

# 2017

SUSTAINABLE  
DEVELOPMENT  
REPORT

**KEEPING  
BALANCE**

 JOINT STOCK COMPANY  
**ZARUBEZHNEFT**





## REPORT DESCRIPTION



The report on sustainable development activity ("Report") is prepared for 12/31/2016 – 12/31/2017 using the information available to Zarubezhneft Joint-Stock Company ("Zarubezhneft JSC" or "Zarubezhneft Group of Companies" or "Company") and its subsidiaries and affiliates at the time of its formation. In the consolidation of operational data, the recommendations of the international standards of the GRI system have been taken into account. All financial information is provided on the basis of the audited financial statements available on the Company's website.

### Disclaimer

Some statements contained in the Report contain future event forecasts and are subject to various risks. These risks include the possibility of changes in the economic and financial conditions of the Company's activity and prospects for its development, the possibility of changes in the political and economic situation in Russia and other countries of operation; the possibility of changes in the existing or future regulation of the Russian production, transportation and refinery industry; the possibility of changes in Russian legislation, and other factors.

Most of these factors are beyond the Company's control or forecast capabilities.

Forward-looking statements, due to their specific nature, carry inherent risk and uncertainty, both general and private, including the risk that the assumptions, forecasts, projects and other forward-looking statements will not be fulfilled.

Taking this into account, the Company warns that its actual results may differ significantly from the results expressed directly or indirectly in these forward-looking statements, and are valid only at the time of the Report.

The Company shall not be liable for any losses which may be incurred by individuals or legal entities acting on the basis of forward-looking statements. Such forward-looking statements represent only one of many scenarios in each case, and should not be considered the most probable outcome.

Except in cases expressly provided by law, the Company shall not be obligated to publish updates and changes to its forward-looking statements based on new information and/or subsequent events.

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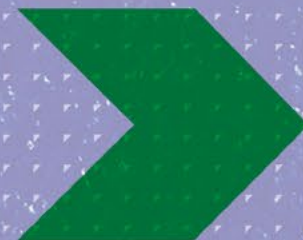




01



COMPANY  
PROFILE





# ABOUT COMPANY

ZARUBEZHNEFT JSC IS A RUSSIAN OIL AND GAS COMPANY OF STRATEGIC IMPORTANCE ACTING IN THE INTERESTS OF THE STATE. THE COMPANY WAS ESTABLISHED IN 1967 (IN 2017 IT CELEBRATED ITS 50-YEAR ANNIVERSARY), AND HAS EXTENSIVE EXPERIENCE IN THE DEVELOPMENT OF OIL AND GAS FIELDS, INCLUDING PRODUCTION, TRANSPORTATION AND PROCESSING, AS WELL AS UNIQUE EXPERIENCE IN FOREIGN ECONOMIC ACTIVITY.

From 1967–1990, Zarubezhneft was the main foreign agent of the USSR in the oil industry abroad, ensuring its presence in Iraq, Angola, Algeria, Vietnam, India, Iran, Yemen, Libya, Syria, and Cuba (in total, 33 countries). In 2017, the assets and projects of Zarubezhneft Group of Companies are located in the Russian Federation, the Socialist Republic of Vietnam, Bosnia and Herzegovina, Cuba and Belarus. Zarubezhneft Group of Companies unites more than 30 joint and subsidiary companies in various segments of the oil and gas industry, including exploration, production, oil refining, sales, and service. In the Russian Federation, Zarubezhneft Group have 9 licenses to mine hydrocarbons; 5 licenses to explore, develop, and mine hydrocarbons, and 2 licenses to search and assess hydrocarbon deposits.


## STRUCTURE OF EQUITY

The amount of registered authorized capital as of December 31, 2016 is 50,729,067 billion Rubles, and the total number of issued shares is 50,729,067. The share of the Russian Federation (represented by the Federal Agency for State Property Management) in the authorized capital is 100%. The Company is included in the list of strategic joint-stock companies.









# MAIN EVENTS OF 2017

Production Events 


Events in the sphere of international cooperation 

Corporate Events 

## MARCH

-  The horizontal exploration well TN-3X was successfully tested at the Swan Field, Block 12/11 in March 2017. The TN-3X well is the first horizontal exploration well in a Vietnamese offshore project.
-  According to the results of the international audit of Company assets, a considerable increase of hydrocarbon stock was observed; the production volumes of 2016 were exceeded, and new stocks added 114% to the total amount of reserves. As a result, the resource base of JSC Zarubezhneft Group of Companies increased along all main categories of reserves.
-  In March, the Head of JSC Zarubezhneft, Sergey Kudryashov, and Deputy Premier of Vietnam Trinh Dinh Dung met in Hanoi to discuss the results of operations of the main joint ventures of JSC Zarubezhneft and OGC PetroVietnam: JV Vietsovetro and JC Rusvietpetro.
-  In March, the creative group of young professionals of Zarubezhneft Group held an open creative session. During the event, the participants described issues in youth policy, the main principles of forming the corporate culture, and approaches to increase the involvement of young specialists in various company processes.



## APRIL

-  JSC Zarubezhneft took 1st place in the intellectual game among young professionals in the oil and gas sector.


## MAY

-  Zarubezhneft's IDP received the highest rating (99.4% of 100%) and took the first place among oil and gas companies and all state-owned companies implementing innovative development programs.



## JUNE

-  JSC Zarubezhneft and PVEP (Vietnam) signed a Memorandum of Understanding on developing Block 09-2/09 in offshore Vietnam.
-  JSC Zarubezhneft and Rosgeologiya signed a Memorandum of Understanding. The Memorandum focused on future cooperation in geological exploration, recovery of hydrocarbons and the provision of services in countries of the Middle East, in order to search for, assess, and select mutually beneficial projects. In the future, the list of regions for practical cooperation can be extended further.
-  On June 30, 2017 the President of Vietnam Tran Dai Quang, while on a visit to the Russian Federation, visited the office of JSC Zarubezhneft.


## AUGUST

-  Industrial inflow of gas was received after the testing of the 50-meter interval (one of the three intervals planned for testing) of the new exploration well at Block 12/11. This is the second successful well on the Block.

## SEPTEMBER

-  In September 2017, as part of the cooperation project with Vnesheconombank Group of Companies, JSC Zarubezhneft partially paid back the loan in the amount of EUR 101 million, which considerably lowered the debt burden of the Company.
-  The Company received the Order of the Flag of Republika Srpska for contributions in the development of the oil processing industry.

## OCTOBER

-  JSC Zarubezhneft won in the interactive session of the REN-2017 Forum, which focused on the forecast of development of the fuel and energy market. During the session, 12 teams representing energy sector companies presented their proposals on the future trends of development of the Russian energy sector. The reports of the team representing JSC Zarubezhneft were voted the overall best.

## NOVEMBER

-  In St. Petersburg, Zarubezhneft, Gazprom Neft and Tatneft signed a Memorandum on Cooperation in the Area of Competency Development for the Implementation of Challenging Carbonate Reservoir Development Projects and the Establishment of a Carbonate Study Consortium.





## MEMORANDUM ON THE ESTABLISHMENT OF A RESEARCH CARBONATE CONSORTIUM IS SIGNED

In November 2017, Zarubezhneft, Gazprom Neft and Tatneft officially signed in St. Petersburg a Memorandum on Cooperation in Competency Development for the Implementation of Challenging Carbonate Reservoir Development Projects and the Establishment of a Carbonate Study Consortium.

Zarubezhneft is a leader in the development and implementation of technologies for the development of hard-to-recover oil reserves. The portfolio of the Company's technologies has a number of unique and rarely-used technologies, such as thermal gas impact, catalytic aquathermal, proprietary chemical and physical advanced recovery methods. The Company also carries out the practical application of these technologies in the field, ensuring the unique experience and technological competence of Zarubezhneft in this area.

The consortium is designed for participants as a platform for production issue discussion, to share the best practices, and for the joint evaluation of various engineering solutions. Corporate participants plan to organize regular work progress and result workshops.

The signing of the Memorandum helps accumulate considerable resources and focus them on solving the most important tasks to avoid the duplication of research works, share risks and raise funds for long-term scientific and technical projects for the creation of innovative breakthrough technologies requiring expansive research and significant time and financial costs.



## THE RONG FIELD GAS SALE CONTRACT

As part of the ongoing Asia-Pacific Economic Cooperation (APEC) Summit in Danang (Vietnam), the General Director of Zarubezhneft JSC Sergey Kudryashov, and the President of PetroVietnam OGC Nguyen Vu ThienThao, signed a contract for the sale of natural gas from the gas condensate deposit of the northeastern area of the Rong field. Rong field development is carried out as part of the Intergovernmental Agreement between Russia and Vietnam on Block 09-1, according to which only oil used to be produced. The signing of this contract will help increase the resource base of Block 09-1 due to its previously discovered natural gas reserves, and ensure their effective industrial development.

New gas fields identified on the shelf of the Socialist Republic of Vietnam. The industrial inflow of gas was received after testing the 50-meter interval (one of the three intervals planned for testing) of the new exploration well at Block 12/11. This is the second successful well on the Block. Thus, gas flow exceeded 1 MM m<sup>3</sup>/day at the end of March 2017 during the tests of the first horizontal exploratory well (TN-3X) at Block 12/11. The results confirm the high success of the Company's exploration, which is currently at 100% efficiency.

The new gas deposits discovered on the structures of Block 12/11 create a synergetic effect with the gas field of Thien Ung Block 04-3 already involved in development as of December 2016, and significantly increase the volume of gas production on the shelf of the Socialist Republic of Vietnam.

The production sharing agreement on Block 12/11 was signed in December 2012. In accordance with the terms of the PSA, the share of participation of Zarubezhneft JSC is 100%.





## 5TH PLACE IN THE RATING OF ENVIRONMENTAL RESPONSIBILITY AMONG OIL AND GAS COMPANIES OF THE RUSSIAN FEDERATION

On November 30, 2017, the results of the environmental responsibility rating of Russian oil and gas companies were summarized and organized by the consulting and analytical group of the CREON fuel and energy complex and the World Wildlife Fund (WWF) of Russia, in collaboration with the National Rating Agency and the Ministry of Natural Resources and Environment of the Russian Federation, and also with support of the Ministry of Energy of the Russian Federation.

This event is a platform for meetings of members of leading oil and gas producers of Russia and foreign companies, public organizations and the media, to discuss existing problems and solutions and demonstrate openness and transparency.

The experts' tasks included the assessment of the degree of openness and availability of environmentally significant information, environmental management features, compliance with the best standards and practices, and comparison of the level of company environmental impacts.

The materials and publications in support of high environmental responsibility were submitted by 22 oil and gas companies. Zarubezhneft JSC improved its performance in 2016 (10th place) by 5 positions in the rating.

The organizers paid special attention to confirming the reliability of information provided by the companies during the three-year period from 2014–2017. Zarubezhneft was awarded a diploma for Leader in Transparency Dynamics from 2014–2017.



## SPECIALIST TRAINING IN THE SCHOOL OF PROJECT MANAGEMENT

Training of the second group of employees started on January 23, 2017 in the Zarubezhneft JSC School of Project Management.

The list of participants, similar to the first group, included specialists from the corporate center, branches and subsidiaries.

The event was attended by Director General of the Company Sergey Kudryashov and Director of the International Business School Elena Telegina.

The School of Project Management focuses on improving the level of management skills and competencies of employees. The skills learned help the course participants ensure the further effective development of new Group projects.

Upon completion and after all tests are passed successfully, students will be awarded the additional qualification of Master of Business Administration (MBA) in "Management of Oil and Gas Businesses. Project Management."

The Zarubezhneft JSC Project Management School was organized on the basis of the International School of Business of Gubkin Russian State University of Oil and Gas. The School accepted its first group of students on May 18, 2015.

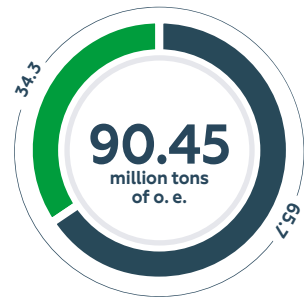
The School curriculum is designed around a comprehensive study of the best project management practices and an analysis of the corporate project management system of Zarubezhneft JSC. Lessons and cases are built around actual Company projects.

The Project Management School is one of the main areas of implementation of the Corporate Strategy of Zarubezhneft JSC.

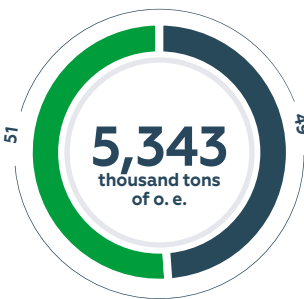


# SUMMARY OF REPORTING PERIOD RESULTS

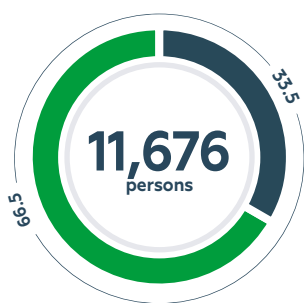
VOLUME OF THE GROUP'S RESERVES (BY CATEGORIES A + B1 + C1), TAKING INTO ACCOUNT THE SHARE IN 2017, %



TOTAL PRODUCTION, %



NUMBER OF EMPLOYEES IN 2017, %



■ Russian assets  
■ Foreign assets

+11.2%	<b>67,663</b>	+7.9%	<b>16,372</b>	+39%	<b>8.9</b>
million Rubles consolidated revenue	million Rubles consolidated EBITDA	million Rubles consolidated EBITDA	billion Rubles net Income	billion Rubles net Income	
-3.7%	<b>26,754</b>	<b>7.01</b>	<b>8.2%</b>		
million Rubles operating cost	billion Rubles investment program	billion Rubles investment program	return on equity		
+8.5%	<b>154.79</b>	+3.5 p.p.	<b>42.7</b>	<b>0.71</b>	
million Rubles environment protection cost	thousand Rubles/man-hour labor productivity	thousand Rubles/man-hour labor productivity	LTIFR (1.38 in 2016)	LTIFR (1.38 in 2016)	

## COMPETITIVE ADVANTAGE

### Wide experience in the development

of complex reservoirs, first and foremost fractured base deposits in Vietnam, hydrophobic fractured carbonates (Timano-Pechora Region), and terrigenous block structures of low power (Vietnam).

### Proven experience of profitable activities

on small fields with an unbalanced development system (Volga-Ural region of Russia, Cuba).

### Awareness of local nuances in operations

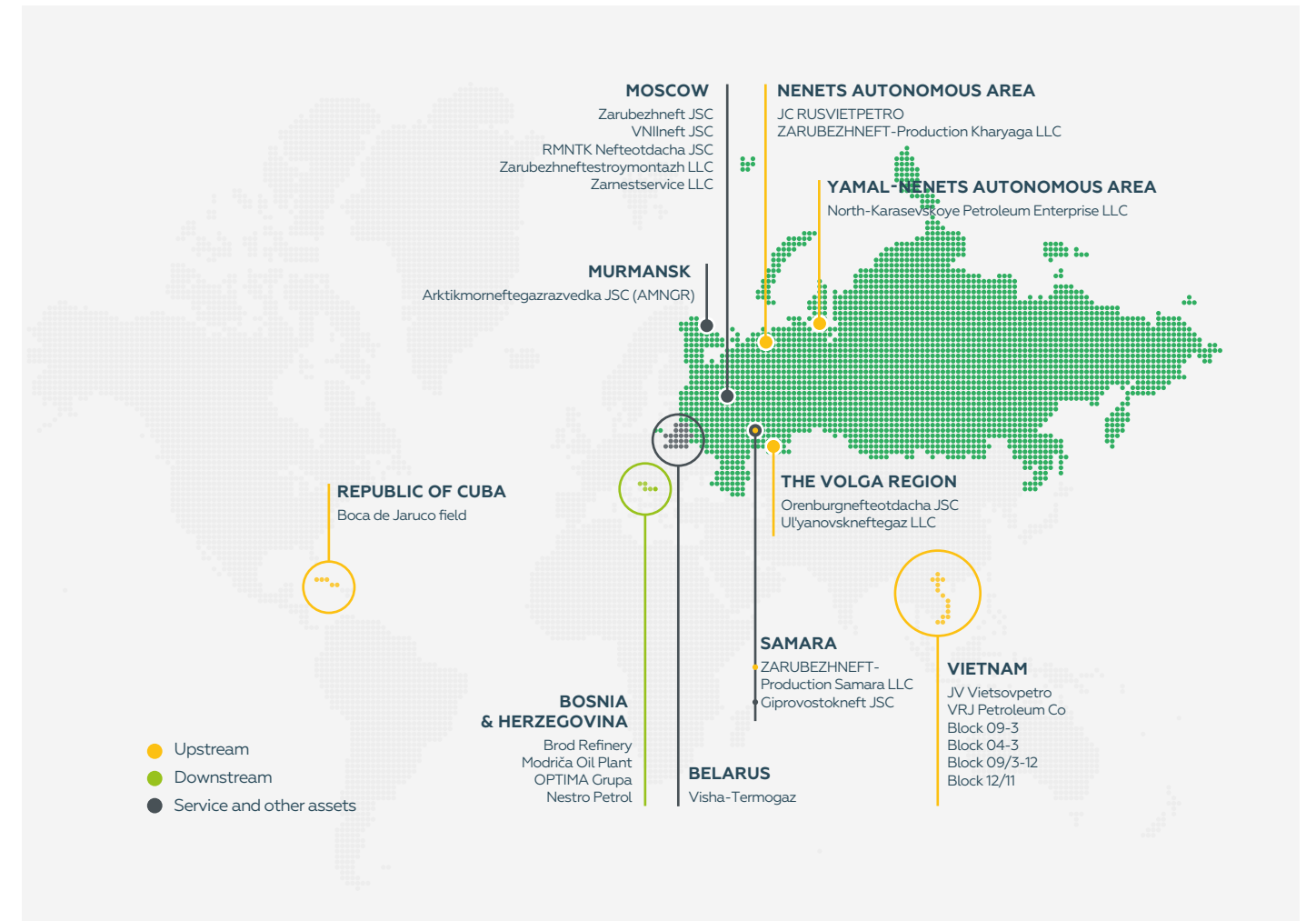
in different regions of the world.

### Vast experience

in international oil and gas projects, stable long-standing connections with Russian and global companies, and the availability of a research & development and design organization structure and sectoral research institutes and the fuel and energy complex.

### Experience working with international oil and gas companies,

including as a partner not on the basis of operatorship.



## CORPORATE AND PROJECT STRUCTURE OF THE GROUP

Upstream Segment		Geologic exploration projects		Downstream Segment		Services segment	
49%	JV Vietsovetropetro Block 09-1	49%	Block 04-3	95%	Oil and Gas Innovation Corporation JSC	100%	RMNTK Nefteotdacha JSC
50%	VRJ Petroleum Co Block 09-3	100%	Block 12/11	80%	Brod Refinery A.D.	100%	Explon LLC
51%	LLC JC RUSVIETPETRO	100%	Boca de Jaruco	80%	Nestro Petrol A.D.	70.3%	VNIIneft JSC
40%	Kharyaga PSA	26.95%	Block 09/3-12	92%	Modriča Oil Plant A.D.	100%	Zarnestservice LLC
100%	Orenburgnefteotdacha JSC			100%	OPTIMA Grupa	60.1%	Giprovostokneft JSC
100%	ZARUBEZHNEFT-Production Samara LLC					100%	Zarubezhneftestroyontazh LLC
100%	North-Karasevskoye Petroleum Enterprise LLC					100%	Arktikmorneftegazrazvedka JSC
100%	Ulyanovskneftegaz LLC					100%	ZNSM-BLK d.o.o. Brod (Republika Srpska)





2022



STRATEGY OVERVIEW



# PLATFORM FOR ACTIVE GROWTH

**IN 2017, THE GROUP STARTED IMPLEMENTING THE SECOND STAGE OF ITS CORPORATE DEVELOPMENT STRATEGY, WHICH WE NAMED READINESS FOR GROWTH AND FIRST SUCCESSES. THE FULL IMPLEMENTATION OF ALL ACTIVITIES ON THIS STAGE IS EXPECTED BEFORE 2020. EFFORTS WILL BE FOCUSED ON THE SEARCH FOR NEW FIELDS, WHERE IT IS POSSIBLE TO BUILD UP EXISTING COMPETENCIES, NAMELY IN FIELDS WITH AN UNBALANCED DEVELOPMENT SYSTEM AND FIELDS WITH COMPLEX RESERVOIRS.**

In 2017, we continued the systematic search for new foreign assets. In addition to the countries of presence (Vietnam and Cuba) traditional for the Company, we initiated the search and evaluation of potential projects in regions of the Middle East, South America and Southeast Asia.

We have also signed a number of documents crucial for the successful implementation of strategic priorities as part of bilateral meetings with foreign partners.

In addition to the development of our foreign project portfolio, the Company extensively assesses development possibilities in the Russian Federation, addressing potential assets in the allocated and unallocated subsoil reserve funds. Projects in the top-priority regions of Timano-Pechora and Volga-Ural are a main focus. In our evaluation of attractive projects, alongside process and economic parameters, we always take into account the possible negative environmental and social consequences of our decisions. This approach is clearly in line with our Principles of Corporate Teamwork, where our approaches to responsible business are defined. We would like to specially note that these principles aren't just words on paper, but serve as a real guideline for working out a balanced position on a whole host of issues, starting with the basic aspects of industrial safety, to decisions on implementing major long-term development projects.

Our activities are related to the development of fields with difficult conditions for hydrocarbon extraction, which forces us to pay increased attention to the introduction of new technologies in exploration, production, and management. In accordance with the current strategy, Zarubezhneft JSC continuously improves its competencies in all these areas. Therefore, a high level of production culture is a key element of our activity. But we are more than just a high-tech company. Our assets are on different continents, in countries with different political and cultural traditions. We understand this and respect these regions' and countries' values. Cross-cultural communications are a main focus of increasing personnel qualifications in the Company. We also stick to a strict set of corporate teamwork principles within the unified corporate ethics of Zarubezhneft Group of Companies, encompassing the principle of building relationships with third parties, including in foreign regions.

Our sustainable business development is guided by the common principles prepared by the UN in the Agenda of Sustainable Development until 2030. I am convinced that thanks to our rich background in the management of complex projects combined with unique corporate culture values, we are poised to achieve all of our goals, no matter how ambitious they may seem at the start.














» Our sustainable business development is guided by the common principles prepared by the UN in the Agenda of Sustainable Development until 2030.

**Sergey Kudryashov**  
General Director  
of Zarubezhneft JSC



# PRIORITY STRATEGIC AREAS

## PRIORITY STRATEGIC AREAS

Priorities	Production objectives	UN sustainable development goals
Technological competency development and the improvement of existing asset performance	Exploration operations— resource base increase	 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
	Oil recovery factor increase (ORF)	 Conserve and sustainably use the oceans, seas and marine resources for sustainable development
	Search and application of new infrastructure solutions to decrease capital and operating expenditures and reduce production time delays	 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Entry into new projects	The assessment of new projects in various regions is currently performed at different stages—rapid assessment, detailed assessment and preparation for transactions	 Take urgent action to combat climate change and its impacts
		 Partnership for sustainable development
Organizational development for the effective management of project groups	Transition to the Strategic Controller management model, which includes a strategic system and methodological control of subsidiaries, creation of a unified methodological base, and unified rules of work on key processes in subsidiaries	 Ensure healthy lives and promote well-being for all at all ages
		 Quality education
		 Gender equality
Implementation of the downstream segment improvement program	The operating improvement program at Brod Refinery and Modriča Motor Oil Plant, as well as other operating improvements, were carried out in wholesale and retail	 Ensure access to affordable, reliable, sustainable and modern energy sources for all
Development Service and Other Assets segment—synergy with the Upstream segment	Provide professional research and design support for the Company’s Russian and foreign production assets on the basis of VNIIneft and Giprovostokneft, RMNTK Nefteotdacha, and Zarubezhneftstroyontazh corporate industry-specific institutes	 Ensure sustainable consumption and production patterns
		 Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss

# CORPORATE CULTURE AND VALUES

ZARUBEZHNEFT GROUP OF COMPANIES HAS A SIGNIFICANT IMPACT ON THE SOCIAL AND ECONOMIC DEVELOPMENT IN ITS REGIONS OF PRESENCE. THEREFORE, THE COMPANY ADHERES TO A POLICY OF HIGH SOCIAL RESPONSIBILITY TO LOCAL COMMUNITIES AND SOCIETY AS A WHOLE.



Zarubezhneft JSC contributes to the sustainable development of its regions of presence as an employer, taxpayer and significant participant in economic activity.

In cooperation with the regions, emphasis is placed on the development of local initiatives and social activities. Zarubezhneft Group of Companies pursues constructive collaboration with local government bodies and public organizations. Subsidiaries annually enter into agreements with the regional administrations governing the joint development activities of the regions.

The Group provides support to socially vulnerable segments of the population, implements social and charitable projects in the field of health, education, improvement of housing conditions, culture, sports, and the development of social infrastructure.

Zarubezhneft JSC has the relevant regulatory documents to establish common approaches in charity and sponsorship activities, and meetings of the Commission on the consideration of social issues in the corporate center and subsidiary companies are held on a regular basis. These tools are designed to create the most effective, simple and transparent mechanism for Zarubezhneft Group of Companies to provide assistance.





The regulations define the following areas of charity and sponsorship:

- culture, sports and a healthy lifestyle
- cultural and historical heritage, support for patriotic military activities and events
- assistance to creative teams and art communities
- support for the poor and indigent, orphans, veterans and disabled
- scientific and educational programs, and professional development programs
- organization of events dedicated to significant events in the fuel and energy industry.

In total, Zarubezhneft Group of Companies allocated 97 million Rubles to charity and sponsorship in 2017 (taking into account the social and economic agreements signed with the administrations of the regions where subsidiaries and joint ventures operate), including in the following areas:

- culture, sports and a healthy lifestyle – 13.2 million Rubles.
- support for the poor, veterans and retirees, as well as other socially significant projects in the regions of presence – 76 million Rubles.
- support for scientific and educational programs and events – 7.8 million Rubles.

79 million Rubles of these funds were allocated to charitable assistance, and 18 million Rubles for the sponsorship of socially significant projects.

In 2017, the Group's volunteer movement continued its growth in the Young Professionals Council. In addition to the traditional children's events in honor of Children's Day and the New Year, and congratulating Zarubezhneft's veterans with Victory Day, the youth councils joined the Joy of Old Age foundation movement on New Year's and held an event for the elderly in Vyshny Volochyok.

Volunteerism is also gaining popularity in Zarubezhneft's subsidiaries. In addition to the joint events with the Headquarters, ZARUBEZHNEFT-Production Kharyaga LLC personnel took part in two charity races in 2017—Achieving the Goal, and Running Hearts. During the marathon, participants ran

the target distance, and also helped children in need. To support the donor program, 26 employees from ZARUBEZHNEFT-Production Kharyaga LLC donated blood directly at the workplace. Similar events were also arranged by JC RUSVIETPETRO personnel, who donated blood twice in 2017 with donor compensations transferred to the orphanage in Naryan-Mar.

Environmental and sustainability care is another important aspect of the corporate volunteer process. These types of programs also find support among personnel. In 2017, ZARUBEZHNEFT-Production Kharyaga LLC held a Give a Gift Tree environmental event, where young personnel from JC RUSVIETPETRO took part in a cleanup day at Moscow's 870th anniversary, and cleaned the Moscow parkway in Petrovsky Park. The Moscow office of ZNDK also combined an environmental project with its social volunteers program: together with the Good Caps movement and Volunteers Helping Orphans charity foundation, the employees collected plastic items for recycling and transferred the money earned to those in need.

Volunteer and charity events promote a sense of personal responsibility and desire to participate in public events. This is a crucial aspect of the Group's corporate culture, and is strongly supported and encouraged.

## VALUES

Zarubezhneft JSC adheres to high ethical principles in cooperation with all interested parties in order to improve the corporate culture and compliance with the best international practices.

The strategic goal in the development of corporate culture in the Group is to foster fundamental values and high standards of activity, ethical standards, creativity, and openness to innovation, which contributes to the high level of involvement of each employee in the solution of basic business issues.

The corporate culture of the Group has an impact on all areas in personnel management, contributes to the formation of a loyal attitude of employees, and improves the image of the Group and the prestige of working in it.

The Company's relationship with the environment and stakeholders, as well as relationships between employees, are regulated by the Codes of corporate governance and corporate ethics.

The Code of corporate governance regulates the process of the Company's relations with the members of the Board of Directors, other officials and the sole shareholder—the State.

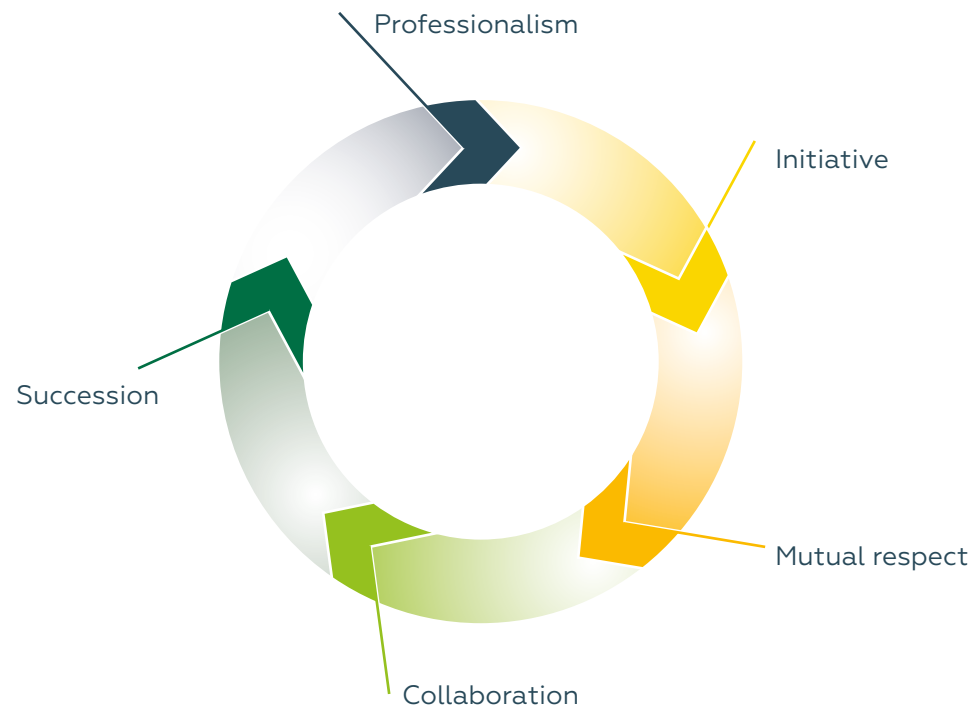
The Code of corporate ethics is a tool for the formation of the corporate culture, and defines the rules of business conduct, principles of effective interactions between the Company and employees, ethical standards of internal corporate relations, as well as anti-corruption requirements. These communications are implemented on the basis of the Company's core values.

The Company has established a Commission on corporate ethics that applies to every employee who faces a violation of the code of corporate ethics or demonstrates negative behavior towards other employees. These actions are considered out of line with the Group's basic corporate principles.



# RISK MANAGEMENT

## CORPORATE VALUES OF ZARUBEZHNEFT GROUP OF COMPANIES



**PROFESSIONALISM** is a deep knowledge of one's own specialization, a responsible and conscientious attitude to duties, timely performance of objectives and continuous improvement of professional level.

**INITIATIVE** is the activity and independence of employees in the optimization of the production process, and the development of the Company's competitiveness.

**MUTUAL RESPECT** is respect for one another, mutual support, team spirit in the workplace, goodwill in the process of the joint solution of tasks.

**COLLABORATION** is the transparent and honest exchange of information, and readiness for the joint development of better solutions.

**SUCCESSION** is a careful attitude to the Company's traditions, respect for labor and the experience of the older generation, occupational training and mentoring.

THE OBJECTIVES OF THE COMPANY-WIDE RISK MANAGEMENT SYSTEM (CRMS) ARE DEFINED BY THE RISK MANAGEMENT POLICY OF ZARUBEZHNEFT GROUP OF COMPANIES, DEVELOPED TAKING INTO ACCOUNT THE RECOMMENDATIONS OF INTERNATIONAL PROFESSIONAL ORGANIZATIONS IN THE FIELD OF INTERNAL MONITORING AND RISK MANAGEMENT, AND INTERNATIONAL PRACTICE IN THE FIELD OF CORPORATE GOVERNANCE, INCLUDING THE RISK MANAGEMENT MODEL OF THE COMMITTEE OF SPONSORSHIP ORGANIZATIONS OF THE TREADWAY COMMISSION (COSO ERM).

In accordance with COSO methodology, the objectives of the CRMS are classified into four main categories:

- **Strategic objectives** – contributing to the increase of capitalization of Zarubezhneft Group of Companies, ensuring sustainable development, increasing competitiveness while respecting the interests of the State.
- **Operational objectives** – related to the efficiency of financial and economic activities, as well as the preservation of assets.
- **Objectives in the area of compliance of activities of Zarubezhneft Group of Companies** with the applicable legislative requirements and requirements of internal regulatory documents (IRD), including the requirements of industrial, environmental, economic, information security, currency legislation, license agreements, agreements on joint activities, etc.
- **Reporting objectives** – timely preparation and assurance of financial, management and non-financial reporting.

### CRMS regulatory documents

Zarubezhneft Group's risk Management Policy dated 06.27.2016

Risk management standard of Zarubezhneft Group of Companies dated 11.14.2016

Risk management standard for large exploration and production projects dated 05.30.2016.

Regulation on the Corporate risk management Committee of Zarubezhneft JSC dated 04.26.2016..

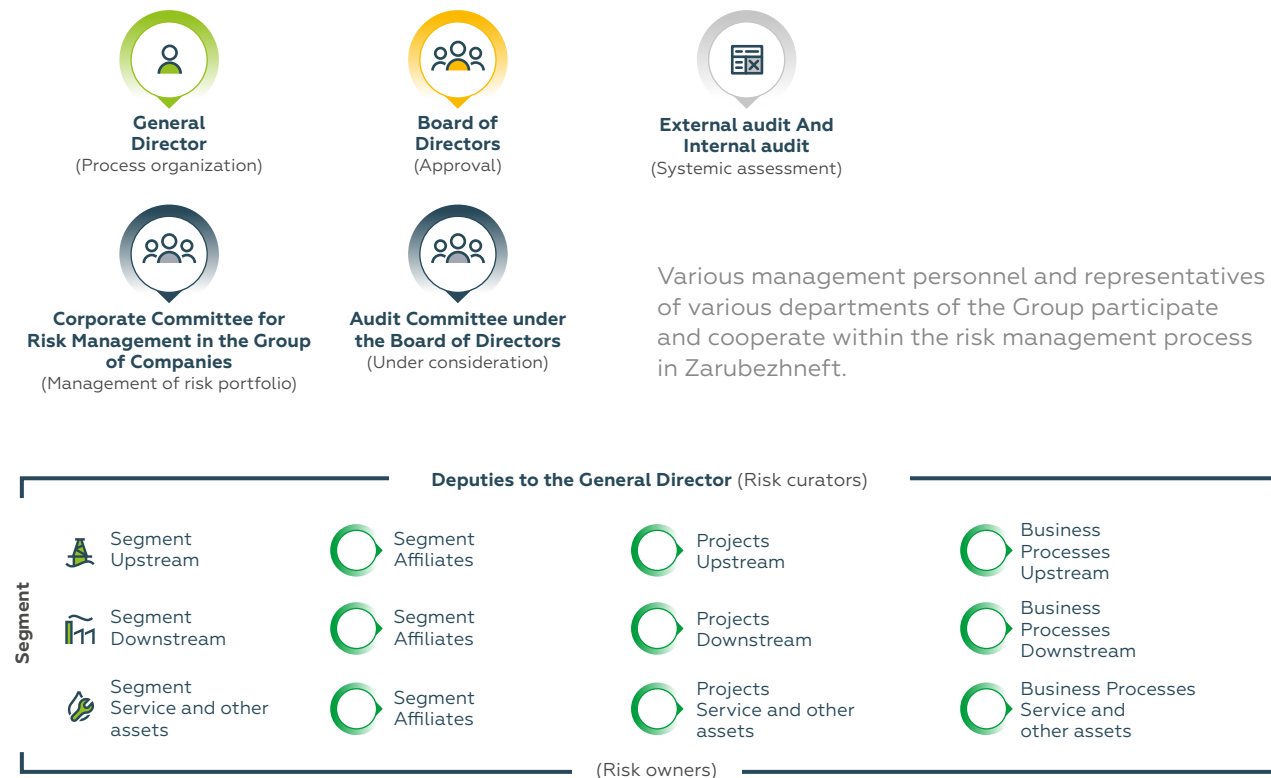
## DEVELOPMENT OF THE RISK MANAGEMENT SYSTEM IN SUSTAINABLE DEVELOPMENT

- The key risks and risk factors of existing projects are identified. The assessment was performed for risk influence on certain factors in Asset Development Projects for 2018–2037 and the Business Plan Preparation for 2018–2022 (exploration, reserves, EBITDA, Capex, FCF); risk response strategies and expected results have been defined.
- The analysis of risks and their influence on the key indicators of Business Plan 2017 and Business Plan 2018–2022 was carried out. Business Plan execution forecasts for subsidiaries include risk data and the assessment of risk influence on key indicators. Key risk data and risk influence on EBITDA is included in the Business Plan Execution Report for 6 months of 2017.
- Investment project appraisal was carried out for risk assessment and full risk weighting during decision making.
- The risk management system is implemented in the Headquarters and in subsidiaries.
- Four meetings of the Risk Management Corporate Committee were held.
- Risk management strategic sessions and workshops were held in subsidiaries and the Company's international projects.



## RISK MANAGEMENT SYSTEM

### ORGANIZATIONAL STRUCTURE OF CRMS IN SUSTAINABLE DEVELOPMENT



### Duties and powers of CRMS participants

- **The Board of Directors of Zarubezhneft** approves the strategy and long-term development plans of Zarubezhneft Group of Companies, and the risk management policy.
- **The Audit Committee under the Board of Directors** considers the organization of the risk management system of Zarubezhneft Group of Companies.
- **The General Director** organizes the risk management process, and forms a single corporate culture contributing to the effective functioning of the risk management system.
- **The Corporate Risk Management Committee** reports to the General Director of Zarubezhneft, exercises general control over the effectiveness of the process, and manages the risk portfolio.
- **The Internal Audit Department** assesses the effectiveness of risk management processes.
- **The External Audit** conducts independent assessments of the effectiveness of the risk management system.



**Responsibility for the methodological support, development and maintenance of the CRMS is assigned to the management of long-term and organizational development.**

## KEY RISKS IN SUSTAINABLE DEVELOPMENT

The CRMS of Zarubezhneft JSC is based on a structured approach to assessing and comparing opportunities and risks, which helps make balanced management decisions. The CRMS covers all activities and all types of risks arising within and at all levels of management. The management of Zarubezhneft Group of Companies makes decisions considering risk analyses (where risks are determined and studied), and takes measures to level them out.



## TOP 5 RISKS AFFECTING SUSTAINABLE DEVELOPMENT

high  
average  
low

Ranking	Risk	Control method	Assessment
1	<b>Political risk</b>  Risk of damage to the political/ economic interests of the Russian Federation due to the incorrect strategy of the Company's current and future activities in the country. Risks of partial and complete loss of control over the Company's assets abroad	<ul style="list-style-type: none"> <li>➤ Consultations are held with the representatives of Russian federal government agencies, foreign embassies and companies regarding the business environment in the countries of presence, future participation in certain foreign projects.</li> <li>➤ Corruption ratings of Zarubezhneft's current and potential countries of presence.</li> </ul>	<b>Influence – high</b> <b>Probability – average</b>
2	<b>Risk of harm/injury to health</b>  Risk of non-fulfillment/non-compliance of safe operation rules with the potential to cause accidents	<ul style="list-style-type: none"> <li>➤ Internal regulatory documents are updated in accordance with the requirements of international standard OHSAS 18001.</li> <li>➤ All subsidiaries have joined the Occupational Health, Safety, Environmental Protection, Security and Social Responsibility Policy of Zarubezhneft JSC, defined in internal regulatory documents, and operate under unified management standards.</li> <li>➤ Implementation of the 12 Life-Saving Rules program.</li> <li>➤ Introduction of the stop card of the safe implementation of works on the basis of LLC "JC "RUSVIETPETRO".</li> <li>➤ Training in safe operational methods and techniques and first-aid for on-the-job injuries</li> <li>➤ Checking the technical condition and integrity of the equipment.</li> </ul>	<b>Influence – high</b> <b>Probability – average</b>
3	<b>Accident risk</b>  Accident risk at hazardous production facilities (HPF) associated with the loss of infrastructure and equipment integrity followed by severe consequences for personnel, the environment and the Company's business	<ul style="list-style-type: none"> <li>➤ A two-level health, safety and environmental system (HSE) is established.</li> <li>➤ The Standard for Open Uncontrolled Flowing Prevention at Oil and Gas Platforms was approved in the Company.</li> <li>➤ Subsidiaries carry out audits to verify the existence of a regulatory framework for compliance with safety rules for the operation of oil and gas production platforms.</li> <li>➤ An audit was held for compliance with safety requirements at well sinking of drilling rigs of the Murmanskaya jack-up drilling rig and Deep Venture drill ship.</li> <li>➤ An audit was held for the equipment, availability of the necessary parts, and compliance with safety standards in drilling and development at the jack-up drilling rig and drill ship.</li> </ul>	<b>Influence – high</b> <b>Probability – low</b>

Ranking	Risk	Control method	Assessment
4	<b>Environmental risk</b>  Risk of fines and other sanctions imposed by regulatory authorities due to the non-compliance with applicable environmental legislation	<ul style="list-style-type: none"> <li>➤ Internal regulations have been updated in accordance with the requirements of international standard ISO 14001.</li> <li>➤ Corporate standards have been updated: Occupational Health, Safety, Environmental Protection, Security and Social Responsibility Policy; HSE Management System Standard.</li> <li>➤ Programs on environmental measures and environmental permits have been implemented to improve the Environment Protection Management System in accordance with the requirements of environmental legislation and international standard ISO 14001.</li> <li>➤ For the Downstream segment, the provision of a process gas supply is ongoing to improve production energy efficiency and achieve the specified emission limits established both in Republika Srpska and by EU standards.</li> </ul>	<b>Influence – high</b> <b>Probability – low</b>
5	<b>Legal risk</b>  Risk of law violations in the course of implementation of both Russian and foreign projects due to ambiguity, uncertainty, contradictions of applicable legislation, changes in law enforcement practices by judicial and administrative authorities, and sparse availability of current versions of existing/amended regulatory acts	<ul style="list-style-type: none"> <li>➤ Monitoring of changes in the legislation of the Russian Federation (tax, currency, customs, subsoil use and licensing, etc.), as well as monitoring of judicial practices to resolve disputes arising in the course of Zarubezhneft JSC activities.</li> <li>➤ When searching for and evaluating new projects both in the Russian Federation and internationally, the law is studied and the potential impact on the activity of the asset/project and Company as a whole is assessed.</li> </ul>	<b>Influence – average</b> <b>Probability – low</b>

## PRECAUTIONARY PRINCIPLE

Zarubezhneft JSC is constantly searching for and assessing new assets in various regions of the world, as well as considering promising areas in the Russian Federation to expand its project portfolio. This activity involves the monitoring and integrated assessment of the geological, technological, economic, social and environmental parameters of the selected options. In accordance with the Search and Evaluation of New Projects Regulation updated in 2017, the New Projects Exploration and Assessment Department

and Business Development Department prepare comprehensive conclusions on the benefits and risks of potential hydrocarbon development projects submitted for consideration by the Investment Committee. As a result of the environmental parameter assessment, analysis of production calculations, and determination of engineering and economic opportunities for project implementation, all significant risks and possible deterioration of project parameters are ranked.





03



**CORPORATE SOCIAL  
RESPONSIBILITY  
MANAGEMENT SYSTEM**





# BUSINESS CULTURE

## GOALS

- Formation of a unified personnel policy of the Company and Zarubezhneft Group of Companies in accordance with the development strategy of Zarubezhneft JSC.
- Effective management of the Company's personnel on the basis of modern personnel management, which provides for the creation of an integrated system of operations with staff from hiring, development, training, and the evaluation of activities, to providing social guarantees at the end of the employee's career.
- Organization of the development and implementation of a set of measures to increase the motivation of employees of all categories on the basis of the implementation of a flexible material incentive policy, improve working condition and safety, improve duties and prestige, optimize structures and staff, and strengthen labor discipline.
- Selection of specialists taking into account the qualification requirements for work in the Company and at foreign facilities, structured and operating with the technical assistance of Russia through the Company, and in the foreign offices of the Company, as well as the registration of their travel abroad in a timely manner.
- Passport, visa and organizational assistance for sending the Company's employees abroad, and specialist visits to the foreign facilities of the Company.
- Organization of training, improvement of the skills of foreign specialists in special educational institutions, universities and oil and gas companies of Russia on a commercial basis.
- Monitor compliance with labor legislation and the execution of orders and other local regulatory acts of the Company on personnel policy issues, as well as employment contracts of the employer and employees.

Responsible subdivision—  
**Human Resources Department**

# COMPANY DEVELOPMENT

## GOALS

- Representation of the Company's interests in cooperation with government authorities, embassies, international, regional and public organizations in the Russian Federation and abroad to promote the Company's current and prospective projects.
- Submission of up-to-date and reliable information to Company management by preparing information and analytical materials on the regions of current and prospective activities.
- Timely informing of the governmental authorities of the Russian Federation by presenting up-to-date information on the current state of the Company's cooperation with foreign partners in the oil and gas sector as the Company is concerned, and the activities of the Company.
- Generating and maintaining a positive image of the Company, and strengthening its goodwill by developing and implementing a strategy for informational interfacing with the media and public to inform them on the achievements of the Company in time.
- Development of the Company's corporate culture, preparation of internal communications to ensure favorable team conditions, increase employee loyalty and increase productivity.
- Forming the image of a social responsible company by solving issues related to the Company's charity and sponsorship activities.
- Promotion of the Company's business image in the international and Russian oil and gas communities by organizing the participation of the Company and subsidiaries in exhibitions, forums and conferences in the Russian Federation and abroad.

Responsible subdivision –  
**Corporate Communications  
Department**

# SECURITY AND ENVIRONMENT

## GOALS

- Organization and control of the monitoring of compliance with Russian Federation laws in the HSE by the Company.
- Generating and implementing the Company's HSE policy.
- Generating the HSE Management System in general for Zarubezhneft Group of Companies.
- Monitoring the operation, coordination and control of Zarubezhneft Group of Companies performance on HSE System implementation.
- Creation of the Company's unified information space in HSE prediction and response to emergencies.
- Forecasting and priority rating risks in HSE, organization, coordination and monitoring of the Company's subdivision operations to minimize possible risks.

Responsible subdivision –  
**Occupational Health, Industrial  
Safety and Environmental  
Protection Department**



# COOPERATION WITH STAKEHOLDING PARTIES

IN 2016, THE COMPANY GENERATED AND APPROVED ITS 12 PRINCIPLES OF CORPORATE COOPERATION. ALL 12 PRINCIPLES ARE DIVIDED INTO TWO LARGER SECTIONS: EXTERNAL AND INTERNAL COMMUNICATIONS.

## EXTERNAL COMMUNICATIONS

### Company—Environment

**Principle of Standout Before the State:**

full compliance with the laws, proper and timely execution of the governmental authorities' instructions and directives.

**Principle of Tolerance and Mutual Respect:**

respect for the culture and customs of others, knowledge and compliance with applicable laws.

**Principle of Honesty and Transparency:**

upholding the Company's interests, fulfillment of obligations to partners.

## EXTERNAL COMMUNICATIONS SYSTEM

### Company—Employee

**Principle of Initiative and Activity:**

constructive stance on changes, responsibility in decision-making, communication on issues.

**Principle of Commitment to Continuous Improvement and Professional Growth:**

focus on effective results, improvement of professional skills, application of new practices.

**Principle of Fair Performance Assessment and Employee Incentives:**

performance assessment based on individual employee results, sharing experiences and employee training.

FOUR CORPORATE  
INTERACTION  
AREAS



EMPLOYEE



EMPLOYEE



EMPLOYEE



ENVIRONMENT

### Manager—Employee

**Principle of One-Man Management:**

initial contact with immediate supervisor in the event of issues related to the employee's occupational activities or the Company's activities as a whole.

**Principle of Panel Discussion and Full Compliance with Decisions Made:**

taking into account an employee's opinion, providing grounds for decisions, execution of the decision after final approval.

**"Open Door" Principle:**

openness to communication with employees, mandatory manager feedback.

### Employee—Employee

**Principle of Teamwork:**

work on one team, personal responsibility for results, assistance to colleagues.

**Principle of Meaningful Discussion of Issues:**

search for the root cause of the issue upon the availability of different opinions, solution to a conflict on a horizontal level.

**Principle of Business Communication:**

adherence to the principle of employee honesty, decency, justice and mutual respect in communication and joint activities.

As part of the annual personnel evaluation, an assessment survey is conducted using the 270/360-degree method of managers and supervisors to determine the current compliance with corporate cooperation principles.

Principles of corporate cooperation are widely presented to employees through various information sharing methods. Their full compliance is the key to successful work and an upwards career and occupation trajectory.

### Key stakeholders

To improve stakeholder interactions with the relevant parties, the Company identifies seven groups of stakeholders with a significant impact on the Company's operations in the regions of its activities:

- Shareholder
- Investment community
- Employees of the Company
- Governmental authorities
- Business partners
- Local communities in operating regions
- Public and non-profit organizations.



## CORRUPTION POLICY

In the first half of 2017, we conducted an independent corruption monitoring audit of the Company's internal control and risk management system, which assessed the adequacy and effectiveness of monitoring procedures in business processes subject to corruption risks. The main focus was on the following business processes: Purchasing Management, Legal Support, Financial Management and Treasury Operations, Investment Planning, Human Resources Management, Communications Management, Charity and Sponsorship, Signing of M&A Transactions, Gifts and entertainment costs. It should be noted that we have developed and implemented effective measures to eliminate (minimize) the risk of corruption with the active participation of almost every Company subdivision.

We openly declare our non-acceptance of corruption, and strictly follow the requirements of Russian laws and the laws of other countries where the Company operates or plans to operate.

Corruption control provisions are included in contracts and agreements signed between partners and contractors, labor contracts with employees of Zarubezhneft JSC, contracts on the material remuneration of Russian employees while working abroad, as well as a number of internal regulatory documents.

As a participant of the Anti-Corruption Charter of Russian Business, the Company is regularly subject to the public confirmation of its corruption control measures.

In the upcoming period, the key corruption control efforts in the Company are designed to focus on the development of corruption control practices in the corporate center and subsidiaries, including the improvement of control procedures for individual business processes, conducting trainings for employees and managers, updating internal regulations, and ensuring the formation of a corporate culture.

**A critical part of our corruption monitoring process is the formation of corruption control awareness among employees, characterized by an antipathy towards all forms of corruption. Thus, we have implemented a series of trainings for employees, including senior management, based on current international research and the world's best practices in corruption control. All internal regulatory acts of Zarubezhneft JSC focused on corruption control, corruption control memos and foreign business measures are communicated to Company employees, and regulatory and administrative documents detailing responsibility are signed.**

## SUPPLY CHAIN



One of the main components of the successful operation of any large company is effective purchasing activities, which provides for the targeted and economically sound spending of monetary funds for the purchase of goods, works and services.

In 2017, Zarubezhneft JSC reviewed 448 goods, works and service purchasing procedures in the total amount of 44 billion Rubles by the Tender Committee.

The use of an electronic trading platforms system, as well as the publication of purchase information in the State Uniform Information System and on corporate information resources, helped increase the openness and transparency of purchasing activities, which led to an increase in the number of purchasing participants and expanded the Company's opportunities to select offers with the best terms.

The Company maintains ties with potential vendors/contactors to ensure cost optimization and savings. Based on the evaluation of the bidders' technical and commercial offer, certain reductions in goods and service costs were identified, and bidders were given the opportunity to improve their commercial offers to provide the maximum possible discount. Thus, in 2017, significant cash savings of 0.9 billion Rubles was achieved.

Taking into account the country's policy of import substitution, which is one of the strategic areas for state-owned companies in the upcoming years, Zarubezhneft JSC constantly works to achieve its planned and stage-by-stage replacement of imported products with Russian versions. As a result, the share of purchased products, work and services of foreign origin is consistently decreasing in projects implemented in the Russian Federation, and currently does not exceed 1.3%.

**The following results were achieved as a result of measures taken to provide a wider purchasing access for small and medium business at Zarubezhneft JSC in 2017:**

1 &gt;

A public purchasing efficiency audit was held over regular meetings of the Advisory Body to discuss Zarubezhneft's purchasing efficiency issues.

2 &gt;

In 2017, the share of purchases from small and medium-sized businesses was 36%. The target value established by the Decree of the Russian Federation Government dated 12.11.2014 No. 1352 "On the Participation of Small and Medium-Sized Businesses in Purchasing Goods, Works, and Services by Certain Types of Legal Entities" for this period was 18%.

3 &gt;

The share of purchasing carried out as a result of the participation of only small and medium business entities has reached 14% during the period under review with the target value of 10%.

4 &gt;

In 2017, a partnership Program of Zarubezhneft JSC involving small and medium-sized business entities was joined by 26 companies.





04



PERSONNEL  
DEVELOPMENT



# PERSONNEL AND SOCIAL POLICY

PERSONNEL MANAGEMENT IN ZARUBEZHNEFT JSC IS PURSUED IN ACCORDANCE WITH THE PERSONNEL POLICY OF ZARUBEZHNEFT GROUP OF COMPANIES APPROVED FOR 2014–2019. THE CURRENT APPROACH TO THE SELECTION, TRAINING AND ASSESSMENT OF PERSONNEL IS IN LINE WITH THE COMPANY’S STRATEGY, FOCUSED ON THE DEVELOPMENT OF FIELDS WITH COMPLEX RESERVOIRS, AND THE DEVELOPMENT OF NEW PROJECTS IN RUSSIA AND ABROAD.

## NUMBER OF EMPLOYEES AND PERSONNEL STRUCTURE

The number of employees in Zarubezhneft SC Group of Companies was 11,676 in 2017. The number of employees in Russia increased by 7.8% due to subsidiaries’ participation in new projects, while in other countries it decreased due to measures taken to optimize staff: in the Socialist Republic of Vietnam by 10%, in Republic Srpska (Bosnia and Herzegovina) by 2.5%, and in the Republic of Cuba by 26.7%.

### Personnel management

#### improvement areas:

- update of labor remuneration and employee incentives
- development of an integrated human resource system taking into account the needs of business areas
- development of the professional competencies of employees of all levels on the basis of the corporate system of continuous education
- improvement of a corporate training system based on the occupational standards in terms of requirements for treatment and working conditions, and employee qualifications and competencies
- the improvement of working conditions for employees, including employment benefits.



THE DYNAMICS OF THE COMPANY’S PERSONNEL BY OPERATING COUNTRIES, PERSONS

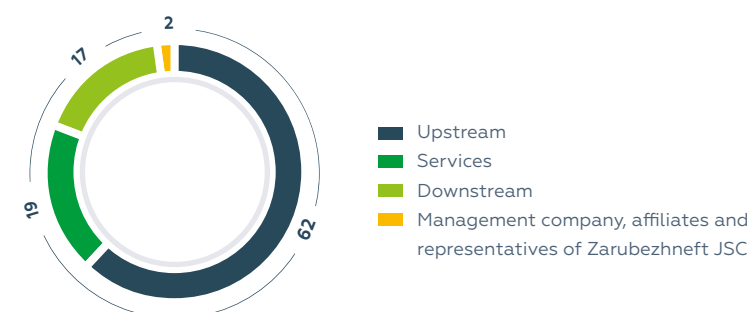
Operating country	2014	2015	2016	2017
<b>TOTAL FOR THE GROUP OF COMPANIES</b>	<b>12,698</b>	<b>12,694</b>	<b>12,093</b>	<b>11,676</b>
Russia	3,177	3,299	3,625	3,909
Socialist Republic of Vietnam	6,984	7,020	6,326	5,683
Republika Srpska (Bosnia and Herzegovina)	2,517	2,356	2,127	2,073
Republic of Cuba	21	19	15	11

In general, the average number of employees of the Group of Companies tends to decrease. These changes are caused by current measures on the optimization of the number of Upstream and Downstream personnel. The reduction in the number of Downstream staff amounted to 3%, and for Upstream to 5%. In Service and other assets, the growth of the number was 2% due to the expansion of activities.

THE DYNAMICS OF THE COMPANY’S PERSONNEL BY BUSINESS AREAS, PERSONS

Business areas	2014	2015	2016	2017
<b>TOTAL FOR THE GROUP OF COMPANIES</b>	<b>12,698</b>	<b>12,694</b>	<b>12,093</b>	<b>11,676</b>
Management company	329	320	322	326
Affiliates and representatives of Zarubezhneft JSC	32	30	26	25
Upstream	7,923	8,135	7,649	7,244
Downstream	2,517	2,356	2,127	2,073
Services	1,898	1,853	1,969	2,008

SHARE OF PERSONNEL IN THE MANAGEMENT COMPANY AND REPRESENTATIVES, %

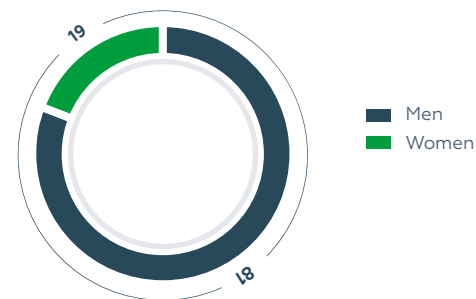


At the same time, the Upstream, which accounts for 62% of all personnel, continues to be a priority for the development of the Group of Companies. The number of employees in the Downstream and Service and other assets segments was 34%.



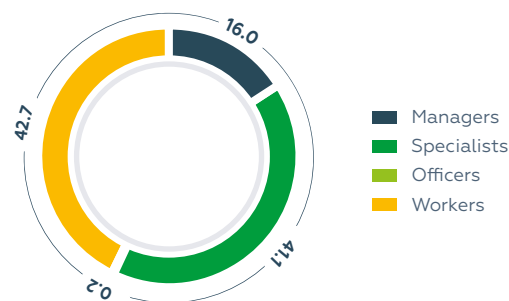
Among the employees of Zarubezhneft Group of Companies, men predominate. This situation is due to strenuous working conditions at remote fields (including on/off rotation), as well as a significant deal of physical labor, including at drilling rigs.

GENDER BALANCE, %



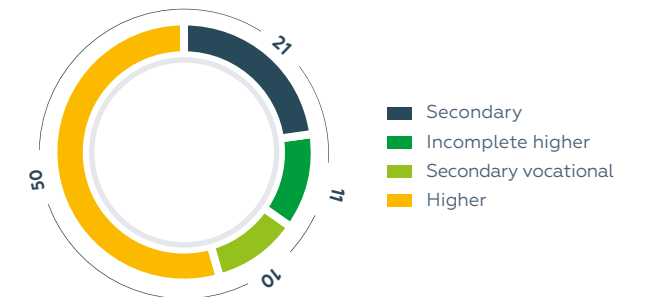
Personnel structure by position category is formed in such a way as to ensure a balance between managers, specialists and workers.

PERSONNEL STRUCTURE BY CATEGORIES OF POSITIONS (AS OF 12.31.2017), %



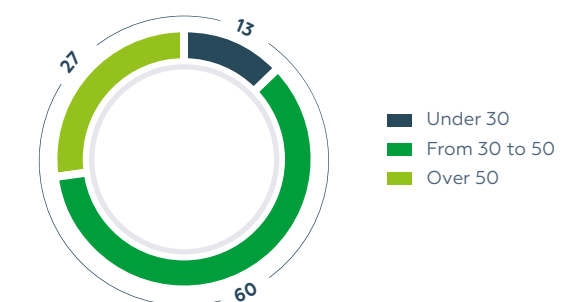
Half of the employees in the Group of Companies have higher education, and a large portion of employees have secondary and vocational secondary education who hold workforce positions.

PERSONNEL STRUCTURE BY EDUCATION LEVEL (AS OF 12.31.2017), %



Personnel age structure is traditionally formed in such a way that two-thirds of employees between 30 to 50 years old. This strategy provides the best ratio of qualities critical for the mining company: physical capabilities and work experience. As a rule, a significant share in the structure of personnel is young people (13%), which provides a sustainable basis for the development of new projects. In view of these factors, the Group maintains an average personnel age of 42.

PERSONNEL AGE STRUCTURE (AS OF 12.31.2017), %



Zarubezhneft JSC, in compliance with International Labor Organization Conventions No. 138 On the Minimum Age of Work, and the Russian Labor Law, takes a firm stance against hiring workers under the age of 18 to work at production facilities, regardless of the legislative base of the country where a project is implemented.

Permanent employment contracts are signed with Company employees. Fixed-term employment contracts, the share of which is 4% as of 12.31.2017, are made only for the maternity leave of key employees. All Company employees work on a full-time basis. There is no employment of workers for part-time or seasonal work.

PERSONNEL STRUCTURE DYNAMICS BY CATEGORIES OF POSITIONS, %

Description	as of 12.31.2015	as of 12.31.2016	as of 12.31.2017
Managers	14.0	19.0	16.0
Specialists	38.0	33.0	41.1
Officers	4.0	2.0	0.2
Workers	44.0	46.0	42.7

CHANGE IN THE STRUCTURE OF PERSONNEL ACCORDING TO AGE, %

Description	as of 12.31.2015	as of 12.31.2016	as of 12.31.2017
Under 30	21	15	13
From 30 to 50	53	56	60
Over 50	26	29	27



## PERSONNEL TURNOVER

In 2017, active personnel turnover increased slightly and amounted to 5.5% (3.7% in 2016).

However, the average value of turnover is low enough to indicate personnel stability. This is the result of continuous activities to build a corporate culture, increase personnel loyalty, and ensure a respectable level of income and employment benefits.

In 2017, personnel turnover increased and amounted to 16.6% (11.2% in 2016), which was mainly due to the completion of individual projects of subsidiaries in Russia (projects of RMNTK Neftetodacha JSC and Zarubezhneftestroyontazh LLC), measures to increase labor productivity

in Giprovostokneft JSC, as well as the release of personnel in JV Vietsovpetro in the Socialist Republic of Vietnam (implementation of measures to optimize staff numbers and retirement, including prescheduled).

The high turnover in Services in Russia is associated with the completion of major projects, as well as the implementation of measures to increase labor productivity in Giprovostokneft JSC; in Upstream – with the release of personnel in JV Vietsovpetro; in affiliates and representative offices, it is associated with a small number of employees.

Increase in turnover in the Republic of Cuba is associated with the expiration of employment contracts, while there has been no turnover considered active.

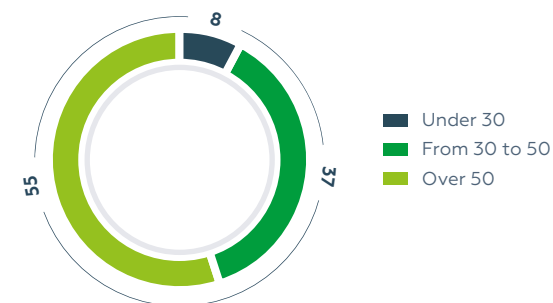
PERSONNEL TURNOVER RATE BY OPERATING COUNTRIES, %

Operating country	2015		2016		2017	
	active	complete	active	complete	active	complete
<b>TOTAL FOR THE GROUP OF COMPANIES</b>	<b>2.8</b>	<b>10.5</b>	<b>3.7</b>	<b>11.2</b>	<b>5.5</b>	<b>16.6</b>
Russia	8.3	15.6	9.4	16	14.3	20.5
Socialist Republic of Vietnam	0.8	6.6	1.3	10.2	1.7	18.5
Republika Srpska (Bosnia and Herzegovina)	1.1	15.2	1.2	5.5	2.1	6.8
Republic of Cuba	5.3	10.5	0	46.7	0	27.3

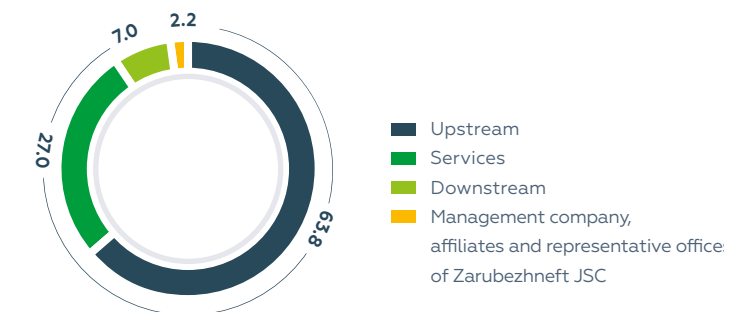
TURNOVER BY BUSINESS AREAS IN 2017, %

Business areas	Turnover	
	active	complete
<b>TOTAL FOR THE GROUP OF COMPANIES</b>	<b>5.5</b>	<b>16.6</b>
Management company	5.2	11.0
Affiliates and representatives of Zarubezhneft JSC	11.1	22.2
Upstream	2.6	18.1
Downstream	2.1	6.8
Services	20.2	25.9

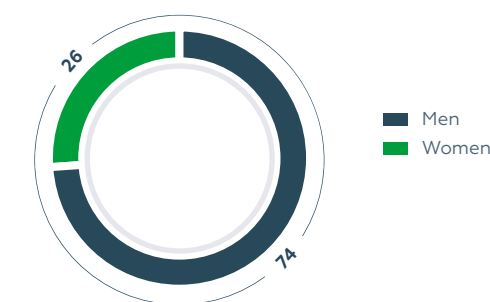
STRUCTURE OF EMPLOYEES DISCHARGED ACCORDING TO AGE IN 2017, %



STRUCTURE OF EMPLOYEES DISCHARGED BY BUSINESS AREAS IN 2017, %



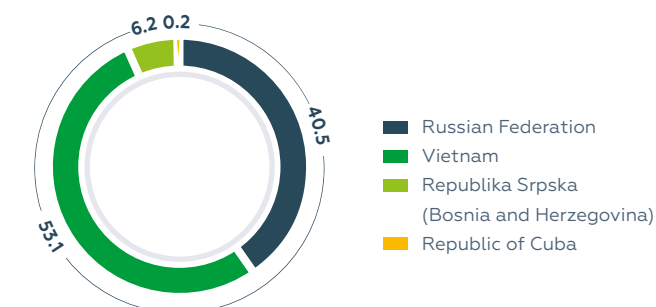
STRUCTURE OF EMPLOYEES DISCHARGED BY GENDER IN 2017 %



STRUCTURE OF EMPLOYEES DISCHARGED BY CATEGORY IN 2017, %



STRUCTURE OF EMPLOYEES DISCHARGED BY OPERATING COMPANIES IN 2017, %





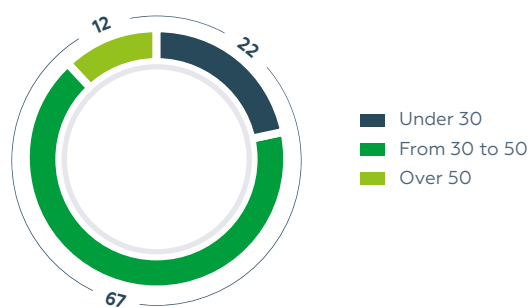
# PERSONNEL RECRUITMENT AND ADAPTATION

The recruitment of specialists and managers with the required competencies is based on a three-level preliminary assessment system:

- assessment of individual abilities and personal qualities (using certified psychological methods)
- assessment of occupational and related competences by business area (applying international industry standards)
- assessment of corporate and management competencies (according to the competency model approved by the Company).

When filling vacant positions, we focus on the principle of employee rotation. This helps the Company expand loyal employee competences and increase their incentives, thereby creating the core of a highly professional team. In addition, the Company minimizes its costs and time spent on personnel recruitment and adaptation. Vacancies in the Company's international business areas are also filled through internal career lifts.

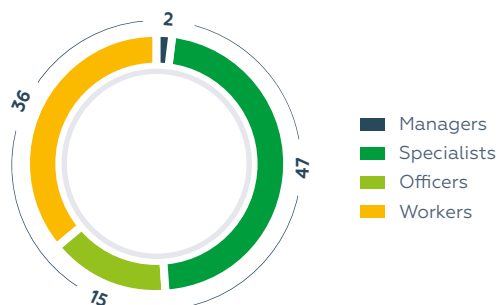
STRUCTURE OF EMPLOYEES ACCORDING TO AGE IN 2017, %



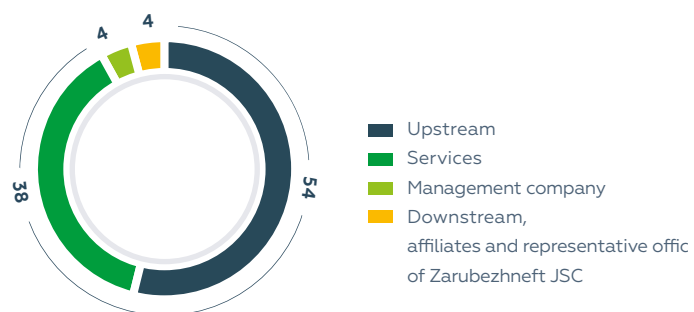
STRUCTURE OF EMPLOYEES BY GENDER IN 2017, %



STRUCTURE OF EMPLOYEES BY CATEGORY IN 2017, %

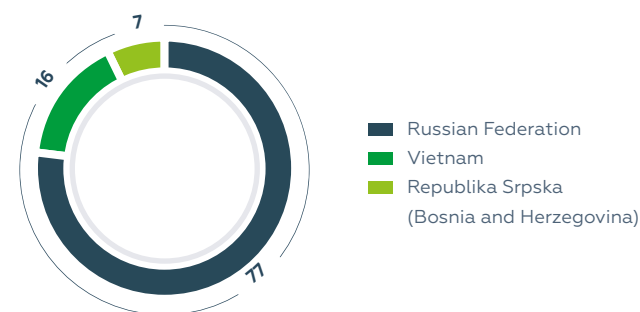


STRUCTURE OF EMPLOYEES BY BUSINESS AREA IN 2017, %



In 2017, the Group recruited personnel to a new subsidiary, ZARUBEZHNEFT-Production Kharyaga LLC, while the number in foreign assets is decreasing. Asian and African areas are in the project evaluation stage, and recruitment is not yet being pursued.

STRUCTURE OF EMPLOYEES BY OPERATING COMPANIES IN 2017, %



Zarubezhneft JSC applies a unified employee adaptation approach: new employees participate in adaptation workshops, coaching and on-the-job training programs. Individual employee adaptation plans are also prepared. To ensure confidentiality, a detailed New Employee Guide was developed in 2017 to facilitate the quickest possible employee adaptation in the Company.

## WORKING WITH YOUNG PROFESSIONALS AND COOPERATION WITH EDUCATIONAL INSTITUTIONS

To implement its innovative development program and youth policy, Zarubezhneft JSC cooperates on a number of levels with the leading higher educational institutions of the Russian Federation to attract and select high-potential students, and also ensure on-the-job training, retraining and advanced training. Partner agreements have been signed with each partner university, and our scientific and technical cooperation helps promptly resolve training issues for employees and young specialists at Zarubezhneft JSC. Our cooperation concerns various business areas—educational, scientific, technical and socio-cultural.

In 2017, 9 graduates were hired in the Corporate Center.

Most graduates are from the following universities:

- Gubkin Russian State Oil and Gas,
- International Institute of Energy Policy and Diplomacy (IIEPD) Moscow State University of Foreign Affairs, Ministry of Foreign Affairs of the Russian Federation,
- Tomsk Polytechnic University,
- Ukhta State Technical University,
- Samara State Technical University,
- Lomonosov Moscow State University,
- Moscow Technological University (MITKhT),
- Northern (Arctic) Lomonosov Federal University,
- Ufa State Petroleum Technological University, and
- Bauman Moscow State Technical University.



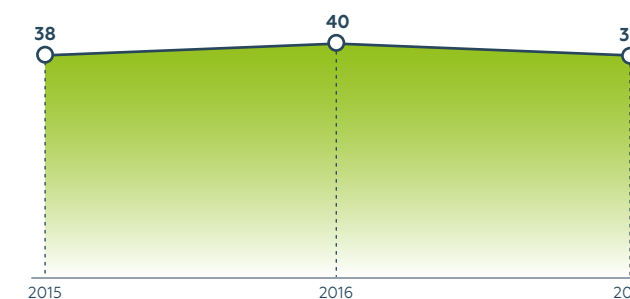
**38**

students

were admitted to the internship program in 2017

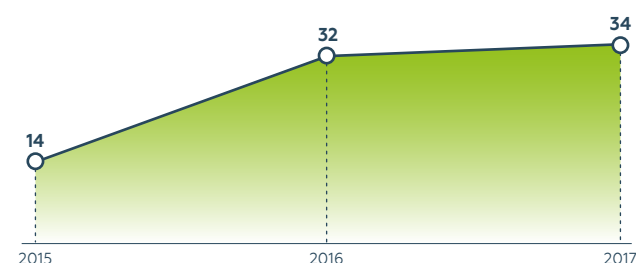
Responsible department – HR Department

STUDENT INTERNSHIP ADMISSION TREND, PERSONS





## SALARIED INTERNSHIP ADMISSION TREND, PERSONS



International students studying at Gubkin Russian State University of Oil and Gas are also given the opportunity to participate in production internships at Zarubezhneft SC. From 2016 to 2017, 4 students from Vietnam and 1 student from Bosnia and Herzegovina received on-the-job training.

Zarubezhneft JSC operates a program to attract students to its paid internships. Since 2015, the number of students who have completed salaried internships was 34 per year.

In 2017, the Company's internships included students of the basic department of Zarubezhneft JSC in the Gubkin RSU of Oil and Gas (8 people), as well as 6 Vietnamese students studying in the Institute of Asian and African Countries (MSU), who were recruited as part of the system to attract and train specialists with knowledge of Vietnamese. Interns who showed the best promise based on results were then offered employment with Zarubezhneft Group of Companies: 3 trainees were employed in the Corporate Center, and 5 trainees were employed in Subsidiaries.

Training programs are implemented in the fuel and energy industry of operating countries on a permanent basis:

- in the Gubkin Russian State Oil and Gas University, the Company also provides training for Serbian engineering students who are the children of Group employees in Bosnia and Herzegovina;
- more than 30 children of Russian specialists who work in JV Vietsovpetro undergo target training in industry-specific universities in the Russian Federation.

The engagement of young specialists in the Group of Companies provides for the identification and professional development of promising young people. Zarubezhneft JSC assists in the preparation of Russian students of Russian specialists from JV Vietsovpetro in higher educational institutions of the Russian Federation.

In 2017, 16 business units of Zarubezhneft admitted students from 11 Russian universities, most of whom were from Moscow State University of International Relations and Gubkin Russian State University of Oil and Gas (11 and 9, respectively). Students who complete the internship continue their studies in the following areas:

- foreign regional studies (Vietnam);
- international law;
- oil and gas industry and energy policy issues;
- international oil and gas business and the development of Arctic resources.



## Programs of cooperation with higher educational institutions

Employees of Zarubezhneft Group of Companies increase their qualifications at higher educational institutions annually in various training programs in oil and gas production, economics, management, development of oil and gas fields, well workover, financial management, budgeting, monitoring oil and gas companies, mining and treating oil and gas, and many others.

Since 2016, Zarubezhneft JSC has offered the opportunity for the faculty members of leading Russian universities to undergo training in various Company structural divisions. Zarubezhneft JSC had three trainees from Gubkin Russian State University of Oil and Gas from 2016–2017, and two postgraduates from Lomonosov Moscow State University, on the following issues:

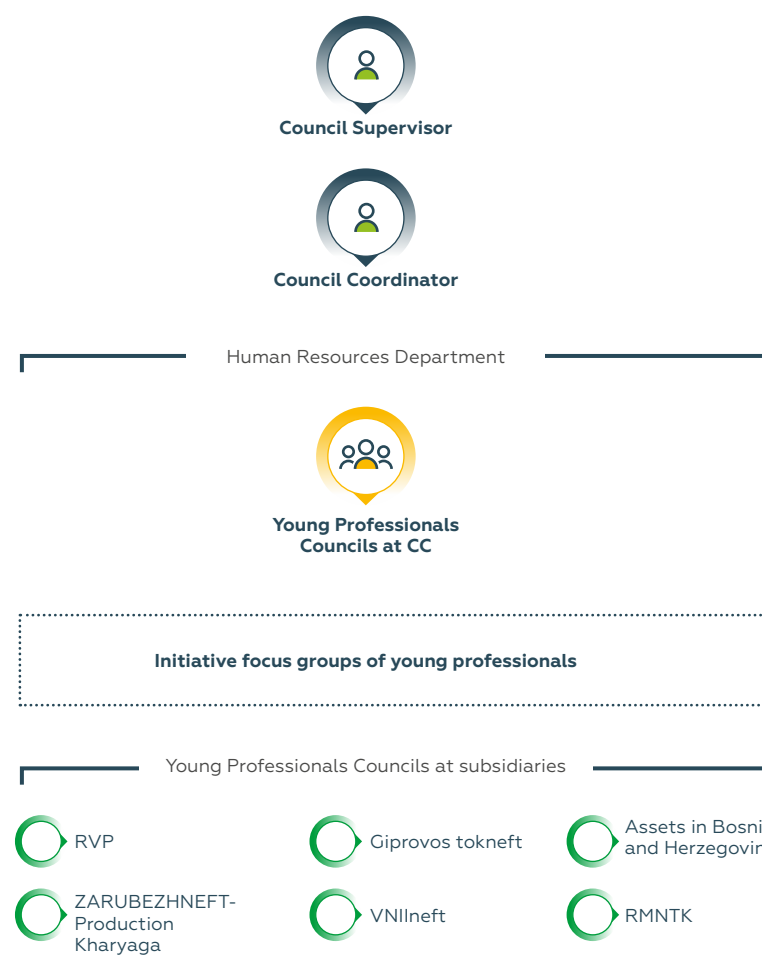
- "Modern Methods of Increasing Oil Recovery: Optimization and Evaluation of Efficiency (Upstream Stage)";
- "Regulatory Acts in Innovative Development at Zarubezhneft JSC";
- "Modern Aspects of Respectable Work on the Example of Zarubezhneft JSC";
- "Development Trends of Associated Petroleum Gas Markets";
- "Engineering Protection of Pipeline Systems from Hazardous Geological Processes Onshore and Offshore."

**Since 2016, Zarubezhneft JSC has offered the opportunity for the faculty members of leading Russian universities to undergo training in various Company structural divisions.**



**Young Professionals Councils**

STRUCTURE OF THE YOUTH ORGANIZATION AT JSC ZARUBEZHNEFT GROUP OF COMPANIES



In 2017, the Young Professionals Councils continued their systematic operations (effective from 2013) as a collegial social and professional association of active youth members. The Council's activities are integrated in the Company's personnel policy and address the following issues:

- help adapt and involve young workers in production and social activities;
- form an active stance and loyalty to the Company;
- unites young people, increases the effectiveness of communication among employees of different generations;
- forms a sense of belonging for young workers in the context of the Company's overall goals; involving young people in teamwork;
- develops innovative, research and design activities;
- promotes a healthy lifestyle;
- supports the creative initiatives of young people.

In 2017, the Young Professionals Councils developed their key short-term operation principles:

- **Regulations** – youth policy basis and mechanisms were established and documented.
- **Replication** – youth policy principles and objectives are adopted within Zarubezhneft Group; seven youth councils continued their work within the Company.
- **In-house functions** – the youth movement fulfills several key functions in the Company.
- **Engagement** – youth is an active participant of the processes and changes taking place in the Company; youth is considered an “agent of change.”
- **Succession** – the group of young professionals is committed to involving new youth movement participants and maintaining the connection between personnel generations.

In March 2017, a creative session was held for Zarubezhneft's young personnel for the first time in the Company's youth policy history. Increasing loyalty and efficient corporate cooperation aspects were addressed during the session. This unified platform gathered together the most active representatives of the youth movement from the Headquarters, “JC “RUSVIETPETRO,” ZARUBEZHNEFT-Production Kharyaga LLC, VNIIneft JSC, Giprovostokneft JSC and RMNTK Nefteotdacha. The session results and feedback have shown that such events are of great importance for attracting new youth into the association, developing a collective judgement and preparing improvement-oriented proposals.

**Scientific and engineering competition**

The Company annually organizes its Scientific and Engineering Competition of young specialists, which has become one of the Company's methods for increasing the effectiveness of technical and process solutions. The Competition program features five sections involving 50 projects developed by young personnel from the Corporate Center, Russian segment subsidiaries and subsidiaries located in Vietnam and Republika Srpska (Bosnia and Herzegovina).

From 2013 to 2017, more than 200 young employees took part in the Competition and presented more than 180 innovative projects designed to find solutions for Zarubezhneft's key production and organizational objectives (more information about the Competition is presented in Innovative Activity).

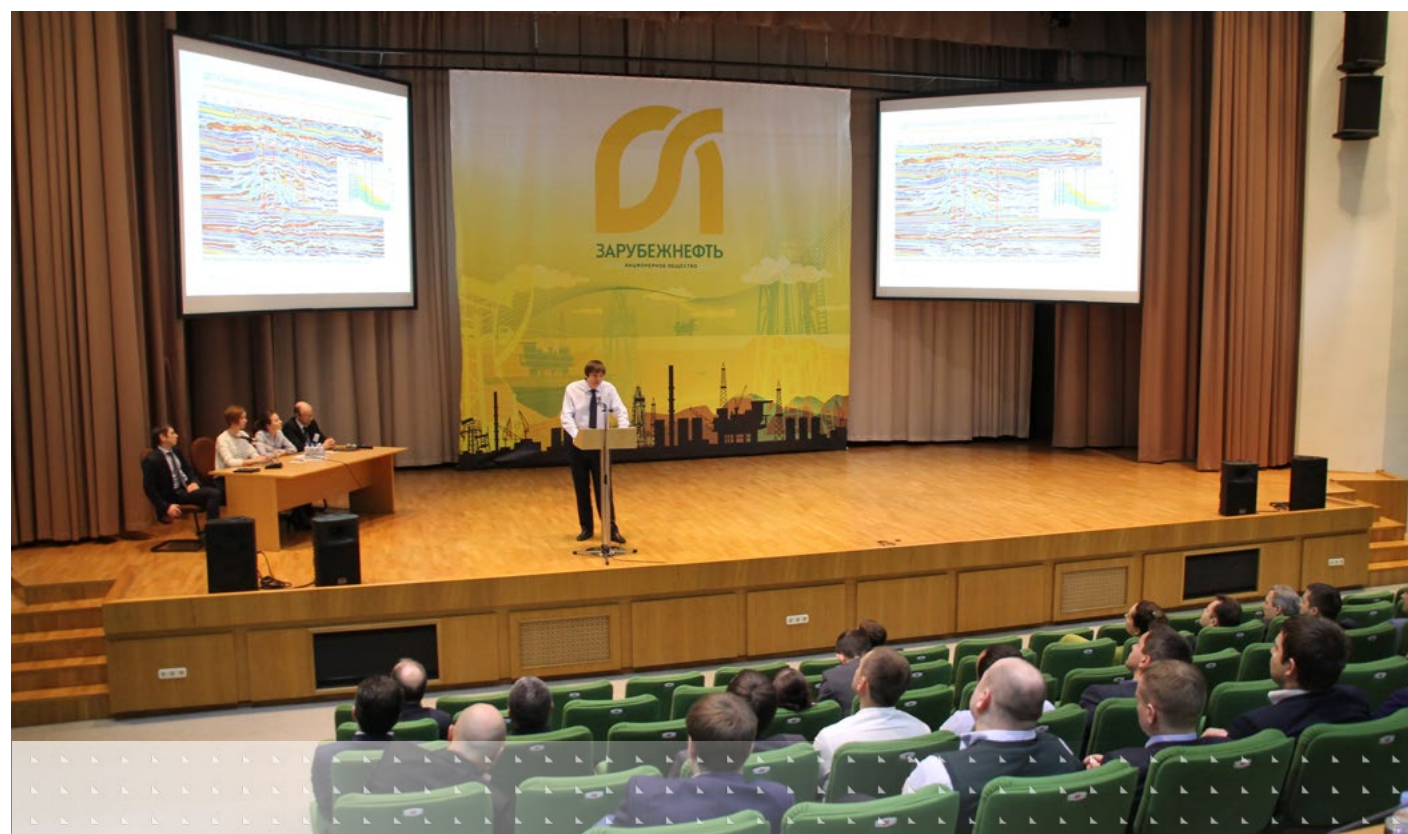
**Development of corporate sports**

The most memorable sporting event of 2017 was the “Semicentenary Cup” corporate futsal tournament in honor of Zarubezhneft's semicentenary celebration. It was held on July 01 at the Cherenkov Spartak Academy, and was arranged by the Young Professionals Council.

It was the first time such a large-scale tournament has ever been held within the Company. Teams from the Headquarters and following subsidiaries were invited for the tournament: ZARUBEZHNEFT-Production Kharyaga LLC, “JC “RUSVIETPETRO,” VNIIneft JSC, Giprovostokneft JSC, and a combined team from RMNTK Nefteotdacha and Zarubezhneftestroyontazh. The tournament, held as a gala match where teams of Zarubezhneft management and the Ministry of Energy of Russia met, was a resounding success.







### Brainstorming

At the end of the reporting year, a brainstorm session was held among the Young Professionals Councils of Zarubezhneft GC on the development of digital tools within the Company's information policy, which enabled them to collect proposals and ideas on the possibilities of the development of existing information channels or the introduction of new tools.

Such activities are focused, first and foremost, at resolving the current issues the Company is facing, introducing new proposals in line with the best practices, and also increasing the level of internal communications.

### Volunteerism

Charity events, in which all Company personnel participated, were held by young personnel throughout 2017. In May, the Young Professionals Council together with VNIIneft and JC RUSVIETPETRO personnel congratulated Zarubezhneft's veterans with Victory Day (Victory in the Great Patriotic War, 1941–1945). In June, the Council held its traditional charity event in honor of Children's Day, where young Zarubezhneft personnel renovated and landscaped the Lyubertsy infant orphanage area.

In autumn, the Company's young personnel joined the Youth Council movement under the Ministry of Energy of Russia, and took part in a Community Cleanup Day. At the end of the year, they also arranged and held, with support from the Company's management and personnel, two charity events for homes for senior citizens and the disabled.

The Young Professionals Councils wrapped up the reporting year with more good deeds, including their traditional New Year's holiday for pupils of the Lyubertsy children care center, where they held a fun performance for the children and gave them sweet presents.

## PERSONNEL TRAINING AND DEVELOPMENT

Highly qualified personnel are the most important Company asset for its competitive advantage, and help the Company develop dynamically from year to year.

The Zarubezhneft JSC training system is designed to provide an increase in professional and technical competences among employees, and also fulfill mandatory state requirements for the level of training of oil and gas industry personnel in the field of industrial safety, occupational safety, and corruption control.

The Company utilizes a full range of modern training types, forms and methods. Training is conducted on the basis of the best Russian and foreign organizations involved in educational activities, corporate training centers for retraining programs. The Company focuses on long-term and short-term training, and business education (special training programs, skills training). Employees are given the opportunity for full-time, correspondence and distance learning, including specialized courses on the basis of the WebTutor automated system. As part of the implementation of the Company's long-term development program, the following training is offered:

- corporate training in management and professional training programs in accordance with priority goals and objectives to develop corporate, managerial and professional competencies;
- professional and technical education to develop the knowledge, abilities and skills required to perform functions;
- compulsory education in accordance with the requirements of government agencies and the laws of the Russian Federation, supported by relevant documents.

The Corporate Programs Menu is used to plan and implement corporate training, which includes training programs for senior managers, middle managers and specialists, staff reserve and young professionals, to help increase the level of employee qualifications.



The development strategy of the personnel training system is based around a unified knowledge management system to improve the level of corporate culture, development and personnel incentives. The key area of the employee training system is the development of major professional and technical competencies in geology, development, examination, oil and gas production, and project management, based on its own corporate Schools of Petroleum Engineering and Project Management.

The School of Petroleum Engineering provides:

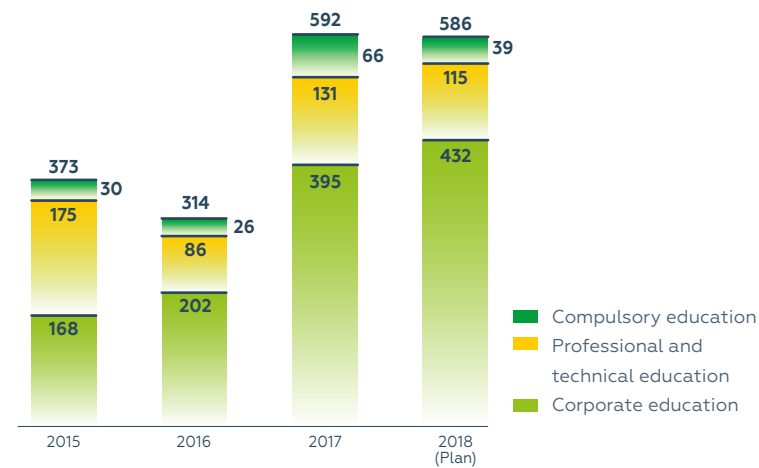
- training courses and educational materials on production and technology programs;
- courses with a class size of 146 (Corporate Center subsidiary personnel participate in the training);
- regular additions to the corporate knowledge base.

In the Project Management School operating on the basis of the International Business School:

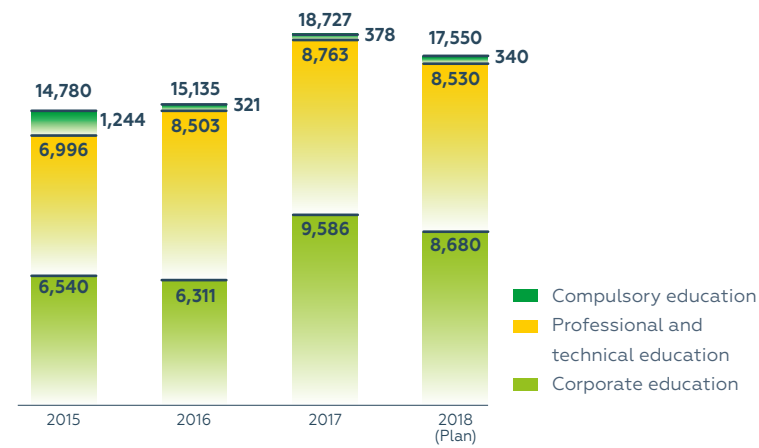
- courses with a class size of 174 (Corporate Center subsidiary personnel participate in the training);
- not only external, but also Company lecturers are actively involved;
- after a full evaluation, attendees earn state MBA diplomas.



THE DYNAMICS OF COMPANY PERSONNEL TRAINED, PERSONS



STRUCTURE OF TRAINING COSTS, THOUSAND RUBLES



The Experts Institute was created in 2017 to implement the Company's strategy to introduce and spread its knowledge and skills on key technological competencies in geology and development. Its main objectives are:

- the determination of key competencies in geology and development;
- the determination of shortcomings, ways and methods for competency development;
- formation of the Company's Expert team;
- development of the competency development program.

Zarubezhneft JSC actively collaborates on the training, further training and training of personnel at leading higher educational institutions:

- Gubkin Russian State Oil and Gas University;
- Ukhta State Technical University;
- Nevelsky Maritime State Institute;
- Moscow State University of Foreign Affairs, Ministry of Foreign Affairs of the Russian Federation;
- Samara State Technical University;
- Chelyabinsk State University;
- Tyumen State Oil and Gas University;
- NRU Higher School of Economics;
- Usinsk State Technical University;
- Bauman Moscow and others.

PERSONNEL RESERVE

A candidate pool is maintained in the Company to increase the in-house talent pool and ensure in-house management personnel capable of ensuring succession, consistency and high performance in the achievement of strategic targets. The candidate pool ensures prompt management personnel rotation within the Group, and is intended for the professional career development of key personnel.

In 2017, the candidate pool was formed from Zarubezhneft JSC Headquarters key personnel and subsidiary personnel through self-nomination and references provided by business unit managers. In 2018, the Company plans to improve personnel reserve operations and create a unified personnel reserve system and personnel rotation in Zarubezhneft Group of Companies. The introduction of a unified personnel reserve system will help quickly replace target positions in the event of vacancies, rotate mobile reservists for new projects, as well as between subsidiaries, and increase the transparency and fairness of personnel decisions.

To maintain the continuous development of its personnel reserve, the Company implements a concept of reservists modular training on the basis of its own school of leadership development and management potential ("School"). The main tasks of the school are the following:

- development of key high-potential employees;
- improvement of administration and management culture;
- improvement of business and personal qualities;
- improvement of team efficiency.

In the reporting year, 46 reservists took part in training activities under the following programs: system thinking, cross-functional management, team and personal leadership, in order to help develop management skills and personal qualities. For the additional development of reservists and implementation of individual development plans, programs for the development of management and corporate competencies in the workplace have also been developed with self-study and self-development goals, and an electronic library with downloadable e-books.

**46**

**reservists**

took part in training activities within the school of leadership development and management potential





# PERSONNEL ASSESSMENT

**ANNUAL PERSONNEL ASSESSMENTS SYSTEMICALLY AND OBJECTIVELY EVALUATE THE PERFORMANCE INDICATORS OF EMPLOYEES, IDENTIFIES HIGH-POTENTIAL EMPLOYEES, STIMULATES PERSONNEL TO BOOST LABOR RATES AND PROFESSIONALISM, AND DETERMINES AREAS FOR BOTH PROFESSIONAL AND PERSONAL DEVELOPMENT.**

Employees are evaluated according to the following indicators:

- assessment of the achievement of individual goals by employees (KPI);
- assessment of the level of professionalism (development of professional knowledge and skills, level of performance of functional duties);
- assessment of the development level of corporate and management competencies.

Evaluation activities are carried out throughout Zarubezhneft Group of Companies to implement its unified personnel policy in the field of personnel assessment.

According to the results of the annual assessment of employees who achieve positive results, the level of wages was revised in accordance with the unified system of wages, plans for the development of employees for the upcoming year, and the procedure for enrollment in various personnel reserve categories.

The Company uses the WebTutor automated personnel management system to ensure the automation of training and evaluation of personnel. Currently, various automated assessment procedures are carried out regarding the professional and personal development of employees, and a training portal has been developed to include all types of training implemented in the Company. To ensure personnel training planning, an online training application process has been introduced to reduce time spent generating and reviewing training arrangement proposals submitted by personnel. In 2018, the Company plans to further develop its WebTutor automated personnel management system, improve the processes of personnel evaluation and training, continue its work on the integration of the system in subsidiaries, as well as introduce the new "Talent management and career development" module.

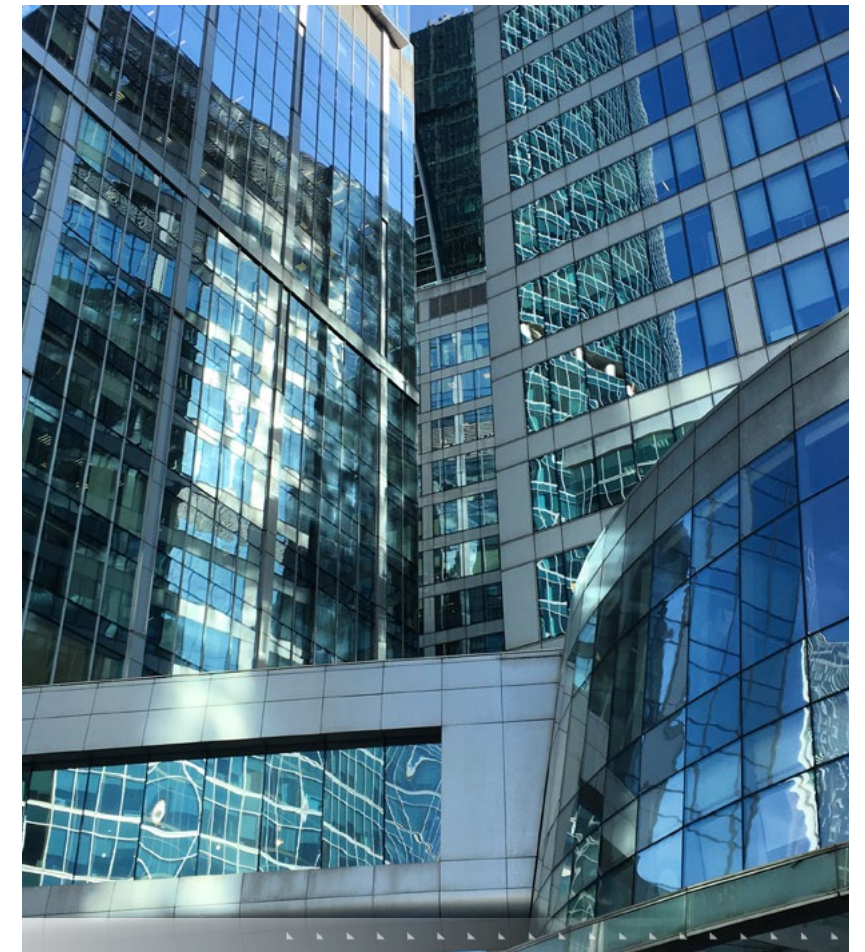
# IMPLEMENTATION OF PROFESSIONAL STANDARDS

**ZARUBEZHNEFT IS A MEMBER OF THE COUNCIL FOR WORKFORCE SKILLS IN THE OIL AND GAS INDUSTRY, FORMED BY RESOLUTION OF THE NATIONAL COUNCIL ON VOCATIONAL QUALIFICATIONS UNDER THE PRESIDENT OF THE RUSSIAN FEDERATION DATED MARCH 27, 2015, TO FORM AND SUPPORT THE WORKFORCE SKILLS SYSTEM IN THE OIL AND GAS INDUSTRY.**

To implement the Professional Standard Introduction Plan approved in accordance with Decree of the Government of the Russian Federation No. 584 dated 06.27.2016 and Directives of the Government of the Russian Federation No. 5119п-П13 dated 07.14.2016:

- a list of professional standards to be applied is available;
- the need for the professional training of employees is determined, and plans for training employees are articulated;
- changes were made to the local regulations of the Company, as well as the list of documents to be changed in connection with the professional standards to be applied.

By the end of 2017, 68 professional standards had been introduced within the Group with mandatory requirements in terms of the description of positions, skill or qualifications, and are used in the Group according to employer decisions. Corporate Headquarters has initiated the introduction of professional standards in subsidiaries.





# MOTIVATION PROGRAMS

## LABOR REMUNERATION AND SOCIAL POLICY

One of the priority tasks of the personnel policy of Zarubezhneft JSC is the formation of a team of professionals capable of solving the Company's most ambitious tasks. Zarubezhneft JSC consistently works to improve the following areas of its material incentives system:

- the improvement of the system of remuneration and motivation of employees;
- monitoring the best practices for the remuneration structure of key managers;
- monitoring the level of wages in priority specializations and professions.

Since 2013, Zarubezhneft Group of Companies has used a unified system of remuneration. The system regulates the procedure for determining the amount of wages for employees on the basis of a single set of grades, reflects the business interests and priorities of the Company, and ensures the adjustment of the amount of annual remuneration of employees with the achievement of key performance indicators (KPI). In 2017, the transition of subsidiaries of Zarubezhneft Group of Companies to a new system of remuneration was completed.

Zarubezhneft JSC adopts a three-tier motivation system to attract and retain key executives. All employees are guaranteed a fixed salary, allowances and bonuses in accordance with the law. Short-term bonuses are determined on the assessment of the achievement of local goals—monthly bonus awards, and bonus awards at the end of the year based on KPI results. The Company's long-term motivation system is designed to stimulate the achievement of the Group's Strategic Priorities. In 2017, the long-term motivation system was suspended due to the development of a new motivation system.

Zarubezhneft JSC companies maintain the average level of wages on the industry labor market. Growth of the average monthly salary of employees of Zarubezhneft Group of Companies is provided by the annual indexation of official salaries and tariff rates.

Minimum wage shall not be lower than the subsistence level in the region of activity.

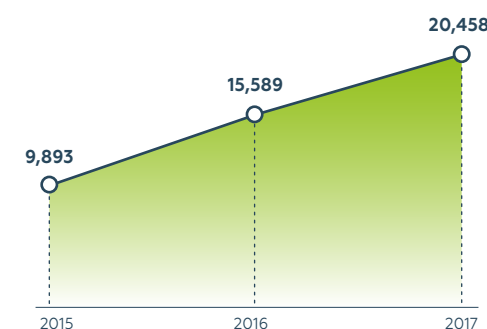
### THE STRUCTURE OF PERSONNEL COSTS, OPERATING COUNTRY<sup>1</sup>, %

Operating country	2014		2015		2016		Fact 2017	
	FOT	VSH	FOT	VSH	FOT	VSH	FOT	VSH
<b>TOTAL FOR THE GROUP OF COMPANIES</b>	<b>91</b>	<b>9</b>	<b>90</b>	<b>10</b>	<b>89</b>	<b>11</b>	<b>88</b>	<b>12</b>
Russia	92	8	92	8	94	6	92	8
Socialist Republic of Vietnam	94	6	93	7	82	18	77	23
Republika Srpska (Bosnia and Herzegovina)	80	20	81	19	84	16	89	11
Republic of Cuba	96	4	94	6	94	6	93	7

### SOCIAL PAYMENTS BY OPERATING COUNTRY

Operating country	Unit of measurement	Fact		
		2015	2016	2017
Russia	thousand Rubles	242,828	285,904	582,144
Socialist Republic of Vietnam	thousands USD	8,441	11,755	28,782
Republika Srpska (Bosnia and Herzegovina)	thousands of Euros	3,617	3,292	1,526
Republic of Cuba	thousands of Euros	56	74	87

### DYNAMICS OF SOCIAL PAYMENTS PER EMPLOYEE, RUBLES



Each subsidiary forms its own social package based on the preferences of its employees on the basis of the approved list of social guarantees and compensation. The main components of the social package:

- creation of conditions for a healthy lifestyle, maintenance of the corporate sports complex;
- healthcare, including voluntary health insurance for employees and their families and non-working retirees;
- financial support for veterans and non-working retirees;
- financial assistance for employees (for family reasons);
- remuneration in connection with departmental and corporate awards.

In its efforts to maintain employee health, the Company organizes vacations in the sanatorium and spa resorts of the Republic of Crimea. Employees are given the opportunity to purchase vouchers for themselves and their family members to be partially compensated by Zarubezhneft JSC. Particular attention is paid to families with children under 14.

The Company continues to operate its corporate parity program for non-state pensions. In accordance with this program, each employee of Zarubezhneft JSC can enter into an individual pension agreement with NSPF GAZFOND and deduct a certain % of their official salary on a monthly basis to be matched by the Company, but not more than 10%. In 2017, the volume of social benefits per 1 employee in the Group of companies increased by 31%.

## UNION CONTRACTS

In connection with the introduction of a unified social policy, including a unified list of benefits and the procedure for their provision, subsidiaries are gradually transitioning away from collective agreements, as the new approach includes a broader list of guarantees and compensations than in separate collective agreements in subsidiaries. In 2017, collective agreements continued to operate in Arktikmorneftegazrazvedka JSC and Giprovostokneft JSC. Collective agreements cover 10% of Group employees.

## NON-FINANCIAL MOTIVATION

To encourage employees and labor collectives to make significant contributions to the development of Zarubezhneft JSC, the Company has established awards and titles: Honorary Worker of Zarubezhneft JSC, Veteran of Zarubezhneft JSC, Honorary Diploma of Zarubezhneft JSC, Gratitude of Zarubezhneft JSC.

In 2017, 329 employees of Zarubezhneft Group of Companies were awarded state, departmental and corporate awards.

### SOCIAL PAYMENTS IN THE COUNTRIES OF PRESENCE

Types of awards	Number of people awarded	including	
		Workers of subsidiary companies	Foreign citizens
Departmental awards	70	44	-
Corporate awards	259	196	38
<b>TOTAL</b>	<b>329</b>		

<sup>1</sup> Personnel costs comprise Payroll (FOT) and social payments (VSH). VSH include financial assistance, pension benefits, benefits to single parents, maternity leave, travel allowances, etc.





055



OCCUPATIONAL  
HEALTH AND  
INDUSTRIAL SAFETY





# INDUSTRIAL SAFETY STRATEGY

THE COMPANY'S PRODUCTION ACTIVITIES INCLUDE THE INVOLVEMENT OF A LARGE NUMBER OF SPECIALIZED ENTERPRISES CARRYING OUT LARGE SERVICE VOLUMES IN THE FIELD. AT THE END OF 2017, INVESTMENT COSTS TO ENSURE SAFE WORKING CONDITIONS FOR ZARUBEZHNEFT GROUP OF COMPANIES AMOUNTED TO 458 MILLION RUBLES. MOST OF THESE FUNDS WERE USED FOR THE IMPLEMENTATION OF THE COMPANY'S GAS PROGRAM.

The Company's strategic guidelines in the field of occupational health, industrial safety and environmental protection are set out in the policies and standards of Zarubezhneft JSC on occupational health, industrial safety and environmental protection, which are in force in all subsidiaries.



## PRIORITY AREAS OF DEVELOPMENT

- Implementation of the environmental management system and management system in the field of professional safety on the requirements of international standards ISO 14001: 2015 and OHSAS 18001:2007 (certificates obtained).
- Management of occupational health, safety, environmental protection, security and social responsibility.
- Identification and assessment of risks in the field of health protection, safety and environmental protection.
- Elimination and minimization of identified risks.
- Implementation of opportunities for the continuous improvement of key KPIs.
- Building a corporate safety culture based on the principles of commitment and participation of all employees.
- Motivating staff to achieve the best results.
- Ensuring the competence of personnel in matters of occupational health, safety, environmental protection, security and social responsibility.
- Stimulate contractors to improve management of occupational health, safety, environmental protection, security and social responsibility.
- Consultations with Company personnel and the personnel of contractors working at the Company's production facilities on issues of industrial and environmental safety, and labor protection.
- Promotion of the best industry practices, implementation of the best available technologies, implementation of effective innovative projects.
- Participation in the social activities in operation regions, contributing to their socio-economic development.
- Compliance with the norms of social responsibility during the implementation of foreign projects in accordance with the priorities of the foreign policy of the Russian Federation.
- Informing the public on the results of Company operations.

## LONG-TERM GOALS

Prevent injury and ill-health, environmental pollution

Make rational use of natural resources, materials and energy

Respect the interests and rights of the population in regions of presence

Comply with the norms of Russian and international legislation, fulfill obligations to local communities, government authorities, foreign and Russian business partners, and other stakeholding parties

Continuously improve the Company's health, safety and environmental protection management system.

### ACCIDENT FREQUENCY RATE

Indicators	2015	2016	2017
Total number of accidents related to production	12	15	18
Total number of fatal accidents	0	1	0
<b>LTIFR</b>	<b>1.27</b>	<b>1.38</b>	<b>0.71</b>

### CONTRACTING ORGANIZATIONS ACCIDENT FREQUENCY RATE

Indicators	2015	2016	2017
Total number of accidents related to production	16	13	11
Total number of fatal accidents	1	1	1

The increase in the number of accidents related to production, with the simultaneous reduction of the LTIFR indicator for 2017 by almost 49%, indicates an increase in the monitoring of registration for all types of accidents, and a decrease in the severity of accidents.

Since 2017, the Company has been guided by its «Regulations on the management of contractors in the field of health, labor, environment, safety and social responsibility,» according to which work with contractors is carried out at all stages of interaction, including:

- the evaluation of a potential contractor's organization (member of procurement activities) for compliance with the requirements of health protection, safety and environmental protection (during procurement);
- selection of contractors taking into account the criteria of health protection, safety and environmental protection (based on the results of procurement procedures);
- work authorization;
- monitoring and control during the course of works;
- feedback during the course of works;
- post-work evaluation.



# REDUCING THE RISK OF VIOLATIONS IN OCCUPATIONAL SAFETY AND HEALTH

THE COMPANY OPERATES IN FULL COMPLIANCE WITH THE REQUIREMENTS OF LEGISLATION, INCLUDING COMPLIANCE WITH RECENT AMENDMENTS TO FEDERAL LAW NO. 116-FZ "ON THE INDUSTRIAL SAFETY OF HAZARDOUS PRODUCTION FACILITIES" AND OTHER REGULATIONS OF THE RUSSIAN FEDERATION, INCLUDING THE FULL IDENTIFICATION OF HAZARDOUS PRODUCTION FACILITIES AMONG RUSSIAN ASSETS WITH THE ASSIGNMENT OF HAZARD CLASSES AND THEIR SUBSEQUENT RE-REGISTRATION.

The Company's production activities also take into account the latest changes in legislation and the regulatory requirements of the countries of operation, which allow for timely management decisions and corrective actions in subsidiaries.

In the Disclosure of Information section on the Company's official site, the Culture of Safe Production section was introduced to cover corporate programs, brochures, memos and information about various activities in the field of health protection, industrial safety, asset integrity and environmental safety both within the framework of Zarubezhneft Group of Companies and contractors and partners.

The Company launched the "feedback" and "ask a question" feedback forms on its official website to provide for feedback between management and employees on occupational safety and health protection. Reports are received by the relevant structural units and taken into account in the formation of the improvement program. To transmit urgent information about on-site environmental and

industrial accidents, a safety hotline is made available. The Corporate center also launched its "Got an idea!" system to field new ideas from employees.

In 2017, Zarubezhneft JSC's occupational health, industrial safety and environmental protection management system was successfully certified for compliance with international standards ISO 14001:2015 Environmental Management System and OHSAS:18001. The scope of certification includes oil and associated gas exploration, production, treatment and transportation. The certification framework includes "JC "RUSVIETPETRO" and ZARUBEZHNEFT-Production Kharyaga LLC.

Zarubezhneft JSC has developed and approved a long-term program of corporate training in the field of health protection, labor, environmental protection, and safety and social responsibility for 2017–2019, to help develop Leadership and a culture of safe production.



In the field of occupational safety, subsidiaries regularly train and evaluate:

- Industrial safety;
- Occupational safety and first aid;
- Leadership in health, safety and environmental protection. The Goal Is Zero;
- Leading security audits;
- Assessment and identification of health, safety and environmental risks;
- Management of contractors in health, safety and environmental protection;
- Safe operations of electrical installations;
- Fire safety basics.

All personnel of the Company and its subsidiaries are insured under the VMI program in SOGAZ LLC. In 2017, employees of the Company were provided with safety footwear, means of individual protection for respiration and protective clothing in accordance with the uniform corporate style of the Zarubezhneft JSC civil code. All necessary plans to prevent accidents and their consequences (OSRP, ERAP, ERP) have been developed and agreed within subsidiaries.

The Company conducted statutory medical examinations of employees and a special assessment of working conditions in the workplace. Starting in 2017, special medical examinations, vaccinations and instructions have been organized for employees who go on foreign business trips.

In 2017, the implementation of the 12 Life-Saving Rules production program was continued, where special attention was paid to compliance with safe methods of work, the violation of which creates the risk of serious injuries or death.



## PRODUCTION CONTROL

The employees of subsidiaries are guided by the relevant legislative and regulatory documents of the Russian Federation and regions of operation, as well as corporate regulations, including the procedure of Risk Management in the Field of Labor Protection, Industrial Safety and Environmental Protection during production control as part of industrial security and environmental protection.

The procedure is an integral part of the Corporate risk management system and regulates the risk management procedure:

- violation of the integrity of objects (emergency situations);
- injury of employees, contractors or visitors;
- negative environmental impact during operations;
- negative impact on the environment as a result of technological processes.

In Zarubezhneft JSC and its subsidiaries, permanent production control commissions have been established and approved, and operate in accordance with the schedule.



## EMERGENCY PREPAREDNESS

In 2017, the Company implemented a set of measures aimed at maintaining emergency preparedness:

- inspection of protective structures and training of staff responsible for civil defense and emergency situations in training centers;
- timely development and coordination with state supervisory authorities of plans for the elimination of emergency oil and oil product spills in the field;
- training and certification of freelance emergency rescue units in the field;
- signing of contracts with specialized professional emergency rescue units of gas rescue service and well blowout safety to carry out exercises at least twice annually.

In 2017, Zarubezhneft JSC subsidiaries held monthly "Evacuation, Rescue and Fire Extinguishing in Emergency Situations" open fire exercises.



06



ENVIRONMENTAL  
SAFETY





# ENVIRONMENTAL SAFETY STRATEGY

ZARUBEZHNEFT JSC DEFINES THE ENVIRONMENTAL SAFETY OF ITS PRODUCTION AS THE BASIS OF ITS ECONOMIC STABILITY. THE COMPANY CARRIES OUT ITS ACTIVITIES STRICTLY IN ACCORDANCE WITH THE PRINCIPLES OF RESPECT FOR THE ENVIRONMENT.

Prior to the start of any new large-scale project, Zarubezhneft Group carries out an environmental impact assessment, i.e. plans to manage the impact of the upcoming project activities by using the best available technologies, and the implementation of measures to minimize negative impacts from the production activities of Zarubezhneft Group of Companies.

## ENVIRONMENTAL POLICY PRIORITIES

Within the framework of the program of measures for environmental protection and restoration, the Russian segment of Zarubezhneft JSC annually implements the following environmental protection measures:

- ensuring the reliability of oil-field equipment, including pipelines;
- environmental training of personnel;
- protection of air, water and land resources;
- biological diversity preservation;
- handling and disposal of industrial waste;
- industrial environmental control;
- monitoring of environmental conditions and the impact of production facilities;
- prevention and elimination of consequences of pipeline accidents;
- the construction of new and reconstruction of previously built environmental facilities.



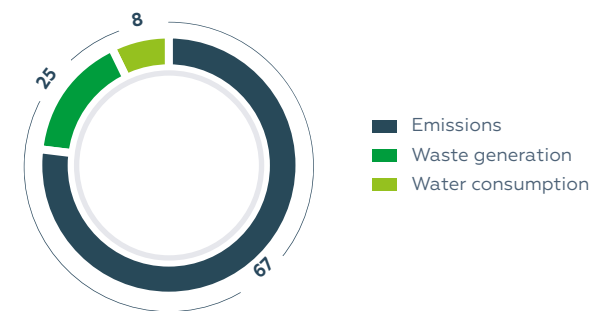
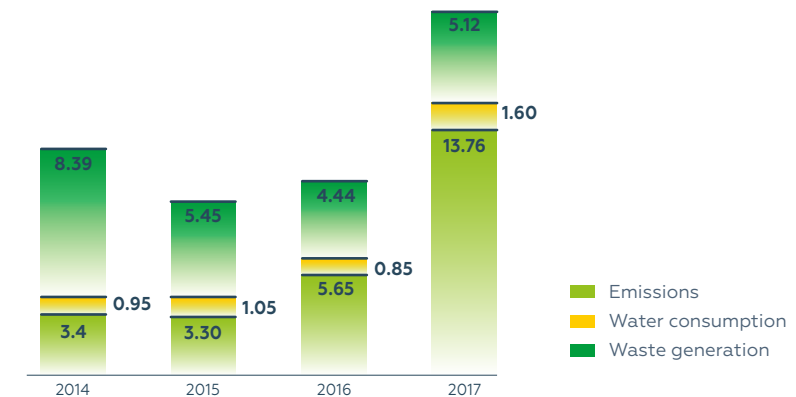
### Zarubezhneft JSC takes 5th place in the Rating of Environmental Responsibility among Russian oil and gas companies

In 2017, the results of the environmental responsibility rating of Russian oil and gas companies were summed up. The rating was initiated by the analytical and CREON consulting group for the Fuel and Energy Sector and the World Wildlife Fund (WWF), with the participation of the National Rating Agency and the Ministry of Natural Resources of Russia within the UN project.

The organizers noted the significant openness of Zarubezhneft JSC in the provision of structured and documented information. In 2017, Zarubezhneft JSC was the 5th in the Environmental Rating of Russian Oil and Gas Companies.

During the reporting year, environmental protection measures in the Russian Federation totalled 154.79 million Rubles, which is 8.5% more than in 2016.

ENVIRONMENTAL IMPACT, TONS/THOUSAND TONS OF OIL



In 2017, reclamation of disturbed lands and sludge pits was not carried out. Spills of oil and oil products by Zarubezhneft JSC companies were not recorded during the reporting period.

Regular monitoring of the air, soil, snow, surface water and bottom sediments on the territories of all Zarubezhneft Group of Companies and all licensed areas was carried out in the framework of local environmental monitoring and industrial environmental control. The measurements were then compared with baseline environmental specifications. The specified maximum permissible concentration limits were not exceeded in the Russian Federation during the period under review.

As concerns the field of environmental protection, subsidiaries regularly trained managers under the "hazardous waste management" program, developed and updated regulatory environmental documentation, conducted environmental audits, identified environmental risks and obtained all the necessary licenses and permits for emissions and discharges of pollutants and limits on waste disposal.

ENVIRONMENT PROTECTION INVESTMENTS, MILLION RUBLES

Indicators	2014	2015	2016	2017
<b>FIXED CAPITAL EXPENDITURES FOR ENVIRONMENTAL PURPOSES</b>	<b>106.57</b>	<b>41.36</b>	<b>97.80</b>	<b>270.22</b>
Payments for negative environmental impacts	4.36	19.89	27.283	28.509
Fines for environmental pollution	0.38	0.937	0.09	0.32
<b>CURRENT ENVIRONMENTAL PROTECTION COSTS INCLUDING:</b>	<b>441.12</b>	<b>196.92</b>	<b>142.63</b>	<b>154.79</b>
water body protection	6.29	3.00	4.58	7.68
atmospheric air protection	289.77	1.58	1.65	3.5
land resource protection against production and consumption waste	133.09	155.00	111.66	131.52
soil reclamation	11.18	31.19	12.99	12.09
other environmental areas	0.86	6.18	11.75	0.0



# ENERGY EFFICIENCY



The following formation principles were applied in the Company's power conservation and energy efficiency improvement program for 2017:

- Implementation of a «lean production» policy based on the introduction of measures with a payoff period of 3-5 years.
- Development of measures intended to decrease specific energy costs per unit of production, oil containing fluid treatment and formation pressure maintenance in the Upstream segment, raw materials refining in the Downstream segment, and a decrease of annual power resource consumption in the Service and other assets segment.
- Engagement of all personnel to help conserve power resources.
- Engagement of secondary power resources and production waste (APG, spent oil waste) in the production process.

The priority of developing and implementing a program for 2017 is to decrease the self-cost of commercial products in production business-segments of the Group of Companies, and as a result increase competitiveness on the domestic and world markets. The program is designed to decrease specific power resource costs for the production of oil-containing fluid (OCF) volume in the oil producing subsidiaries of the Russian segment by 2.5% compared to the level of 2015. The joint venture Vietsovetpetro and oil refining enterprises of the foreign segment also participated in the implementation of Zarubezhneft Group of Companies' program. Brod Refinery JSC, Modriča Oil Plant JSC, and ZARUBEZHNEFT-Production Kharyaga LLC joined the implementation of the power conservation and energy efficiency increase program for Zarubezhneft Group of Companies in 2017 for the first time.

The energy resource saving activities and program measures introduced in all Group subsidiaries in 2017 made it possible to reduce specific energy consumption for floating oil production to 2015 levels in the Upstream segment, and stabilize specific energy consumption, thus increasing the energy saving indicators of each company separately. Cumulative economic benefits from the energy saving program implemented in 2017 was equal to 617 million Rubles, or 23,219 MTOE, including:

- savings in the Russian segment equal to 447 million Rubles (13,084 MTOE)
- JV Vietsovetpetro – 53 million Rubles (4,192 MTOE);
- Brod Refinery JSC and Modriča Motor Oil Plant JSC – 117 million Rubles (5,943 MTOE).

# POLLUTION REDUCTION AND WASTE MANAGEMENT

INDICATORS OF GROSS EMISSIONS OF POLLUTANTS INTO THE ATMOSPHERE BY ZARUBEZHNEFT JSC IN 2017 INCREASED IN CONNECTION WITH THE TRANSFER OF OPERATORSHIP FROM THE TOTAL EXPLORATION & PRODUCTION RUSSIA COMPANY TO A ZARUBEZHNEFT JSC SUBSIDIARY.

## GROSS AIR EMISSIONS IN THE EXPLORATION AND PRODUCTION SEGMENT, THOUSAND TONS

Indicators	2014	2015	2016	2017
<b>TOTAL AIR EMISSION, INCLUDING:</b>	<b>11.308</b>	<b>11.278</b>	<b>27.483</b>	<b>32.505</b>
solid substances	0.122	0.118	0.865	0.549
sulfur dioxide	0.351	0.240	3.309	7.507
carbon oxide	3.335	3.752	9.697	8.874
nitrogen oxide	0.648	0.581	1.138	1.391
hydrocarbons (without volatile organic compounds)	4.473	4.320	8.952	10.115
volatile organic compounds	2.059	1.921	3.337	4.069
benzoperene	0.000	0.000	0.000	0.0
other gaseous and liquid	0.320	0.346	0.186	0.0

## PRODUCTION AND USE OF ASSOCIATED PETROLEUM GAS, MILLION M<sup>3</sup>

Zarubezhneft Group of Companies	Associated gas production	Associated gas utilization for auxiliary purposes	% of associated gas utilization
LLC JC RUSVIETPETRO	120.64	102.84	85.24
Orenburgnefteotdacha JSC	1.77	0.84	47.2
Ulyanovskneftegaz LLC	0.41	0.33	79.4
<b>TOTAL</b>	<b>122.82</b>	<b>104.01</b>	<b>84.7</b>
Reference: the following are data from ZARUBEZHNEFT-Production Kharyaga LLC production and the utilization of APG for 2017			
ZARUBEZHNEFT-Production Kharyaga LLC	204.07	49.59	24.3

In the Oil Refining and Sales segment, the gasification of technological processes to reduce the amount of sulfur oxide emissions to European Union standards continues at Brod Refinery.

One of the priority areas in 2017 was the implementation of the program of rational use of associated petroleum gas (APG).

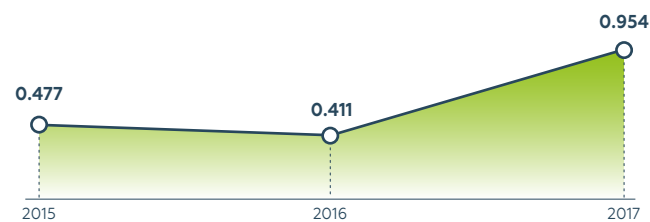


# IMPACT ON BIODIVERSITY AND DEVELOPMENT OF OPERATING TERRITORIES

## REDUCING GREENHOUSE GAS EMISSIONS

In accordance with the Recommended Practices and Guidelines for the Quantitative Determination of Greenhouse Gas Emissions by Organizations Engaged in Economic and Other Activities in the Russian Federation, Zarubezhneft JSC determined its volume of greenhouse gas emissions into the atmosphere in 2017 as a result of the production activities of its enterprises. The volume of emissions in 2017 amounted to approximately 0.954 MM m<sup>3</sup> of CO<sub>2</sub> equivalent. The increase is due to the transfer of the operator function over the Kharyaga field from the Total Exploration & Production Russia company to a Zarubezhneft JSC subsidiary.

GREENHOUSE GASES IN CO<sub>2</sub> EQUIVALENT, MILLION TONS



## WASTE MANAGEMENT

The scope of activities of Zarubezhneft JSC (exploration and production of hydrocarbons) is associated with the formation of a significant amount of drilling sludge, which belongs to the 4th hazard class.

THE STRUCTURE OF WASTE PRODUCTION BY HAZARD CLASS

Class	%
1	0.00
2	0.02
3	1.09
4	94.75
5	4.14

All waste generated in subsidiaries is transferred for further use on the basis of contracts entered into with specialized enterprises for handling, treatment and disposal at specialized sites.

At the Brod Refinery in Republika Srpska in 2017, the Company continued to implement its plans for acid sludge conversion into safe inert materials with the subsequent utilization of the conversion product for storage pond remediation.

## IMPACT ON BIODIVERSITY

In accordance with its obtained licenses for the right to use subsurface areas, Zarubezhneft Group of Companies carried out works on the search, exploration and production of hydrocarbon raw materials, as well as the development of fields, in territories not within the boundaries of specially protected natural areas. However, they can be adjacent to the boundaries of territories of traditional management of natural resources.

In 2017, subsidiaries of Zarubezhneft Group of Companies operating in the Arctic zone of the Russian Federation, ZARUBEZHNEFT-Production Kharyaga LLC and JC RUSVIETPETRO developed and approved Programs for the Preservation of Biodiversity.

During production activities on territories bordering protected areas, each employee of Zarubezhneft JSC and involved contractors is obligated to follow common rules of staff behavior. Common requirements for contractors in the field of HSE are included in all standard contracts and are mandatory.



## DEVELOPMENT OF OPERATING TERRITORIES

JC RUSVIETPETRO develops and operates deposits of the Timan-Pechora oil and gas province. Administratively, the territory of the Province is located in the Republic of Komi, and its Northern part covers the entire Eastern part of the NAD of Arkhangelsk region, with its capital city Naryan-Mar. The implementation of the Company's social policy principles in the Nenets Autonomous Area is associated with the uniqueness of this region and its special natural and climatic conditions. Environmental issues in the NAD are closely related to social issues. The preservation of the ecosystem of the region is the main condition for the life of the indigenous population—the Nenets—an indigenous group of the Russian North (about 40 thousand members). For thousands of years of living in these Northern lands, the Nenets have created and preserved their vibrant local culture. The main commercial occupation of the Nenets is reindeer herding, hunting and fishing.

Between the subsidiary of Zarubezhneft JSC, JC RUSVIETPETRO and the Administration of the NAD, an agreement on the participation of subsidiaries in the economic and social development of the NAD was signed to identify the specific areas and volumes of the Company's investments in the social infrastructure of the region.

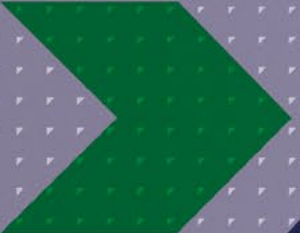




07



**APPENDICES**





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## IDENTIFICATION OF SIGNIFICANT ASPECTS

As one of the main methodological recommendation standards in the non-financial area, the Company adheres to international standard ISO 26000:2010, which defines the main topics of social responsibility: organizational management, human rights, labor practices, environment, good business practices, consumer relations, participation in the life of communities and their development.

All topics included in this standard are reflected in this Report.

To prepare the Report, a project team was formed with representatives from all stakeholding structural units of the Company. The main tasks of the project team included the clarification of approaches to the disclosure of information,

interactions with structural divisions in the course of collecting information for the Report, mapping important GRI issues, and determining the boundaries of their disclosure. The Report's preparation traditionally included the analysis of expert community feedback, study of reports on the sustainable development of comparable companies, as well as the analysis of publications in the media. The results of the study showed the importance of the description in the Report, along with management approaches, of examples of the initiatives and projects of the Company as case studies.

## GLOSSARY

**AIS** – Automated information system

**FS** – Fuel station

**AMNGR** – Arktikmorneftegazrazvedka

**JSC** – Joint-stock company

**WHP** – Wellhead platform

**IRD** – Internal regulatory documents

**VSP** – Vietsovetpetro

**HDM** – Hydrodynamic model

**GWS** – Geophysical well survey

**HFF** – Hydraulic formation fracturing

**GEW** – Geologic exploration works

**GTS** – Geological and technological survey

**AIR** – Additional item range

**VMI** – Voluntary medical insurance

**BPS** – Booster pump station

**SE** – Subsidiary entity

**LDP** – Long-term development program

**SPA** – Spare parts and accessories

**GPM IS** – Geology and production monitoring information system

**DMM IS** – Development management and monitoring information system

**RDM IS** – Remote drilling monitoring information system

**ORF** – Oil recovery factor

**KPI** – Key performance indicators

**WVO** – Well workover

**KFU** – Kazan Federal University

**Russian Development Ministry** – Ministry of Economic Development of the Russian Federation





# CONTACTS

**MOP** – Motor oil plant

**IFRS** – International financial reporting standards

**MTR** – Material and technical resources

**MPWDU** – Modular preliminary water discharge unit

**MPPS** – Multi-phase pumping station

**MET** – Minerals extraction tax

**VAT** – Value-added tax

**PIT** – Personal income tax

**R&D** – Research and development works

**OP** – Oil products

**ORF** – Oil refinery

**STP** – Scientific and technical products

**STC** – Scientific and technical center

**UN** – United Nations

**EP** – Environmental protection

**HPF** – Hazardous production facilities

**PPW** – Pilot production works

**GCRMS** – General corporate risk management system

**OH** – Occupational health

**MODU** – Mobile offshore drilling unit

**MPC** – Maximum permissible concentrations

**IDP** – Innovative development program

**APG** – Associated petroleum gas

**FPI** – Formation pressure increase

**OSCP** – Oil spill contingency plan

**ERP** – Emergency response plan

**RMNTK** – Russian inter-industry scientific and technical complex

**Rosimuschestvo** – Federal state property management agency

**RAS** – Russian accounting standards

**JC** – Joint Company

**JV** – Joint venture

**SPIMEX** – Saint Petersburg International Mercantile Exchange

**JU** – Jack-up MODU

## Oil products

**spread** – difference between the quotation of oil products and the quotation of oil for the relevant period

**SRV** – Socialist Republic of Vietnam

**SRE** – Self-regulating organization (of auditors)

**PSA** – Production sharing agreement

**NTS** – New technologies system

**TOE** – Ton of oil equivalent

**STV** – Supply/tug vessel

**TP** – Transfer pricing

**TEFS** – Technical and economic feasibility study

**PWDU** – Preliminary water discharge unit

**ECPU** – Electrical centrifugal pump unit

**Freight** – transportation rate paid for the transportation of cargo or the use of a vessel

**PPP** – Permeability and porosity properties

**KhPSA** – Kharyaga Product Sharing Agreement

**CPF** – Central Production Facility (oil)

**CKU** – Central Khoreyver Uplift

**ES** – Emergency situations

**MDP** – Master field development plan

## Upstream

**(segment)** – production, in-field transportation and primary processing of hydrocarbons

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