays special attention to the development of competitive scientific and technical policy as well as the formation of a strategic innovative approach to production activities and organizational development.

In 2014 the Company achieved its first significant results in innovative activities, preparing the base for further development and implementation of technological competencies, which provides a huge competitive advantage in the global market place.

In April, 2013, Board of Directors of the Company approved the Programme of Innovative Development, according to which major studies in the application of new technologies to oil and gas production operations are being performed:

- Development of fractured hydrophobic reservoirs;
- Development of small-sized terrigenous reservoirs of block structure;
- Development of complex fields with imbalanced development systems, including depleted ones.

The Programme of Innovative Development is integrated into the package of Company's strategic documents and is aimed at its Strategy realisation:





The Programme's engineering portfolio includes groups of projects targeted at the increasing efficiency of all types of fields, which are under production by the enterprises that comprise Zarubezhneft.

In 2013–2014 four projects of the Innovative Development Programme were completed:

- Technology for the thermo-hydro-dynamic control of fractured granitoids was implemented; as a result of this application a model was created that localises residual oil reserves in the White Tiger Field basement;
- A concept was developed for using integrated technology for the development of basement oil pools taking into consideration the specific geological features;
- Studies of the influence of geo-mechanical processes on field development were completed. As a result a geo-mechanical model for CKU fields was created, on the basis of which plans have been put in place to design and perform acid fracturing at JC RUSVIETPETRO;
- Development of technology and compositions for the isolation of behind-casing leaks and inter-formational cross flows in carbonate reservoirs at CKU fields was completed. Based on the project's results in 2014 two isolation technologies were tested (with compositions on the basis of diesel-oil cements and polymer-helium systems). As a result of the field tests on new isolation technologies in four wells, additional oil production was realised amounting to 3.036 thousand tonnes. Expected additional production by the end of 2015 is 7.25 thousand tonnes.

In 2014 the Company began the export of innovative Russian solutions and technologies (including proprietary):

- Under the project entitled "Invention of technology for low permeable carbonate reservoirs development by application of thermo-gas stimulation method" a compressor station for air injection into formations of the Vishanskoye Field (Republic of Belarus) was commissioned on 11 July 2014; compared to baseline production, well-oil rates at the pilot area increased by 1.5–2 times.
- Application of modern steam generators and Russian-made high-temperature ESPs were introduced to increase the efficiency of the Boca de Jaruco Field (Republic of Cuba), which is characterised by high viscosity oils.
- Introduction of thermo-hydro-dynamic control for fractured granitoids increased the accuracy of reserve localisation for side-tracks drilling at White Tiger Field (Vietnam).
- Implementation of proprietary software for production enterprises in Vietnam is currently underway.

During the reporting year, all major activities on the projects were completed; expenditures on studies and research at the corporate center reached RUB125.7 million; the scope of technology testing at subsidiaries was RUB56.964 million; the total expenditures on studies and research was RUB182.74 million.

The share of costs on R&D activities reached 0.42%, which is above recommended level for R&D (0.3%).



Cuba

INNOVATIVE SOLUTIONS DURING THE REALISATION OF THE BOCA DE JARUCA PROJECT

Application of modern steam generators and Russian-made high-temperature ESP shall increase production efficiency at the Boca de Jaruco Field, characterised by high viscosity oils.



Belarus

VISHA THERMO-GAS PROJECT

Joint Zarubezhneft-Belarusneft project on pilot testing of thermo-gas stimulation technology, owned by Zarubezhneft, at Vishanskoye Field



Vietnam

IMPLEMENTATION OF NGT SMART SOFT WEAR IN PETROVIETNAM ENTERPRISES

NGT Smart – unique Russian soft-wear complex for engineering calculations during development and production operations. Zarubezhneft jointly with Petrovietnam is carrying out a project on its implementation in Vietsovpetro and other producing enterprises in Vietnam.

APPLICATION OF TECHNOLOGY FOR THERMOHYDRODYNAMIC CONTROL OF FRACTURED GRANITOIDES DEVELOPMENT.

Application of the technology increased accuracy of reserve localisation for side-tracks drilling at White Tiger Field.



In 2014 the Zarubezhneft Group of Companies was active in testing and implementing operations and new technologies at subsidiaries' production facilities under following major directions:

JV VIETSOVPETRO (VIETNAM)

- "Production wells bottom-hole zone treatment by complex chelate compositions for oil production stimulation". Pilot tests were performed in three wells. Total additional production for these wells reached 2,077 tonnes as of 01.11.2014.
- "Developing technological solutions for cementless completion of drilled wells". Successful field pilot tests were conducted for setting liners in the basement intervals of two wells using packer assemblies. Equipment and technology displayed operating capability and efficiency as to fixing quality, local zoning and possibility of preferential selection of zoned intervals of the open bore hole for production.

Actual financing for the reporting period amounted to USD1,175,492. Valuation of the economic efficiency provided by these works performed in 2014 was USD1,334,080.

CUBA

Within the development framework for the Boca de Jaruco field located on the northern coast of Cuba, 30 km from Havana, Zarubezhneft is implementing a pilot project.

This pilot project provides for the testing of innovative enhanced oil recovery (EOR) technology including steam injection. The Boca de Jaruco field has a special complex geological structure. It is characterised by an extended territory with various facies' zones; these have a wide range of initial storage capacities with a large number of uncertainties.

The following conditions are mandatory during the pilot stage of the works:

- Drilling of six wells (three wells in the E1 formation and three wells in the M formation);
- Steam injection into the E1 formation (including development of the technology and its potential evaluation);
- Research and evaluation of the production potential of the M formation;
- Upon completion of the trial stage, the Operator shall take a decision whether to replicate the technology across the area.

In 2014, the well drilling and development was completed; two wells were put on trial production – tests and analyses were carried out thereon, steam injection is ongoing in one well, and three wells are being completed – they are being tested and surveyed.

Experiments on heat carrier (hot water, steam) injection have been completed. The following results have been obtained: additional water displacement factor is ~ +37.1%, additional steam displacement factor is ~ +14.9%.

The works on creation of the technical infrastructure for oil production and steam injection during the pilot works period have been completed, authorisation documents for pilot works stage have been received.

A mobile straight flow steam generating unit to the value of RUB109,242.00 thousand has been supplied and put into operation.

COOPERATION IN THE FIELD OF INNOVATIVE DEVELOPMENT

Zarubezhneft pays special attention to cooperation development with colleges and scientific organizations within the framework of joint realisation of innovative projects, scientific-technical forecasting, personnel training and advanced training. Thus, in 2014 for the implementation of EAD works, colleges, leading scientific and production organizations were engaged, including engineering, scientific-research and service entities of the Group of Companies.

In 2014, a joint project with MIPT "Development of software for determination of relative phase permeabilities in fractured and fractured-porous reservoirs" was launched on the basis of which it is planned to produce software for determination of fractures structure and parameters in carbonate or granitoid reservoir and flow modeling in them with

determination of filtration parameters for TGDM of fractured reservoir; this will enable increased efficiency in the development of the Group of Companies' fields.

Constant partners of the Group of Companies are Gubkin Russian State Oil and Gas University, Lomonosov MSU, Ukhta State Technical University, MGIMO, MIPT, and others.

The Company has plans for the further expansion of its list of strategic partners among educational institutions, scientific organizations and small and medium innovative business enterprises.



INNOVATIVE DEVELOPMENT MANAGEMENT

Generally, 2014 was a year of growth for the Company pointing to an increase in efficiency through the identification and implementation of innovative activities: monitoring and control processes for realising innovative projects was optimised.

In 2014, corporate classifiers for the allocation of costs related to innovative activities were developed, which will be introduced into business planning and accounting systems of the Group of Companies in 2015. This will allow a standardised approach to planning and monitoring the costs absorption of by the corporate center as well as subsidiaries.

With an aim to increase project evaluation reliability, a methodology for evaluating the economic efficiency of innovative projects using an options concept has been produced. Investment projects in the field of research and development (R&D) are always conducted under conditions of high information uncertainty and unavoidable risk, relating to achieving projects targets and the practical realisation of the alleged results. On the basis of available approaches for evaluation of R&D projects, a versatile

approach has been developed at Zarubezhneft based on the decision tree method. The basis for the developed approach is project divided into 3 stages: R&D, design and development works (D&DW), and implementation. Each is characterised by the possible outcome: success or failure and by the possibility by these outcomes.

It is assumed that after each stage there is a necessity to make a decision on the continuation of further activities. A distinctive feature of the method (compared to a traditional approach to R&D projects evaluation) is such that progress to the next stage is subject to the success of the previous stage. Criterion for success at each stage is an achievement of a target technical-economic value. For example, start-up oil rate relative to capital costs can serve as such.

Innovative development projects have been recalculated according to the new methodology, and planned economic efficiency was specified with account to risks and uncertainties. As a result, the total expected economic efficiency of the projects' portfolio amounts to more than 2 bln rubles.

Also, in 2014, internal rules, governing activities of Zarubezhneft Science and Engineering Board, were updated. The Board has functioned from 2001 and performs coordination and control on scientific and technical level of works regarding efficiency increase of operations, connected with oil and gas resources development, and determination of major directions and scientific-technological priorities in the Company's evolution.

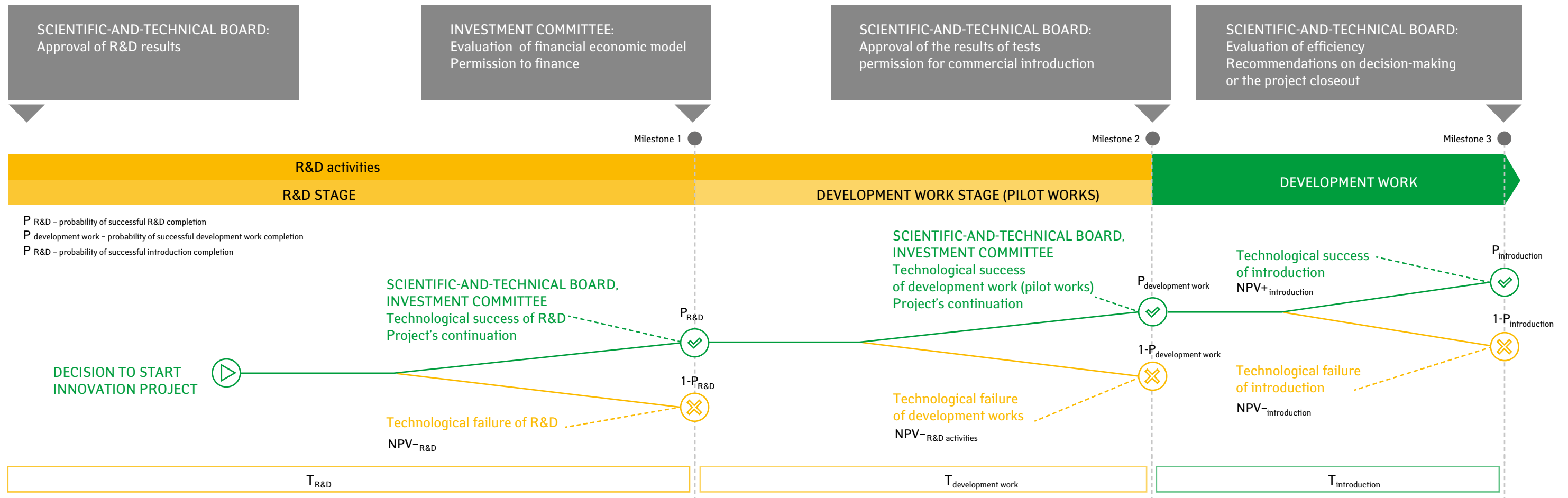
In the reporting year, work started on the development of a system for the management of intellectual activities results (IAR) at the Zarubezhneft Group of Companies with the purpose of increasing the Company's operational efficiency by the application of IAR at production facilities of the Group of Companies and obtaining profits from the outside commercialisation of IAR.

To establish a regulatory structure for an IAR rights management system, the following regulatory documents were developed/actualised in 2014:

- Revised version of Provisions on Zarubezhneft Science and Engineering Board – refined document, assigning zones of responsibility in the field of recommendations preparation and decision making on the issues regarding IAR rights management.

- Provisions on IAR rights management in the Zarubezhneft Group of Companies – a document, governing the Zarubezhneft Group of Companies activities on realisation of innovative and technological development targets in the field of IAR rights management.
- Model agreements forms "Agreement on transfer of invention, utility model, commercial sample from the author to Zarubezhneft" – model forms of documents for governing and regulating relationships with IAR authors.
- Model agreements forms (license agreement on rendering rights for utilisation of innovation, utility model, commercial sample; agreement on joint possession of IAR, developed during R&D activities) – model forms of documents for governing and regulating relationships in the field of IAR utilisation.

Currently in the Group of Companies' inventory there are 50 intellectual property items; the results of the 2014 audit of intellectual activities having high potential for defence revealed 53 prospective items, defence of which is planned for 2015.



STAKEHOLDER ENGAGEMENT

06

ARRANGEMENT OF THE INTERACTION WITH STAKEHOLDERS AS A BASIS FOR RESPONSIBLE BUSINESS PRACTICE

Interaction with stakeholders is one of the strategic directions to ensure the stable development of Zarubezhneft and alongside an increase in its social responsibility. During the interaction with key groups, the Company considers different aspects and aims for a balance of all interests with a view to achieving sustainable development objectives. Special attention is paid to the adjustment of activities, including in accordance with expectations, critical comments and wishes of stakeholders, but without prejudice to the priorities of the progressive development of the Company.

The key groups of stakeholders that directly and significantly affect the activities of the Company in the regions and countries of presence are identified as follows:

- Shareholders
- Personnel of the Company
- Investment community
- Business partners
- State authorities at the federal level
- State authorities at the local level
- Local communities in the regions of operation
- Social and non-commercial organizations
- State organizations in the regions of operation
- Suppliers and consumers of services
- Mass media and others.

The principles and procedures of interaction with stakeholders are reflected in the corporate ethics code of the Company.

Zarubezhneft maintains a policy of informational transparency aimed at providing stakeholders with true and complete information on its primary activities. Within the frames of interaction with stakeholders the Company uses different forms and methods of information and feedback and implements the most effective means of communication.

The basis for many non-financial risks of the Company today is uncertainty due to the free choice and behaviour of stakeholders. Managing this source of uncertainty must be carried out using new methods not covered by financial and technical risk management techniques. Here, dialogue with all stakeholders takes priority. The opportunity to influence stakeholder decision to select one or another option derives from correct implementation of socially

responsible procedures during contact with stakeholders through a process of constant analysis, understanding and searching for mutually beneficial solutions.

The tools of social responsibility and non-financial risk management in working with stakeholders usually consist of the following:

- Identification and ranging of stakeholders
- Composition of "stakeholders cards"
- Identification and monitoring of risk situations
- Scenario analysis of behaviour and interaction of the Company with its stakeholders
- Development of the projects of the company aimed at stakeholders and constructive and neutralising interaction with them
- Holding open dialogue as part of the non-financial reporting process.

Alignment of interests of the Company and stakeholders over separate specific issues is realised through negotiations, participation in joint work groups and permanent commissions activities, organization and conduct of conferences and forums, different kinds of meetings, conventions, gatherings, and also in the process of the realisation of specific projects.

Work with the stakeholders of Zarubezhneft is aimed at the construction of such an interaction management system that will predict and decrease most of the non-financial risks that may impact the Company. Ongoing interaction with stakeholders also allows the Company to find and initiate new joint innovative projects within the framework of developing shared values for the mutual benefit of, and in the interests of, all parties.

A common goal is interaction with all stakeholders for the formation of favourable conditions for business in Russia, its regions and Company's countries of operation.



Zarubezhneft pursues a policy of the information's transparency aimed at submission to the parties concerned of reliable and full information on major lines of activities.

INTERACTION WITH SHAREHOLDER, INVESTMENT ENTITIES AND BUSINESS PARTNERS

The only shareholder of the Company is the state, represented by the Federal Agency for the Management of the State Property. The priority is given to the unconditional compliance with current laws. Full and timely disclosure of information on all aspects of the activities of the Company is provided.

The main mechanism for the participation of the shareholder in the work of the Company is the Board of Directors, members of which are approved by the Government of the Russian Federation. Members of the Board receive information on the agenda of each meeting in time and in full.

Significant attention is paid to the work with potential investors and business partners, in the context of which the Company aims to increase transparency to potential partners and levels of trust in its relationships with current partners.

For the purpose of implementation of such policy, regular negotiations, talks and meetings are carried out. Work to increase the awareness of all stakeholders is also ongoing.

INTERACTION WITH STATE AUTHORITIES

Zarubezhneft is the only 100% state-owned oil company in Russia. This means that the Company must be extra responsible both in its cooperation with state and regional authorities in Russia and abroad and in the countries of current and prospective presence.

The strategic aim of such interaction is to observe the balance of interests of the Company, state and the regions of presence.

The Company cooperates with state authorities in different areas, including the development and improvement of industrial laws that affect the efficiency of its activities. Such activities are focused on participation in development of federal and local legislative initiatives, contribution to social-economic growth of the regions, and aimed at efficient and rational utilisation of natural and human resources.

In terms of the Company's participation in addressing issues regarding legislative initiatives, it is worth mentioning that its target is the improvement of regulatory systems relating to the competencies of the Zarubezhneft

Group of Companies' activities, and also in the generation of proposals to increase operational efficiency both within the Group and industry in general.

Scientific-industrial experience, obtained by the Company, and also experience in foreign-economic operations, enables Zarubezhneft experts to carry out efficient work within the framework of the industrial work group meetings, expert councils, round table discussions, conducted with support of government authorities.

Director-General Sergey I. Kudryashov is the head of the Work Group for fuel and energy complex issues at the President of the Russian Federation that deals with the strategy of development of fuel and energy complex and environmental safety.

Regular dialogue with state authorities is the most important part of timely response and settlement of issues in legislative environment and also a tool for decreasing the risks involved in the implementation of Company's projects both in Russia and the countries of current and prospective operations.

Zarubezhneft is an active participant in the discussion on the development of global and Russian fuel and energy complex and takes part in different meetings. During reporting period Zarubezhneft representatives participated in the work of the following organizations:

- APEC
- ASEAN
- Energy Community of EU countries
- Energy Dialogue Russia-OPEC and Oil Shales Work

Group, established within the frames of the Energy Dialogue

- Events sponsored by International Energy Agency
- Zarubezhneft does not participate in the activities of political parties, organizations and movements.

Zarubezhneft does not participate in the activities of political parties, organizations and movements.

INTERACTIONS WITH SUPPLIERS AND CONSUMERS OF SERVICES

For the purpose of improving the quality of work, the Company continuously strives to improve its system of cooperation with suppliers, contractors and consumers of goods and services.

During its interaction with suppliers, the Company follows the principle of compliance with business ethics, maximum transparency, awareness, establishment of competitive conditions, and a lack of discriminating and limiting conditions for all parties.

The Company aims to develop comprehensible conditions of trade procedures in order to procure an optimal choice of suppliers and conditions. This work is aimed at increasing the Company's effectiveness in all areas by target and economically efficient expenditures for the purchase of goods, works and services.

As a rule, the Company chooses its suppliers in all fields of its activities in accordance with the results of open bidding processes with unlimited number of participants. This results in fewer factors influencing the winner of the bidding.

The transparency of the procedure is achieved through the use of leading-edge technologies, including electronic commerce and electronic document flow.

All applicable rules, conditions for participation, the annual purchase plan, and bidding schedule are published on the Company's official website and are available for all interested parties.

Information on procurement, including notice periods, procurement documentation, and draft contracts, are also published on the Company's official website.

In its work with consumers, the Company puts significant effort into presenting itself as a reliable and responsible partner. Measures to increase the quality of interaction, awareness and transparency are being carried out. The Company strives to provide a high degree of consumer satisfaction from its goods and services.

In 2014 the Company received letters of appreciation for the quality of its oil and the stability of supplies, provided by Zarubezhneft, from such oil trading companies as PV OIL and Glencore UK Ltd.:

"... As an entity that sells oil supplied by JV Vietsovpetro, the PV OIL Corporation expresses its gratitude to the Russian Participant – Zarubezhneft for the long-term cooperation in the field of stock oil delivery and sale. The quality of the supplied oil complies with international standards and their requirements, which is confirmed by quality certificates..."

LOCAL COMMUNITIES AND SOCIAL ACTIVITIES IN THE REGIONS OF PRESENCE

The Zarubezhneft Group of Companies follows accepted standards of social responsibility and took an active role in social and community activities in its regions of operation in accordance with the priorities of internal and external policies of the Russian Federation.

Russian Federation	Zarubezhneft JC RUSVIETPETRO Gipro vostokneft VNIIneft	Orenburgnefteotdacha Ulyanovskneftegaz ZNSM
Cuba	Operational and Representative Offices	
Bosnia and Herzegovina	Companies of the Bosnia and Herzegovina Group	
Socialist Republic of Vietnam	JV Vietsovpetro Representative office in Hanoi Representative office in Vungtau	

In large part, the success of the Company and its status is determined not only by production and financial indicators, but also by the degree of its social responsibility. Support for social and charity programmes and help in the regions of operation are one of the most important parts of the corporate strategy of the Zarubezhneft Group of Companies and they aid in constructive dialogue with the state and community.

The Company pays close attention to the social and economic development of its regions of activity. For this purpose, it works with representatives of local communities. The aim of this work is to establish favourable conditions for the implementation of projects.

In course of the development of principle decisions in the countries where Zarubezhneft operates, the opinion of local communities and noncommercial entities is always taken into consideration.

The Company has established tight connections with all representatives of local communities, both government and community levels. An important part of our engagement work is participation in the life of local communities – such as arranging regional events, realising social programs, engaging local personnel, and through charity and material aid.

G4-EC7, G4-SO1, G4-DMA LOCAL COMMUNITIES, G4-DMA INDIRECT ECONOMIC IMPACTS



Social events

The Zarubezhneft Group of Companies within the frames of its activities exerts significant influence on social and economic development of the regions of operation. Therefore, our company adheres to a policy of high 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 organizations. Company's 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. On a regular basis within the frames of the joint projects RUSVIETPETRO and Vietsovpetro, a cultural exchange is being carried out between the Nenets Autonomous Region and the Vietnamese oil and gas producing province Baria-Vungtau.

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

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 an education programmes and advanced vocational training programs.

A total amount of funds assigned by the Zarubezhneft Group of Companies in 2014 for charity and sponsorship was 144 million rubles (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 – 5 million rubles.
- Support for the financially disadvantaged, veterans and pensioners as well as other socially important projects in the areas of operation – 134 million rubles.
- Development of scientific and education programmes, cooperation with higher education institutions – 5 million rubles.

It is worth noting the separate participation of Zarubezhneft staff in charity action for children through the Gift of Life Fund. Such actioned was been performed in the Company for the first time. Members of the Young Professionals Board gathered funds to buy medicines and toys for children in hospitals.



INTERACTION WITH MASS MEDIA

Interaction with mass media is one of the major aspects of the Company's PR-activities. Competent management of information in the media space and communications with target groups positively influences efficiency of the Company's activities and the status of its non-material assets, such as brand recognition and business reputation, while sufficient disclosure and availability of such information raises the Company's media profile.

Zarubezhneft has formed its own journalist pool and determines a list of core audiences for information distribution. These are, first of all, state government bodies, shareholders, partners and the Company's staff.

In 2014 the Company proceeded with activities to strengthen external and internal communications. Within the Press Service operations framework, a PR-events Plan is prepared on an annual basis. Zarubezhneft and its subsidiaries participate in exhibitions and conferences, possible interviews, press-conferences and press-tours to communicate and highlight operational and organizational developments in the Group of Companies. This approach facilitates timely communication of information about the Company to the news media.

The corporate edition "Oil With No Borders" continues to be published on a quarterly basis. Though the main goal of the corporate edition is to cultivate staff loyalty to the Company, quite often news or interviews, posted in the magazine, become news items for the popular press.

Also, Zarubezhneft's corporate website and the Company's registered page on the Facebook social network are being updated constantly.

At the same time, Zarubezhneft is a founder of the sectorial magazine "Oil Industry". Each month the magazine publishes news, promotional materials, and scientific articles from the Company's staff. In 2014, 57 scientific-technical articles from the Zarubezhneft Group of Companies' specialists were presented in "Oil Industry".



MECHANISMS OF COOPERATION



For the purpose of improving the efficiency of interactions with stakeholders, the following mechanisms of cooperation have been determined:

- Participation of the management of the Company in the development of industrial legislation and an improved investment climate for the Russian Federation;
- Communications with federal and local state authorities;
- Interaction with current partners in the framework of signed agreements and contracts;
- Holding negotiations and meetings;
- System of corporate communications channels;
- Public opinion surveys in regions of operation;
- Participation of the Company in major industrial events in Russia and abroad.

These key aspects of interaction are reflected in the internal regulatory documents and regulations of the Company.

HR POLICY

07

POLICY OF THE COMPANY FOR PERSONNEL MANAGEMENT

Major measures for improving activities in the field of personnel management in Zarubezhneft are being carried out in accordance with acting Zarubezhneft Personnel Policy for 2014–2019.

The primary objectives of the Group of Companies in its HR policy for 2014–2019 are as follows:

- Improvement of personnel wages and motivation system
- Improvement and development of the comprehensive system for HR planning, taking into consideration needs of the business directions of the Group of Companies, their rational allocation and efficient use;
- Increase professionalism of personnel at all management levels through the development of a corporate system of continuous education and the improvement of a corporate training system based on professional standards, which will determine the requirements for content and labour conditions, qualifications and competencies of personnel according to different qualification levels;
- Ensuring social security and improvement of labour conditions for all personnel.



GENERAL DATA

The number of staff in the Zarubezhneft Group of Companies was 12,698 in 2014. 62% of the personnel are involved in upstream activities, which is priority direction of the Group of Companies development, 88% of whom are employees of the joint venture Vietsovpetro working in the territory of Vietnam. 35% of the personnel are involved in downstream activities and in “services and other assets” segment.

In 2014, the average headcount of the Zarubezhneft Group decreased by 652 persons (-4.9%) from 2013. In general, average personnel number in the Group of Companies has a tendency for reduction. These changes are the result of optimisation measures regarding personnel in “oil refining and marketing” and “services” segments, introduced at the end of 2013.

The rate of personnel turnover was 3.2% (-6.8% compared with the previous year rate) which proves personnel stability as a result of performed measures on establishment of corporate culture, increased loyalty, securing respectable income and social packages.

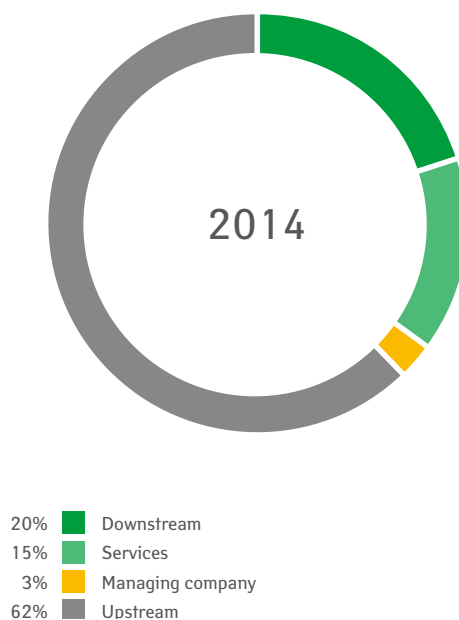
Most dismissed personnel were males over 50 years old, which is connected to retirement and the specific character of the oil production industry where male professions prevail.

Taking into account, that oil production sector suggests significant scope of work at drilling rigs (especially JV Vietsovpetro in Vietnam) in the Group of Companies’ personnel structure males prevail, accounting to 80% of employees. That is why most of the hired personnel are males under 50.

Average headcount by types of activities in dynamics

Type of activity	2011	2012	2013	2014
Managing company	297	316	329	360
Exploration and production	8,392	9,018	8,094	7,923
Oil refining and marketing	3,004	2,867	2,667	2,517
Services and other assets	1,681	1,640	2,260	1,898
Total	13,374	13,841	13,350	12,698

Personnel structure of the Company by type of activities in 2014, %

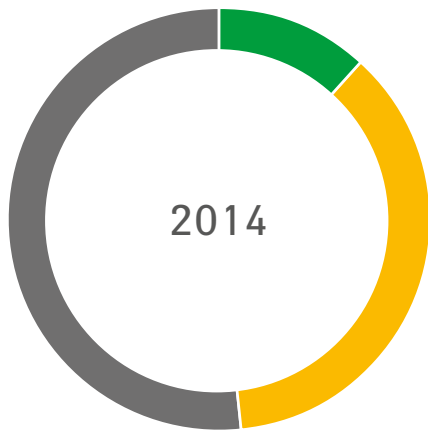


Zarubezhneft understands that the production processes of the Company may have potential negative social and environmental impacts. For this reason, the Company has taken a firm position on the inadmissibility of employment of persons younger than 18 for work at its production facilities, following both Convention 138 of the International Labor Organization’s 1973 guidelines on the minimum age of worker and Russian labour law.

The majority of personnel – 64% – are graduates of post-secondary and higher professional education, which reflects their high levels of qualification.

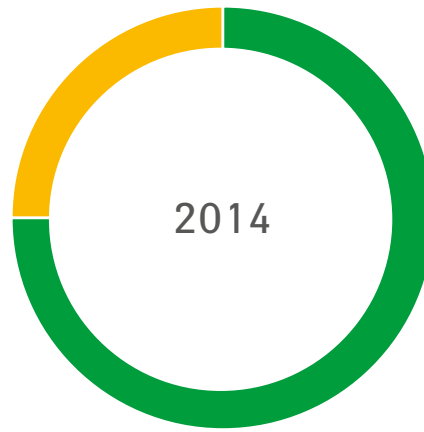
With Company’s personnel indefinite term labour contracts are signed. Fixed-term labour contracts are signed only for the period when regular worker is on a child-care leave. All Company’s personnel work on full-time job basis, hiring of personnel on part-time job or seasonal works is not applied.

Age structure of personnel dismissed in 2014, %



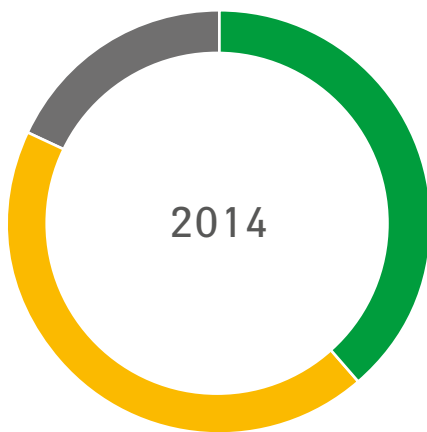
12% Younger than 30 years
37% 30 to 50 years old
52% Older than 50 years

Gender structure of personnel dismissed in 2014, %



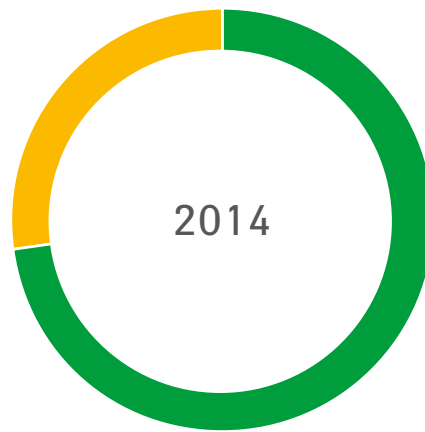
75% Men
25% Women

Age structure of employees hired in 2014, %



39% Younger than 30 years
44% 30 to 50 years old
18% Older than 50 years

Gender structure of employees hired in 2014, %



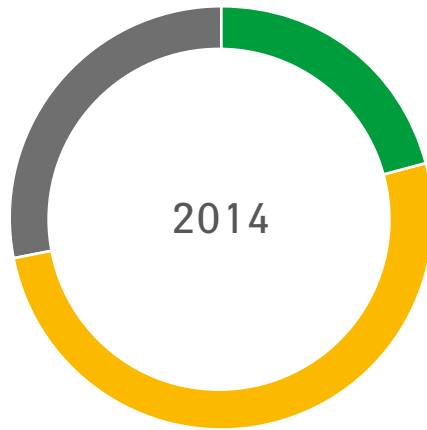
73% Men
27% Women

Personnel age structure traditionally is formed in such a way, that half of employees belong to the age category of 30–50 years, providing best balance of physical capacities and working experience. A significant proportion is younger workers – 21%.

There are also a significant number of employees – 36% – with secondary school education. For this reason, enterprises of the Group of Companies have begun to develop education and training programs for its personnel.

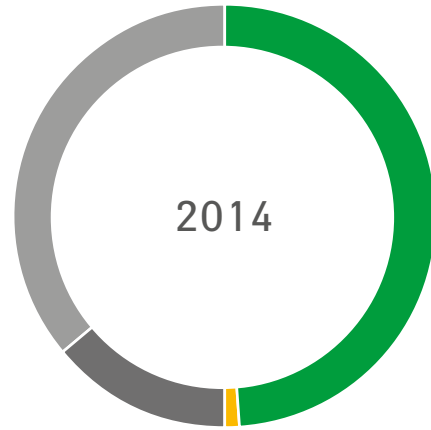
In 2014 the average age of personnel in the Group of Companies was 43 years.

Age structure of personnel as of 31.12.2014, %



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

Personnel grading by educational level as of 31.12.2014, %



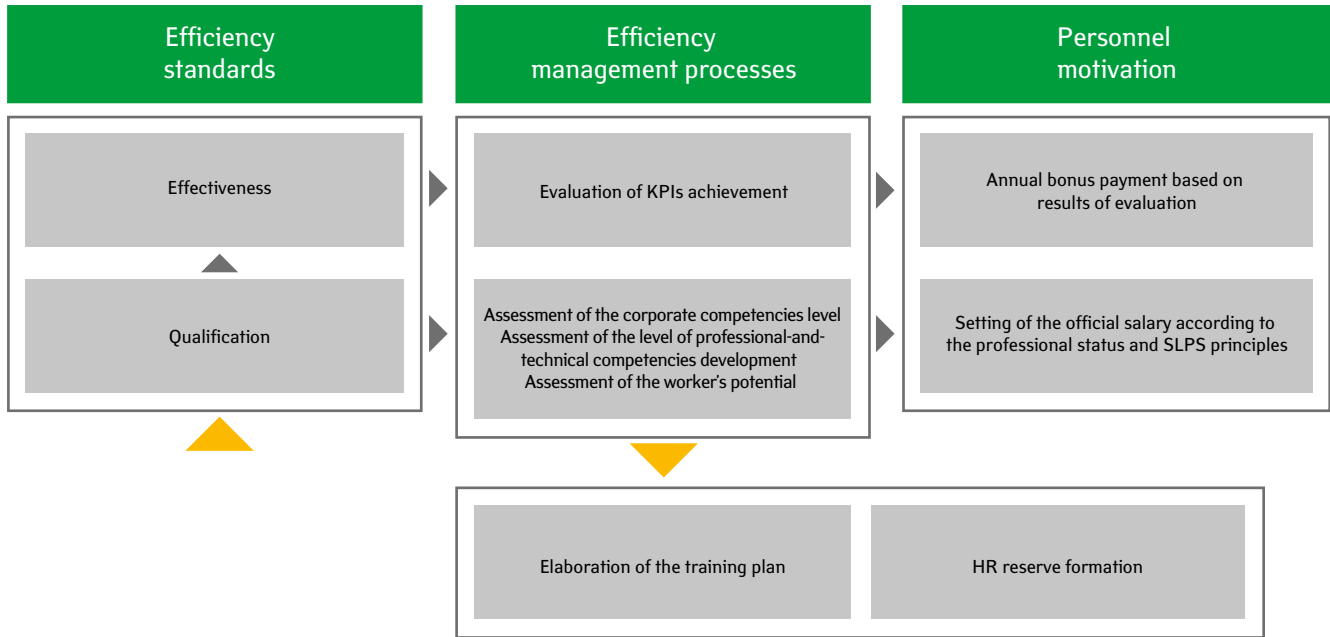
49% ■ Higher education
 1% ■ Incomplete higher education
 14% ■ Secondary professional education
 36% ■ Secondary education

SALARIES AND SOCIAL POLICY

Zarubezhneft works continuously to improve staff salaries and the overall motivation of personnel. In 2013–2014, the Company developed and introduced a unified salary system, incorporating:

- job position grade levels (grades);
- bonuses for key performance indicators (KPI);
- regular evaluation of personnel.

The new system reflects business interests and priorities of the Company, ensures alignment of KPI results with annual bonus amount of the Company's employees, and acts as a tool to manage employees' activities and efficiency in the Company's interest.



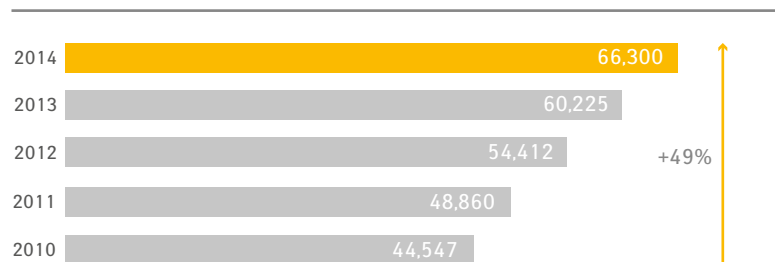
Within the framework of the “Setup of integrated system of motivation in Zarubezhneft” project, the following have been prepared and approved:

- Uniform rules on setting of salaries for employees of the Zarubezhneft Group of Companies on the basis of the uniform line of grades;
- Motivation system, providing alignment of KPI results with employees bonuses amount;
- Motivation system for project teams;
- Long-term motivation programme for management personnel.

Zarubezhneft maintains mid-market salary level over sectorial labour market. In 2010–2014 average monthly salary increase was provided by indexation of position salaries and tariff rates of the Group of Companies employees by 10% annually on average.

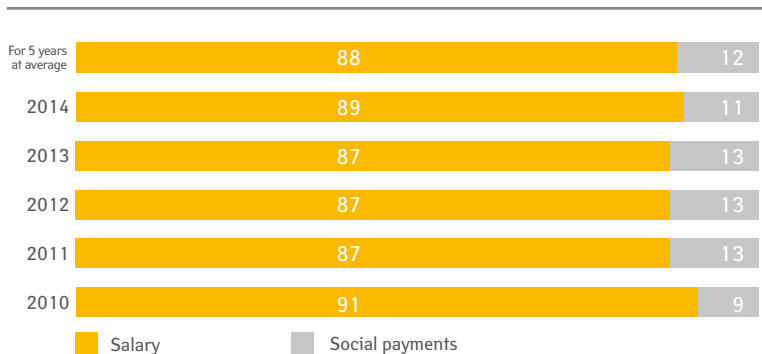
Employees income structure for the period 2010–2014 consists, in average, of position salary – 88%, and of payments of social nature – 12%.

Average salary dynamics for the period 2010–2014, roubles



Effective social support system for personnel is the basis for successful production activities and helps to retain highly qualified employees. Therefore, the Group of Companies pays special attention to the development of social programs. The share of social payments over the past 5 years has reached 12% on average with the total increase of the salary fund (including social payments) up by 52% in the same period.

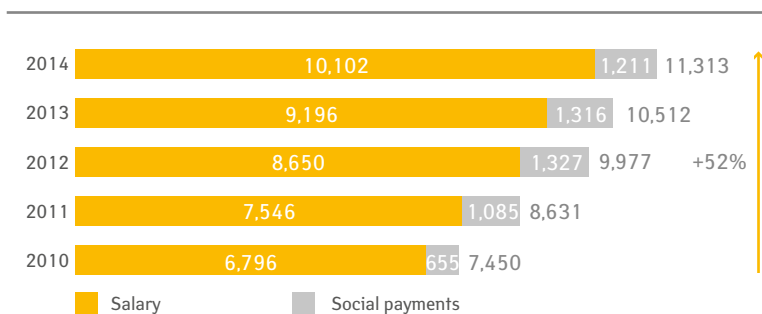
Income structure in dynamics and for 5 years at average, %



Key parts of the social package within the framework of the adopted Concept:

- Creating conditions to promote employee health and wellbeing, including the maintenance of corporate sports and wellness complexes;
- Providing health care, including voluntary medical insurance, for employees and members of their families, as well as retired persons;
- Material support for veterans and retired persons;
- Material aid to employees (due to family reasons);
- Remunerations in connection to awarding industrial and corporate prizes and celebration of the Oil and Gas Industry Worker Day.

Salary fund (including social payments) in dynamics, million roubles



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 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 Group have been honoured with state and corporate awards.

In some subsidiaries (Bosnia and Herzegovina, VNIIneft, Arktikmorneftegazrazvedka, Ulyanovskneftegas), collective labour agreements are still in force; the number of employees of the Group of Companies covered by such agreements is about 25%.

In the Group of Companies, a process is underway for refusal of collective labour agreements and for the implementation of the Uniform Social Policy Concept, which will allow the Company to unify its list of benefits and the order for granting them. This concept includes a more comprehensive list of guaranties and compensations, than some subsidiaries' collective labour agreements.

TRAINING AND EDUCATION OF PERSONNEL

In a competitive commercial environment, one of the key factors of the Company's success and most important HR management process is selection of quality personnel because today quality personnel is a key factor in the Company's success and sustainable development.

In the 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, different methods are used for evaluation of the intellectual abilities, systems thinking abilities – for instance, to what a degree candidate or employee copes with conceptional operating tasks, which require a thorough systematic approach, such methods comply with requirements of modern psychometry. Also within the frames of personnel selection the Company tests candidates for their level of professional-and-technical knowledge and for their level of managerial skills.

In order to provide professional and social orientation in the office and among co-workers, affinity for the Company's corporate values and increase new employees' efficiency, an system has been introduced across the Group of Companies to help new employees adapt to work at the Company. This adaptation system is targeted to create comfortable conditions for future activities, developing of the positive attitude to work and enhancing newly recruited workers' loyalty to the company, adaptation activities for newcomers are carried out on a permanent basis including adaptation

workshops, supervisory responsibilities and training at the workplace for the whole worker's adaptive period.

Personnel training and development programme is an integral part of the Company's personnel policy and aims to meet the following strategic objectives:

- Ensure that employees' professional-technical competence meets the current and prospective requirements for the Company's development;
- Improvement of employees' qualification levels, and strengthening of corporate and managerial competences through the development of reserve personnel for the effective realisation of functional responsibilities in accordance with the Company's priority targets;
- Ensure our oil and gas industry employees' competence levels fulfill state requirements with regard to the quality of industrial safety and labour protection on site.

With the purpose of achieving these said objectives in the reporting year, a project to improve the Company's personnel training system was implemented. This project is aimed at an ensuring an efficient structure for and execution of personnel training and development. Within the framework of this "Personnel training system" improvement project of improvement, Zarubezhneft developed an integrated approach to organising and developing 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.



The Company employs the whole range of modern personnel training techniques for retraining, long-term and short-term advanced training, business-education programs (special training programs, skill trainings).

For planning and completion of the corporate training a menu of corporate programs is provided which includes training programs 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 the Company. The school's major responsibilities are development of the strategically important professional competences: oil and gas fields development using modern well technologies, well productivity 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 programs 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.

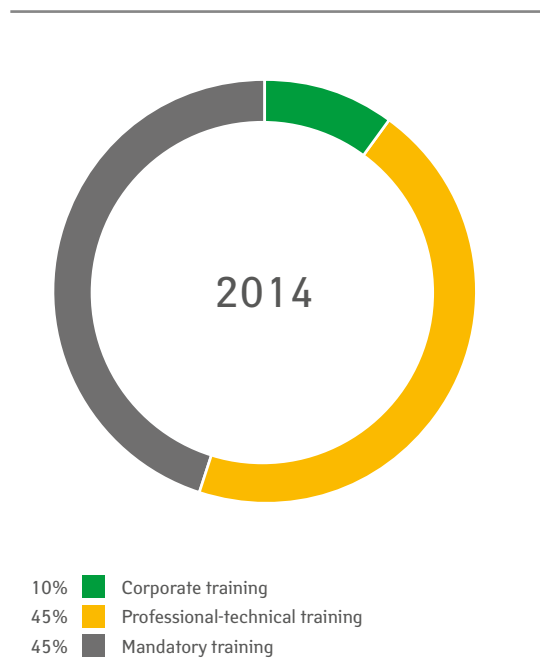
In the reporting year, seven courses under the advanced training programme "Exploration and Production" were organised and completed; 91 people were trained.

In 2014, the 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 2014 the Company's training expenditures reached 78,438 thousand rubles, 6.2 thousand rubles per employee in general.

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

Training expenditures structure for 2014, %




FORMATION AND DEVELOPMENT OF PERSONNEL RESERVE

An annual personnel assessment procedure has been developed and introduced as part of the Group of Companies' personnel policy with the purpose of objective professional evaluation of each employee's qualifications and business proficiency and to assess his efficiency for the year. Personnel assessments include a range of indicators: determine the employee's development in terms of corporate and managerial competence, professional and technical knowledge and skills, performance on the KPIs and progress against the individual worker's goals. Assessment results are expected to be used in making efficient managerial decisions in terms of planning, forming reserves and HR professional development as well as in the preparation of recommendations regarding motivational materials and the revision of salaries. Within in the Group of Companies evaluations are also done with a view towards efficient coordination of employee transfers inside the Company. As such, evaluations obtain data on the employee regarding sectors requiring development and the appropriateness of a candidate as reserve personnel. Different evaluation methods are employed (360/270/180 degrees); these evaluation procedures include the participation of not only the employee's supervising manager, but also colleagues, subordinates.

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 Group of Companies for 2014–2019 is a strategic direction in the Company's personnel policy. The major goals of the HR reserve are to ensure 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 internal managerial and administrative personnel reserve. Within the framework of development of the company's HR reserve, candidates' motivation for development and training ability are determined on a regular basis, as are their compliance to the basic personnel reserve selection criteria, taking into account positive work performance, possession of higher professional education, additional education, advanced training, and adequate experience in their field of work. For final selection of the candidate for personnel reserve, evaluation procedures on determination of management and corporate competences of the managerial staff are conducted. On the basis of evaluation results, individual development plans for reservists are prepared. In accordance with revealed requirements for reservists' development, training plans are formed and regular training activities are organised; strategic sessions are carried out annually.




Strategic direction of HR policy is a formation and development of the Group's candidates pool for 2014–2019

PLANNING AND WORK WITH YOUNG SPECIALISTS

Zarubezhneft pays special attention to its work with young specialists. Activities regarding the work with young specialists of the Group of Companies include several levels:

- 1st level – «Work with educational institutions»;
- 2nd level – «Work with young specialists of the Group of Companies».



Within scope of work of the council of the young specialists a number of scientific-engineering, cultural-mass, charity and other activities are held annually

WORK WITH EDUCATIONAL INSTITUTIONS

Cooperation with higher education institutions ensures continuous work with young specialists in terms of recruiting and selection, provision of passing by students of

the industrial practice or participation in the projects of the Group of Companies during the whole period of studies.

THE FIELDS OF COOPERATION INCLUDE:

In the field of education:

- Organization and carrying out of the dedicated specialists' training with higher and secondary professional education for Zarubezhneft divisions;
- Advanced training and professional development training of the Company's workers and specialists;
- Organization and carrying out of familiarisation, practical, industrial and pre-degree practices for the University's students.

In the field of the scientific – technical activities:

- Carrying out and organising scientific-research activities on actual problems of the oil and gas industry with the purpose to achieve socially useful objectives;
- Joint conduct of scientific – technical conferences on the pressing topics;
- Exchange of educational and scientific materials and preparation of joint publications.

In the field of the social-cultural activity:

- Development of creative cooperation of the University and Zarubezhneft;
- Joint participation and organization of social and cultural events.

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

Zarubezhneft offers assistance in educating to students – children of the Russian specialists of JV Vietsovpetro in higher education institutions of Russian Federation.

Zarubezhneft continues to implement its young Serbian specialists education programme for the Group of Companies located 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.

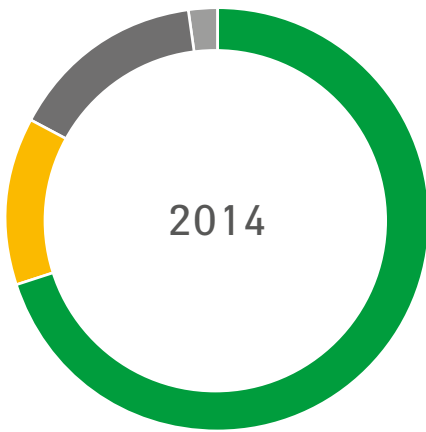
WORK WITH YOUNG SPECIALISTS

Work with young specialists of the Group of Companies provides for enrollment in the young specialists team of the Group of Companies, preparation of individual development plans on the basis of professional standards requirements and continuous monitoring of their professional growth, preparation to participation in the Contest of Scientific-Technical Papers by young specialists.

Young Professionals Board 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 Group of Companies. This young generation was represented by 33 individuals 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".

Distribution of young specialists by major directions of Company activities, %



- 70% ■ Exploration and production
- 13% ■ Oil refining and marketing
- 15% ■ Services
- 2% ■ Managing company



CORPORATE CULTURE FORMATION

A main strategic goal in the field of corporate culture development in the Zarubezhneft Group of Companies is the formation of a creative, innovation-friendly atmosphere, which promotes high levels involvement from each employee in solving major issues connected with the Company's activities.

In order to strengthen intercorporate interaction within the 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 of receiving feedback, personnel inquiries are carried out periodically in the Group of Companies regarding personnel satisfaction, involvement and loyalty.

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

- Sport games of the oil industry workers of the Republic of Srpska are traditionally held annually in September;
- Zarubezhneft employees participate in corporate beach volleyball, bowling, billiards and carting tournaments, organised by Young Professionals Board of the Company.

With a view to develop employees' adherence and loyalty to corporate values, starting from 2013 "Best Zarubezhneft 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 of oil and gas production" among oil producing enterprises of the Zarubezhneft Group of Companies. All oil producing enterprises of Zarubezhneft took part in the contest including JV Vietsovpetro making it an international event. Based on the 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 Corporate theatre was organised and acting classes were held.

OCCUPATIONAL HEALTH, INDUSTRIAL SAFETY AND ENVIRONMENTAL PROTECTION MANAGEMENT

08

ENERGY EFFICIENCY INCREASE PROGRAMME

An active energy saving policy is one of the priorities of the Zarubezhneft Group of Companies. Its aim is to improve the Company's competitive ability in domestic and international markets, reduction of the cost to produce oil, and a reduction of material costs in the industrial segments of the Company.

In 2014, the energy saving and energy efficiency programme was continued across the Zarubezhneft Group of Companies in accordance with targets set for 2011–2015.

The energy saving programme for 2014 included the development and introduction of new energy efficient measures and further implementation of measures already introduced in 2011–2013. Taking into consideration the peculiarities of the organizational structure and specific character of activities of the Zarubezhneft Group of Companies, the programme for 2014 was introduced in accordance with a segmental division of activities directions:

- Upstream segment: JC RUSVIETPETRO, Orenburgnefteotdacha and Ulyanovskneftegaz;
- Services and other assets segment: VNIIneft and Giprovostokneft.

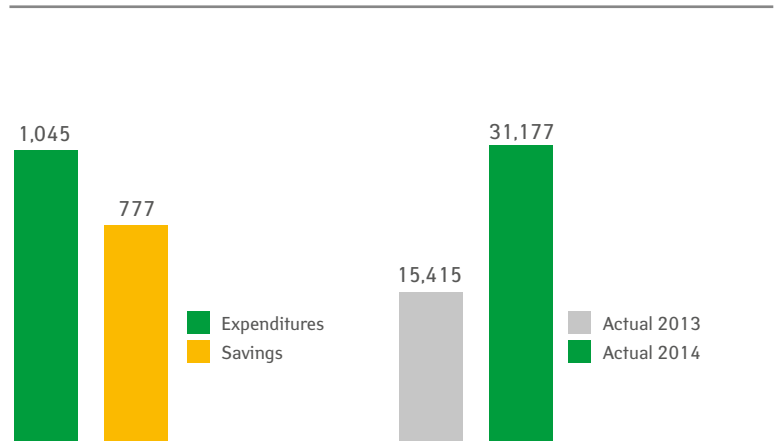
With the purpose of structuring processes aimed at energy saving and unifying principles and requirements for the development, implementation, monitoring and improvement of energy saving programs in Zarubezhneft subsidiaries, "Guidelines for energy saving programs planning and evaluation of actual energy saving effect from their realisation in Zarubezhneft subsidiaries" was prepared and introduced.

In 2014, the principal savings for the Zarubezhneft Group of Companies was connected with savings on diesel fuel consumption for the generation of in-house electrical energy (93%) and savings in purchase of electrical energy (7%).

The key energy efficiency measures for 2014 introduced by subsidiaries:

- At JC RUSVIETPETRO, the turbulence viscosity-reducing additive FLO MXC is in use during oil transportation to reduce the cost of the process.
- Continuation of the construction, installation and commissioning of works at Energy Centre 2 of North Khosedayu Field, JC RUSVIETPETRO. Gas turbine units 2 and 3 with 12 MWh capacity and running on associated gas, were put into operation.
- The gas pipeline from West Khosedayu Field to Energy Center 2 was completed and put into operation by JC RUSVIETPETRO. This allowed the utilisation of associated gas for energy generation from three fields: North Khosedayu, West Khosedayu and Visivoye.
- Implementation of energy-saving ESP units with PMSM in 6 production wells of JC RUSVIETPETRO.
- Upgrading of control stations for two JC RUSVIETPETRO wells in Orenburgnefteotdacha.
- Introduction of variable-frequency drivers for pumping equipment is continuing at all subsidiaries.
- Preliminary energy inspection works have been done at two subsidiaries: Arctic Oil Company and Arkticmorneftegazrazvedka.
- At the end of December, 2014, a gas-turbine station was completed and put into operation on Kolguyev Island in Barents Sea for Arctic Oil Company Station; the capacity is 390 kW and is based on micro turbine Capstone-65 units. The station is working on associated gas, enabling a sufficient reduction in diesel fuel consumption to produce energy for the Peschanoozerskoye Field.

Results of energy saving programme realisation in 2014, thousand roubles



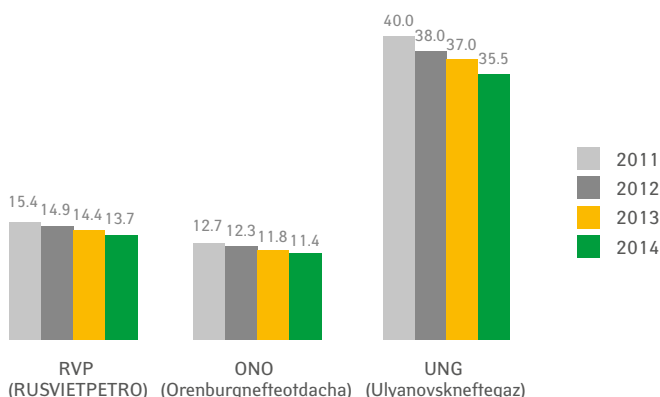
The target and actual indicators of energy efficiency in the key activities of the Zarubezhneft Group of Companies in the Upstream for 2011–2014 are presented in the graphic below.

Over the last three reporting years, there has been a steady reduction of energy resource consumption in percentage terms against target energy efficiency parameters at two Upstream segment subsidiaries: JC RUSVIETPETRO and Ulyanovskneftegaz.

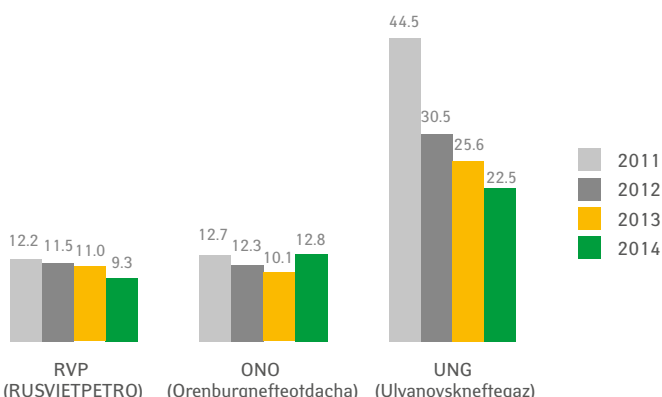
As for Orenburgnefteodacha, the increase of energy consumption in 2014 was related to work on formation pressure maintenance and declining production from stabilisation system organization.

The Solar Power station W (100 kW) was in operation at the Modrica Motor Oil Plant A.D. in 2014, enabling savings of 21 tonnes of fuel oil equivalent.

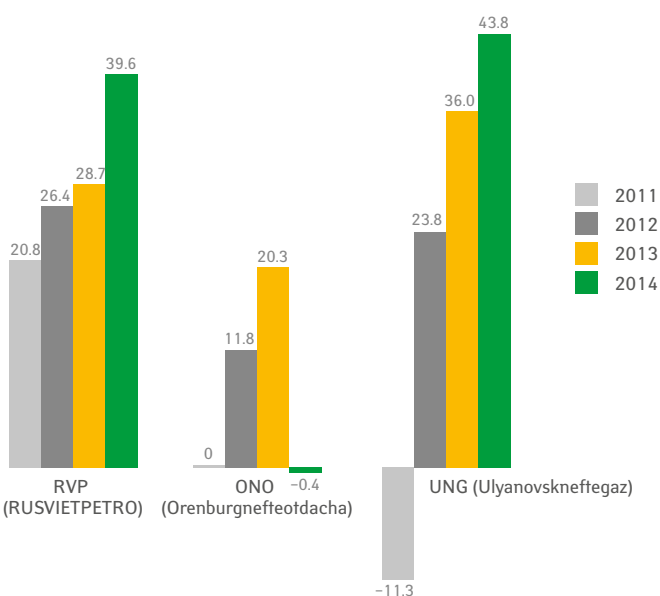
Target indicators of energy efficiency of the Zarubezhneft Group of Companies in the Upstream, 2011–2014, tonnes of F.O.E./thousand tonnes of oil



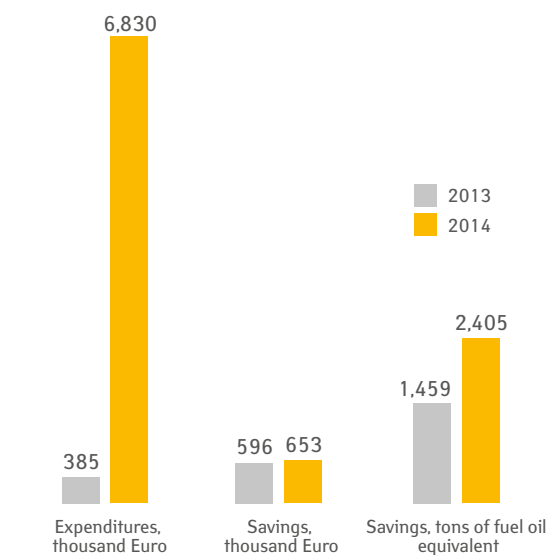
Actual indicators of energy efficiency of the Zarubezhneft Group of Companies in the Upstream, 2011–2014, tonnes of F.O.E./thousand tonnes of oil



Reduction of energy resources consumption in Upstream compared to base values of 2010, %*



Achieved results of the energy saving programme in 2014 for the Downstream



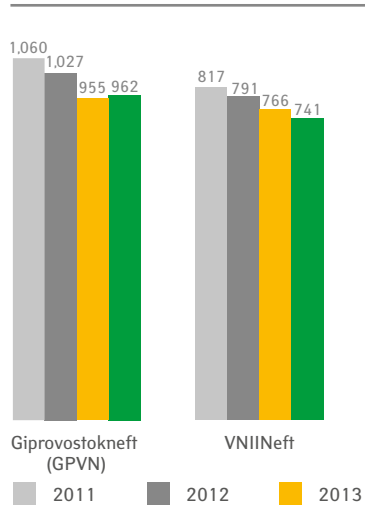
* 2010 was adopted as a base – the year of obligatory energy inspection of the Zarubezhneft Group of Companies enterprises.

In 2014 Giprovestokneft saw a decrease in the consumption of energy resources in comparison to the target indicators of energy efficiency; overall the decrease in energy resources consumption was 48.5% compared with the base value (2010).

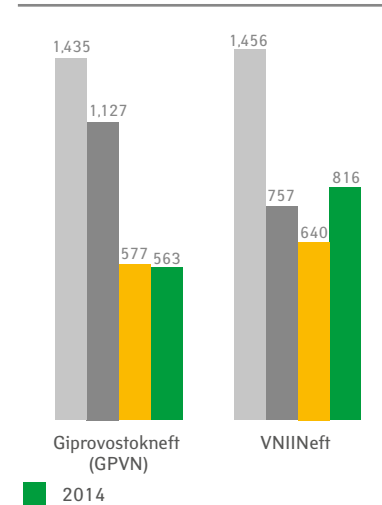
VNIIneft increased consumption of energy resources in 2014 in comparison to the target value, but it was still 3.1% below the base value of (2010).

In the reporting year, works for energy saving and increased energy efficiency were also carried out at subsidiaries in the Downstream sector in Bosnia and Herzegovina – Brod Oil Refinery and Modrica Motor Oil Plant. At these, 6,830 thousand euros were allocated to introduce energy efficient measures; the economic effect of which was 653 thousand euros with 2,406 tonnes of fuel oil equivalent saved.

Target indicators of energy efficiency of the Zarubezhneft Group of Companies in the Services and Other Assets segment, 2011–2014, tonnes of F.O.E./thousand tonnes of oil



Actual indicators of energy efficiency of the Zarubezhneft Group of Companies in the Services and Other Assets segment, 2011–2014, tonnes of F.O.E./thousand tonnes of oil



KEY PRIORITIES AND AIMS FOR ENERGY CONSUMPTION AND ENERGY EFFICIENCY

A programme for energy saving and increase of energy efficiency of enterprises for 2015 has been developed for all segments of the Zarubezhneft Group of Companies. This programme will facilitate continued progress in saving energy resources and implementing the newest energy-saving technologies. Energy efficiency measures introduced in 2013–2014 will also continue to produce an economic effect that will positively impact the development of energy-saving resources for the Zarubezhneft Group of Companies as a whole and for each enterprise in particular.

The key measures planned for introduction in 2015 at the subsidiaries of Zarubezhneft are as follows:

JC RUSVIETPETRO:

- Optimisation of electrical losses in the power supply system, realisation of measures on the selection of optimal electrical parameters of ESP operating conditions.
- Boiler station shut-down, transfer of heat supply to the heat utilisation system of Energy Center 2 at CPF North Khosedayu.
- Realisation of measures for the implementation of distribution systems with reactive power compensation.

- Completion of commissioning works for a associated gas sulfur recovery unit and increasing turbine power at Energy Center 2 to 22–24 MW/hour.
- Development and implementation of a programme for automated data gathering, technical record keeping and overall optimisation of the energy system.
- Development of technical solutions and measures for utilisation of alternative energy sources.

ARCTIC OIL COMPANY, AMNGR

Conduct energy inspection of enterprises with the development of a programme for energy saving and increasing energy efficiency.

ULYANOVSKNEFTEGAZ, ORENBURGNEFTEOTDACHA

Construction of a 10kW overhead power line to Nijnemazinskoye, Slavkinskoye, Kondakovskoye Fields and the main feeder at the Kirsanovskoye Field.

CONTROL AND MONITORING OF HARMFUL EMISSIONS. ENVIRONMENTAL EFFICIENCY INDICATORS

The Company's environmental activities are carried out in accordance with requirements of Russian and international legislation in the field of environment protection taking into account the best international oil industry practices.

The Company's policy for ensuring efficient, stable practices, which correspond to international standards, in the field of ecological management is "Zarubezhneft Policy in the Field of Environment, Health and Safety Protection" was updated in 2014.

In accordance with the policy, the Company determines targets and establishes procedures, necessary for reaching determined targets. By way of developing ecological procedures and respective performance indicators, Zarubezhneft improves ecological activities of the enterprise, mitigates any significant negative influences on the environment by the implementation of new developments, and continuously reduces risk of emergency situations occurrence, which may lead to negative ecological consequences.

Compliance with environmental protection regulations, technology regulations requirements, regulatory acts on environment protection – is a hard-and-fast rule for the Company's activities.

Before starting any new large-scale project, the Company performs an evaluation of its influence on the environment, i.e. performs planning of the forthcoming project activities by implementation of the best, available technologies and by realisation of measures to minimise the negative influence from activities of the Zarubezhneft Group of Companies.

In the process of carrying out its operating activities, the Company strives to continuously improve its Management System in the field of labour protection and industrial and environmental safety and intends to increase efficiency of ecological control and internal audit in accordance with requirements of environmental protection legislation and international standards OHSAS 18001:2007 and ISO 14001:2004. Thus, at the Modrica Motor Oil Plant, as a

result of successful passing of the compliance audit, a certificate for the implementation of ISO 14001:2004 and OHSAS 18001:2007 standards was confirmed.

With an aim to control all components of the ecological management system in accordance with approved annual timetables, internal and external inspections and audits are being held. An external audit is conducted by representatives of shareholders, by external certifying authorities, etc.; as for the internal audit, trained auditors and qualified specialists and Company experts are engaged. In 2014, three internal audits of the System of Management of Environmental Protection System were conducted in the Zarubezhneft Group of Companies, and one external audit was conducted – at the Modrica Motor Oil Plant.

The Zarubezhneft Group of Companies perform, in the territories of their enterprises, regular ecological monitoring of air, soil, surface water and bottom sediments in accordance with environmental protection legislation.

Observation data are compared with background values for the indicators. For the reporting period of 2014, the results from the analysis of the samples do not exceed the maximum permissible concentrations. Ecological monitoring is performed at all license areas in possession of the Zarubezhneft Group of Companies.

The main objective of such environmental monitoring is to prevent environmental deterioration as a result of production activities.

In 2014, the Company's subsidiaries continued to consistently work towards controlling atmospheric emissions. Gross atmospheric emissions parameters increased in general for the Company in 2014 as a result of production volume growth.

A regular production environment monitoring is held at industrial sites of the Zarubezhneft's Group of companies

G4-EN21, G4-EN23



Structure of gross atmospheric emissions for the Zarubezhneft Group of Companies in the Upstream, thousands 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 oil gas in the Zarubezhneft Group of Companies

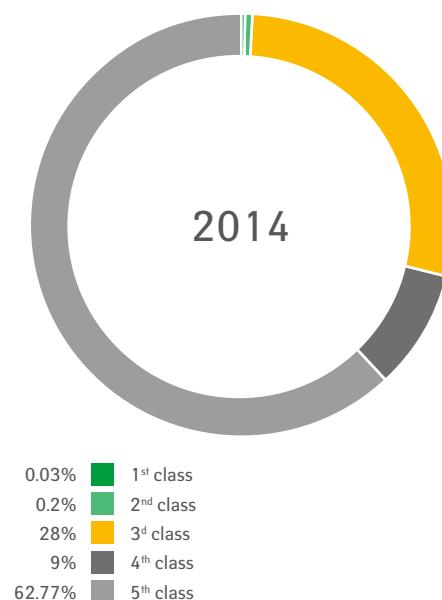
Name of the company of the Zarubezhneft Group of companies	APG production, mln. m ³	APG use for in-house needs, mln. m ³	% of APG use
JC RUSVIETPETRO	95.8	44.4	46.32
Orenburgnefteotdacha	1.48	-	-
Ulyanovskneftegaz	0.3	-	-
AMNGR	29.9	0.98	3.29
Total:	127.4	45.3	35.59

Summary of specific indicator of upstream activities in terms of environmental protection

Environmental protection specific indicators, tonnes/thousand tonnes of oil



Structure of wastes formation by class of hazard, %



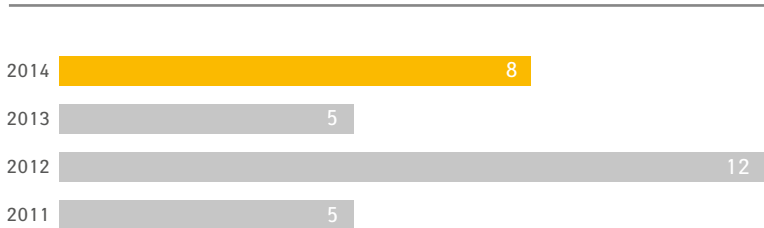
**G4-EN13, G4-EN15, G4-DMA BIODIVERSITY,
G4-DMA EFFLUENTS AND WASTE**



Land restoration, ha



Waste pits reclamation, pcs



We understand our responsibility to society for any possible environmental consequences of our industrial activities, and we make significant efforts to decrease them. These efforts include production upgrades for the purpose of decreasing the emission of harmful substances, change and protection of pipelines from corrosion to prevent oil spills, and an increase in associated oil gas utilisation.

Despite an increase in the level of geological exploration, drilling and oil production, we are targeted to decrease specific level of production wastes and emissions. At

that, the level of water consumption remains almost stable due to measures aimed at decreasing water losses and optimisation of water consumption in general.

Practical activities on environmental protection in the Zarubezhneft Group of Companies are realised in accordance with a specially designed Programme, major target of which is environmental protection and compliance with requirements of environment protection legislation in Russian Federation, as well as in the Company's regions of presence abroad.

Key directions of the programme are:

- increase of ecological efficiency and accident free operations;
- establishing comfortable living conditions for the population in the Company's regions of presence;
- development of environment protection facilities;
- clean-up of past environmental damage from industrial activities;
- improvement of the environmental protection management system and local ecological monitoring.

The most important environmental protection objective is the minimisation of the negative impact of drilling waste through the remediation of mud pits designated for drilling waste storage.

Thus, during the reporting period, JC RUSVIETPETRO, via contractor enterprises, remediated more than 299.7 hectares of disturbed soils and 8 mud pits.

Reduction of Greenhouse gases emissions

Zarubezhneft continues to work on the assessment of greenhouse gas (GHG) emissions from industrial activities of its subsidiaries using methods developed on the basis of recommendations of the International Petroleum Industry Environmental Conservation Association (IPIECA) and the American Petroleum Institute (API).

Zarubezhneft considers the Kyoto Protocol an important step towards extending the efficient use of associated gas. The Mechanism of Joint Implementation Projects (JIP) provided by the Kyoto Protocol to the Frame UN

convention on the change of climate remains one of primary motivations for the implementation of projects for the utilisation of associated oil gas and other projects aimed at reduction of GHG emissions into atmosphere.

Supported by the system of ecological management, Zarubezhneft intends further improve the ecological indicators related to its activities through the planned reduction of industrial influence on environment.

G4-DMA EMERGENCY PREPAREDNESS, G4-DMA OVERALL, G4-DMA OCCUPATIONAL HEALTH AND SAFETY



INDUSTRIAL SAFETY AND OCCUPATIONAL HEALTH

The strategic focus of the Company in the area of HSE is fixed in the standards of Zarubezhneft:

- Reduction of injury rate to benchmarks of leading international companies in the oil and gas sector;
- Absence of industrial accidents
- Improvement of the HSE system.

Zarubezhneft sets itself specific tasks in the field of improvement of the HSE management system that correspond to the range and nature of its activity:

- Compliance of operations with Russian Federation law and international standards for occupational safety;
- Conduct of activities in the field of occupational health and industrial safety on the basis of operational risk management;
- Continuous improvement of personnel competency in health and safety matters.

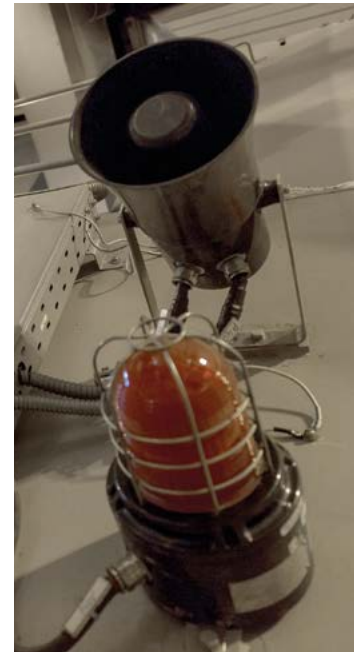
To reach stated objectives, in 2014 the Company continued the work on forming HSE functions in general for the Zarubezhneft Group of Companies in accordance with the standard "System for management of labour protection, industrial safety and environment protection".

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

- Zarubezhneft HSE policy;
- The HSE risks management procedures;
- The Operative notification and investigation of HSE incidents procedure;
- Standards for internal audit for HSE management system.

The Company's subsidiaries joined standards of Corporate Center of Zarubezhneft. In 2014, the Modrica Motor Oil Plant A.D. confirmed compliance of HSE management system to OHSAS 18001-2007 and ISO 14001-2004 international standards. The Brod Refinery A.D. initiated development and implementation of an integrated HSE management system and preparations for certification under the above international standards.

With the aim of reinforcing the HSE system requirements and industrial control, elements of the industrial safety "12 Life Saving Rules" programme was developed, approved and introduced for the whole Zarubezhneft Group of Companies by the HSE division, targeted for unconditional observance of safe work methods during



performance of specific hazardous operations, the breach of which may create the risk of severe injuries or cause the death of people.

The results of the measures and specific programmes, implemented during the year, were the following:

- The number of accidents in the Zarubezhneft Group of Companies in relation to 2013 decreased by 29%;
- The number of accident victims in the Zarubezhneft Group of Companies decreased by 40%;
- The number of accidents in the contracting companies in relation to 2014 decreased by 57%;
- The number of accident victims in the contracting companies decreased by 64%;
- There were no cases of emergency situations in the Zarubezhneft Group of Companies;
- During the reporting period, there have been no spills at the enterprises of the Zarubezhneft Group of Companies.

An integral part of specialists' activities within the framework of labour protection and industrial safety is working with contractor enterprises, performing operations at the sites of the Zarubezhneft Group of Companies.

In the Company's subsidiaries, regulatory documents are developed and introduced, governing the order of work and interactions with contractors in the process of

**G4-EN24, G4-LA7, G4-DMA EMERGENCY PREPAREDNESS,
G4-DMA OVERALL, G4-DMA OCCUPATIONAL HEALTH AND SAFETY**


operations. Fixed requirements are an integral part of all agreements, enabling the control of contractors' activities in the field of HSE.

The results of a quantitative evaluation of incidents in subsidiaries and contractors organizations show that about 80% of incidents in the Upstream segment happened at contractor organizations (major participants of operations), and 14% of incidents in the Downstream segment (major participants of operations – subsidiaries employees) were at contractor organizations.

2014 became a starting point for forming and adjustment of an incidents database at the Company's subsidiaries as well as contractor organizations: accumulated information will enable a comparative analysis of injuries and incident causes in 2015, the evaluation and prioritisation of risks, determine core reasons and ways to optimise for or eliminate danger factors.

One of the main elements for an effective labour protection and industrial safety management system is operational control.

Company's employees involved in the process of performing all levels of operational control are governed by corresponding legislative-regulating documents of Russian Federation and, also, by internal regulative documents.

At the Company's subsidiaries, standing commissions for operational control have been organised, approved and are operating; the results of their work is fully utilised for plotting safety pyramids, incident causes analysis and forming corrective measures for risk minimisation.

Priorities for corrective measures are reflected in in the risks maps for the Upstream and Downstream segments that were developed and introduced in 2014.

Besides an orientation towards the detection of violations, the operational control system is concerned with the identification and prioritisation of possible risks, which enables timely intervention of preventive measures for the elimination of incidents. Thus, in 2014, after approval of latest amendments to the Federal Act

of the Russian Federation No.116 of 21 June 1997 "On Industrial Safety of Hazardous Industrial Objects", the Zarubezhneft Group of Companies enterprises carried out a full identification of hazardous Russian assets with the provisioning of hazard ratings and subsequent re-registration.

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

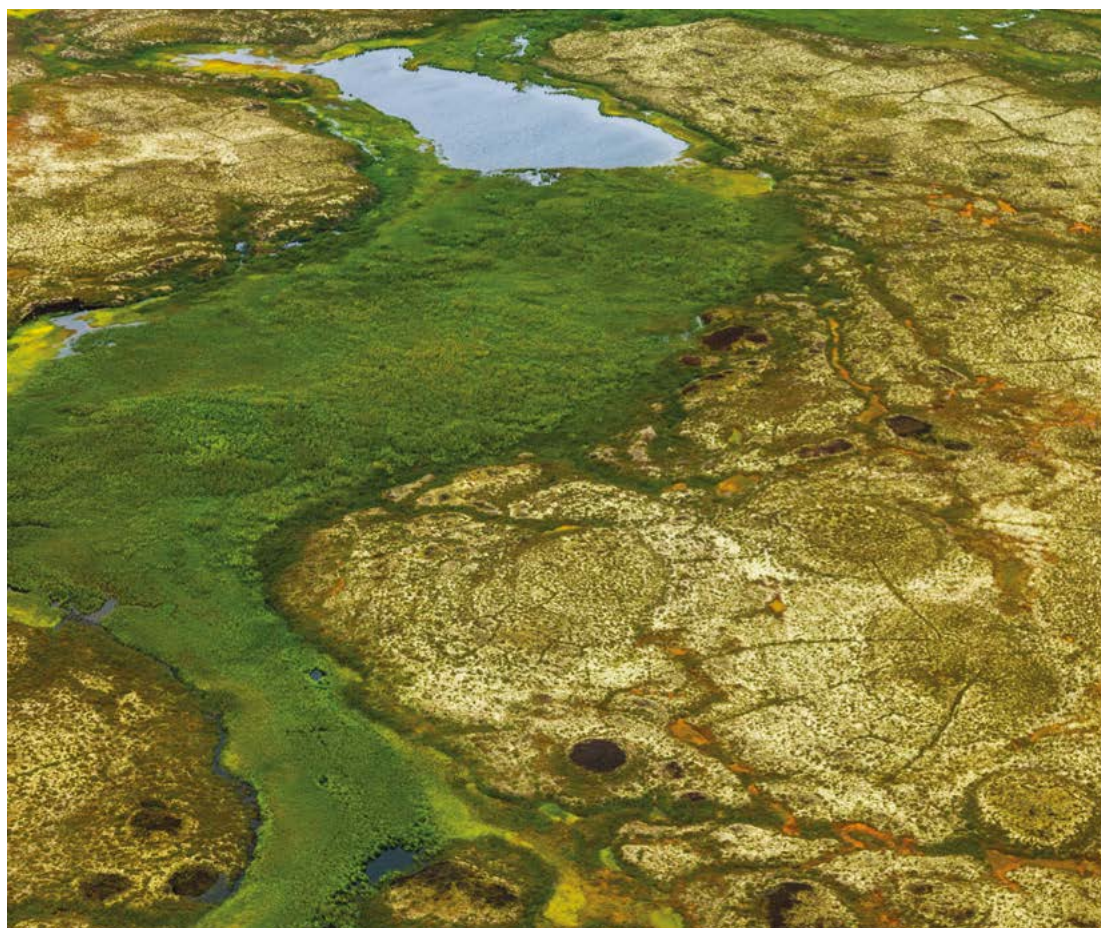
- Testing of the safety facilities and training of the people in charge of the civil defense and emergencies in specialised training centers;
- Timely development and approvals from the state supervisory authorities for oil and oil-products spill response plans (OSR) in the fields;
- Teaching and attestation of not on staff emergency accident rescue teams in the fields;
- Conclusion of agreements with specialised professional units that provide firefighting, gas rescue services and well blowout safety with drills twice a year.

Evidence of the Company's systematic international approach in readying its subsidiaries for emergency situations are the open fire-fighting drills "Evacuation, rescue and fire extinguishing in case of emergency" carried out together with local emergency-rescue teams at the Mordica Motor Oil Plant in March 2014 and at the Brod Refinery A.D. in April 2014, which were received favourably by state bodies in Bosnia and Herzegovina.

In 2014, the "12 Life Saving Rules" production programme aimed at the strict compliance with safety rules was approved and introduced for the whole Zarubezhneft's Group of companies

EXPENSES OF THE ENTERPRISES OF THE ZARUBEZHNEFT GROUP OF COMPANIES FOR ECOLOGICAL AND ENVIRONMENTAL PROTECTION, AND FOR OCCUPATIONAL HEALTH AND INDUSTRIAL SAFETY

	Direction	2013	2014
Investments into environment protection, thousand rubles	Investments into basic capital for environment protection	0.00	10,657,065.00
	Payments for negative influence on environment	10,939.41	4,358.00
	Indemnification of damages to environment	0.00	0.00
	Imposed fines for environment contamination	810.00	380.00
	Current expenditures on environment protection	138,048.247	441,123.03
	including:		
	Waters protection	49,836.68	6,287.00
	Atmosphere protection	296.00	289,771.41
	Soil resources protection from industrial and consumption wastes	38,206.57	133,092.62
	Soil rehabilitation	49,709.00	11,117.00
	Other directions in the field of environment protection	0.00	855.00



ANTI-CORRUPTION ACTIVITIES, ETHICS AND INTEGRITY

09

ANTI-CORRUPTION ACTIVITY

Anti-corruption is an important area of activity for Zarubezhneft given the Company's interest in complying with the best world practices and business ethics, requirements of Russian and international legislation, as well as ethical and other professional norms and standards.

In proof of the above, in 2014 Zarubezhneft joined Anti-Corruption Charter of Russian business (certificate of the Chamber of Commerce and Industry of the Russian Federation dated 19 March 2014 No.0275).

The Company's anti-corruption activity adheres to the Anti-corruption policy of the Zarubezhneft Group of Companies adopted in 2014 and is in force for subsidiaries also. This policy is the basis for counteracting the engagement in corrupt activities and complying with applicable anti-corruption legislation requirements of the Russian Federation and other countries where the Company currently operates.

In the Company, there is an officer appointed to manage and coordinate activities on fulfilling provisions of the Anti-corruption policy of the Zarubezhneft Group of Companies and who is directly subordinated to the General Director of the Company.

In the implementation of the Anti-corruption policy, special priority is given to the identification of business processes mostly exposed to corruption risks and key participants of these business processes. At the beginning of 2015, the list of job positions associated with high corruption risks, which was initially worked out and approved by the Company in the first half of 2014, was updated.

Internal regulatory acts of Zarubezhneft, in relation to employees replacing positions and citizens applying for replacing positions included in the approved lists of job positions associated with high corruption risk, include a number of prohibitions and obligations established by the decree of the Government of Russian Federation dated 5 July 2013 No.568 "On application to certain categories of citizens of limitations, prohibitions and obligations established by the Federal Law "On anti-corruption" and other federal laws with the purpose of counteracting the corruption" and orders ensuring their implementation.

Thus, on an annual basis the Company's management submits to the Department of the state service and staff of the Government of the Russian Federation statements of profits, costs, property and obligations of material nature according to the decree of Government of the Russian Federation dated 22 July 2013 No.613. Information

about the income of the General Director of Zarubezhneft for 2014 is placed on official Company's website on the internet.

Among the most important internal regulatory acts elaborated and effected by the Company, it is worth noting the following:

- Zarubezhneft's corporate code ethics, the last version of which was approved in 2014, – in addition to other ethical aspects, it regulates issues connected with gifts and remuneration from physical and legal entities, preventing the occurrence, notifying the occurrence and the settlement of any conflicts of interests that have arisen.
- Regulations on order of notifying the employer by Zarubezhneft personnel about the facts of application of any person with the purpose of inducing to corruption offences.
- Regulations on the security hotline of Zarubezhneft define the order of processing of incoming data. All the Company's and subsidiaries' workers have been notified about the hotline information which is placed on the official corporate website in internet. Also on the "Security hotline of Zarubezhneft" page of the official corporate website, information was published about procedures to defend workers who provided information about anti-corruption offences (from formal to informal sanctions).

Considerable attention is being paid to familiarisation of the Company's personnel with the acting policies, requirements, principles and methods exercised to counteract the corruption. All internal regulatory acts of Zarubezhneft aimed at anti-corruption, worked out memorandums on anti-corruption behavior and measures when working abroad have been promulgated to the Company's personnel, while regulatory and executive documents covering responsibility are presented against written acknowledgement.

Anti-corruption provisions are included in texts of agreements and contracts with partners and counteragents, labour contracts with Zarubezhneft personnel, agreements on material remuneration to the Russian personnel when working abroad, as well as in a whole range of internal regulatory instruments regulating such business processes as procurement and investment activities, M&A transaction conducting, charity activity and sponsorship, HR management.

This year, the Company for the first time carried out a large-scale evaluation of compliance of its subsidiaries with the requirements of the Anti-corruption policy of the Zarubezhneft Group of Companies.

With the results of these respective examinations, plans for corrective action have been elaborated, assistance has been rendered in explanation of the main principles of the anti-corruption policy, of measures to build a system to counteract the engagement in corruption activities and non-acceptance of corruption behavior, in elaboration of the local regulatory framework.

At present, there is a plan to focus major efforts on anti-corruption activity and on the improvement of a number of elements of the anti-corruption system, which includes identification and prevention of conflict of interests, informing the personnel about work being done, policies and anti-corruption methods and teaching them.

VALUES AND ETHICAL PRINCIPLES OF ZARUBEZHNEFT

Zarubezhneft – the oldest, steadily developing foreign economic enterprise of oil and gas industry of the Russian Federation having a strategic importance.

THE CORPORATE VALUES OF THE COMPANY ARE THE FOLLOWING:

Professionalism – a profound knowledge of profession, responsible and fair attitude to obligations, timely fulfillment of tasks set and continuous improvement of skill.

Initiative – activity and self-dependence of personnel in optimisation of industrial process and development of the Company's competitiveness.

Mutual respect – constructive mutual respect and support, team spirit in work, and benevolence in the process of solving the tasks set.

Cooperation – open and sincere information exchange, readiness to mutually determine optimal decisions.

Succession – solicitous attitude to the Company's traditions, respect for the labour and experience of older generation, professional training and tutorship.

The code of the corporate ethics of Zarubezhneft is an internal regulatory instrument which forms the corporate culture and reinforces the corporate values of the Company defining the most important rules of business conduct of the Company and its personnel based thereon, ethical norms of inter-corporate mutual relations, social responsibility as well as issues of business ethics of the corporate management.

The code of the corporate ethics has been developed on the basis of generally accepted norms of business ethics considering experience of the best Russian and foreign practices of the corporate management.

The Code is mandatory for all the Company's personnel (including branches and representation offices employees) and members of its management authorities.

As to the legal entities subordinated to the Company, who may directly or indirectly, on its own or jointly with its affiliated entities, influence their actions as well as to determine their decisions, the provisions of the Code are basic and they serve as the basis for elaboration and approval by the said legal entities (without any changes thereto, but with a possibility to add it) of their own respective Codes.

As to the physical entities working under civil law contracts concluded with the Company as well as contractors and consultants, which are agents fulfilling instructions or representing the Company before the third parties, if they act on behalf of the Company, the Code insofar as it does not conflict with the nature of obligations in place is of advisory nature.

The provisions of the Code are subordinate to the active legislation and may be taken into account when settling the disputes.



RELATIONSHIP WITH THE COMPETITORS

The Company builds its relationships with the competitors based on principles of mutual respect and mutually profitable cooperation, not permitting facts of unfair business practices and abuse of dominance strictly following antitrust legislation of the countries where it operates and escaping forceful statements towards its competitors.

The Company's personnel have no right to unreasonably criticise the competitors' products and services, and in cases of complications of relationships with them must be governed by instructions of their direct senior officials.

ETHICS CODE IMPLEMENTATION MECHANISM

Responsibility for organization of work and performing the requirements and provisions of the Code is entrusted to the Commission on corporate ethics.

The Commission consists of five persons. Personal members of the Commission, as well as its chairman, are established by the order of the General Director of the Company.

The Commission, based on applications received by it, takes decisions aimed at the following:

- Explanation to a worker of the provisions of this Code and the order of its exercise;

- Taking of actions to prevent or eliminate a conflict of interests. In case of failure to eliminate the conflict of interests the Commission shall take measures aimed at limitation of the conflict of interests and (or) its consequences including ensuring observance of the interests of the Company in the situation of such a conflict.

Applications to the Commission are made through a message to the e-mail of the Commission on corporate ethics. Decisions of the Commissions are taken at the meetings which are held in person or in absentia.

APPENDICES



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G4-29	Principles for determination of content and quality of the report (5)
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MATERIAL ASPECT	DMA and Indicators	Omission(s)
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EMERGENCY PREPAREDNESS	G4-DMA Industrial safety and occupational health (103-104)	-

APPENDIX 2. FEEDBACK FORM

Zarubezhneft is interested in receiving recommendations and comments on this report on sustainable development to consider them in subsequent publications.

THEREFORE, WE ASK YOU TO FILL IN THE FEEDBACK FORM:

Which group of stakeholders do you belong to?

- | | |
|--|--|
| <input type="checkbox"/> Shareholder | <input type="checkbox"/> Supplier of products |
| <input type="checkbox"/> Employee of the Company | <input type="checkbox"/> Representative of authority |
| <input type="checkbox"/> Business partner | <input type="checkbox"/> Local from the region of operation of the Company |
| <input type="checkbox"/> Consumer of products | <input type="checkbox"/> Other |

Indicate the degree of your interest in the report on the sustainable development:

1	2	3	4	5
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Indicate the degree of relevance of the topics reviewed in the report on the sustainable development for you:

1	2	3	4	5
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How do you evaluate the degree of coverage of the topics reviewed in the report on the sustainable development?

1	2	3	4	5
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Evaluate the level of fairness and accuracy of the given information:

1	2	3	4	5
---	---	---	---	---

Evaluate the report from the point of view of the clarity of the provided information:

1	2	3	4	5
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Indicate any topics of interest for you not covered by the report:

CONTACT INFORMATION

Considering that the sustainable development report is published by Zarubezhneft for the third time we are hoping to actively engage with the general public, as the understanding of your opinions on the topics reflected in this report is important for the Company. By taking an active interest in the discussion of the report, you will significantly influence improvement in the level of information disclosure and the efficiency of Zarubezhneft in relation to interaction with stakeholders.

In order for us to receive your opinions on and recommendations for the report and to clarify all your relevant questions, please do not hesitate to call, write a letter or send an e-mail using the contacts indicated below. A working group for preparation of non-financial reporting established within the Company is always open for active cooperation and the disclosure of additional information in which you may be interested.

The person responsible for communication with GRI (Global Reporting Initiative), Russian Union of Industrialists and Entrepreneurs and stakeholders is:

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