



ZARUBEZHNEFT
JOINT STOCK COMPANY




**SUSTAINABLE
DEVELOPMENT
REPORT**

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 Pictures made by the employees of Zarubezhneft Group of Companies submitted for the photo contest in 2016 were used in the report.

STATEMENT OF THE GENERAL DIRECTOR



Dear colleagues and friends!

We continue our tradition of issuing a non-financial report along with the annual report.

For the Company, 2016 was marked by completion of the first stage of Zarubezhneft's development strategy scheduled up to 2030 called "Preparation for growth". The Company's high performance of the completed stage in production, financial and organizational activities provides evidence that the development trends were selected correctly. Zarubezhneft succeeded in carrying out all planned measures in full in the reporting year, and in establishing a robust basis for subsequent progress towards the next stage of the strategy.

This became possible not only owing to competent management in the framework of production activities, but also owing to compliance with the requirements for sustainable development, an area in which Zarubezhneft's performance was also successful.

The completion of the transfer of share and operatorship in the Kharyaga field development project from French Total to our subsidiary ZARUBEZHNEFT-Production Kharyaga LLC became one of the most important events in the Company's history. Understanding the importance of the assumed responsibilities, we have implemented the most efficient project management for the benefit of all participating companies, the Nenets Autonomous Area and the Russian State as our priority task. We constantly keep in touch with representatives of regional authorities and local communities regarding production and commercial operations in the framework of the projects implemented in the Nenets Autonomous Area, the social development of the region, as well as labor conditions of personnel at production facilities that include local residents.

Completion of the Production system integration project within LLC "JC "RUSVIETPETRO", also operating in the Nenets Autonomous Area, is worth mentioning as well. It took only one year for all four elements — team work arrangement, work place arrangement in compliance with the 5S system, the "Got an idea!" improvement management system, and the prudent attitude work culture came into common use by the employees, and the performed audit of the system has shown great results: all instruments have been integrated 100%. Active work for distribution of the Production system to other subsidiaries is being carried out within the Zarubezhneft Group of Companies.

We have performed a large scope of work to develop our corporate culture. For example, the Company's fundamental documents in this area were adjusted and approved in 2016, including the Corporate Ethics Code and Key Principles of Corporate Interaction which form our corporate culture and communicate the main values and rules of our business conduct. Significant changes were made in these documents in terms of establishing efficient communications between employees, with the Company, and with external stakeholders.

Our corporate schools — the School of Petroleum Engineering and School of Project Management established on the base of the International School of Business at Gubkin Oil & Gas RSU — continue their successful operation. The first students successfully graduated from the School of Project Management in 2016 and received diplomas and the qualification of Master of Business Administration (MBA) "Oil and Gas Management. Project Management".

The opening of a personalized lecture hall of Zarubezhneft JSC in Gubkin Oil & Gas RSU equipped with all modern tools necessary for conducting comfortable and productive educational work is also worth mentioning among the important events of 2016 in the educational area. This became a definite investment into the Company's future scientific and human resources potential.

Within the framework of its internal personnel policy, Zarubezhneft also aims for constant development and training of employees having high competencies — a key factor of ensuring high efficiency of the Company's activities and sustainable growth.

Constant work is being carried out in the area of promoting occupational health, industrial safety and environmental protection activities among both the Company's own personnel and employees of contractor entities. Compliance with the main policy principles in this area is a day to day responsibility of each expert that consistently brings the Company closer to the "Zero Goal", meaning complete absence of harm to personnel or the environment.

Compliance with sustainable development principles in recent years has become a mandatory condition for Zarubezhneft in the framework of performing its activities. The Company steadily adjusts its operations and decision-making process in accordance with the necessity of complying with corporate obligations in economic, social and environmental areas, taking into account the interests of a wide range of stakeholders. I am convinced that attention to fulfillment of these tasks and a high degree of responsibility in the course of implementation of these projects shall have a further positive effect on improving the business reputation and competitive ability of Zarubezhneft on global markets, and contribute to enhancing our efficiency in all segments.

SERGEY KUDRYASHOV
General Director
of Zarubezhneft JSC

COMPANY PROFILE

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Indicator	2014	2015	2016
Gross hydrocarbons production of Zarubezhneft Group of Companies (with account of share), thousand TOE	5,072	5,041	5,208
Volume of reserves of Zarubezhneft Group of Companies (with account of share), thousand TOE	90,949	90,999	92,041
Consolidated revenue of Zarubezhneft Group of Companies (under IFRS), billion Rubles	49.4	56.6	60.9
Consolidated EBITDA of Zarubezhneft Group of Companies (under IFRS), billion Rubles	20.2	15.9	15.2
Consolidated FCF of Zarubezhneft Group of Companies (under IFRS), billion Rubles	7.9	8.6	10.2
Paid dividends, billion Rubles	3.4	4.1	4.5
Funding of investment program	11,826	6,865	9,567
R&D costs to revenue ratio, %	0.42	0.62	0.50
Exploration drilling volume, thousand meters	33.2	27.3	31.9
Rehabilitation of lands, ha	300	134	105
Rehabilitation of pits, pcs.	8	7	5
Associated petroleum gas production in Zarubezhneft Group of Companies, million m ³	127.4	121.7	137.2
% of APG utilization for own consumption ¹	35.59	60.84	80.00
Number of spills	0	0	0
Current expenses for environment protection ¹ , million Rubles	441.1	196.9	142.6
Investment into stock capital for environment protection ¹ , million Rubles	106.6	41.4	97.8
Average headcount, total, including	12,698	12,694	12,093
• Russia	3,177	3,299	3,625
• Vietnam	6,984	7,020	6,326
• Republika Srpska (Bosnia and Herzegovina)	2,517	2,356	2,127
• Republic of Cuba	21	19	15
Active staff turnover level, %	3.2	2.8	3.7
Social benefits payments per one employee, Rubles	7,947	9,893	15,589

¹ In subsidiaries located within the Russian Federation

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MAJOR AREAS OF ACTIVITIES

Zarubezhneft JSC is a Russian oil & gas company of strategic importance acting for the state's benefit and consistently developing, possessing a rich history and unique experience in foreign economic activity.

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

The professionalism of our company's management, the availability of highly qualified personnel, and the application of the very best and up-to-date asset management methods have enabled Zarubezhneft JSC to continue sustainable development and successfully compete with the major oil and gas companies for decades.

Established in 1967 for the purpose of representing Soviet/Russian interests in the development of petroleum projects abroad, Zarubezhneft has transformed into an efficient company that brings the State sustainable and annually growing revenue in the form of dividend payments.

Zarubezhneft Group of Companies is a diversified oil and gas holding that consolidates over 20 joint companies and subsidiaries in various segments of the petroleum business, including:

- Geologic exploration and production of hydrocarbons (Upstream);
- Oil refining and marketing (Downstream);
- Service and other assets (Services).

Geologic exploration and production of hydrocarbons

The exploration, development and operation of onshore and offshore oil and gas fields in the Russian Federation and abroad.

Oil refining and marketing

Operation of oil refining and lubricant producing capacities.

Wholesale and retail marketing of oil products and motor oils.

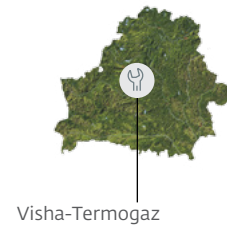
Service and other assets

Application of front-end domestic technologies for oil and gas fields development.

Development of modern enhanced oil recovery methods for the purpose of expanding the high-tech services export.

Process equipment export/import transactions.

BELARUS



BOSNIA & HERZEGOVINA



VIETNAM

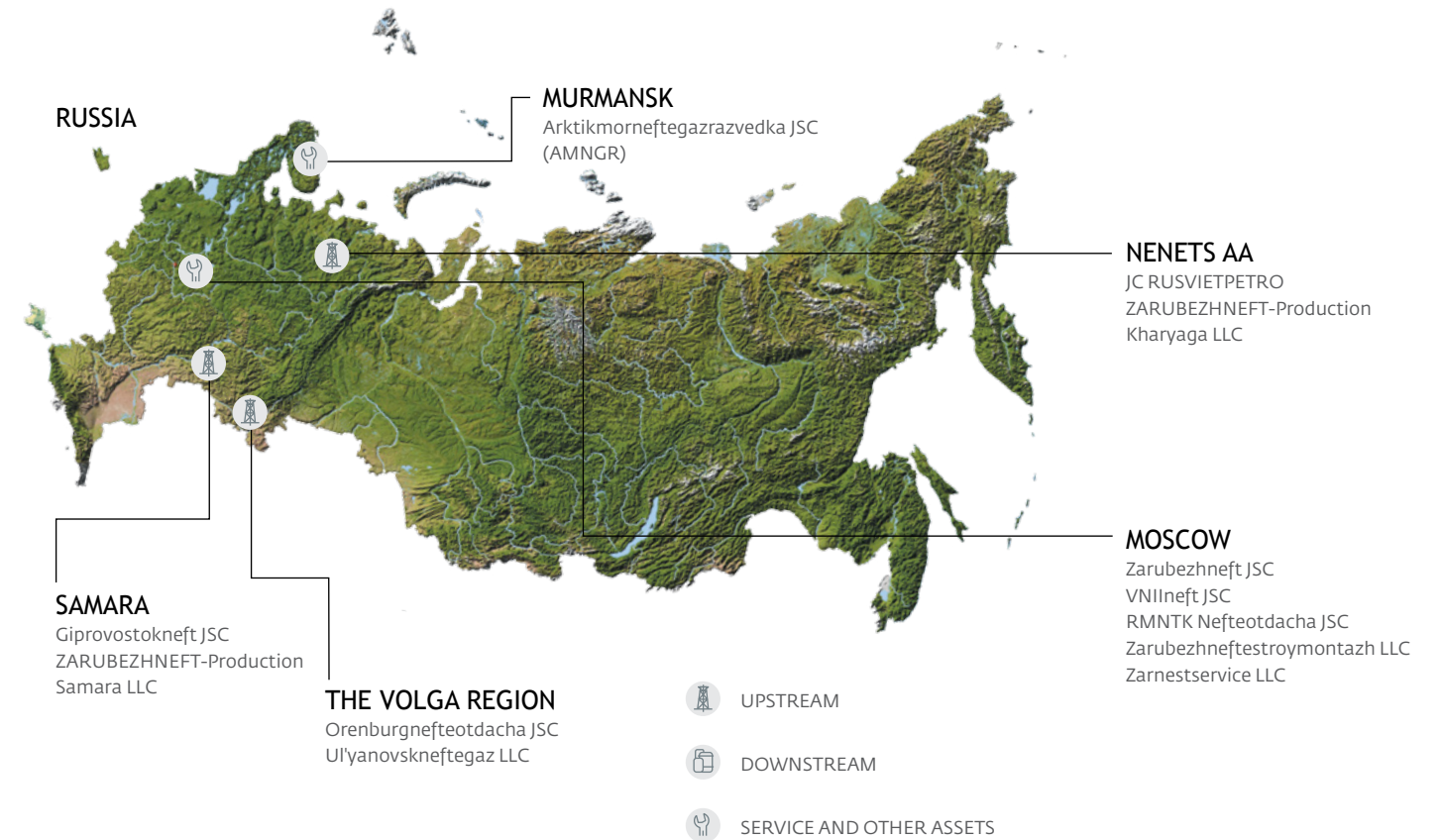


REPUBLIC OF CUBA



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Map of activities



Detailed corporate and projects structure

UPSTREAM SEGMENT		GEOLOGIC EXPLORATION PROJECTS		SERVICES SEGMENT	
49%	JV Vietsovpetro Block 09-1	49%	Block 04-3	100%	RMNTK Nefteotdacha JSC
50%	VRJ Petroleum Co Block 09-3	100%	Block 12/11	100%	Explon LLC
51%	LLC JC RUSVIETPETRO	100%	Boca de Jaruco	70.3%	VNIIneft JSC
40%	Kharyaga PSA	26.95%	Block 09/3-12	100%	Zarnestservice LLC
100%	Orenburgnefteotdacha JSC	DOWNSTREAM SEGMENT		60.1%	Giprovostokneft JSC
100%	ZARUBEZHNEFT-Production Samara LLC	95%	Oil and Gas Innovation Corporation JSC	100%	Zarubezhneftstroyontazh LLC
100%	North-Karasevskoye Petroleum Enterprise LLC	80%	Brod Refinery A.D.	100%	Arktikmorneftegazrazvedka JSC
100%	Ul'yanovskneftegaz LLC	80%	Nestro Petrol A.D.	100%	ZNSM-BLK d.o.o. Brod (Republika Srpska)
		92%	Modriča Oil Plant A.D.		
		100%	OPTIMA Grupa		

MAIN EVENTS IN THE AREA OF SUSTAINABLE DEVELOPMENT IN 2016

Today the Corporate Center (CC) of Zarubezhneft JSC is a head company acting for the benefit of the State through efficient management and interaction with more than 20 subsidiaries and 2 joint ventures. Apart from managing the subsidiaries at all life cycles, the Corporate Center manages 3 foreign (Blocks 09-1, 09-3, 04-3) and one Russian project (Kharyaga PSA) at the production stage, and 4 foreign projects at the geologic exploration stage (Blocks 04-3, 12/11, 09-3/12, Boca de Jaruco).

The priority area of activities of the Corporate Center is to improve project efficiency and develop process competencies ensuring competitive advantages for the arrangement of production and development of complex fields. Zarubezhneft JSC actively implements research and development projects aimed at enhancing operations with a depleted resource base, determining methods for maximum engagement of hydrocarbons reserves in development, and application of new technologies and innovation programs.

Aside from this, the Corporate Center ensures transparency of procurement activities within the whole Group of Companies by arranging procedures for selection of vendors and buyers of production.

Interaction with partners and governmental authorities

March

Head of Zarubezhneft S.I. Kudryashov held a meeting with the Governor of the Nenets Autonomous Area I.V. Koshin and discussed issues of production and economic activities for projects within the Area, social development of the region, as well as labor conditions of personnel at production facilities.

May

Prime Minister of the Socialist Republic of Vietnam Nguyễn Xuân Phúc visited the office of Zarubezhneft JSC and met the Head of Company S.I. Kudryashov, who gave him a summary of production and economic activities of Vietsovpetro and RUSVIETPETRO joint ventures.

May

Head of Zarubezhneft Sergey Kudryashov participated in activities of the ASEAN–Russia Business Forum in Sochi, where he was present at the meeting between the Russian President Vladimir Putin and the Vietnamese Prime Minister Nguyễn Xuân Phúc.

June

The office of Zarubezhneft JSC was visited by a delegation of high-level officials from the Republic of Cuba led by the Deputy Chairman of the Ministers' Council Mr. Ricardo Cabrisas Ruiz. First Deputy Minister of Energy and Mines Raúl García Barreiro and extraordinary and plenipotentiary ambassador of the Republic of Cuba to the Russian Federation Emilio Lozada García were also in that delegation.

August

Total and Zarubezhneft have completed the deal for the transfer of a 20% share and operatorship in the project for development of the Kharyaga field.

September

The Deputy Chairman of the Government of the Socialist Republic of Vietnam, Mr. Trịnh Đình Dũng, visited the office of Zarubezhneft JSC.

Enhancement of professional competencies

August

A corporate professional mastery contest "Best in profession — 2016" was held in the city of Usinsk at the production facilities of LLC "JC "RUSVIETPETRO".

September

The first graduates of Zarubezhneft JSC School of Project Management defended their diploma works in the International Business School at Gubkin Oil & Gas RSU. The graduates were awarded the qualification of Master of Business Administration (MBA) "Oil and Gas Management. Project Management".

September

The formal opening of a personalized lecture hall of Zarubezhneft JSC in Gubkin Oil & Gas RSU took place. Zarubezhneft considers the opening of a personalized lecture hall in the main industrial higher educational institution to be an investment into education in general, and into the Company's future scientific and human resources potential in particular.

September

The IV contest of scientific and technical works of ty young experts of Zarubezhneft Group of Companies was held in Zarubezhneft JSC.

September

The "Best Facility" contest for Zarubezhneft Group of Companies was held in the Company for 2016.

October

An "Open Innovations Day" was arranged and held by Zarubezhneft JSC jointly with the Skolkovo Fund. The event took place within the framework of implementation of the Zarubezhneft innovation development program in terms of cooperation with private and public partnership institutes.

Participation in socially important projects

August

The major engineering institute Giprovostokneft JSC, included into the Zarubezhneft Group of Companies, celebrated its 70th anniversary.

September

Zarubezhneft JSC joined the All-Russian power saving fair #BrighterTogether (#ВместеЯрче) that took place in regional centers and major cities of Russia to promote the culture of a prudent attitude, and to demonstrate the modern energy saving technologies utilized in various sectors of the Russian economy.

November

Employees of Zarubezhneft Group of Companies participated in a collective test for compliance with GTO (Russian "Ready for Labor and Defense" standard of physical fitness).

103-2 (Reserves)

UPSTREAM

Upstream is the core segment in Zarubezhneft Group of Companies. The Company's strategic development is based on the results of asset efficiency and the development of new prospective projects.

Current portfolio of assets/projects in the segment

Operator/Subsoil user	Projects	Life cycle stage
Socialist Republic of Vietnam		
JV "Vietsovetropetrol"	Block 09-1, oil fields: White Tiger, Dragon, White Rabbit, White Bear, White Cat	Exploration and production
	Block 04-3, Tien Ung – Mang Cau oil and gas condensate field	Exploration and production
	Block 09-3/12	Exploration
	Block 12/11	Exploration
PVEP	Block 42	Exploration
VRJ (Block 09-3)	Blocks 09-3 and 09-1 Nam Rong – Doi Moi unitization area	Exploration and production
Republic of Cuba		
Branch of Zarubezhneft JSC	Boca de Jaruco oil field	Exploration and pilot operation
Russian Federation		
LLC "JC "RUSVIETPETRO"	CKU Block 1, North Khosedayu oil field	Production
	CKU Block 2, oil fields: Visovoye, Verkhnekolvinskoye	Exploration and production
	CKU Block 3, oil fields: West Khosedayu, Sikhoreyskoye, East Sikhoreyskoye, North Sikhoreyskoye	Exploration and production
	CKU Block 4, oil fields: Syurkharatinskoye, North Oshkotynskoye, Pyuseyskoye, South Syurkharatinskoye, Urernyrdszkoye, East Yanemdeyskoye	Exploration and production
Zarubezhneft – production Kharyaga LLC	Kharyaga oil field	Production
Orenburgnefteotdacha JSC	Pashkinskoye oil field	Exploration and production
	Kirsanovskoye oil field	Exploration and production
	Chernovskoye oil field	Exploration and production
Arctic Oil Company LLC	Peschanoozerskoye oil and gas condensate field	Asset sold on August 23, 2016

Operator/Subsoil user	Projects	Life cycle stage
North Karasevskoye Petroleum Enterprise LLC	Lutseyakhskoye field	Exploration
Ulyanovskneftegaz LLC	Ruzhevskoye oil field	Production
	Slavkinskoye oil field	Production
	Kondakovskoye oil field	Production
	Sulakskoye oil field	Exploration and production
	Radischevskiy site	Exploration

The joint venture Vietsovetropetrol celebrated the 35th anniversary of its establishment and the 30th anniversary of commencement of commercial oil production offshore Vietnam in 2016.

Status of the resource and raw material portfolio

In 2016, Zarubezhneft Group of Companies possessed 18 licenses for search, exploration and production of hydrocarbons, and 27 fields within 16 subsoil areas in the Russian Federation.

Total initial hydrocarbons in-place reserves of A+B1+B2 and C1+C2 categories of Zarubezhneft Group of Companies in Russia and abroad with account of the Company's participating interest as of 1 January, 2017, amount to 712.37 million tons of oil equivalent, while total initial recoverable hydrocarbons reserves amounted to 255.25 million tons of oil equivalent.

Total initial recoverable hydrocarbons reserves of A+B1+C1 (new classification) categories with account of Zarubezhneft JSC participating interest as of January 1, 2017, amount to 61.53 million tons of oil equivalent for Russian assets and 30.51 million tons of oil equivalent for foreign assets.

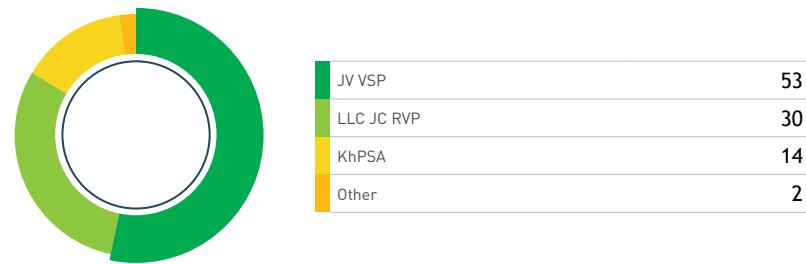
The cumulative increment of recoverable reserves with account of the Zarubezhneft JSC share in 2016 was 9.7 million tons of oil equivalent, including that due to prospecting and exploration drilling, which resulted in the resources' increment of 2.4 million tons of oil equivalent, due to acquisition of new assets (Lutseyakhskiy LA) – 1.0 million tons of oil equivalent, and due to purchase of a 20% share in Kharyaga PSA – 6.3 million tons of oil equivalent.

Oil production

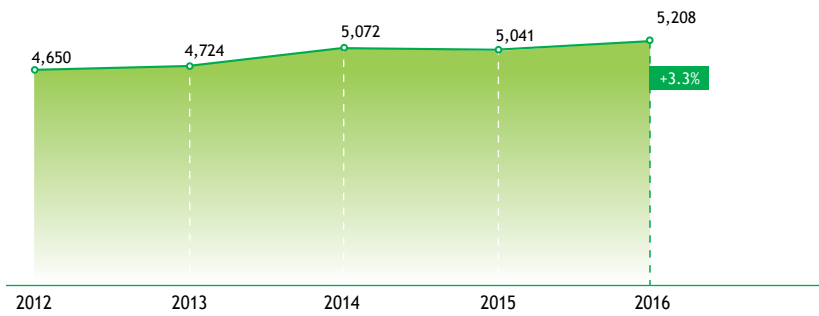
The Company continued its active development of the Upstream segment in 2016 by focusing its efforts on maintaining the sustainable level of production in the complicated domestic macro-economic situation (the drop in oil prices, and the growth of the US Dollar exchange rate). In accordance with the program developed for the improvement of efficiency and cost optimization, Zarubezhneft Group of Companies carried out a series of geological, technological, organizational and technical activities.

With account of Zarubezhneft's share, the production volume of hydrocarbons increased in 2016 and totaled 167 thousand tons (+3.3%).

Production structure in 2016, %



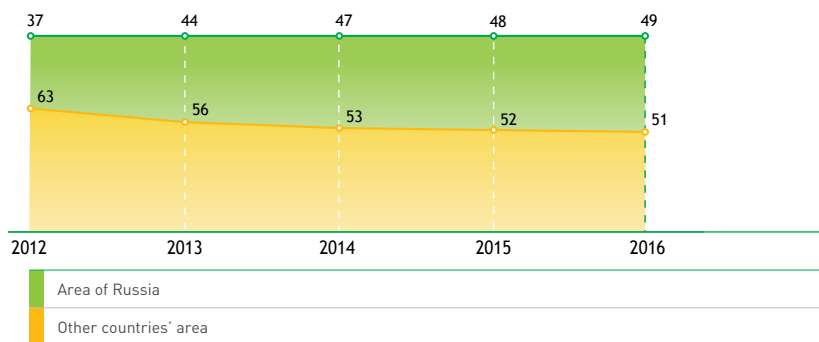
Zarubezhneft Group of Companies' production of hydrocarbons (with account of share), thousand TOE



Assets

The major producing assets in 2016 in the Upstream segment and in the company's structure were JV Vietsovetpetro and LLC "JC "RUSVIETPETRO". The share of overall production from Russian assets increased from 48% in 2015 to 49%, owing to active drilling at West-Khosedayu field, the largest field by reserves, commissioning of fields belonging to the north-western areas of LLC "JC "RUSVIETPETRO", and commissioning of new wells in the Kirsanovskoe field of Orenburgnefteotdacha JSC.

Production share dynamics in accordance with the regions of presence of Zarubezhneft JSC, %



Production with account of Zarubezhneft JSC share, thousand tons	Actual in 2015	Planned in 2016	Actual in 2016
JV VSP	2,550	2,450	2,470
LLC JC RVP	1,654	1,596	1,635
KhPSA	302	300	432
Block o9-3	62	45	49
ONO JSC	77	94	99
UNG LLC	42	44	43
AOC LLC	18	18	10
Block o4-3	0	6	1
TOTAL	4,705	4,553	4,739

DOWNSTREAM

Segment structure

The Zarubezhneft JSC project for the reconstruction and upgrading of enterprises of its downstream segment in Bosnia and Herzegovina commenced on February 2, 2007, after signing an agreement with the Government

of Republika Srpska (the state of Bosnia and Herzegovina [BiH]) for the purchase of the Brod Refinery, Modriča Oil Plant and the retail network of NestroPetrol that consisted of 79 fuel stations at the time of purchase.

The segment is comprised of the following companies.

Company name	Main characteristics
Republika Srpska (Bosnia and Herzegovina)	
OPTIMA Grupa d.o.o.	The purchase of oil, raw materials for motor oil production, wholesale and small wholesale trade of oil products in domestic and export markets
Brod Refinery A.D.	Refining, oil products production
Modriča Oil Plant A.D.	Base oils and paraffin, motor oils and lubes production
Nestro Petrol A.D.	Retail sale of oil products and associated goods
Russian Federation	
Oil and Gas Innovation Corporation (OGIC) JSC	Main loan debtor for the project's implementation, the controlling shareholder of enterprises in Republika Srpska (Bosnia and Herzegovina)



SERVICE AND OTHER ASSETS

The segment of service assets of Zarubezhneft Group of Companies is represented by entities that carry out their activities in the areas of oil facilities

infrastructure construction, performance of geologic exploration, drilling, supply of petroleum equipment, and performance of research and development and engineering works.

Name of subsidiary	Type of activities
ANGR JSC	The company provides exploration wells drilling and construction services for the petroleum industry by means of Murmanskaya Jack-up and Deep Venture Drill Ship, cargo port services and auxiliary production (Professional and technical training school).
VNIIneft JSC named after academician A.P. Krylov	Research and development institute for solving problems of oil fields development and enhanced oil recovery.
Giprovostokneft JSC	Giprovostokneft JSC is a scientific organization that renders research and development and engineering services for oil and gas companies. It is the oldest R&D and engineering institute in the Russian petroleum industry.
Zarubezhneftstroyontazh LLC	A company carrying out construction, reconstruction, overhaul, construction control, and design documentation preparation arrangement that is engaged by the property developer or the customer on the basis of a general contractor agreement.
RMNTK Nefteotdacha JSC	A company ensuring provision of a full range of petroleum services.
Zarnestservice LLC	A company that sells oil produced by Zarubezhneft Group of Companies on domestic and foreign markets and delivers equipment, materials and services for the needs of JV Vietsovpetro.

Priority development areas of the service block include implementation of maximum synergy with the key segment of Zarubezhneft JSC — geologic exploration and production.

III Detailed information on production and economic results of activities of Zarubezhneft Group of Companies can be found in the Annual Report for 2016.

EXPANSION OF ACTIVITIES AREA

In accordance with the Company development strategy, Zarubezhneft JSC shall enter the stage called "New Growth" in 2017. This stage includes significant expansion of the Company's activities in entering new projects in Russia and abroad. For this purpose, a number of preparatory measures for the Company's switch to the new stage of development were implemented in 2016. They include formation of a Block for business development and professional new projects

search and evaluation team, approval of the Concept of Zarubezhneft JSC business efficiency improvement and new business-processes regulation, holding negotiations in various countries, and establishment of partnerships and preparation of grounds to enter projects in the countries of Middle East, Latin America, South-East Asia and the CIS.

SUSTAINABLE DEVELOPMENT STRATEGY

ROLE OF SUSTAINABLE DEVELOPMENT IN THE COMPANY'S ACTIVITIES

Zarubezhneft JSC is a dynamic company possessing unique experience of successful activities and high standard reporting before the stakeholders. The Company actually contributes to the sustainable development of its regions of presence, primarily as an employer, a taxpayer, a significant participant of economic activities and a responsible natural resources user.

On 25 September, 2015, an Agenda for Sustainable Development for the period up to 2030 was approved by resolution of the General Assembly of the UN. Global sustainable development goals were also defined up to 2030. Zarubezhneft JSC shares the current international sustainable development

agenda. An analysis of the Company shows that out of 17 global Sustainable Development Goals, 9 are closely applicable to the Company's activities.

UN Sustainable Development Goals



No. of UN goal	UN goal	Main contribution of the Company	Relevant strategic development areas
3	Ensure healthy lives and promote well-being for all at all ages	HSE Management System	Organizational development
7	Ensure access to affordable, reliable, sustainable and modern energy sources for all	Production activities	Production optimization and stabilization Development of key process competencies Search and evaluation of new assets Organizational development Program of improvements in the Downstream segment Program of improvements in the segment of Service and other assets
8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Personnel policy Motivation policy Personnel training and development	Production optimization and stabilization Development of key process competencies Search and evaluation of new assets Program of improvements in the Downstream segment Program of improvements in the segment of Service and other assets
9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	Innovation policy Social policy in the regions of presence Young experts' scientific and technical works contest	Organizational development Development of key process competencies
12	Ensure sustainable consumption and production patterns	Energy efficiency policy	Organizational development Development of key process competencies
13	Take urgent action to combat climate change and its impacts	Utilization of associated petroleum gas	Organizational development Development of key process competencies
14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development	Waste handling, prevention of spills	Organizational development
15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	Rehabilitation of lands	Organizational development
16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	Corporate ethics code Information policy Corporate culture Anti-corruption policy	Organizational development

The Company carries out comprehensive implementation of the strategy, program and measures as well as efficient monitoring and interaction with stakeholders for the directions closely applicable to its activities. The management of Zarubezhneft JSC realizes that the long-term competitive ability of the Company is impossible without compliance with the interests of society: economic growth and fair distribution of national wealth, environmental protection and efficient resources consumption, social development, and observation of human rights.

The Management of Zarubezhneft JSC believes that implementation of the sustainable development principles shall become a source of competitive benefits in the long run.

103-2 (Economic performance)

DEVELOPMENT STRATEGY

The Company completed the first stage of the Zarubezhneft JSC Corporate strategy of development through 2030 entitled "Preparation for Growth" in 2016. The main achievements in all areas of activities were marked at the Zarubezhneft JSC Board of Directors' meeting in December 2016. All performance targets of the Corporate strategy first stage were met, even considering significant changes in macroeconomic conditions.

Zarubezhneft JSC's Corporate strategy of development through 2030 was approved by the Board of Directors in 2014 (Minutes No. 85 dated June 26, 2014). In accordance with the strategy, the main focus of the Company is the "Production" segment. Within this segment, Zarubezhneft JSC focuses on the fields in which it can enhance already existing competencies, in particular, fields with a disbalanced development system, and fields with complex reservoirs similar to those being developed in the regions of presence.

Corporate strategy implementation contemplates three stages:

- "Preparation for growth" (2014–2016) — active operation at current assets, development of competencies, and increase the efficiency of all organizational processes;
- "Readiness for growth" (2017–2020) — a business development team should be assembled, and 3–5 new assets should be included in the framework of the developed competencies at this stage;
- "Intensive growth" (2020–2030) — includes entering into 5 or more new projects, and achievement of a production level over 15 million tons by 2030.

Main business results in 2016 in the framework of the first stage of the Strategy

Implementation of production optimization and stabilization measures. Development of key process competencies

Optimization and stabilization of production in the joint projects with Vietnam — JC "RUSVIETPETRO" and JV "Vietsovetro", was included in priority strategic tasks at stage one of the Corporate strategy implementation.

Measures for the development of key process competencies and introduction of best technical decisions were implemented for the purpose of optimization and stabilization of production from the main assets of the Company. A series of measures performed has ensured a positive change in the Company's production trend.

The Company has performed the following measures in the reporting period for the purpose of development of key process competencies:

- STC team was assembled on the basis of VNIIneft JSC;
- Information systems ensuring support of the key process operations were integrated;
- A road map of R&D implementation aimed at increasing displacement efficiency, and oil recovery factor in carbonate hydrophobic reservoirs was drawn up, and a solution for other key issues was found;
- Geological and process measures are being carried out;
- Testing of new technologies was arranged.

The successful performance of these measures has allowed Zarubezhneft JSC to increase the efficiency of technological processes despite the deteriorating macroeconomic environment.

"New assets search and evaluation" area development

In accordance with the Corporate strategy of Zarubezhneft JSC, entry into new petroleum projects is the basis for the Company's prospective growth.

The following measures intended for development of this area of activities were carried out by the Company during the reporting period:

- A "Search and evaluation of new projects in Russia and abroad" block was structurally singled out in the Company for the purpose of consistent searching and evaluation of new projects;
- A "Concept of improving business development efficiency from initial study to actual entry into new projects" was developed;
- Tools for express evaluation and detailed study of assets, including the process audit of assets with the field trip of Zarubezhneft JSC experts.

During the period of 2014–2016, 34 projects for potential entry were reviewed and examined in detail at the Investment committee meetings, including 22 projects in the Russian Federation and CIS and 12 projects abroad.

An increase of the Company's participating interest in Kharyaga PSA and obtaining operatorship in the project were the key results of Zarubezhneft JSC's "Search and evaluation of new assets in the Russian Federation and CIS" activities in 2016.

Organizational development

The Company's strategy aimed at significant growth requires significant organizational transformations, to this effect, organizational and process development is among the priority tasks of the first period of Strategy implementation.

During this period, the Company has pursued a task of going from managing essentially one project (JV "Vietsovpetro") to an assets group efficiency management system.

The results of Zarubezhneft Group of Companies for 2015–2016 prove that even in an adverse macroeconomic environment, the Company is capable of not only retaining the results achieved earlier, but of significantly improving them as well, and can extend its own investment activities, increase efforts to search and enter prospective and complex investment projects owing to the efficient management of the Company, and implementation of a comprehensive optimization program.

Companies of Zarubezhneft Group adhere to a responsible approach in course of organizational changes and development. Thus, costs optimization is fulfilled with retention of production volumes, maintenance costs, overhaul, operation, and safety of facilities and personnel.

Thus, in the framework of project improvement implementation during 2013–2016, key systems of the Company's activities' management were established, connecting the subsidiaries with the Corporate center by unified requirements and principles, as well as information and data flows.

- A unified production management system was established:
 - unified standards for normal operations;
 - teams' operations arrangement standard;
 - "Lean production (5S)" unified system;
 - Unified HSE requirements.
- Production data flows are supported by unified information systems (IS) in the framework of production processes:
 - drilling management (DMIS);
 - geology and production monitoring (GPMIS);
 - development management and monitoring (DMMIS);
 - OIS Production;
 - capital construction.
- A unified personnel management system was integrated in all subsidiaries and the Corporate center:
 - organizational structures were unified;
 - a unified grades and salary system was integrated;
 - unified principles of corporate interactions were introduced;
 - corporate training programs are being implemented (Petroleum Engineering School, Project Management School, Leadership and Management Potential Development School).
- Personnel management processes are automated as well.

- The following tools were integrated under "Organizational efficiency and corporate management" activities:
 - unified management efficiency monitoring system (KPI, ratings);
 - unified business processes standardization and optimization system;
 - integrated risks management system;
 - internal audit system;
 - corporate management standard.
- The following planning and accounting standards were integrated under "Economics and finance" activities:
 - unified accounting and fiscal record-keeping methodology;
 - unified methodology for accounting under international standards (IFRS);
 - unified management accounting methodology;
 - unified treasury.
- All accounting processes are supported by unified information systems:
 - accounting and fiscal record-keeping on the basis of 1C;
 - accounting under international standards on the basis of 1C;
 - management accounting on the basis of Oracle Hyperion.

Implementation of the improvement program in the Downstream segment

A priority task of the Company in the Downstream segment was defined as minimization of its unprofitability and search for a strategic partner.

The following was implemented for the purpose of minimizing the Company's losses in the segment:

- Brod Refinery operational improvements program;
- Modriča Oil Plant operational improvements program;
- Wholesale and retail sales operational improvements.

Development of "Service and other assets" segment — synergy with the Upstream segment

The priority guidelines for the services segment development includes maximum implementation of synergies with the key segment of the company — exploration and production.

Qualified scientific and engineering support of the production assets of the Company were ensured on the basis of the corporate industry institutes VNIIneft JSC and Giprovostokneft JSC.

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KPI SYSTEM

A system of key performance indicators (KPI) of Zarubezhneft JSC is intended to motivate the company management and subsidiaries to fulfill the tasks set by the state as a 100% shareholder of the Company, the Zarubezhneft JSC strategy key indicators, the Long-Term Development Program, Zarubezhneft JSC business-plan indicators, and ongoing Zarubezhneft JSC investment projects.

KPI system indicators are synchronized with the KPI of the Long-Term Development Program.

The Company's KPI system consists of 3 main groups:

- **Corporate KPIs** (financial and industrial indicators): The main indicators of the Company's activities are approved and controlled by the Board of Directors and the Audit Committee at the Board of Directors. These KPI are included in the charts of the General Director, heads of departments, and are decomposed in the KPIs of the general directors of subsidiaries;
- **Functional KPIs** (operational indicators by areas of business activities): Indicators of functional activities; established for the deputies General Director, heads of departments and general directors of subsidiaries in accordance with the authority and responsibility matrix; approved and controlled by the General Director;
- **Project KPIs** (strategic initiatives by areas of business activities): Indicators of performance of TOP-business initiatives and project tasks; established for the deputies of the General Director, heads of departments and general directors of subsidiaries; approved and controlled by the General Director.

Therefore, the KPI system of the Company covers all key management levels of the group of companies in 2016:

- Corporate center management (deputies of the general director and heads of departments) — 38 persons;
- General Directors of Subsidiaries — 16 persons;
- Deputies of the General Director of Subsidiaries — 51 persons.

The total amount of controlled indicators is over 400.

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

Zarubezhneft JSC satisfied the target values of all corporate KPIs in 2016.



KPI performance data for 2016

Indicator	Meas. unit	Indic. wt.	2016		Performance percent, %
			Target	Actual	
Consolidated revenue	bln RUB	5%	60.9	60.9	100
EBITDA	bln RUB	5%	12.7	15.1	120
Dividends amount	bln RUB	15%	2.7	4.5	100
Return on equity	%	15%	7.3%	8.0%	120
Labor efficiency	thousand RUB / man-hour	10%	52.6	56.1	100
Operational costs (expenses) decrease	%	10%	10.0%	10.6%	112
Gross production volume	thousand TOE	15%	5,149	5,208	105
Reserves volume	thousand TOE	15%	83,938	92,041	120
Integral KPI of innovational activities	%	10%	100%	100%	100
Corporate KPIs performance					109
Non-exceeding of limit under NetDept/ EBITDA indicator	–	bonus reduction indicator	2.1	0.6	–
Corporate KPIs performance with account of bonus reduction indicator					109

INTRA-CORPORATE IMPROVEMENT PROJECTS

Achievement of strategic milestones of Zarubezhneft JSC is performed using an "Intra-Corporate Improvement Projects" tool. A total of 51 projects have been initiated since 2015, including 15 projects successfully completed in 2015, and 9 in 2016. As of the end of 2016, 22 projects have an "ongoing" status.

Improvement projects are intended for optimization of Zarubezhneft Group of Companies' activities, and cover such areas as corporate management, production and organizational efficiency, financial and economic activities' management, personnel management, business-processes automation and IT-systems.

The improvement projects brought the following actual results in 2016.

The Project Management School was established in Zarubezhneft JSC on the basis of the International Business School of Gubkin Oil and Gas RSU.

In accordance with the development strategy of Zarubezhneft JSC, project management is one of the key strategic competencies. A project for establishing a corporate management school with specialization for training the project managers was initiated and successfully implemented for the purpose of developing this competency of personnel.

Training is implemented on the base of the Gubkin Oil and Gas RSU under a program of additional (to higher) professional education "Master of Business Administration (MBA)", "Oil and Gas Business Management".

The first group of students completed its education in 2016. All graduates have successfully passed their exams and received an MBA in "Oil and Gas Business Management".

Successful implementation of the "pilot" project and the high level of the students' satisfaction allowed further development of the Project Management School, and the second enrollment of students to graduate in 2017–2018 was initiated in 2016.

System work for standardization and optimization of business-processes in Zarubezhneft JSC was arranged.

A project of "Business-processes standardization and optimization" was implemented to improve the Company's organizational efficiency. Its main objectives are:

- Regulation and optimization of key business-processes;
- Division of officers' responsibilities and authority in implementation of business-processes;
- Determination of indicative and target KPIs of business-processes;
- Introduction of a constant business-processes improvement cycle, the procedure for identification of areas for improvement and implementation of measures intended to achieve the "As supposed to be" status of business-processes.

In accordance with the quality management system requirements, the upper level business-processes are described in accordance with the PDCA (plan-do-check-act) cycle. Each process has its analysis block singled out, in the framework of which the process owner performs system analysis of efficiency and results of the process implementation, process KPI performance monitoring, analysis of quality of interaction with related business units and subsidiaries, and forms business-process optimization measures based on these results.

A "Production System" of Zarubezhneft JSC was introduced at production facilities of JC "RUSVIETPETRO" (subsidiary of Zarubezhneft JSC).

In order to increase the competitive ability of Zarubezhneft Group of Companies, a project to establish a "Production System of Zarubezhneft JSC" with the following main objectives was initiated and implemented:

- Production process' efficiency increase;
- Personnel engagement and active employees determination;
- Production practices' enhancement.

Thus, the 4 priority areas of the system were identified and successfully implemented on the basis of the performed analysis of "Best Practices" for "Production System" arrangement and implementation:

- "Teamwork Arrangement": Key technological operations were standardized, which allowed increasing safety and reliability of their performance;
- "Working Places Arrangement - 5S": Site operations at production locations and indoors were optimized, time for performing operations was reduced, materials supplies were decreased;

A new project for integration of the Production System was set up in November 2016, and is participated in by ZARUBEZHNEFT-Production Samara LLC, ZARUBEZHNEFT-Production Kharyaga LLC, and RMNTK Nefteotdacha JSC.

- "Constant Improvements System Arrangement": A system for submitting and implementing ideas and proposals from the workers of the teams to the managing authority was arranged;
- "Prudent Attitude Culture": Work for improving the commitment of personnel to a prudent attitude towards equipment and property of the company was arranged. The most important areas of potential savings were identified, prudent attitude examples were elaborated, and promotion works were carried out.

A system for headcount management of the corporate center of Zarubezhneft JSC was established.

A project for Zarubezhneft JSC headcount regulation system establishment with the following main objectives was implemented for the purpose of identifying measures intended to increase the labor efficiency of the corporate center:

- Determining the economic justification of the headcount of the corporate center of Zarubezhneft JSC;
- Development and testing of headcount regulation methods in the structural departments.

Implementation of the project has brought the following quality results:

- Calculation of target and actual labor costs with a break-down by business-processes and functions was performed;

- A comparative analysis of labor required for planning / performance / control (under PDCA principle) operations was performed;
- Target results (key functions documents) were determined and KPIs of functions and business-processes were clarified;
- Problematic functions / areas for improvements (doubling of operations, excessive labor costs / lack of resources) were determined;
- Measures to increase labor efficiency (automations, re-engineering of processes) were determined.

Apart from this, the following results can be identified for implementation of projects which will be continued in 2017:

- A process of technological audit of potential assets for entry was arranged;
- The risk management process was distributed to the subsidiaries of the Zarubezhneft Group of Companies;
- A corporate ethics code of Zarubezhneft JSC revealing 12 main principles of corporate interaction in the Company was adopted.

Formation of a new improvement projects portfolio for 2017–2019 shall be carried out on the basis of:

- Zarubezhneft JSC corporate strategy of development through 2030 and a plan of priority strategy implementation measures;
- Key processes and functions maturity models;
- Results of an evaluation and audit of efficiency of the business-processes operating in the Company;
- Requirements of external regulatory authorities (Government of the Russian Federation, Rosimuschestvo etc.).



INTERACTION WITH STAKEHOLDERS

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Interaction with the interested parties (stakeholders) is one of the strategic approaches to ensuring the sustainable development of the Zarubezhneft Group of Companies and improvement of its social responsibility. During its interaction with the stakeholders, the company considers various aspects, and tends to balance all interests within the framework of sustainable development achievement. In the course of such work, specific attention is paid to the adjustment of activities, including in accordance with the expectations, critical comments and desires of the stakeholders, but not compromising the priorities of the progressive development of the Company.

Within the framework of such activities, the following main groups of stakeholders having direct and significant influence on the Company's activities in its regions and countries of presence were identified:

- Shareholders;
- Investment community;

- Employees of the Company;
- Governmental authorities;
- Business partners;
- Local communities in the regions of presence;
- Civil and non-profit organizations;
- Mass media and other.

CORPORATE CULTURE

Establishment and maintenance of fundamental values and standards of activities, ethics standards, an environment that is creative and open for innovations, and contributing to a high level of involvement of each employee in settlement of main business issues is a strategic goal in the area of corporate culture development in the Group of Companies.

The corporate culture of Zarubezhneft Group of Companies influences all personnel management areas and contributes to development of the loyal attitude of employees and enhancement of the Group of Companies' image and status value of working in it.

The processes of the Company's relations with the external environment, between the employees, and between the managers and employees are regulated by the Corporate ethics code¹.

The Corporate ethics code is a tool for corporate culture development, and determines business conduct rules, ethics standards for intra-corporate relations, anti-corruption requirements, as well as a system of internal and external communications.

A total of 12 corporate interaction principles were defined and approved in 2016. All principles are divided into 4 blocks by areas of interaction.

Corporate interaction principles are actively communicated and promoted in Zarubezhneft Group of Companies. A "Corporate Ethics" section was established on the corporate portal, and illustrated corporate ethics booklets with situational examples of each corporate interaction principle were published.

If an employee encounters a display of negative behavior by other employees, and considers this to be contradictory to the main corporate principles, he/she is entitled to report such cases to the established Corporate ethics committee.

¹ Corporate Ethics Code was approved by the Board of Directors in 2016.

Key corporate interaction principles of Zarubezhneft JSC

COMPANY – EMPLOYEE

“INITIATIVE AND PROACTIVE ATTITUDE” PRINCIPLE
 Constructive stand towards changes, responsible decisions making, reporting on occurring issues.

“PURSUANCE OF CONTINUOUS IMPROVEMENT AND PROFESSIONAL DEVELOPMENT” PRINCIPLE
 Determination to achieve efficient results, to improve professional skills, to apply new practices.

“FAIR EVALUATION OF ACTIVITIES AND MOTIVATION OF EMPLOYEES” PRINCIPLE
 Evaluation of activities by personal employee’s results, determination to exchange experience and train employees.



EMPLOYEE – EMPLOYEE

“TEAM WORK” PRINCIPLE
 Work in a united team, personal responsibility for the results, rendering assistance to the colleagues.

“MEANINGFUL DISCUSSION OF ISSUES” PRINCIPLE
 Search for root cause of problems in case several opinions available, conflict settlement at horizontal level.

“BUSINESS COMMUNICATIONS” PRINCIPLE
 Compliance with the principles of honesty, decency, fairness and mutual respect in course of communications and joint activities of the employees.




COMPANY – EXTERNAL ENVIRONMENT

“RESPONSIBILITY BEFORE THE STATE” PRINCIPLE
 Unconditional compliance with laws, performance of instructions and orders of governmental authorities with due quality and in a timely manner.

“TOLERANCE AND MUTUAL RESPECT” PRINCIPLE
 Respect for the culture and traditions of people, knowledge and compliance with applicable laws.

“HONESTY AND TRANSPARENCY” PRINCIPLE
 Defending the Company’s interest, fulfillment of obligations before the partners.



MANAGER – EMPLOYEE

“UNDIVIDED AUTHORITY” PRINCIPLE
 Initial address to direct line manager in case of issues related to the employee’s professional activities or Company’s activities in general.

“COLLECTIVE DISCUSSION AND UNCONDITIONAL EXECUTION OF DECISIONS MADE” PRINCIPLE
 Consideration of employee’s opinion, justification of decision made, decision execution after ultimate agreement.

“OPEN DOORS” PRINCIPLE
 Openness to communication with employees, mandatory feedback from the manager.



INTERACTION WITH THE SHAREHOLDER AND INVESTMENT COMMUNITY

The only shareholder of the Company is the State — the Russian Federation. The Company interacts with the shareholder in a whole and consistent manner on the basis of the generally accepted principles of corporate management.

The fundamental principle of interaction with the shareholder is unconditional observance of all rights and interests of the shareholder.

The Company tends to ensure the long-term improvement of the shareholder's wellness by means of increasing capitalization, implementation of the balanced strategic plans and goals, as well as decreasing risks associated with its activities.

The primary focus is on the unconditional compliance with the current laws. Full and timely disclosure of information on all aspects of the Company's activities is ensured.

The main tool of the shareholder's participation in the operation of the Company is the Board of Directors, the members of which are approved by decision of the Government of the Russian Federation. The members of the Board of Directors receive information on the agenda of each meeting timely and in full.

Significant attention is paid to work with potential investors and business partners in the framework of which the Company tends to improve its transparency before potential partners, and to increase the level of trust in relations with current partners.

Regular negotiations, meetings, and discussions are being held for the purpose of implementing such a policy.

A feedback system named "Got an idea!" is operating on the basis of the internal corporate portal in the corporate center. The system allows the employees of the Company to submit their ideas and improvement proposals in an easy manner, as well as promptly receive feedback regarding consideration and integration. No idea is left without notice and response. The regulated terms for ideas review are established, and the administrator controls this process, while reports on review status are formed and analyzed. The subject matters of the ideas range from improvement of processes, regulations and informational systems, to enhancing the image of the Company. Starting in 2016, the subsidiaries are also connected to the internal portal.

Zarubezhneft applies a positive practice of holding strategic sessions, seminars, brainstorming, and other events. In case of occurring issues, teamwork contributes to accurate and comprehensive consideration of the current situation and identification of aims and tasks for the future.

INTERACTION WITH GOVERNMENTAL AUTHORITIES

Zarubezhneft JSC is the only 100% State-owned oil company in the Russian Federation, which puts it under additional pressure in terms of interaction with federal and regional authorities of the Russian Federation, as well as abroad, in the current and potential countries of presence.

The Company forms a constructive relation with the state authorities guided by the standards of the current legislation and high standards of corporate and business ethics, and benefits from the establishment of advantageous business development conditions. Adhering to its "Responsibility before the State" principle, the Company unconditionally complies with the laws of the Russian Federation and the countries of presence. The Company also takes an active part in the activities of the Ministry of Energy of the Russian Federation, and assists in implementation of the priority programs of the Government of the Russian Federation.

The goal of Company's participation in the elaboration of issues related to the legislative initiatives is the improvement of a regulatory basis related to the competencies of Zarubezhneft Group of Companies' activities, as well as the development of proposals to improve the efficiency of the industry in general.

The accumulated scientific and operational experience of the Company, as well as experience in external economic activities, allows the experts of Zarubezhneft JSC to carry out efficient work within the framework of the meetings of industrial

work groups, expert councils, and round tables held with the support of governmental authorities.

The General Director S.I. Kudryashov is the head of the Work group for fuel and energy complex issues under the Presidential Commission of the Russian Federation for the fuel and energy complex development strategies and environmental safety.

Continuous dialogue with the representatives of the state authorities is the utmost important element of timely response and settlement of issues in the legal field, as well as a tool for decreasing the risks in implementation of the Company's projects, both in Russia and in the current and potential countries of presence.

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

INTERACTION WITH EMPLOYEES

The interaction of the Company with its employees is governed by the internal regulatory documents and the Corporate ethics code.

The system of intra-corporate communications by means of holding corporate events, along with their coverage on the corporate portal and quarterly publications of Zarubezhneft, has become highly developed during the last three years. All events are included in the communications plan that is formed annually in within the framework of the Zarubezhneft JSC strategy implementation primary measures plan.

Since 2013 the Company and its subsidiaries have been carrying out a survey of the social and psychological environment between employees.

A strategic session "Team of Zarubezhneft. Energy of Results" was held in February, 2016. The session was aimed at improving the Company's efficiency. The top managers of Zarubezhneft, heads of structural departments, as well as heads of subsidiaries and affiliates participated in the session.

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INTERACTION WITH THE BUSINESS PARTNERS

Mutual respect is one of the most important principals of the Company's interaction with its stakeholders.

The Company maintains long-term, stable and mutually beneficial relations with its customers that are based on the improvement of sustainability and reliability of supplies, and transparency of pricing.

Zarubezhneft JSC is an active participant in discussions about the development of the international and Russian fuel and energy complex, and takes part in various meetings. During the reporting period the representatives of Zarubezhneft JSC took part in the activities of APEC, ASEAN, the Energy Community of EU, the energy dialogue between Russia and OPEC, and events under the authority of the International Energy Agency.

The Company selects its vendors and contractors on a bidding basis in accordance with the established procedure driven by fair competition without any hidden preferences and established benefits for individual vendors or contractors from the part of the Company's employees.

The Company interacts with counter-agents having an unchallenged reputation, complying with the laws and with the generally accepted standards of corporate and business ethics.

The Company does not allow any breach of competition law or unfair competition in its countries of presence.

Main mechanisms of procurement activities:



The Company's interaction with competitors is based on the principles of mutual respect and mutually beneficial cooperation, without any cases of unfair competition and without abuse of a dominant position, in strict compliance with the competition laws of the countries of presence, and avoiding hostile rhetoric addressed to the Company's competitors.

INTERACTION WITH THE MASS MEDIA

Zarubezhneft promotes a policy of informational transparency aimed at providing stakeholders with accurate and full information on the main areas of its activities.

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

The processes of external communications within Zarubezhneft JSC are governed by the regulation on formation of a single information policy and regulation for the interaction of the Company's personnel with the Mass Media. The main tools are the website of Zarubezhneft JSC, the quarterly corporate magazine "Oil Without Borders", and the Company's official page in the Facebook social network.

Zarubezhneft has formed its own journalist pool and determines a list of core audiences for information distribution (governmental authorities, shareholders, partners and employees).

A PR-events Plan is prepared on an annual basis within the Press Service operations framework. This plan includes coverage of Zarubezhneft and its subsidiaries participating in exhibitions and conferences, possible interviews, press-conferences and press-tours to the Group of Companies' facilities. Such an approach allows structuring newsworthy events for the purpose of their timely broadcasting by the mass media.

Zarubezhneft JSC's corporate magazine "Oil Without Borders" was included in the Top-10 of corporate magazines of Russian industrial companies in 2016. The rating made by the Business portal "Production Management" marks the corporate editions that cover modern efficient production development processes in the most comprehensive and high-quality manner. The rating is formed on the basis on the number of views of the materials from corporate editions, and covers more than 250 corporate magazines and papers.

CORPORATE MANAGEMENT

Zarubezhneft JSC tends to comply with the best applicable international and Russian practices of corporate management, and implements a range of measures for its improvement.

The Russian Federation, represented by the Federal Property Management Agency, is the only one shareholder of Zarubezhneft JSC.

The management authorities of Zarubezhneft JSC include the:

- General Shareholders' Meeting;
- Board of Directors (including Committees at the Board of Directors, in particular, the
 - Strategic Planning Committee
 - Audit Committee
 - Personnel and Remuneration Committee;

- Management of Zarubezhneft JSC, including
 - General Director (sole executive authority)
 - Deputies of the General Director for various areas of activities:
 - For production
 - For economics and finance
 - For project development and well operations
 - For ensuring expansion of petroleum assets
 - For geology and development
 - For corporate communications, strategics and development
 - For downstream operations
 - For business development
 - For internal operations and personnel.
- Revision commission

Information on the activities of the Board of Directors and committees at the Board of Directors

Indicator	Composition	Board of Directors	Committees at the Board of Directors		
			Strategic Planning Committee	Audit Committee	Personnel and Remuneration Committee
Number of members	Before 30.06.2016	7	3	3	3
	After 30.06.2016	7	4	3	3
Of them independent	Before 30.06.2016	2	1	2	1
	After 30.06.2016	2	1	1	1
Company's shares possession	Members of the Board of Directors do not possess any shares of the Company.				
Number of meetings	-	18	10	11	9
Number of considered issues	-	83	20	26	12

REMUNERATION OF THE CORPORATE MANAGEMENT AUTHORITIES


Regulation on remuneration for the Zarubezhneft Board of Directors members was approved by the Decree of the Federal State Property Management Agency No. 694-p, dated June 30, 2010.

In 2016, the total amount of remuneration payments to five members of the Zarubezhneft JSC Board of Directors, based upon the results of their work in 2015–2016 and in accordance with the decree of the Federal State Property Management Agency No. 522-p dated June 30, 2016, "On Decisions Of The Annual General Meeting Of Shareholders Of The Zarubezhneft Joint Stock Company," amounted to 4,720 thousand Rubles, including 1,000 thousand Rubles to Kadochnikov P.A., 960 thousand Rubles to Makarov A.A., 1,000 thousand Rubles to Nekipelov A.D., 960 thousand Rubles to Nekrasov S.Y., and 800 thousand Rubles to Poluboyarinov M.I.

Payment of annual remuneration to the General Director and the management of the Company is made on the basis of relevant Regulations approved by the Board of Directors. Annual remuneration is determined on the basis of achievement of target corporate KPI values approved by the Board of Directors (for the General Director) and target KPIs values approved by the Board of Directors (for the senior management personnel).

The amount of annual remuneration (revenue) of the sole executive authority of Zarubezhneft JSC in 2015 was 53.9 million Rubles.

Under results of work of Revision Commission in 2015–2016, its members were paid remuneration in the amount of 429,479 in 2016.

 More details on corporate management in Zarubezhneft JSC can be found in the Annual Report for 2016.



PROVISION OF INTERNAL CONTROL

The Internal audit department reporting to the Board of Directors operates in Zarubezhneft JSC within the framework of the existing corporate management system.

The main task of the internal audit of Zarubezhneft JSC is to assess and express opinions regarding the reliability and efficiency of the systems of risk management, internal control, and corporate management in Zarubezhneft Group of Companies.

The Internal audit department is also the organizer of the revision process, and it carries out active interaction with revision commissions and external auditors of both Zarubezhneft JSC and its subsidiaries. The Department performs continuous monitoring of the fulfillment of recommendations made under results of internal audit inspections and control and revision activities aimed at enhancement of internal control, risk management, and corporate management systems.

RISK MANAGEMENT

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Zarubezhneft Group of Companies aims to boost its shareholder value to the maximum level, working on improving the efficiency of its activities, by ensuring its sustainable development and enhancing its competitiveness in providing for the state's interests. Zarubezhneft JSC pursues long-term objectives, carries out analysis of the current problems, threats and opportunities within all lines of the company's activities, and considers potential risks when making decisions.

In accordance with the requirements of the Risk Management Policy, the Corporate Risk Management System (CRMS) intended for ensuring reasonable confidence in achieving the company's objectives is currently functioning, and is constantly being improved within Zarubezhneft Group of Companies.

In accordance with the CRMS organizational chart, the responsibilities and authorities are distributed as follows:

- Zarubezhneft JSC Board of Directors — approves the strategy and long-term development plans, as well as the risk management policy;
- Audit Committee at the Board of Directors — reviews the arrangement of the Zarubezhneft Group of Companies' risk management system;
- General Director — arranges the risk management process; forms a unified corporate culture that contributes to efficient operation of the risk management system;
- Corporate committee for risk management — reports to the General Director of Zarubezhneft JSC, carries out general control over process efficiency and manages the risk portfolio;
- Internal audit — performs assessment of the risk management processes' efficiency.

The responsibility for methodological support, development and maintenance of CRMS is assigned to the Corporate Risk Management Systems Development Department.

CRMS organization chart



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MAIN RISK FACTORS

Based on the Company's objectives classified into four categories in accordance with COSO methodology, the Company's risks are divided into strategic, operational, related to preparation of financial statements, and risks of compliance with legal requirements. The main risk categories, nature of their origin, and key management measures are presented below.

Description



- Related to the performance of long-term goals, as well as the influence of rivalry with other companies in the industry.
- Strategic risks are analyzed from the point of view of the Company's development prospects.
- Scenario-based analysis is performed to assess risks at the company level, stress-tests are carried out upon changes in macroeconomic parameters (oil price, exchange rate, tax regime, inflation % etc.).



- Determined by specifics of the whole Company's value creation cycle and connected with production processes of exploration, production, construction, development, transportation, marketing, refining and sale of oil products.
- Decrease of oil price and high volatility of ruble compared to other world currencies have significant negative on activities of many Russian corporations.



- Financial risks, such as the commercial risks group, may arise as a result of the capital markets' instability and occurrence of unfavorable financial consequences in the form of income and capital loss with the uncertainty of financial activities' performance conditions.



- Risks are determined by changing legal requirements and regulation as well as ambiguity, uncertainty, inconsistency of applicable law standards, changes in law enforcement practice of court and administrative authorities in the countries where Zarubezhneft JSC implements projects or plans of expanding its presence.

Risks list

- Political risk;
- Investment risk;
- Macroeconomic risks;
- Oil prices volatility, their decline or stagnation at a low level;
- Global offshore drilling contractor market crisis.

- Geologic risk;
- Infrastructural risk;
- Accident risks.

- Risks of statements preparation and formation;
- Interest risks;
- Liquidity risks;
- Currency risks.

- Environmental risks;
- Occupational health and industrial safety risks;
- Legal risks;
- Sanctions risk.

103-2 (Health and safety of personnel, Emissions, Discharges and waste)

Risk name	Risk description	Risk management measures
Ecological risks	Risks connected with the probability of environmental pollution, fines and the application of other sanctions on the part of regulatory bodies, in connection with non-compliance with applicable environmental legislation etc.	The company and its subsidiaries have introduced internal normative HSE regulating documents: the HSE, security and social responsibility policy; the "HSE management system" standard. Implementation of previously approved nature conservation and ecological permits programs is being carried out as planned. The elimination of sludge pits (acid sludge) at Brod Refinery and Modriča Oil Plant includes a survey of facilities and search for applicable technologies. The approval of the stabilization and solidification technology application by the Government of Republika Srpska is pending. The subsidiaries constantly enhance the HSE management System in accordance with the environmental legislation and international standards ISO 14001 and OHSAS 18001, in particular: Brod Refinery and Modriča Oil Plant confirmed compliance of their HSE management systems with the international standards OHSAS 18001-2007 and ISO 14001-2004 in 2016. An environmental permit valid till 2021 was obtained by Brod Refinery. Zarubezhneft JSC and LLC "JC "RUSVIETPETRO" carry out preparations for certification of compliance with ISO 14001 and OHSAS 18001.
Occupational health and industrial safety risks	Risks of non-performance/non-compliance with the work safety rules, which can become a reason for accidents, damage or loss of durable equipment, and also result in the deterioration of the company's business reputation.	A number of internal regulatory documents were updated in accordance with the requirements of international standards OHSAS 18001 and ISO 14001 in 2016 in the framework of the HSE system methodologic support. All subsidiaries joined the Zarubezhneft JSC policy of occupational health, industrial safety, environment protection, security and social responsibility established by the internal regulatory documents, and they operate under unified management standards. A Program of 12 Life Saving Rules was introduced and is supported. STOP cards of work safety performance were developed and introduced on the basis of LLC "JC "RUSVIETPETRO". Constant HSE training is being performed: training for safety methods and techniques of work execution and first aid for the injured at the production site as per the "First aid pre-doctor treatment to the injured"; a strategic session on the leadership for the subsidiaries' general directors was carried out. Unscheduled inspections of technical condition and integrity of equipment at the main production facilities were carried out.
Legal risks	Related to the ambiguity, uncertainty, the contradictions of applicable laws, changes in the legal application practice of the court and administration authorities.	The Company performs constant monitoring of changes in Russian laws (tax, currency, customs, subsoil use, licensing, etc.) and the monitoring of court practice with the purpose of settling disputable issues arising in the course of the Zarubezhneft JSC activities. For example, the Company has certain divisions aimed at studying the changes of tax laws, the analysis of the tax burden and at monitoring compliance with license agreements.
Sanctions risk	Related to the imposed sanctions affecting the interests of Zarubezhneft Group of Companies	A Work Group for analysis of EU and USA sanctions was established in Zarubezhneft JSC, and a complex of measures to mitigate possible negative effects was developed as well. In the framework of its activities, the Company carries out constant analysis of mass media regarding tightening of anti-Russian sanctions in the financial area, analyzes the current situation on the credit market, performs analysis of the current sanctions' impact on purchase of technologies, services, equipment, and elaborates alternative import replacement options. As at the end of 2016, no occurred risks affecting the production activities of Zarubezhneft Group of Companies were identified. In particular: Zarubezhneft Group of Companies is not included in the sanctions lists of EU and USA; there are no restrictions regarding supply of spare parts and services for available equipment, including software; no withdrawals of export licenses from counter-agents due to reasons related to the actions or status of the Group of Companies' enterprises were determined. In terms of sanctions' influence on the Company's financial flows: no cases of delay or limitation of bank transactions as well as loan denial were recorded.

Zarubezhneft JSC employs insurance as an economical tool, allowing for mitigating of risk-induced impacts and consequences, and to decrease the probability of their occurrence.

The main production assets of the Company are insured by major Russian insurers, all of which have

high reliability ratings. Insurance coverage is provided for the property complex of the oil industry, the life, health and medical care costs of personnel, construction and assembly works, the civil liability of enterprises, and many other risks.

Surveys (engineering inspections) enabling the Company to make a quality assessment of each risk and its financial consequences are being carried out under the majority of the insurance programs.

ANTI-CORRUPTION ACTIVITIES

In compliance with the requirements of the Russian law and laws of other countries in which the Company conducts or plans on conducting its activities, longing to comply with the best international practices, business culture, ethical and other professional rules and standards, Zarubezhneft JSC pays significant attention to its anti-corruption activities.

Beginning with the Anti-corruption Charter of Russian Business, the Company regularly undergoes procedure of public confirmation of anti-corruption measures.

In pursuance of the Decree of the President of the Russian Federation of 1 April, 2016 No. 147 "On a national corruption prevention plan for 2016–2017", instructions, orders and guidelines of the Government of the Russian Federation and the sole shareholder represented by the Federal Agency for State Property Management (Rosimuschestvo), Zarubezhneft JSC proceeds with improving and integrating standards and procedures aimed at ensuring prudent operation and increase of corruption prevention efficiency.

Currently, comprehensive and consistent measures for prevention and elimination (minimization) of causes and conditions giving rise to corruption and for building anti-corruption consciousness characterized by intolerance to any forms of corruption manifestations are being implemented.

Main internal corruption prevention documents¹



Covers the whole Group of Companies



Covers all personnel of the Group



Covers all personnel of the Group



Covers all employees, partners and counter-agents of Zarubezhneft JSC. Covers the following business-processes: procurement, investment activities, M&A deals, charity and sponsorship activities, personnel management

¹ All internal regulatory acts of Zarubezhneft JSC aimed at corruption prevention as well as developed handbooks on anti-corruption behavior and measures to be taken when working abroad are distributed to the Company employees, along with regulatory and administrative documents assuming responsibility, and communicated with written confirmation.

205-1

Internal regulatory documents valid in the Company fully comply with requirements established by the Russian laws.

Anti-corruption provisions are included into bodies of contracts and agreements with partners and counter-agents, labor contracts with employees of Zarubezhneft JSC, contracts on material remuneration of Russian employees working abroad, as well as a wide range of internal regulatory documents governing such business-processes as procurement and investment activities, conduct of M&A deals, charity and sponsorship activities, and personnel management.

A "Safety Hotline" is operating in the company, and relevant information is published on the official site www.nestro.ru in the section "About Company", "Contacts".

A large-scale evaluation of the System of risk management and internal control in terms of corruption prevention and elimination was carried out during the reporting period, and a series of specific measures for minimization of corruption risks in the framework of individual business-processes and the system in general was developed using the results of this work.

Significant attention is paid to communicating valid policies, requirements, principles and applicable corruption prevention methods to the Company employees.

A number of prohibitions and responsibilities established by Russian law was extended to employees filling someone else's office, or who seek to fill such an office included in the relevant approved list, and a procedure for implementation and control over compliance with such prohibitions and responsibilities was regulated. Thus, for example, the Company management annually submits information reports on the revenues, expenses, property and property obligations to the Department of State Service and Personnel of the Government of the Russian Federation within the framework of the above-mentioned responsibilities.

In the period to come it is planned to focus main anti-corruption efforts in the Company on implementation of measures in pursuance of the Decree of the President of the Russian Federation of 1 April, 2016 No. 147 "On a national corruption prevention plan for 2016–2017", development of anti-corruption practices that include efficiency evaluation of control procedures for individual business-processes, holding training sessions for the management and common employees, and updating internal regulatory documents ensuring the development of corporate culture of business conduct and a number of others.



INNOVATION ACTIVITIES

A total of 21 innovational projects were implemented in 2016 by Zarubezhneft JSC. All of these projects brought the expected results, and the established check-points were successfully passed. The projects are being implemented in full compliance with the performance schedules, and the final results are estimated to be achieved in 2016–2018.

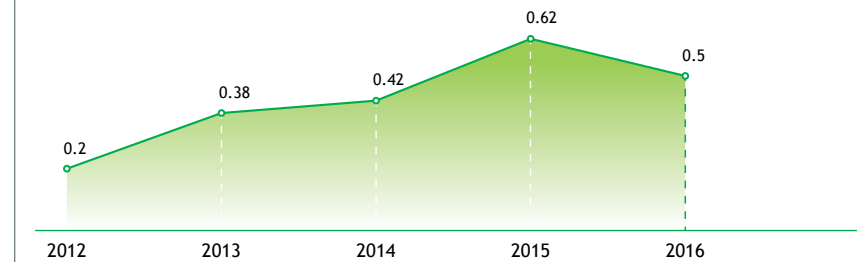
Design and scientific and research enterprises, including those that are part of Zarubezhneft Group of Companies (VNIIneft JSC, Giprovostokneft JSC), the leading higher educational institutions of the Russian Federation (Moscow Physical and Technical Institute, Kazan Federal University), subjects of small and medium-sized business enterprises, and other scientific and production entities were the main contractors engaged for the performance of innovational projects within the framework of IDP implementation in 2016.

The Company annually increases volumes of employees' publications on the results of innovational projects, scientific studies and developments in Russian and international media. A total of 5 invention patents and 5 software certificates were obtained, and 43 articles were published by Zarubezhneft Group of Companies in 2016.

Funding in 2016

- R&D implementation funding volume amounted to 132.1 million Rubles.²
- The share of Zarubezhneft JSC's R&D costs in revenue was 0.50%, with a target value of 0.42%.

Dynamics of R&D costs compared to revenue for 2012-2016, %



Main documents

- Corporate development strategy of Zarubezhneft JSC up to 2030;
- Long-term development strategy of Zarubezhneft JSC;
- Innovation development program of Zarubezhneft JSC for the period of 2016–2020¹ (with prospects up to 2030).

Goals of Zarubezhneft JSC for innovation development

- Improvement of process innovation solutions efficiency;
- Localization of residual reserves to engage them in development and own petroleum engineering approaches development;
- Increments and engagement of reserves in development by means of innovation geologic exploration methods;
- Enhancement of energy efficiency and environmental friendliness of production.

Priority areas of competencies development of Zarubezhneft JSC

- Carbonate reservoirs;
- Hard-to-recover reserves;
- Fields at ultimate stages and those with disbalanced development systems.

¹ Approved by the Board of Directors in 2016.

² With account of pilot production works performed by LLC "JC "RUSVIETPETRO".

Zarubezhneft JSC continues developing and extending forms on interaction with the innovational environment. For example, an "Open Innovations Day" event where the most promising upstream projects developed by the "Skolkovo" fund resident-companies were presented to the representatives of Zarubezhneft Group of Companies took place in Skolkovo in 2016. An Agreement on Cooperation in the area of innovational and scientific and technological development was signed with the "Skolkovo" fund, and it shall additionally boost mutually beneficial cooperation in the area of innovational technologies and equipment development and integration.

Zarubezhneft JSC carried on interaction with the dedicated technological platform "Hydrocarbons Production and Use Technologies" during 2016. A number of meetings and negotiations regarding implementation of joint projects on the base of Gubkin Oil and Gas RSU for the purpose of mutually beneficial cooperation in the framework of Zarubezhneft JSC's innovational development program projects implementation in 2016–2020 were held.

Zarubezhneft JSC eagerly develops mutually beneficial cooperation with higher educational institutions to plan joint implementation of innovational projects and joint work in the area of scientific and technical development, personnel training and development within the framework of the innovational development program implementation. Currently, the interaction is most active with Gubkin Oil and Gas RSU, Moscow Physical and Technical Institute, and Kazan University (KFU).



Zarubezhneft JSC, realizing the importance of mutually beneficial cooperation, plans on expanding the list of strategic partners for joint studies and development with educational institutions, scientific enterprises and small and medium-sized innovational business enterprises.

It is also planned to expand cooperation with innovational regional clusters that already exist or are being formed in the framework of joint development of subjects in the area of innovational development complying with the interests of Zarubezhneft JSC.

In 2016, the year of the 70th anniversary of the Giprovnostok Institute, the plans for establishing an engineering center and a Group projects management center on its basis were announced. The centers shall develop personnel reserves for the current and prospective projects of Zarubezhneft in Russia and abroad.

LOCAL COMMUNITIES AND SOCIAL POLICY IN REGIONS OF PRESENCE

103-2.2 (Indirect economic influence, Local communities)

413-1

203-1

Within the areas of its operation, Zarubezhneft Group of Companies exerts significant influence on social and economic development of the regions of its presence. Therefore, the Company adheres to a policy of high social responsibility before local communities and society in general.

Zarubezhneft JSC contributes to sustainable development of its areas of presence as an employer, taxpayer and as a significant participant of economic activities.

In interaction with regions, the focus is on the development of local initiatives and social activities. Zarubezhneft Group of Companies maintains constructive cooperation with local governing bodies and public organizations. The subsidiaries annually conclude agreements with regional administrations that regulate joint activities in developing the regions.

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

In order to establish unified approaches in terms of implementing charity and sponsorship activities, respective Regulations are in force at Zarubezhneft JSC, in addition to a Commission that holds its regular meetings for considering the social character of applications received by the corporate center and its subsidiaries. These tools are aimed at the creation of a maximally efficient, simple and transparent mechanism for rendering help on the part of the Zarubezhneft Group of Companies to those in need.

These regulations for charity activities and sponsorship are defined by the following directions:

- Support for culture, sport and a healthy way of living for the local population;
- The conservation of cultural and historical heritage, and support for military and patriotic activities and events;

- Assistance to creative teams and artists;
- Support for the poor and financially disadvantaged layers of society, orphaned children, veterans and disabled people;
- Development of scientific and educational programs, as well as advanced vocational training programs;
- Organizing activities to celebrate significant events in the fuel and energy complex.

The total amount of funds assigned by Zarubezhneft Group of Companies in 2016 for charity and sponsorship amounted to 99 million Rubles, (inclusive of social and economic agreements signed with the administrations of the areas of the subsidiaries' and joint companies' presence), including the following areas:

- Support for culture, sports and a healthy way of life — 13.2 million Rubles;
- Support for the financially disadvantaged, veterans and pensioners, as well as other socially important projects in the regions of presence — 62.4 million Rubles;
- Support for scientific and educational programs and activities — 23.4 million Rubles.

Out of these funds, 86 million Rubles were assigned for charity and 13 million Rubles were assigned for sponsorship support of socially significant projects.

In 2016, the volunteer movement within the framework of the Young Experts' Council further developed. Apart from the traditional charity events for children held on the Children's' Protection Day and New Year's Eve, the young experts initiated the greeting of Zarubezhneft Group of Companies' veterans dedicated to the celebration of the Anniversary of Victory in the Great Patriotic War.

Holding volunteer and charity events helps contribute to forming employees' feeling of personal responsibility, and encourages their pursuit to participate in public events. This is a unique part of the corporate culture that is supported and fostered by the company.

The anniversary 20th ski-doo cross competitions for the Cup of Arthur Chilingarov, Hero of the Soviet Union and Russian Federation, was held in the city of Naryan-Mar, the administrative center of the Nenets Autonomous Region, in March 2016. A delegation of JC "RUSVIETPETRO", a company that has been providing sponsorship assistance to the race for several years, was present at the event as honorable guests.

TAX PAYMENTS

Calculation and payment of tax and other mandatory payments by Zarubezhneft Group of Companies is made in strict compliance with the current legislation of the Russian Federation, Bosnia and Herzegovina, and the Socialist Republic of Vietnam.

Subsidiaries of Zarubezhneft JSC perform their obligations to pay taxes, charges, duties, and insurance contributions to the budgets of all levels and non-budget funds of the Russian Federation in full.

The total amount of tax and other mandatory payments made by Zarubezhneft Group of Companies in the Russian Federation in 2016 amounted to 24,954 million Rubles, which is 21% higher than in 2015.

Zarubezhneft Group of Companies as a whole is a major taxpayer in the budget system of Bosnia and Herzegovina. The amount of payments into the budgets of all levels in 2016 was 219 million Euro.

Zarubezhneft Group of Companies makes payments into the budget system of the Socialist Republic of Vietnam, with payments in 2016 amounting to 925 million USD.



ENVIRONMENT PROTECTION

102-11

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

Therefore, fully acknowledging the social obligation of a joint stock company playing an important role in economic development of the country, in ensuring wellness of the people and the regions of presence area, the Company conducts its activities in accordance with the principle of a caring attitude towards the environment.

Before commencing implementation of any new major project, Zarubezhneft Group of Companies carries out an environmental impact assessment, that is, it plans management of the impact of further project activities through integration of the best available technologies and implementation of measures for minimization of negative impact from production activities of Zarubezhneft Group of Companies.

IT More on the operation and enhancement of the occupational health, industrial safety and environment protection management system can be found in the section "Industrial safety and occupational health".

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

Costs for environmental protection in Zarubezhneft Group of Companies, million Rubles

Indicator	2014	2015	2016
Investment into capital stock for environmental protection	106.57	41.36	97.80
Payment for the negative impact on the environment	4.36	19.89	27.283
Recovery of harm caused to the environment	0	0	0
Charged penalties for environment pollution	0.38	0.937	0.09
Current costs for environmental protection	441.12	196.92	142.63
including:			
For the protection of water bodies	6.29	3.00	4.58
For the protection of atmospheric air	289.77	1.58	1.65
For the protection of land resources from production and consumption waste	133.09	155.00	111.66
For rehabilitation of lands	11.18	31.19	12.99
Other areas of environment protection	0.86	6.18	11.75

306-3

In the framework of the environmental protection and recovery measures program of the Russian segment of Zarubezhneft JSC for 2014–2016, a series of environmental protection measures is carried out annually:

- Provision of reliability of oil field equipment, including pipelines;
- Ecological training of personnel;
- Prevention of air pollution and safeguarding water and land resources;
- Conservation of biodiversity;
- Neutralization of production waste;
- Industrial environmental control;
- Monitoring the environmental conditions and production facilities' impact on it;
- The prevention and liquidation of pipeline accidents;
- Construction of new and re-construction of existing environmental facilities.

In 2016, current funding for the environmental activities for subsidiaries located within the Russian Federation totaled approximately 142,630,000 Rubles.

Costs for conservation of biodiversity and LLC "JC "RUSVIETPETRO" natural sites protection in 2016 amounted to 2,2000,000 Rubles.

In the area of environmental protection, our subsidiaries regularly conduct training for managers under "The hazardous waste management" program; development and updating of regulatory ecological documentation was completed, ecological audits were accomplished, ecological risks were established, and all necessary licenses and permissions for emissions and pollutant discharge, and limits for waste disposal were obtained.

Payments for negative environmental impacts were calculated and made in accordance with the legislation. The preparation and submission of statements to the state supervision and statistical authorities was made in a timely fashion.

ENVIRONMENTAL IMPACT

One of the most important environmental tasks for the minimizing the negative impact of drilling waste is its neutralization and utilization for subsequent reclamation of waste pits.

Thus, in 2016, LLC "JC "Rusvietpetro", through contractor organizations, rehabilitated approximately 104.9 hectares (ha) of disturbed lands and liquidated 5 waste pits in accordance with the laws of the Russian Federation. The disturbed lands were returned to the main land user under delivery-acceptance act with mandatory participation of representatives of governmental supervisory authorities.

There were no spills of oil and oil products in Zarubezhneft Group of Companies in the reporting period.

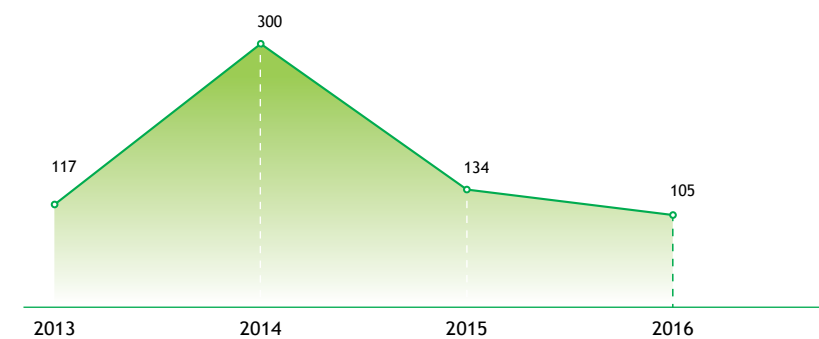
Implementation of plans to refine acid sludge into safe inert substances with subsequent use of refined product in course of the sludge pits' remediation continued at the Brod Refinery in Republika Srpska (BiH) in 2016.

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

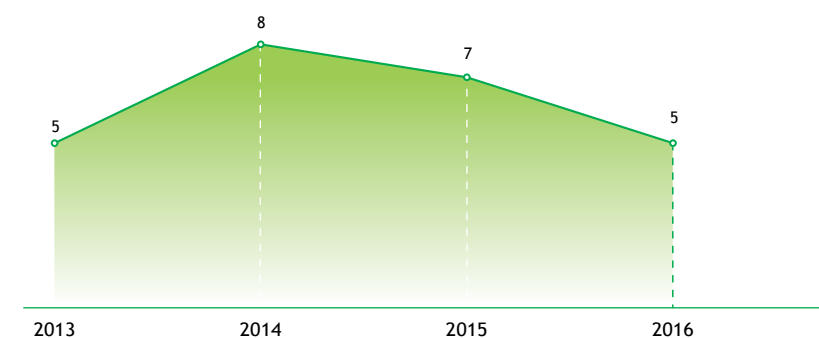
Observation data is compared with the background values of natural indicators. For the reporting period, the norms of the maximum permissible concentrations (MPC) were not exceeded in the territory of the Russian Federation.

304-3 103-2 (Emissions) 305-7

Rehabilitation of lands, ha



Rehabilitation of pits, pcs



In 2016, the Company continued its consistent work to control atmospheric emissions.

As for the "Downstream" segment, the technological process of gasification at the Brod Refinery is being carried out for the purpose of improving power efficiency of production and complying with the sulfur oxide emission standards established by the European Union.

The amount of gross atmospheric emissions of polluting substances for Zarubezhneft Group Companies as a whole in 2016 increased due to the following reasons:

- Transfer of operatorship from "Total E&P Russie" to the subsidiary of Zarubezhneft JSC — ZARUBEZHNEFT-Production Kharyaga LLC. Emissions of ZNDKh LLC were accounted for in the total volume of emissions of Zarubezhneft JSC, and amounted to 5.4 thousand tons;
- Changes in accounting of APG flared by LLC "JC "RUSVIETPETRO" in accordance with the Maximum permissible concentrations (MPC) regulation project newly developed in 2016.

Gross atmospheric emissions of Zarubezhneft Group of Companies in the Upstream segment, thousand tons

Indicator	2013	2014	2015	2016
Gross emission of harmful substances into atmospheric air, including:	9.757	11.308	11.278	27.483
Solid substances	0.030	0.122	0.118	0.865
Sulfur dioxide	0.035	0.351	0.240	3.309
Carbon oxide	2.806	3.335	3.752	9.697
Nitrogen oxides	0.725	0.648	0.581	1.138
Hydrocarbons (without volatile organic compounds)	4.110	4.473	4.320	8.952
Volatile organic compounds	1.740	2.059	1.921	3.337
Benzopyrene	0.000	0.000	0.000	0.000
Other gaseous and liquid	0.311	0.320	0.346	0.186

306-2 103-2 (Discharge and waste)

Production and utilization of associated petroleum gas in Zarubezhneft Group of Companies, millions of m³

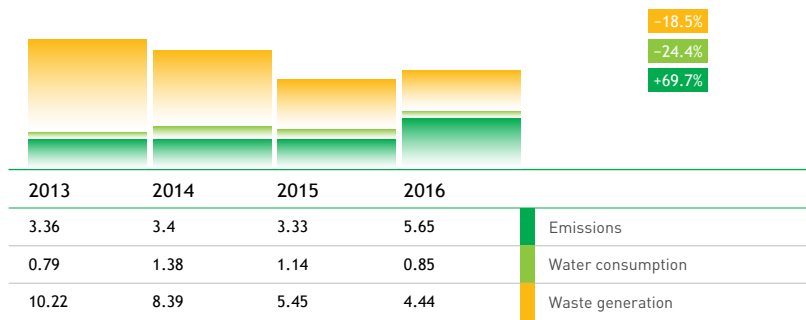
Entity of Zarubezhneft Group of Companies	APG prod.	Utilization of APG for in-house needs	% of APG utilization
LLC "JC "RUSVIETPETRO"	133.05	108.06	81.22
Orenburgnefteotdacha JSC	1.58	0.63	39.58
Ul'yanovskneftegaz LLC	0.40	0.07	17.04
Arctic Oil Company LLC	2.16	0.73	33.95
TOTAL:	137.19	109.49	80.00

For reference: the data on APG production and utilization by ZARUBEZHNEFT-Production Kharyaga LLC are given below

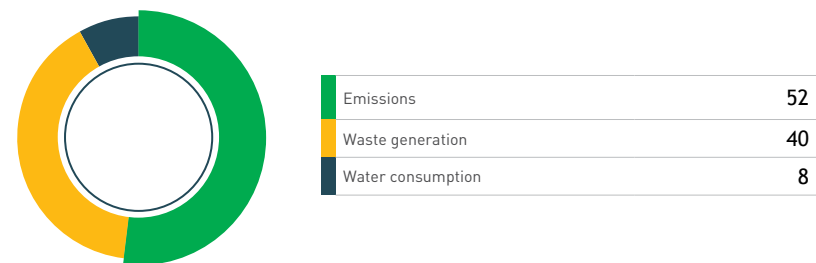
ZARUBEZHNEFT-Production Kharyaga LLC	206.1	48.8	24
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Specific indicators of environment protection for the Group of Companies in the Russian Federation

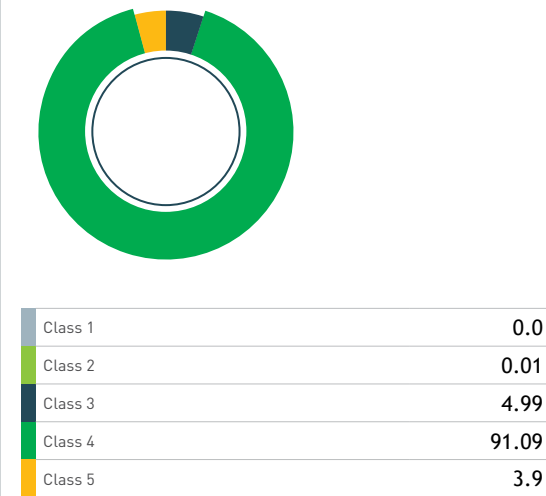
Specific environment protection indicators of Zarubezhneft Group of Companies in the Russian Federation, tons / thousand tons of oil



Structure of specific environment protection indicators, %



Waste generation structure by hazard classes, %



All waste generated in the subsidiaries is delivered to specialized enterprises under executed contracts for the purpose of further use, neutralization, utilization and burial at dedicated dump areas.

103-2 (Emissions) 305-1 103-2 (Rights of native and small numbered peoples) OG9



INTERACTION WITH NATIVE AND SMALL-NUMBERED PEOPLES OF THE NORTH

LLC "JC "RUSVIETPETRO" carries out development and operation of fields belonging to the Timano-Pechora petroleum province. The area of the province is located in the Republic of Komi, and its northern part covers the whole eastern part of the Nenets Autonomous Area of the Arkhangelsk Region with the center in the city of Naryan-Mar. The implementation of the Company's social policy principles in Nenets Autonomous Area is associated with the unique position of this region and its peculiar natural and climatic conditions. The settlement of environmental issues in NAA is closely connected with social issues. Conservation of the ecological system in the region is the main condition for life of the native population, the Nenets, who belong to the small-numbered peoples of the Russian North (around 40 thousand people).

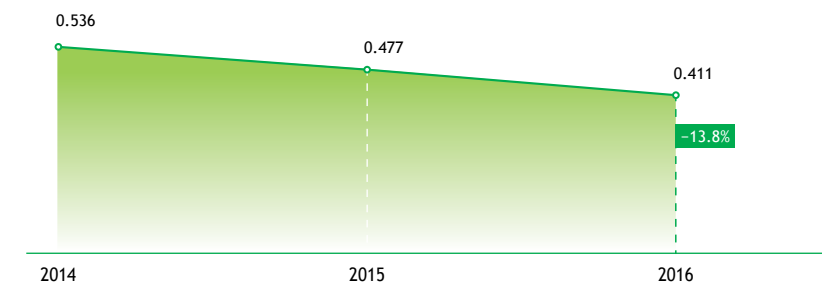
There is a contract between LLC "JC "RUSVIETPETRO" and the Administration of NAA of 1999 on participation of the subsidiary in economic and social development on NAA that defines specific areas and volumes of Company's investments into social infrastructure of the region.

The accuracy of social policy principles and the efficiency of their implementation are confirmed by the absence of claims on the part of the native population.

Decrease of greenhouse gas emissions

In accordance with the "Methodical recommendations and guidelines for the quantitative calculation of the volume of GHG emissions by enterprises conducting its business or other activities in the Russian Federation," Zarubezhneft JSC determined the atmospheric GHG emission volume for 2016 as a result of the production activities of the enterprises. The emissions volume in 2016 amounted to approximately 0.411 million m³ of CO₂ equivalent, which is 0.066 million m³ less than in 2015. Such a decrease is due to the increase of the associated petroleum gas use ratio by 11%.

Greenhouse gases in CO₂-equivalent, millions of m³



For reference: greenhouse gases emissions volume of ZARUBEZHNEFT-Production Kharyaga LLC in 2016 amounted to 0.153 million m³ of CO₂-equivalent.

103-2 (Biodiversity)

BIODIVERSITY IMPACT MANAGEMENT

In accordance with the obtained licenses for use of subsoil areas, Zarubezhneft Group of Companies performs search, exploration and production of hydrocarbon raw material and development and construction of fields outside designated nature conservation areas (DNCA). At this, activities may be carried out on sites adjacent to the borders of area of traditional ecosystem exploitation (ATEE).

When performing production activities in the areas adjacent to DNCA/ATEE each employee of Zarubezhneft Group of Companies and engaged contractor entities is obliged to comply with the unified Rules for personnel behavior at work.

Unified HSE requirements to contractor entities are included in all model contracts and are mandatory for compliance.



INDEPENDENT EVALUATION

In 2016, the results of the Third rating of environmental responsibility of Russian petroleum companies made by the World Wildlife Fund (WWF) in partnership with an analytical and consulting group for the fuel and energy complex "Kreon" and with participation of the National Rating Agency and the Russian Ministry of Nature in the framework of the UN project were announced.

The organizers have noted the significant transparency of Zarubezhneft JSC in submission of structured and documented information.

ENERGY EFFICIENCY

103-2 (Energy)

302-4

The power conservation and energy efficiency program for 2016 was developed and implemented across Zarubezhneft Group of Companies.

The following formation principles were applied in development of the program:

- Implementation of a "Lean production" policy based on introduction of measures with a payoff period of 3–5 years;
- Development of measures intended to decrease specific energy costs;
- Engagement of all personnel of enterprises in the process of power resources conservation (lean production);
- Engagement of secondary power resources and production waste (APG, spent oil waste) in the production process.

This program is an extension of the Power conservation and energy efficiency improvement program successfully implemented in Zarubezhneft Group of Companies in 2011–2015. The strategic goal of developing and implementing a program for 2016 is decreasing the self-cost of commercial products in production business-segments of the Group of companies and as a consequence, increasing competitive ability at domestic and world markets. The program includes a decrease of specific power resources costs for production of oil-containing fluid (OCF) volume in the oil producing subsidiaries of the Russian segment by 1.5% compared to the level of 2015.

The performed organizational works for power resources conservation and efforts for implementation of developed program measures in all subsidiaries of Zarubezhneft Group of Companies in 2016 allowed to decrease specific energy costs for OCF production to the level of 2015 in the Upstream segment, decreasing specific costs for oil refining in the Downstream segment, and thus improving the energy efficiency indicators of each entity separately and of the Group of Companies as whole.

The main subsidiaries of Zarubezhneft JSC in the Russian segment (LLC "JSC "RUSVIETPETRO", Orenburgnefteotdacha JSC, Ul'yanovskneftegaz LLC, Giprovostokneft JSC, VNIIneft JSC), Modriča Oil Plant A.D. and the administrative building of Zarubezhneft JSC have undergone mandatory repeated energy

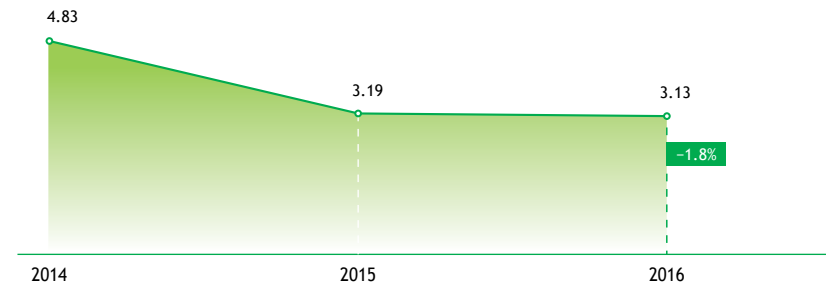
inspection. The potential for energy conservation was determined and measures for inclusion into energy conservation programs for the next five years were developed under results of these energy inspections.

In total, 66 measures were implemented in the Zarubezhneft Group of Companies in 2016, and 16 measures are at the final stage of implementation. The total economic effect from implementation of the power conservation program in 2016 for Zarubezhneft Group of Companies was 1,031,687 thousand Rubles or 43,483 tons of reference fuel. Previously in 2011–2015 the Program allowed decreasing the specific power resources costs per thousand tons of produced oil 2 times to 6.5 thousand tons of reference fuel.

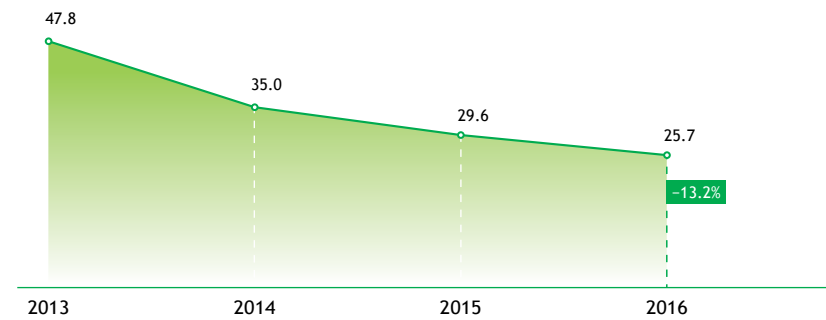
In 2016, the decrease of specific energy costs for production of oil-containing fluid amounted to 1.8% for the Russian segment of Group of Companies, 27% for JV "Vietsovpetro", and the specific energy costs of downstream entities, Brod Refinery A.D. and Modriča Oil Plant A.D., in monetary terms (thousands of Euros) were the lowest in the last 4 years.

Zarubezhneft Group of Companies plans on saving no less than 20,600 tons of reference fuel of power resources, decreasing specific indicators of power resources consumption per OCF production volume in the oil producing enterprises of the Russian segment by 2.5% compared to the level of 2015 in 2017.

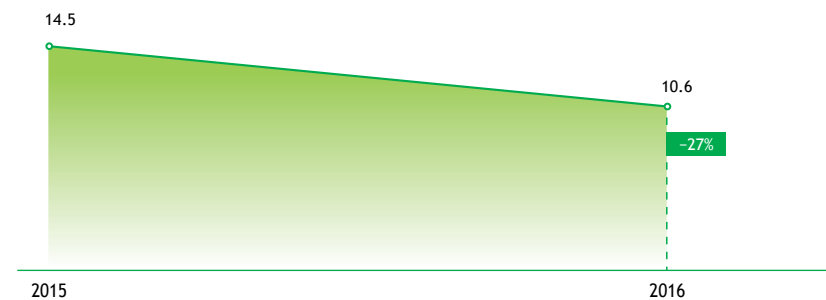
Changes of specific energy costs for OCF production in Zarubezhneft Group of Companies, tons of reference fuel / thousand cubic meters (Russian segment)



Changes of specific energy costs for refining of raw material in monetary terms for Brod Refinery A.D. and Modriča Oil Plant A.D., thousand Euros / thousand tons



Specific energy costs for OCF production in JV "Vietsovpetro", tons of reference fuel / thousand cubic meters



In 2016 Zarubezhneft joined the All-Russian energy saving festival "Brighter Together" that was held under the guidance of the Ministry of Energy of the Russian Federation in all regions of the country. The aim of the event is to stimulate Russian citizens to have a more caring attitude towards energy sources and use modern energy efficient technologies.

At the professional mastership contest "Best in Profession 2016" several events were held at the same time, and Employees of Zarubezhneft held "five-minute meetings" dedicated to energy saving with the contestants and young experts and explained how one can save energy at one's working place. Apart from this, a tour to the facilities of the joint Russian-Vietnamese company "RUSVIETPETRO" that became a pilot site for integration of Zarubezhneft Production System was arranged for the contestants. A briefing on main areas of the Production System involving energy efficiency and a caring attitude towards nature was part of the tour program.

INDUSTRIAL SAFETY AND OCCUPATIONAL HEALTH

PRIORITIES IN THE AREA OF INDUSTRIAL SAFETY AND OCCUPATIONAL HEALTH

The importance of occupational health and industrial safety is determined by the specific nature of the Company's production activities, that is associated with engaging a large number of specialized enterprises rendering large quantities of various services at the fields.

Under results of 2016, the investment expenses for ensuring safe labor conditions in Zarubezhneft Group of Companies amounted to 366.541 million Rubles.

The strategic benchmarks of the Company in the area of occupational health, industrial safety and environment protection are formalized in the policy and standards of Zarubezhneft JSC for occupational health, industrial safety and environmental protection that also cover the subsidiaries.

The long-term goals of Zarubezhneft JSC in the area of HSE are:

- To pursue the "Zero Goal", prevent injuries and deterioration of the peoples' health and environment contamination;
- To use natural resources, materials and power in a reasonable and rational manner;
- To respect the interests and rights of the local population in its regions of presence;
- To comply with Russian and international laws, to fulfill the undertaken obligations before the local communities, state authorities, foreign and Russian business partners and other stakeholders;
- To improve its occupational health, industrial safety and environmental protection management system continuously.

A Policy for environment protection, health and safety was approved in the Company.

The KPI "Consistent decrease of frequency of accidents with loss of working time and prevention of lethal accidents" was introduced in 2015 and has been set for 2016. This KPI is applied for the purpose of assessment of the work of the Deputies General Director of Zarubezhneft JSC, production and support services of the corporate center as well as general directors of the subsidiaries.

The indicator is indicative and is subdivided into:

- Basic (results of the operations of the previous year);
- Target (in accordance with the HSE measures scheduled for the current year confirmed by the budget of the current year), plus 4% to the basic;

- Ambitious (possible indicators resulting from the implementation of new ideas, application on technologies never used before, front-end international experience etc.), plus 10% to the basic.

This indicator is a priority one in calculating the monthly rating of production departments and subsidiaries of the Company.

A strategic session "Leadership in HSE. Zero Goal" was held in the office of LLC "JC "RUSVIETPETRO" in Usinsk on April 27–28. A total of 35 employees from contractor companies rendering production services for JC "RUSVIETPETRO", RMNTK Nefteotdacha and Zarubezhneftestroyontazh participated in the session.

This event became a ground for a constructive dialogue between the customers and contractors, for open discussion of areas for improving the efficiency of preventive measures in the areas of health protection and safe production culture enhancement.


102-16

The Company carries out its activities in full compliance with the requirements of the law, including latest amendments to the Federal Law No. 116 and the by-laws of the Russian Federation including full identification of hazardous production facilities of Russian assets with hazard classes' assignment and subsequent re-registration.

In its production activities the Company also considers the latest changes in the laws and regulatory documents of the countries of presence, which allows making management decisions and effecting adjustments in subsidiaries in a timely manner.

Additional special attention in Zarubezhneft JSC and its subsidiaries is paid to the "feedback" between the management and the employees. The analysis of the communications received from the employees has shown that the issues of occupational health, industrial safety and environment protection remain in the focus area of the personnel.

Apart from the direct access to the management at the official site of Zarubezhneft JSC, there are also "Response" and "Ask a question" pages from which information is sent for consideration to the interested structural departments by areas of activity for record or, if necessary, for interaction in the "feedback" framework. One can use the page of the site titled "Safety hotline" for the purpose of sending urgent information on environmental and production accidents. A system for submitting ideas called "Got an idea!" is successfully operating in the Corporate center.

 More on the processes of external and internal communications can be found in the section "Interaction with stakeholders".

OPERATION AND IMPROVEMENT OF HSE MANAGEMENT SYSTEM

Obligatory employee medical examinations and special evaluations of working conditions at workplaces are carried out in the companies of the Group.

All personnel of the Company and the subsidiaries are insured with SOGAZ LLC under the voluntary medical insurance program.

The State, supervisory and statistic authorities have been timely provided with the relevant reports on the occupational health and improvement of working conditions.

During 2016, the Company's employees were provided with safety shoes, personal breathing protection equipment, as well as working clothes complying with the unified corporate style of Zarubezhneft Group of Companies. All subsidiaries' workers have been provided with working clothes, safety shoes and personal protective equipment; a range of other activities under this direction have been carried out.

Industrial safety inspections of subsidiaries at hazardous production facilities (HPF) and Declarations of industrial safety for HPF were carried out and developed in the established terms.

One of the most important elements of efficient operation of the HSE management System is production control.

"12 Vitaly important rules" production program

 Perform your work with a valid safe work permit	 Gas air environment analysis	 A safe work permit must be executed before commencing works in confined space	 Measures for protection from falling in course of works at height
 Safety equipment and means	 Use of safety belts	 Safe work permit execution before shutting down the protective equipment	 Follow the established trio management plan
 Smoking is prohibited outside dedicated areas	 Consumption of alcohol or drugs is prohibited	 Do not stand below the boom	 Do not use the phone, stick to speed limits

102-12



The "12 Vitaly important rules" production program pays special attention to compliance with safe operation methods breach, which may result in severe injuries or be a cause of death.

Each of the Company's employees has to:

- Know and understand the 12 Vitaly important rules;
- Follow these rules, as he cares about his own safety and the safety of others;
- Stick to an active position – to pay attention at compliance with the rules before commencing work;
- Interfere with the working process if it is performed with violation of rules;
- Communicate on the violation of the 12 Vitaly important rules.


Managers of all levels play a key role in making it happen!

103-2 (Readiness for emergencies)

When carrying out HSE production control, the employees of subsidiaries are guided by relevant legal and regulatory documents of the Russian Federation and regions of presence as well as corporate regulations, including "Occupational health, industrial safety and environmental protection risks management" procedure.

The procedure is an integral part of the common corporate risk management system and regulates the order of HSE risk management in relation to:

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

 More details can be found in the "Risks management" section.

MAINTENANCE OF PREPAREDNESS FOR CIVIL DEFENSE AND EMERGENCIES

Maintenance of the subsidiaries' preparedness for civil defense and emergencies is ensured through a comprehensive approach by:

- The testing of safety facilities and the training of the people in charge of civil defense and emergencies training centers;
- Timely development and approval from the state

Full time production control commissions were established, approved and are operating in accordance with the scheduled plan in the subsidiaries.

Assessment of compliance with standards of environmental and industrial safety and occupational health are among the mandatory criteria applied for the best production facility contest held in Zarubezhneft Group of Companies, for the rating of subsidiaries and production facilities. In particular, the company that had records of accidents resulting in death of severe harm to health during the year cannot be number one in the rating of subsidiaries. During 2016, the following companies were the winners of the rating: LLC "JC "RUSVIETPETRO", Kharyaga PSA, ZARUBEZHNEFT-Production Kharyaga LLC.

- supervisory authorities of response plans for oil and oil-products spill (OSR) in the fields;
- Training and the attestation of emergency accident rescue teams in the fields;
- The conclusion of agreements to hold drills twice a year with specialized

In 2015, monthly open firefighting drills at the Modriča Oil Plant and the Brod Refinery were carried out: "Evacuation, rescue and fire extinguishing in case of emergency".



INTERACTION WITH CONTRACTOR ENTITIES

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

When carrying out procurement in the area of occupational health, industrial safety and environment protection, Zarubezhneft JSC is guided by internal regulatory documents (HSE management system standards and Regulation on management of contractor entities in terms of HSE in Zarubezhneft JSC). At this, standard requirements regarding occupational health, industrial safety and environmental protection are included in all contracts for performance of works at hazardous production facilities on a mandatory basis, and contractors are penalized for breaching such requirements.

An incident database was formed in the Company not just for subsidiaries, but also for contractor organizations that conduct contractual activities at production facilities. The information accumulated allows for an onsite comparative analysis of the causes of injuries and incidents.

PERSONNEL MANAGEMENT

102-8 | 103-2 (Employment) | 405-1

All of our company's measures for the improvement of HR management is being implemented in accordance with the "Personnel Policy of the Zarubezhneft Group of Companies for 2014–2019".

The main HR tasks of the Group of Companies, within the framework of the personnel policy implementation for 2014–2019, are:

- Improvement of the payment system and workers' motivation;
- Improvement and development of an integrated system of HR planning with account of the Group of Companies' requirements for business-directions, their rational allocation and efficient use;
- Raising the professionalism of workers at all management levels by means of developing a corporate system of continuous education and the enhancement of the corporate training system on the basis of professional standards establishing the requirements for the contents and conditions of labor, qualification and competencies of employees under various qualification levels;
- Provision of social protection and improvements in working conditions.

PERSONNEL HEADCOUNT AND STRUCTURE

In 2016 the headcount of Zarubezhneft Group of Companies was 12,093 persons. The Company's main countries of presence are Russia, Socialist Republic of Vietnam and Republika Srpska in Bosnia and Herzegovina.

Company headcount dynamics by countries of presence in 2014-2016.

Country of presence	Actual		
	2014	2015	2016
Group of Companies, total	12,698	12,694	12,093
Russia	3,177	3,299	3,625
Socialist Republic of Vietnam	6,984	7,020	6,326
Republika Srpska (Bosnia and Herzegovina)	2,517	2,356	2,127
Republic of Cuba	21	19	15

In general the average headcount of the Group of Companies shows a tendency towards a decrease. These changes are due to the ongoing headcount optimization measures in the Downstream and Upstream segments. The headcount decrease

in the Downstream segment was 10%. The headcount decrease in the Upstream segment was 9%, along with headcount optimization measures in subsidiaries, also due to sale of Arctic Oil Company LLC. At this, headcount growth in the Service and other assets segment was 6% due to expansion of activities.

Company headcount dynamics by areas of activities in 2014-2016

Area of activities	Actual		
	2014	2015	2016
Group of Companies, total	12,698	12,694	12,093
Managing company	329	320	322
Branches and representative offices of Zarubezhneft JSC	32	30	26
Upstream	7,923	8,135	7,495
Downstream	2,517	2,356	2,127
Services	1,898	1,853	1,969

The headcount of the Group of Companies' priority area of development — Upstream — amounted to 62% in 2016. 34% of the personnel belonged to the Downstream and Service and Other Assets segments.

103-2 (Diversity and equal opportunities)

103-2 (Child labor)

408-1

Oil production activities include large work scopes requiring significant physical efforts such as works at drilling rigs, subsurface repair works and wells workover, maintenance and repair of oilfield equipment, and due to this men prevail among personnel of Zarubezhneft Group of Companies, comprising 81% of headcount.

Personnel structure by categories of positions is formed in such a manner as to ensure balance between the managers, experts and operating personnel.

Personnel structure by level of education shows that a significant share of Group of Companies' employees has higher education (38%), however, considering the large number of operating personnel, the employees with secondary and vocational secondary education prevail.

The age structure of personnel is traditionally formed in such a manner so that half of the personnel falls within the age category of 30–50 years, to ensure the best proportion of work experience and physical capabilities. Significant specific weight is accounted for by younger employees — 15%.

The average age of personnel in Zarubezhneft Group of Companies decreased in 2016 and reached 42 years old.

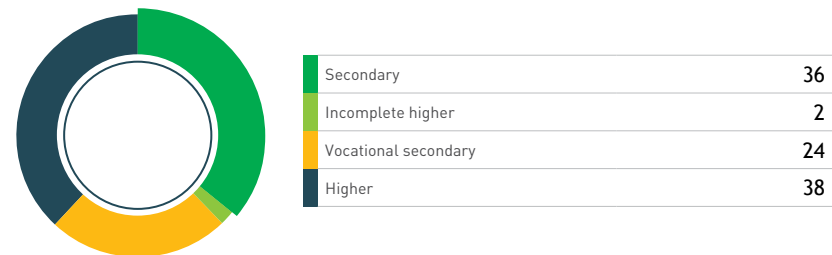
Zarubezhneft takes a firm position on the prohibition of employment of persons under 18 for work at operational facilities in accordance with the International Labor Organization Convention 138 "On the minimum employment age", 1973, and the Russian labor laws.

Labor relations with employees are regulated by the Labor Code of the Russian Federation. All employees of the Company work full-time; employment for part-time or seasonal works is not practiced.

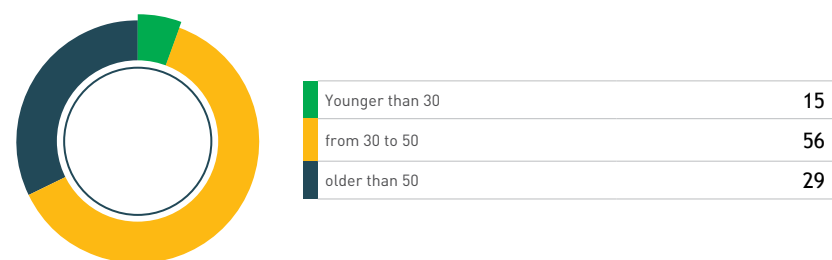
Personnel structure by categories of positions as of December 31, 2016, %



Personnel structure by level of education as of December 31, 2016, %



Personnel structure by age as of December 31, 2016, %



PERSONNEL TURNOVER

The active turnover rate amounted to 3.7%, which is 0.9% higher than in 2015. The full turnover rate amounted to 11.2%, which is 0.7% higher than in 2015¹. The indicators' values have gone up a bit due to continuous measures aimed at corporate culture formation, personnel loyalty improvement, ensuring adequate

revenue standards and social package. In general, it shows the stable HR status in Zarubezhneft Group of Companies.

Turnover rate by the countries of presence in 2016, %

Country of presence	Turnover	
	Active	Full
Group of Companies, total	3.7	11.2
Russia	9.4	16.0
Socialist Republic of Vietnam	1.3	10.2
Republika Srpska (Bosnia and Herzegovina)	1.2	5.5
Republic of Cuba	0	46.7

Turnover rate by areas of activities in 2016, %

Area of activities	Turnover	
	Active	Full
Group of Companies, total	3.7	11.2
Managing company	6.2	14.6
Branches and representative offices of Zarubezhneft JSC	3.8	26.9
Upstream	2.3	11.0
Downstream	1.2	5.5
Services	17.9	5.7

¹ For the purpose of active turnover rate calculation, the voluntary resignations of employees are accounted. For the purpose of full turnover rate, calculating all kinds of employment termination are accounted for.

401-1

SELECTION AND ADAPTATION OF PERSONNEL

Structure of fired and hired personnel, %

Indicator	Fired	Hired
Structure by age		
Younger than 30	9	25
From 30 to 50	33	63
Older than 50	58	12
Structure by gender		
Men	75	77
Women	25	23
Structure by countries of presence		
Russia	43	88
Socialist Republic of Vietnam	48	8
Republika Srpska (Bosnia and Herzegovina)	9	4
Republic of Cuba	1	0
Structure by areas of activities		
Upstream	61	54
Services	26	38
Downstream	9	3,8
Managing company	3	4
Branches and representative offices of Zarubezhneft JSC	1	0.2
Structure by personnel categories		
Management (GD and DGD)	1	2
Other managers	16	17
Experts	33	46
Officers	2	2
Workers	48	33

The main share of terminated employees is made up by men over 50, which is due to the retirement and specifics of the oil production industry where the job positions occupied by men prevail.

A key factor of the efficiency and sustainable development of the Company is its highly qualified personnel. That is why the most important HR management process is quality selection of qualified personnel. The Company has an approved target profile for candidates. The personnel selection system is based on unified transparent criteria:

- Evaluation of the individual's abilities and personality with the application of certified testing as per international standards;
- Evaluation of professional, related knowledge and skills by the line of activity;
- Evaluation of corporate and managerial skills as per the model of competencies approved at the company.

The Company pays significant attention of the qualified experts' development. A project for development of internal personnel rotation within Zarubezhneft Group of Companies was started. When the requirements for qualification and education levels are met, the experts of the Group of Companies can apply for open job positions in the regions of presence of Zarubezhneft JSC in the framework of the internal rotation program.

For the purpose of professional, social and psychological adaptation and exposure to the values of the Company and improvement of operational performance efficiency of the new employees a personnel adaptation system successfully functions in the Group of Companies. The adaptation system is intended to establish comfortable condition for the further professional activities, improvement of loyalty and positive attitude of the newly hired employees. A range of adaptation events is regularly held in the Company including: individual employee's adaptation plan, adaptation seminar, tutorship and training on site within the adaptation period of the employee.

103-2 (Market presence)

202-1

LABOR REMUNERATION AND SOCIAL POLICY

Personnel policy of Zarubezhneft JSC is aimed at maintaining and developing a team of experts capable of handling ambitious tasks of the Company.

In this regard Zarubezhneft JSC carries out consistent work in the following areas:

- Enhancement of the employees' payment and motivation system;
- Enhancement and development of comprehensive headcount planning system accounting for demands of business-areas of Zarubezhneft Group of Companies, its reasonable allocation and efficient engagement for the purpose of increasing labor efficiency;
- Monitoring of best practices in part of the key managers' remuneration structure;
- Monitoring of salary levels in the regions of activities by priority disciplines and professions.

During 2014–2016 the subsidiaries of Zarubezhneft Group of Companies were gradually transferring to a new Unified labor remuneration system developed in 2013.

The system reflects business interests and priorities of the Companies, defines unified salary establishment procedure on the basis of a grades range for all employees, ensures matching the achievement of annual key performance indicators (KPI) with the amount of annual remuneration of employees, and is one of the tools for managing the efficiency of employees' activities for the benefit of the Company.

A comprehensive motivation system comprising the following elements was established for the purpose of attracting and retaining key managers of Zarubezhneft JSC:

- Fixed remuneration (salary, bonuses and extra payments in accordance with the legislation);

- Short-term motivation (monthly bonuses, annual bonuses under results of KPIs achievement);
- Long-term motivation system (for the performance of long-term goals in accordance with the Strategy of Zarubezhneft Group of Companies; the cycle of the program lasts for 3 years, the remuneration is paid upon the program cycle completion).

In 2016, the results of the project of "Headcount management system establishment" implementation, commenced in 2015, were summarized in the framework of labor efficiency improvement measures in Zarubezhneft JSC.

 For more details, see the "Intra-corporate improvement projects" section.

Zarubezhneft JSC maintains an average market salary level for the sectorial labor market. The average monthly salary growth was ensured by the indexation of workers' basic salary and tariff rates at the Group of Companies.

The minimal salary is never established at a level below the minimum subsistence level in the region of activities.

Revenue structure by countries of presence in 2014-2016, %

Country of presence	Actual					
	2014		2015		2016	
	Payroll	Social	Payroll	Social	Payroll	Social
Group of Companies, total	91	9	90	10	89	11
Russia	92	8	92	8	94	6
Socialist Republic of Vietnam	94	6	93	7	82	18
Republika Srpska (Bosnia and Herzegovina)	80	20	81	19	84	16
Republic of Cuba	96	4	94	6	94	6

102-41

Social payments by countries of presence in 2014-2016

Country of presence	Measurement unit	Actual		
		2014	2015	2016
Russia	Thousand Rubles	242,828	285,904	346,155
Socialist Republic of Vietnam	Thousand USD	8,441	11,755	23,646
Republika Srpska (Bosnia and Herzegovina)	Thousand Euro	3,617	3,292	2,474
Republic of Cuba	Thousand Euro	56	74	66

A new Unified social policy concept and limits of social payments for subsidiaries were approved in Zarubezhneft Group of Companies in 2016. A list of social guarantees and compensations was expanded to enable each subsidiary to form the social package with account of preferences of its employees. The main components of the social package in the framework of the adopted Concept:

- Creation of conditions for the improvement of the personnel's health, and the maintenance of corporate sports and fitness complexes;
- Health protection, including voluntary medical insurance for employees and their family members and non-working retirees;
- Material support for veterans and non-working retirees;
- Personnel welfare (for family reasons);
- Rewards in connection with the presentation of governmental and corporate awards.

Share of social payments in the employees' revenues for the last three years is 10% with the general increase of the salary fund (including social payments) by 41% in the same period.

Due to integration of a Unified social policy concept that includes a unified list of benefits and a procedure for granting them, the subsidiaries gradually waive from collective contracts. The concept includes a wide range of guarantees and compensations that fully covers the guarantees and compensations of the collective contracts in the subsidiaries.

The collective contracts are in effect in the subsidiaries in Bosnia and Herzegovina, VNIIneft JSC, Arktikorneftegazrazvedka JSC, Ulyanovskneftegaz

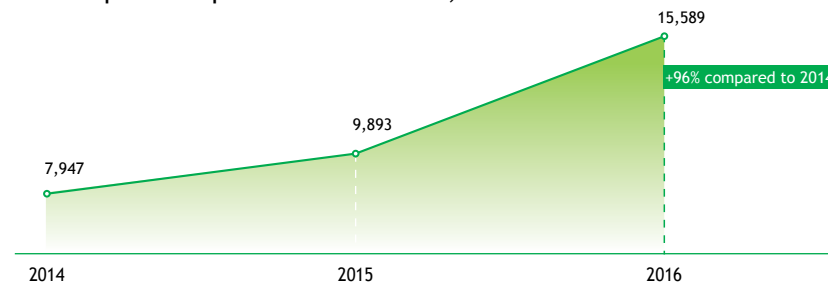
LLC. 12% of the personnel of the Group of Companies is covered by the collective contracts.

To preserve and strengthen the health of our workers, our company is conducting work on organizing recreation at the resort and spa institutions in the Republic of Crimea. The employees are given an opportunity to buy the tours for themselves and their family members and are partially compensated at the expense of Zarubezhneft JSC funds, at this, special attention is paid to families with children under 14.

A parity corporate program providing a non-state pension to the workers continued its operation.

Since 2014, the amount of social payments per 1 employee in the Group of Companies has almost doubled:

Dynamics of social payments per 1 employee of Group of Companies in 2014-2016, Rubles



For the purpose of rewarding the employees and work teams for significant contribution to the development of Zarubezhneft JSC, achievement of high production, high financial and economic performance the Company has established the following awards and ranks: "Honorary worker of Zarubezhneft", "Veteran of Zarubezhneft", a Zarubezhneft Diploma, and Appreciation from Zarubezhneft.

Over the past year state and corporate awards have been given to 286 employees of Zarubezhneft Group of Companies, including 9 state awards, 68 industrial awards and 209 corporate awards. Among the awarded people there were 79 foreigners.

103-2 (Training and development)

404-2

PERSONNEL TRAINING AND DEVELOPMENT

The highly qualified personnel are the most important asset of the company that ensures competitive advantages and allows for dynamic development of the Company.

Training and development of personnel, employees' knowledge and skills enhancement are one of priority areas of activities of Zarubezhneft Group of Companies. Implementation of HR policy in terms of evaluation, training and development of personnel is aimed at formation of sustainable personnel, increase of professional level and implementation of potential of each Company's employee. The key directions for the personnel development in the reporting year were the following:

- Increase of the employees' professional level in accordance with the current and prospective tasks of Zarubezhneft JSC and changing legal requirements;
- Cooperation with educational institutions, including major higher educational institutions of the Russian Federation, for the purpose of training experts for the activities most demanded in the Company;
- Formation of content and development of managerial potential of key employees of the Company.

Work for integration of professional standards is being carried out in the Company and subsidiaries.

Zarubezhneft JSC employs a full range of modern types and methods of training. Training is carried out on the basis of best Russian and foreign educational organizations, as well as in corporate training

centers covering retraining, long-term and short-term advanced training, and business education programs (special training programs, skill trainings). The Company provides training in the following areas:

- Corporate training under managerial and professional training programs, in accordance with the priority tasks and objectives of Zarubezhneft JSC business processes development, intended to develop the employees' corporate, managerial and professional competencies;
- Professional and technical training intended to develop knowledge, expertise and skills required to fulfill job duties;
- Mandatory training conducted in accordance with requirements of the state authorities and legislation of the Russian Federation that is to be confirmed by respective documents.

Personnel assessment

Internal and external evaluation events, such as annual personnel assessment, Assessment-center, evaluation under 180/360 degrees method, various types of tests intended to determine the development level of professional expertise and skills, business and personal qualities, verbal and numerical abilities are regularly conducted to form training programs customize for specific development aims of the Company's employees. Many assessment procedures are carried out in automated mode.

We developed a training portal comprising all types of training implemented in the Company. A process for placing training applications online was developed for the purpose of dynamic personnel training planning, it allows to decrease the labor costs for formation and analysis of submitted proposals regarding arrangement of training events.

Based on annual assessment results, the employees who achieved positive results of their activities had their salary rates adjusted in accordance with the Unified labor remuneration system. Employees' development plans for the next year were formed and a procedure for listing in various categories of HR reserve was arranged.

Work with HR reserve

The formation and development of HR reserve of employees allows for provision of management succession in the Company, operative rotation of managerial personnel and is aimed at career development of key experts.

Work with HR reserve was improved in the reporting year, new criteria for candidate selection for target positions were applied, an assessment by job position profiles was carried out in order to determine the areas for professional development on the reserve members. HR reserve was formed from the employees of the Corporate Center and the employees of the Group's companies through self-nomination and submission of recommendations from the heads of the structural departments.

In the framework of continuous training of the reserve members a concept of their modular training was developed on the basis of the own Leadership and managerial potential development school.

More than 50 reserve members participated in training events in the framework of the School under following programs: systems thinking, cross-functional management, team and personal leadership – aimed at development of managerial skills and personal qualities. Programs for development of managerial and corporate

A grand opening of a personalized lecture hall of Zarubezhneft JSC in Gubkin Oil & Gas RSU took place on September 8, 2016. The renovated lecture hall is designed for 200 sitting places and is equipped with all modern tools necessary for comfortable and efficient education process, including the most front-end multimedia equipment.

Zarubezhneft considers the opening of a personalized lecture hall in the major industry higher education institution of the country to be an investment into the industry in general and in particular in its future scientific and personnel potential that are traditionally paid significant attention by the Company.

competencies at the working place were also created in 2016; an e-library (allowing to read books online and downloading them) was established for the purposes of self-education and self-development.

Year on year, the personnel training and development system transforms into a unified corporate knowledge management process allowing increasing the development level of corporate culture, personnel motivation as well as the positive image of the Company.

The development of the key professional and technical competencies in geology, field development, well drilling, oil & gas production and project development on the basis of corporate Schools of petroleum engineering and project management is a priority direction in the company's training system.

WORK WITH YOUNG EXPERTS AND INTERACTION WITH EDUCATIONAL INSTITUTIONS

Work with young experts

Young experts' council of Zarubezhneft JSC was established in 2013 for the purpose of establishing basis of youth policy, consolidating young employees, developing and using their scientific and technical and creative potential with maximum efficiency.

The Council carries out its activities in the following main areas:

- Corporate communications and organizational improvements;
- Scientific and technical development of young experts;
- Development of corporate sports activities;
- Volunteering;
- Work with young experts;

In 2016 Young experts' councils were established in production and R&D Russian and foreign subsidiaries of the Company.

In the framework of developing the scientific and technical potential of young experts, the Young experts' council of Zarubezhneft JSC holds annual Young experts' scientific and technical papers contest. The IV Contest was held in September 2016.

The number of participants increases each year. So, during 2013–2016 more than 150 young employees

A joint event of the Young experts' council of Zarubezhneft JSC and Giproostokneft JSC was held for the first time in Samara in August 2016. A brainstorm to develop a concept of youth movement, sporting competitions, volunteer event in an orphanage, tour to the Giproostokneft institute were carried out during the three days. The first experience of holding such events has shown efficient results of joint work and proved the necessity of further development of youth movement in the company.

have participated in the contest and have presented 130 innovational projects aimed at solution of key production and organizational tasks of Zarubezhneft Group of Companies.

In 2016, the requirements for preliminary examination of papers to participate in the Contest were made stricter. When selecting the papers for the Contest the experts are primarily guided by the potential effect for the Company from the future implementation of projects.

In 2016, systematic monitoring and evaluating efficiency of works performed by the young experts at the enterprises of Zarubezhneft Group of Companies continued. In 2016, the Company developed and approved a "Regulation on procedure of holding the scientific and technical papers contest and evaluating its results" as well as its own method of integrated efficiency evaluation of works production by prevailing effect (technological and organizational) for the purpose of regulating the processes associated with selection, arrangement and monitoring of the projects' integration in production activities.

The share of projects successfully integrated in production activities increases annually.

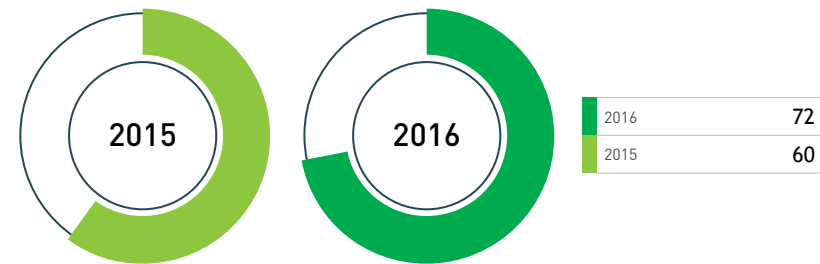
A number of projects prospective for distribution in the enterprises of Zarubezhneft Group of Companies grows as well.

In 2016, the Young experts' council continued its activities for the development of corporate sports: the youth association arranges annual corporate tournaments intended to strengthen the corporate spirit, the unity of the collective and employees' involvement in teamwork. In 2016, billiard, beach volleyball, and bowling tournaments that have become a good tradition for the company were held, the youth also came forward with an initiative and successfully implemented a program of collective test for compliance of Zarubezhneft Group of Companies' personnel with the GTO (Russian "Ready for Labor and Defense" standard of physical fitness) in the reporting year. In autumn 2016 the team of Zarubezhneft JSC participated in a major tournament, III Official Moscow Mini-soccer Championship among Corporate Teams for the first time and scored an honorable third place.

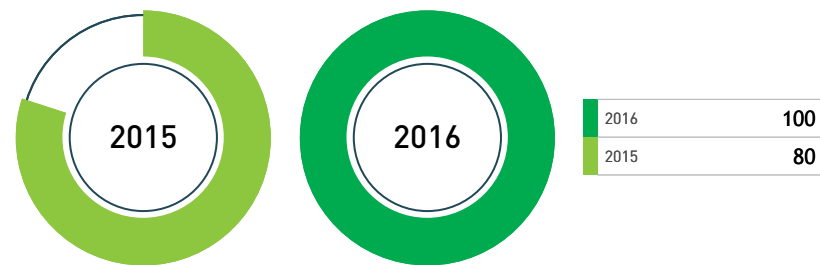
Volunteering movement in the framework of the Young experts' council activities was wide-spread in the reporting year. Charity events with participation of all Company's personnel were held in the framework of the youth's initiative in 2016.

The Young experts' council together with the personnel of subsidiary VNIIneft JSC has congratulated the veterans of Zarubezhneft Group of Companies in the framework of celebration of the Day of Victory in the Great Patriotic War 1941–1945. In June 2016, the Council arranged a traditional charity event on occasion of the Children Protection Day. Necessary household goods were purchased for the pupils of the educational orphanage No. 1708. In December, on the eve of New Year, a volunteer event called "Sweet winter" was held under initiative of the young experts for the benefit of the kids from the Lyuberetskiy Children's Home. Sweet gifts and fruits as well as necessary kids furniture were bought with the raised funds.

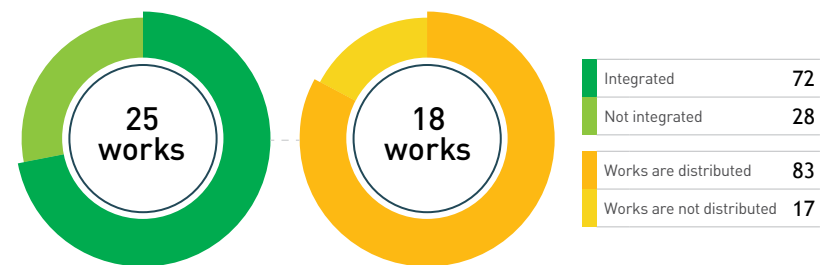
Share of works integrated in production, %



Share of works integrated in production with positive effect, %



Number of integrated works prospective for distribution, %



Interaction with educational institutions

For the purpose of implementation of the program for innovation development, Zarubezhneft JSC has actively interacted with the Russian Federation's leading higher education institutions in terms of recruiting and selecting high-potential students, the provision of passing students into production practice, and the organization of the employees' retraining and advanced training. Cooperation agreements were concluded with each higher education institution partner and organized scientific and technical interaction was arranged. All this enables operative solution of training issues for the Zarubezhneft Group of Companies' employees and young experts. This cooperation is implemented in various fields of activities: training, scientific, technical, social and cultural. Currently Zarubezhneft JSC carries out active cooperation with the leading technical higher education institutions of the Russian Federation, such as Gubkin Oil & Gas RSU, Ufa state oil university, Tomsk polytechnic university, Bauman Moscow state technical university etc. Programs intended to train personnel for the fuel and energy complex are implemented on permanent basis.

During the last 5 years, Zarubezhneft Group of Companies has employed 158 young experts.

Production practice and onsite training, including payable ones, on the base of Zarubezhneft JSC are annually arranged for the students and graduates of the higher education institutions. Onsite training programs for the employees from the list of the higher-education teaching personnel are also implemented. In 2016, 175 students have passed production practice (including at production facilities) at the base of Zarubezhneft Group of Companies, 4 training programs for the post-graduates and professors of Lomonosov MSU and Gubkin RSU were arranged.

The Company carries out training of young Serbian experts with engineering specialties from the families of the employees of the Group of Companies' enterprises in Bosnia and Herzegovina in Gubkin Oil & Gas RSE in Moscow since 2011. Currently 13 persons have completed their studies.

More than 20 children of Russian experts employed in JV "Vietsovetpetro" are currently studying in the industry-specific higher education institutions in the Russian Federation.



ABOUT THE REPORT

This Report contains comprehensive information on activities of Zarubezhneft Group of Companies in the area of sustainable development in 2016¹. This is the fifth non-financial report of the Group. The Company publishes its sustainable development report on annual basis.

The regulatory and methodological basis of the Report preparation includes:

- GRI sustainable development reporting guidelines;
- Industrial attachment of GRI for the companies of the petroleum sector;
- UN sustainable development goals for the period up to 2030;
- Accountability principles standard AA1000APS;
- Standard for interaction with stakeholders AA1000SES;
- Social Charter of Russian Business;
- Basis performance indicators of the Russian Union of Industrialists and Entrepreneurs (RUIE);
- ISO 26000:2010 standard;
- ISO 14001, ISO 9001 and OHSAS 18001 special standards.

The provisions of these standards and documents are taken into account by Zarubezhneft JSC in course of developing content of the public non-financial reports, interaction with stakeholders and in the framework of the general process of introduction and implementation of a responsible business practice.

The Report is aimed at revealing the most material aspects of the Company's activities with consideration of Companies' of the Group influence importance regarding these aspects and significance of these aspects for the stakeholders.

The Report discloses information in section of key UN sustainable development goals for the period up to 2030 applicable to the activities of the Company.

¹ The Report defines number of middle-term and long-term plans. As their implementation is subject to a range of external factors beyond the control of the Company, the achieved results in the future reporting period may not coincide with the target goals indicated in this Report.

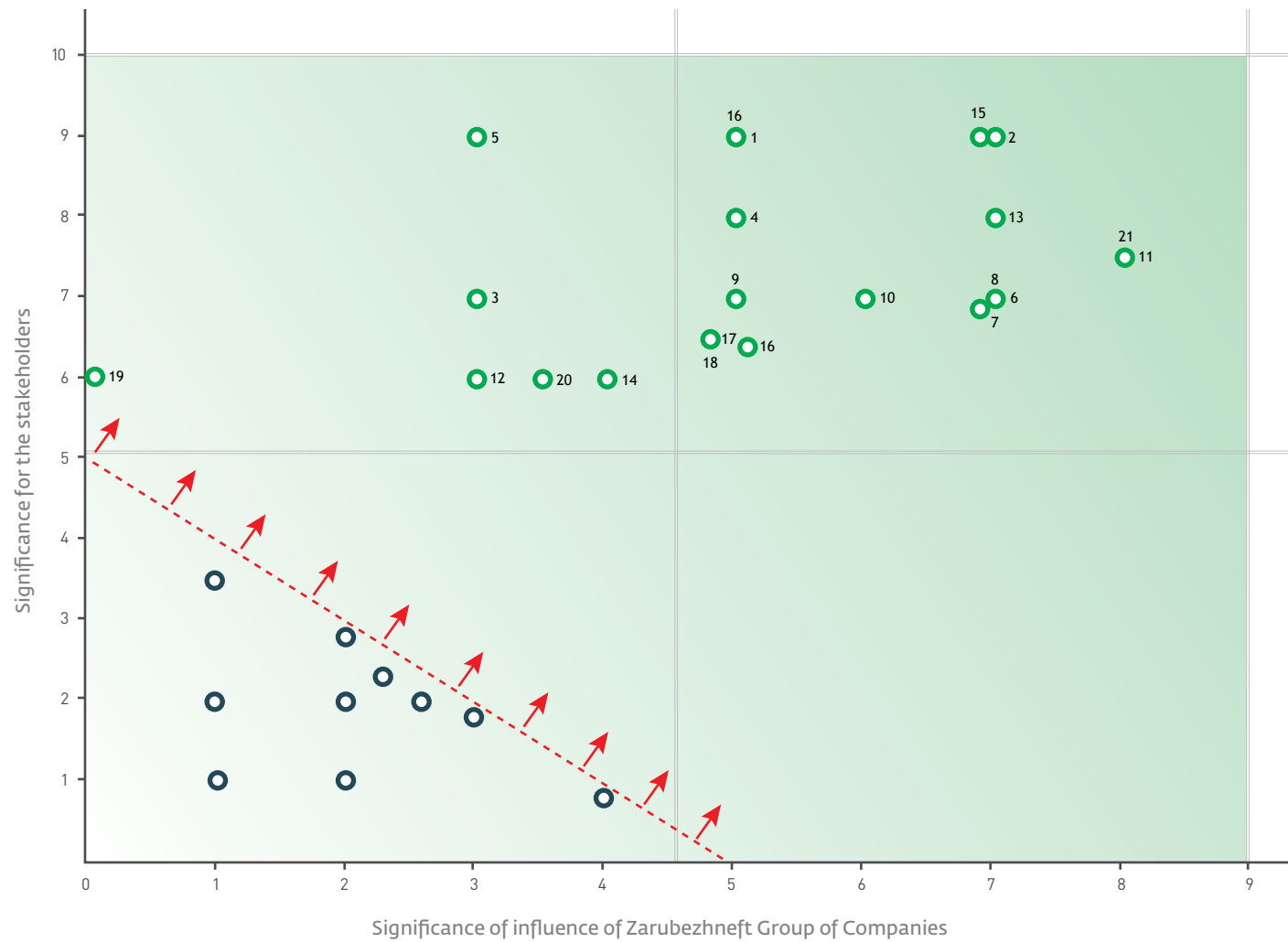
UN Goal-2030	GRI aspect
No. 3 Ensure healthy lives and promote well-being for all at all ages	Health and safety at working place
No. 7 Ensure access to affordable, reliable, sustainable and modern energy sources for all	Energy. Reserves
No. 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Economic performance. Employment. Training and education. Diversity and equal opportunity
No. 9 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	Readiness for emergencies
No. 12 Ensure sustainable consumption and production patterns	Effluents and waste
No. 13 Take urgent action to combat climate change and its impacts	Emissions
No. 14 Conserve and sustainably use the oceans, seas and marine resources for sustainable development	Effluents and waste
No. 15 Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	Effluents and waste. Biodiversity
No. 16 Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.	Ethics and good faith. Anti-corruption. Child labor
Strategy. Interaction with stakeholders. Corporate management.	

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The Company considers the international standard ISO 26000:2010 defining the main aspects of social responsibility: organizational management, human rights, labor practices, environment, good faith business practices, interaction with consumers, participation in communities' lives and their development, as one of the main methodic recommended standards for the non-financial sector. All aspects currently covered by this standard have been reflected in this Report.

A team consisting of representatives of all interested structural departments of the Company was assembled for the purpose of the Report preparation. The main tasks of the project team included: clarification of approaches to information disclosure, interaction with the structural departments in course of information gathering for the Report, drawing up a map of material GRI aspects and determination of their coverage limits. The Report preparation traditionally included the analysis of feed-back from the expert community, study of sustainable development report of similar companies as well as publications in the mass media. The results of the study have shown the importance of inclusion of examples of initiatives and projects of the Company in form of cases in the Report.

Map of most material GRI aspects



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Information disclosure limits by the most material GRI aspects

No. at the map	GRI aspect	Upstream	Downstream	Service and other assets
1	Economic performance	○	○	○
2	Strategy	○	○	○
3	Corporate management	○	○	○
4	Ethics and good faith	○	○	○
5	Anti-corruption practices	○	○	○
6	Reserves	○		
7	Emissions	○	○	○
8	Effluents and waste	○	○	○
9	Biodiversity	○	○	○
10	Energy	○	○	○
11	Employment	○	○	○
12	Market presence	○	○	○
13	Training and education	○	○	○
14	Diversity and equal opportunity	○	○	○
15	Health and safety of personnel	○	○	○
16	Readiness for emergencies	○	○	○
17	Interaction with stakeholders	○	○	○
18	Indirect economic impacts	○	○	○
19	Child labor	○	○	○
20	Rights of native and small-numbered peoples	○	○	○
21	Local communities	○	○	○

The activities and presence of the Company are wide spread geographically and cover the Russian Federation and the area of three foreign countries: Vietnam, Cuba, Bosnia and Herzegovina (Republika Srpska). The Report presents the Company's activities by all main structural departments, subsidiaries and joint ventures in all regions and countries of presence on the basis of the control or material influence of Zarubezhneft JSC ratio as well as degree of material influence of the Group's companies.

Information on management approaches and results of the Company's activities are presented by three main segments:

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

Limits of information disclosure generally comply with the results of the analysis of material influences associated with the Company's activities performed by the work group for each aspect of activities.

Unless otherwise indicated or required by the context, the terms "Company" and "Group" shall be used to identify Zarubezhneft Group of Companies.

The aspect "Health and Safety at the Work Place" is material outside the Group due to the impacts on the supply chain controlled by the Company. The information on approaches to management, introduction and control over compliance with the occupational safety standards in the contractor entities engaged for performing works at the facilities of Zarubezhneft Group of Companies is disclosed for this aspect.

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The disclosure of information is based on application of the management reporting under the international standards and Russian accounting standards, statistic reporting, internal reporting for various activities as well as GRI indicators consolidated for all assets of the Company.

The Company has prepared a Report complying with the requirements for the "Basic" GRI information disclosure level. Minimum one GRI performance indicator is exposed for each material aspect. Most of the indicators are given in their three-year dynamics with its justification.

The recommendations and comments sent to the Company in relation to the Sustainable development report for 2015 and the previous years have been taken into account. In particular, the structure of the Report has been changed, the correlation between the UN goals and strategic development priorities of the Group has been shown.

The information used in this Report was subject to the relevant validation and was approved by the Internal audit department.

The report was verified by Global Reporting Initiative SDG Mapping Service. The conclusion made under verification results confirms that the GRI index (see Appendix 1 to the Report) complies with the requirements of the GRI standards, the references to the corresponding Sustainable development goals included in it in accordance with the guideline documents of SDG Compass and Global Reporting Initiative are accurate, and each standard GRI aspect may be easily found in the body of the Report.

The subject matter of the public external endorsement of the Report by the RUIE non-financial reporting council were the significance and completeness of disclosed information regarding the activities of the Company based on the principals of front-edge responsible business practice in accordance with the Social charter of the Russian business of RUIE.

The report is approved by the General Director of Zarubezhneft JSC.



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APPENDICES

GRI INDEX



Reporting element	Page	Goals (task) in the area of sustainable development
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GRI 102: Common elements (2016)		
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102-10	See Annual report for 20016, "Procurement activities" section	
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Reporting element	Page	Goals (task) in the area of sustainable development
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Reporting practice		
102-45	7	
102-46	86	
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102-48	n/a	
102-49	n/a	
102-50	85	
102-51	85	
102-52	77	
102-53	95	
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Reporting element	Page	Goals (task) in the area of sustainable development
GRI 201: Economic performance (2016)		
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GRI 202: Market presence (2016)		
202-1	77	8
GRI 203: Indirect economic impacts (2016)		
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GRI 205: Anti-corruption practices (2016)		
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205-2	43	16
GRI 302: Energy (2016)		
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GRI 304: Biodiversity (2016)		
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GRI 305: Emissions (2016)		
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GRI 404: Training and education (2016)		
404-2	79	8
GRI 405: Diversity and equal opportunity (2016)		
405-1	73	8

Reporting element	Page	Goals (task) in the area of sustainable development
GRI 408: Child labor (2016)		
408-1	74	8
GRI 413: Local communities (2016)		
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Reserves		
GRI 103: Management approaches (2016)		
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103-2	11	
103-3	23	
G4-OG1	5	
Rights of native and small-numbered peoples		
GRI 103: Management approaches (2016)		
103-1	86	
103-2	10	
103-3	22	
G4-OG9	59	
Local communities		
GRI 103: Management approaches (2016)		
G4-OG10	None present	
Readiness for emergencies		
GRI 103: Management approaches (2016)		
103-1	86	
103-2	70	
103-3	22	

ABBREVIATIONS

AOC – Arctic Oil Company LLC
APEC – Asia-Pacific Economic Cooperation BiH – Bosnia and Herzegovina
APG – Associated petroleum gas
ASEAN – Association of South East Asian Nations
ATEE – Areas of traditional ecosystem exploitation
CKU – Central Khoreyver Uplift
CRMS – Corporate Risk Management System
DGD – Deputy General Director
DNCA – Designated nature conservation areas
EBITDA – Earnings before interest, taxes, depreciation and amortization
EP – Environment protection
EU – European Union
FCF – Free cash flow
GC – Group of Companies
GD – General Director
GRI – Global Reporting Initiative
HC – Hydrocarbons
HR – Human relations
IDP – Innovational development program
IFRS – International Financial Reporting Standards
IS – Industrial safety
Jack-up – Jack-up drilling unit
JSC – Joint Stock Company
JV – Joint venture
KhPSA – Kharyaga Product Sharing Agreement
KPI – Key performance indexes
LA – License Area
LLC – Limited liability company
M&A – Mergers and acquisitions
NAA – Nenets Autonomous Area
OCF – Oil containing fluid
OH – Occupational health
ONO – Orenburgnefteotdacha JSC
OP – Oil Plant

OPEC – Organization of Petroleum-Exporting Countries
PR – Public relation
PSA – Production Sharing Agreement
PVEP – PetroVietnam Exploration Production Corporation
R&D – Research and development works
RSU – Russian State University
SC – Subsidiary company
SDG – Sustainable Development Goals
STC – Scientific and technical council
UN – United Nations
UNG – Ul'yanovskneftegaz LLC
USA – United States of America
VSP – Vietsovpetro
ZN – Zarubezhneft
ZNSM – Zarubezhneftestroyontazh LLC

FEEDBACK FORM

Zarubezhneft JSC is interested in receiving recommendations and responses regarding the given Sustainable Development Report to consider them in the subsequent publications. We offer you to fill-in the feedback questionnaire:

To which group of stakeholders do you belong?

- | | |
|----------------------------|---|
| 1. Shareholder | 5. Supplier of products |
| 2. Employee of the Company | 6. Representative of State authorities |
| 3. Business partner | 7. Local person from the Company's region of presence |
| 4. Consumer of products | 8. Other |

Please indicate the degree of your interest in the Sustainable Development Report:

1	2	3	4	5
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To what extent are the issues reviewed in the Sustainable Development Report are relevant to you?

1	2	3	4	5
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How do you estimate the degree of exposure of the issues covered by the Report?

1	2	3	4	5
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Please assess the level of fairness and accuracy of the presented information?

1	2	3	4	5
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Assess the Report in respect of clarity of the presented information?

1	2	3	4	5
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Please indicate the topics you are interested in that are not covered by the Report:

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