



 SUSTAINABLE
DEVELOPMENT
REPORT

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18

**EXPANDING
THE SCOPE**



About the Report

Scope and boundaries of the report

This Report on Activities for Sustainable Development (hereinafter – the Report) has been prepared for the period from December 31, 2017 to December 31, 2018 using information available to the Zarubezhneft Joint Stock Company (hereinafter – Zarubezhneft JSC or Zarubezhneft Group of Companies or Company) and its subsidiary and affiliated companies at the time of its preparation. The guidelines of the GRI system of international standards were taken into account in consolidating the operational data. The financial information is hereby presented based on the audited financial statements published on the Company's website.

Disclaimer

Some statements and representations contained in this Report are "statements or representations containing forecasts regarding future events" and are subject to various risks. These risks include: possibility of changes in the business and financial conditions of the Company's activities and its development prospects; possibility of changes in the political and economic environment of Russia and the Company's countries of presence; possibility of changes in current and future regulations for the Russian production, transportation and refining industry; possibility of changes in the Russian laws, as well as the impact of other factors.

Most of the listed factors are beyond the Company's control or ability to forecast accurately.

Due to their nature, the forecast statements or representations are associated with integral risk and uncertainty of both general and specific nature, and there is a risk of such assumptions, forecasts and other forecast statements or representations not becoming true.

In view of the foregoing, the Company warns that the actual results may materially vary from those directly or indirectly indicated in the forecast statements or representations and those valid only at the time of preparation of this Report.

The Company bears no liability for damages that private persons or legal entities may incur by relying on the forecast statements or representations. Such forecast statements or representations are in every specific case only one of multiple possibilities of development of events and shall not in any way be considered as the most probable.

Except for the cases expressly provided for by law, the Company undertakes no obligation to publish updates and changes to the forecast statements or representations based on both new information and subsequent events.

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Key events

Zarubezhneft JSC's dividend level exceeds last year's by 22%

Zarubezhneft JSC's dividend level has exceeded last year's figure by 22% to reach an absolute value of RUB 4.5 billion (or 50% of net profit under IFRS).

Zarubezhneft among the leaders in terms of disclosure of sustainable development information

As per the summary of the Russian Union of Industrialists and Entrepreneurs (RUIE), Zarubezhneft became one of the leaders in the field of sustainable development under RUIE indices – "Responsibility and transparency" and "Sustainable development vector".

RUIE analyzed the reports of the companies included on the TOP-100 largest companies as per the RAEX-600 and RBC-500 ratings, after which it determined the leaders under the main transparency and sustainable development indices. Zarubezhneft was among these leaders.

Zarubezhneft participates in the Russian National Occupational Health Week

Zarubezhneft has held a number of private events under the Russian National Occupational Health Week, including a round-table discussion on the topic "5S System as a Safety Culture Tool" and a training on promoting the Vision Zero concept. Secretary General of the International Social Security Association (ISSA) Hans-Horst Konkolewsky attended this training and highly appreciated the activities of Zarubezhneft in this area.

Kharyaga PSA's term extended to 2031

An Addendum to the Agreement on the Development and Production of Oil at the Kharyaga Field under Production Sharing was signed that extended the term of the Agreement to December 31, 2031. The parties to the Agreement are the Russian Federation represented by the Russian Government, the Administration of the Nenets Autonomous Area, and the Investor. Starting 2016, the participants' shares have been distributed as follows: Zarubezhneft Group of Companies – 40% (Operatorship), Statoil Kharyaga AS – 30%, Total Exploration & Production Russia – 20% and Nenets Oil Company – 10%.

Kharyaga PSA ensures sustainable revenue for the State and the Investor. In the course of the project, the total accumulated revenues to the budgetary system of the Russian Federation exceeded USD 3.8 billion.

The Company holds Annual Contest for scientific and technical projects of young experts

In 2018, the Contest was held alongside the VNIIneft JSC 75-th Anniversary.

For the Company, the Contest is not just a conference, but systematic work on the development of the scientific and technical potential of the youth. It covers the full cycle, from project selection to organizing the implementation of the most prospective solutions and evaluating the efficiency of their application in production activities. During the expert evaluation of the projects, emphasis is placed on the practical significance and projected results for the Company.

Zarubezhneft holds Nestro Lead Contest

This contest was the commencement of the general corporate personnel development program. It was held starting in May 2018, and all Zarubezhneft Group of Companies employees had the opportunity to take part in it. The results of the contest were summarized in October 2018. 757 people expressed their desire to join the leadership team, which shows just how many applications were received. The participants further passed through the stages of testing, draft projects and Skype interviews. After all the tests, 80 persons reached the finals, and during the summary Case Day, they competed for the titles of Leader and Winner of the contest. The best 40 experts were selected based on the results of the stages passed, and they are now to undergo training and to eventually form the team of leaders that will be engaged in the Company's most interesting projects.

Zarubezhneft ranked second in the Environmental Responsibility Rating for Russian oil and gas companies

The rating is prepared by the analytical and consulting group for the fuel and energy complex Creon, the World Wildlife Fund (WWF) with the participation of the National Rating Agency and the Russian Ministry of Natural Resources of Russia under the UN project.

Nº	Position in the rating	Total score
1	Sakhalin Energy (Sakhalin-2)	1.7225
2	Zarubezhneft	1.7003
3	Exxon NL (Sakhalin-1)	1.6709
4	LUKOIL	1.6496
5	Surgutneftegaz	1.6370

Vision Zero Program adopted for the contractors

On March 1, 2016, Zarubezhneft was the first Russian fuel and energy company to be awarded the Vision Zero certificate and join the International "Zero Injury Rate" concept under occupational health and industrial safety.

The "Unified Program for Integration of the Vision Zero Concept in Zarubezhneft GC in 2018-2021" was presented at the First International Conference held with contractors of the Zarubezhneft Group of Companies.

Zarubezhneft's conference site became the first in Russia where the Vision Zero corporate strategy was adopted as the basis for safe production of contractors.

Zarubezhneft acknowledged as the best socially oriented company in terms of corporate culture development

Zarubezhneft JSC was awarded the "Best Socially Oriented Company in the Oil and Gas Industry in Terms of Corporate Culture Development" award. Members of the contest committee and other participants of the contest highly rated Zarubezhneft's systematic approach to the formation of its corporate culture, and thus subsequently recognized Zarubezhneft as the winner in this nomination.

International occupational mastership contest "Best in Profession 2018" held at ZARUBEZHNEFT-Dobycha Kharyaga LLC production facilities

The contest gathers the best representatives of their professions annually, serving as a platform for them to meet and share experience. The best employees of the Zarubezhneft Group of Companies from the various regions of Russia and the world who won internal occupational mastership contests participated in the occupational contests.

JV Vietsovpetro, Brod Refinery and Modriča Motor Oil Plant represented the foreign segment.

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COMPANY PROFILE

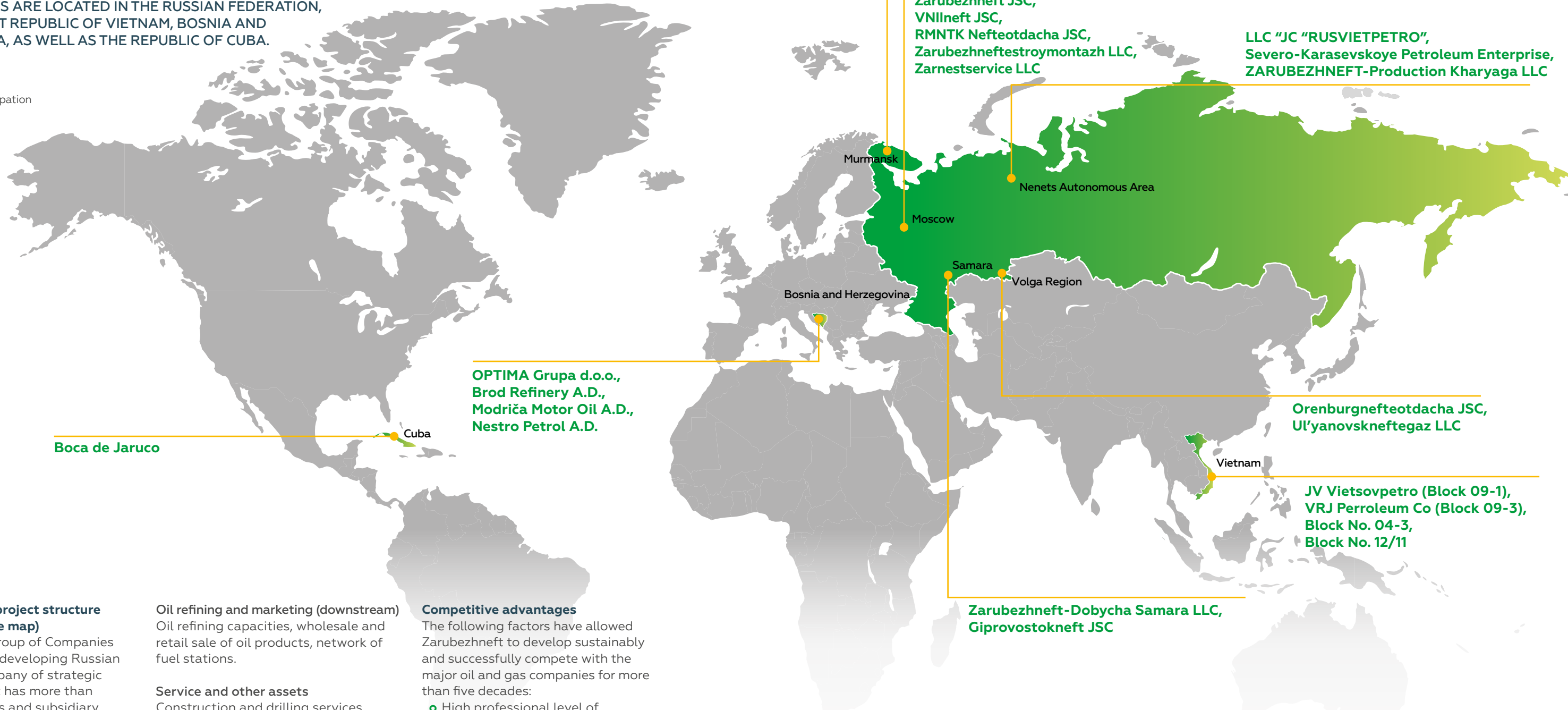


Regions of activity

THE ASSETS AND PROJECTS OF THE ZARUBEZHNEFT GROUP OF COMPANIES ARE LOCATED IN THE RUSSIAN FEDERATION, THE SOCIALIST REPUBLIC OF VIETNAM, BOSNIA AND HERZEGOVINA, AS WELL AS THE REPUBLIC OF CUBA.

Справочно:

- Projects with participation of JV Vietsovpetro
- Block 09-3/12
- Block 16-1/15
- Block 42
- Block 09-2-09



Corporate and project structure (with illustrative map)

Zarubezhneft Group of Companies is a sustainably developing Russian oil and gas company of strategic importance that has more than 20 joint ventures and subsidiary companies in three main segments of the oil and gas business:

Geologic exploration and hydrocarbon production (upstream)

Exploration, development and exploitation of oil and gas fields in the Russian Federation and abroad both onshore and offshore.

Extensive experience in the development of complex reservoirs.

Oil refining and marketing (downstream)

Oil refining capacities, wholesale and retail sale of oil products, network of fuel stations.

Service and other assets

Construction and drilling services.

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

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

Competitive advantages

The following factors have allowed Zarubezhneft to develop sustainably and successfully compete with the major oil and gas companies for more than five decades:

- High professional level of the Company's management,
- Availability of highly qualified personnel,
- Application of the best and most modern asset management methods,
- Commitment to the maximum efficiency of all business processes.



ZARUBEZHNEFT JSC IS A DIVERSIFIED NATIONAL OIL AND GAS HOLDING ACTING FOR THE BENEFIT OF THE STATE. THE SHARE OF THE RUSSIAN FEDERATION IN THE EQUITY CAPITAL IS 100%. THE COMPANY HAS UNIQUE EXPERIENCE OF EXTERNAL ECONOMIC ACTIVITIES. THE HOLDING COMPRISES MORE THAN 20 JOINT AND SUBSIDIARY COMPANIES BELONGING TO VARIOUS SEGMENTS OF THE OIL AND GAS BUSINESS.

Business-model

COMPANY MISSION

EXPLOITATION OF ACTIVE OIL AND GAS FIELDS IN RUSSIA AND ABROAD, ENSURING THE MOST EFFICIENT AND COMPREHENSIVE EXTRACTION OF HYDROCARBON RESOURCES.

Achievement of target KPI values in 2018:

Indicator	Unit	Indicator weight	2018	
			Actual	Performance
Consolidated revenue	MM RUB	5%	98,347	106.7%
EBITDA	MM RUB	5%	35,697	120.0%
Dividends amount	MM RUB	20%	4,469	100.0%
Return on equity	%	10%	8,5%	120.0%
Labor capacity	Thous.RUB / man-hour	10%	63.0	120.0%
OPEX reduction (costs)	%	10%	3,1%	120.0%
Gross production volume	Thous. TOE	15%	5,149	107.5%
Reserves volume	Thous. TOE	15%	100,193	120.0%
Innovational activities integral KPI	%	10%	100%	100.0%
Corporate KPI performance:				111.5%
Non-exceedance of NetDebt / EBITDA indicator limit	–	Bonus reduction indicator	0.6	Bonus reduction indicators fulfilled
Target revenue figure achievement	–	Bonus reduction indicator	103%	Bonus reduction index equal to 1
Total performance:				111.5%

RESERVES

1,302.22
MM T.O.E.

Aggregate initial hydrocarbon reserves in-place belonging to the A + B1 + C1 and B2 + C2 categories of Zarubezhneft Group of Companies in Russia and abroad without account of the Company's participating share as of January 1, 2019.

477.1
MM T.O.E.

Total initial recoverable hydrocarbon reserves

100,193
THOUS. T.O.E.

Amount of the aggregate recoverable hydrocarbon reserves with account of the Company's participating share at the beginning of 2019 belonging to the AB1 + C1 category (2P category is taken into account for the fields in the Socialist Republic of Vietnam)

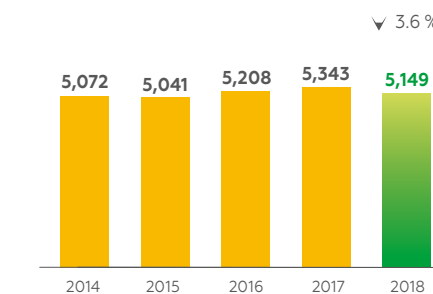


PRODUCTION

With account of the Zarubezhneft's share, the hydrocarbon production in 2018 amounted to 5,149 thousand TOE, which is 3.6% lower than last year's figure. At this, the planned figure (5054 thousand TOE) has been over-performed by 1.9%. The decline in production was due to entry of major fields of JV Vietsovetro White Tiger and Dragon into the complex final development stage.

The main assets in the production segment in 2018 remained JV "Vietsovetro", LLC "JC "RUSVIETPETRO", ZARUBEZHNEFT-Dobycha Kharyaga LLC.

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



Service (R&D)

Arktikmorneftegazrazvedka JSC
The main direction of development of Arktikmorneftegazrazvedka JSC is the implementation of Zarubezhneft's offshore wells construction projects as a drilling contractor. The 2018 revenue amounted to RUB 557 MM.

Giprovostokneft JSC
The main activities include design and engineering studies of oil production, processing and transportation facilities. In 2018, the revenue from design studies, R&D, designer supervision and other works (services) covered by the activities profile of Giprovostokneft JSC amounted to RUB 1,609 MM, including works performed with own capacities for the amount of RUB 1 229 MM and works performed by subcontractor entities for the amount of RUB 380 MM.

VNIIneft JSC

The main areas of activities of VNIIneft JSC are the scientific and technical support of Zarubezhneft's projects and R&D. In the structure of revenues gained from all types of activities, the larger specific weight traditionally belongs to revenues from the scientific and technical products. The revenue for 2018 amounted to RUB 712 MM.

RMNTK Nefteotdacha JSC

The company carries out a wide range of oilfield services (well servicing and workover, integrated services for drilling, geological and technical surveys, hydrodynamic surveys and others), including technical and personnel support of service works. The revenue increased by 5% to RUB 1,999 MM, which was due to the growth of works scope for well servicing and workover, downhole wire-works and drilling supervision.

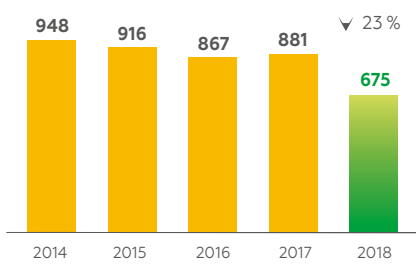
Zarubezhneftestroyontazh LLC
A company organizing the construction, reconstruction, overhaul, construction control and preparation of design documentation that is engaged by the constructor or the customer based on a general contract. The 2018 revenue amounted to RUB 3,977 MM.

Zarnestservice LLC

Enterprise established for the marketing of oil produced by the Zarubezhneft Group of Companies at domestic and external markets, supply of equipment and materials and provision of services as per the requirements of JV "Vietsovetro". The 2018 revenue amounted to RUB 6,501 MM.

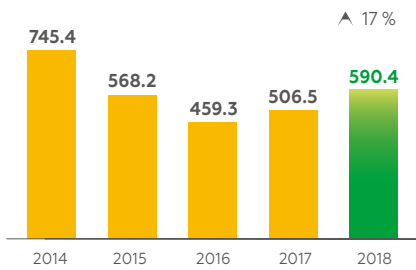
DOWNSTREAM

Oil refining volume of Zarubezhneft Group of Companies, thousand tons



The decrease in the oil refining volume is due to the changes in the production program of Brod Refinery JSC caused by the emergency suspension of the plant's operation in October 2018.

Revenue, MM Euro



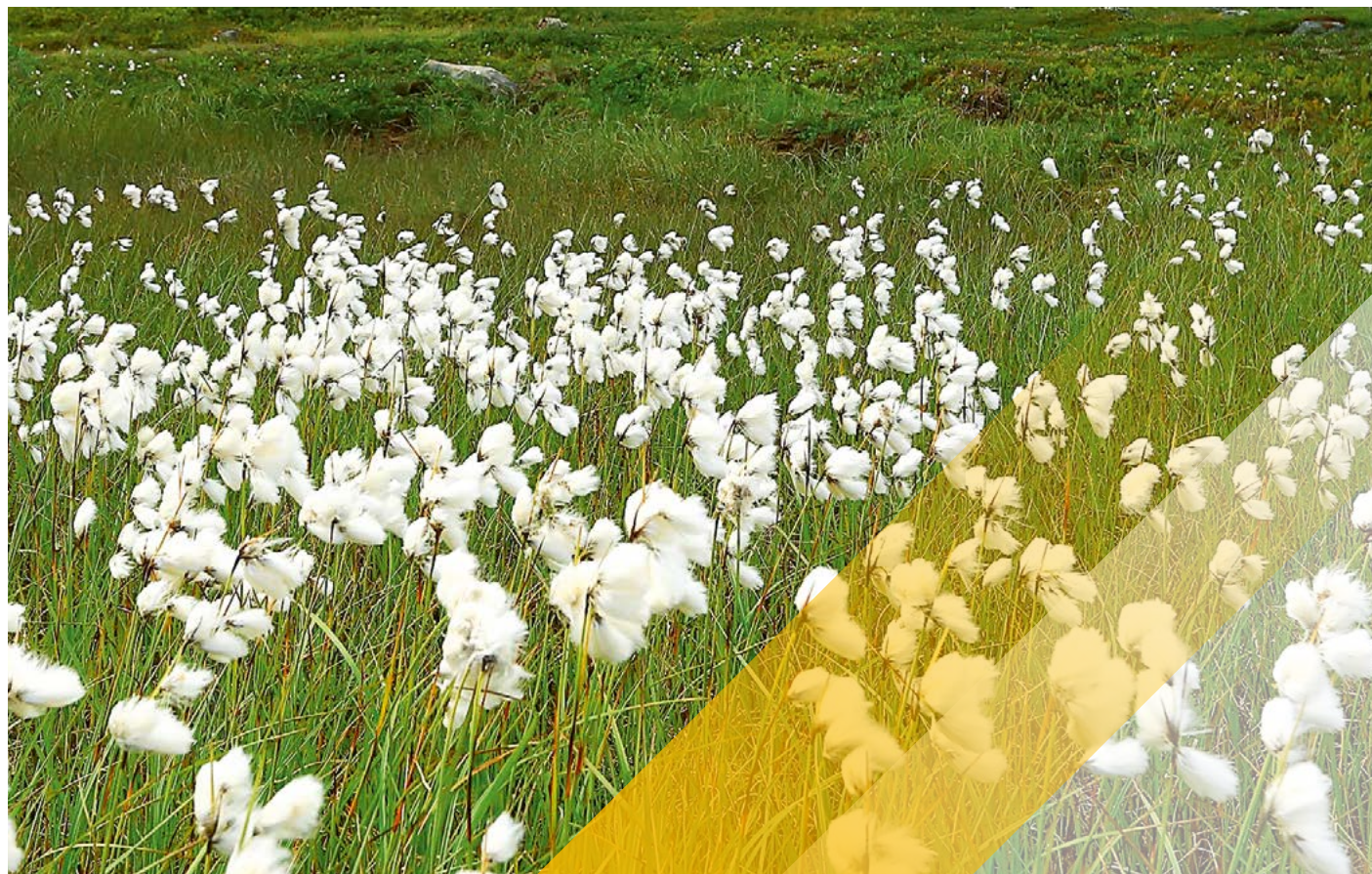
As per the results of the segment's operations in 2018, the segment's revenue increased by 17% compared to that of the previous year owing to the growth of the average selling price of oil products against the backdrop of rising global oil prices.



LABOR CAPACITY

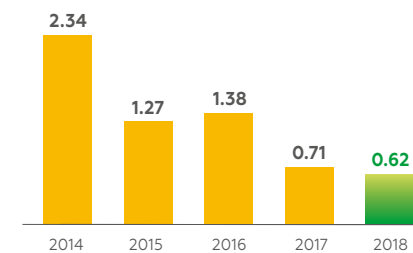
The "Labor capacity" indicator is included in the key performance indicators (KPI) of the Group of Companies' activities. The actual value of the indicator in 2018 was

63.0 thousand RUB/man-hours. Labor capacity growth rate amounted to 111%, which proves the efficiency of labor resources use.



Injury rate

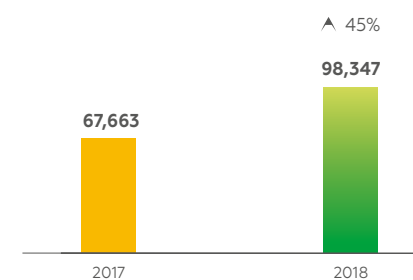
LTIFR indicator dynamics



This figure in 2018 was 0.62 – this is more than 2 times lower than in 2015 (1.27).

Revenue

Consolidated revenue dynamics



Actual value of consolidated revenue of RUB 98,347 MM corresponds to the KPI performance by 106.7%.

INVESTMENT PROGRAM

Investment program volume in 2018, RUB billion

Direction	Funding volume
General scope	3.1
Geologic exploration projects	0.9
Expansion of the Corporate Center's area of activities and modernization of fixed assets	0.3
Kharyaga Field	1.4
Solutions for the Downstream segment	0.5

The volume of intra-group borrowing is RUB 0.8 billion, which is 46% of the total volume of planned intra-group borrowings. The investment program funding in the reporting year was carried out with account of the optimization measures and the current requirements of subsidiaries.

Interaction with stakeholders

The strategic goal of corporate culture development within the Zarubezhneft Group of Companies is the establishment of fundamental values and standards of activities, ethical standards, creative and open to new innovation environments contributing to the high involvement level of each employee in solving the main business problems, all maintained and supported by the Company. In relation to its subsidiaries, the Company performs the function of "Strategic controller", ensuring strategic, systematic and methodologic control, establishment of a unified methodologic basis, as well as unified rules for operating under key processes within the subsidiaries.

The Company's Corporate Governance Code and Corporate Ethics Code regulate the processes of its interaction with the external environment and with stakeholders, as well as its inter-employee relations.

- The Corporate Governance Code regulates the process of interaction between the Company and the members of the Board of Directors, other officials and the sole shareholder – the State.

- The Corporate Ethics Code is a tool for shaping corporate culture; it stipulates the rules of business conduct, principles of efficient interaction between the Company and its employees, ethical standards of intra-corporate relations as well anti-corruption requirements.

These communications are implemented based on the core values of the Company:

- Professionalism is deep knowledge of own specialization, a responsible and conscientious attitude to duties, timely performance of objectives and continuous improvement of professional level.
- Initiative is employees' activity and independence in optimizing the production process and developing the Company's competitiveness.
- Mutual respect is respect for one other, mutual support, team spirit in work, goodwill in the joint resolution of tasks.
- Collaboration is the transparent and honest sharing of information, readiness for joint development of optimal solutions.
- Continuity is a careful attitude to the Company's traditions, respect for labor and the experience of elderly people, vocational training and mentoring.

Shareholder and the investment community

The sole shareholder of the Company is the state – the Russian Federation. In its interaction with the shareholder, the Company adheres to a unified and consistent policy

based on the generally accepted principles of corporate governance. The fundamental principle of interaction with the shareholder is unconditional observance of all the rights and interests of the shareholder. The company is committed to ensuring the long-term increase of the shareholder's wealth by increasing capitalization, implementing balanced strategic plans and tasks, as well as decreasing the risks in its activities.

Governmental authorities

Zarubezhneft JSC is the only 100% state-owned oil company in the Russian Federation, which imposes additional responsibility on it in the area of interaction with the Russian federal and regional authorities both in the Russian Federation and abroad in the countries of current and prospective activity. The Company develops and maintains constructive relations with Russian state authorities, being guided by the standards of the current Russian law and the high standards of corporate and business ethics, which contribute to the establishment of a favorable environment for business development. The principle "Excellent Performance for the Benefit of State", being the basic principle of corporate interaction, implies quality and timely performance of instructions and orders of the governmental authorities.

Business partners

Mutual respect is one of the most important principles of the Company's interaction with its stakeholders. Zarubezhneft JSC is an active participant of the discussion dedicated to the development of international and Russian fuel and energy

complexes and takes part in various interactive sessions. The Company maintains long-term, stable and mutually beneficial relations with its customers based on increasing the stability and reliability of deliveries as well as transparent pricing.

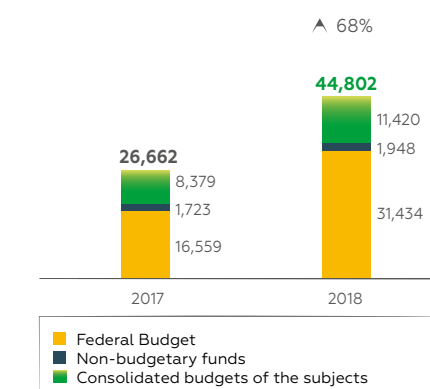
Employees

A system of intra-corporate communications by holding corporate events and publishing articles about them on the corporate portal

and in the quarterly magazine "Oil Without Borders" has been widely developed within the Company. All events are included in the communications plan that is developed annually under Zarubezhneft JSC's Strategy Priority Implementation Measures Plan. Since 2013, Zarubezhneft JSC and its subsidiaries have been carrying out studies on the social and psychological working environment of the Company's team.

The significant growth of tax payments in 2018 is primarily associated with the growth of the minerals extraction tax costs mostly due to the increase of the Urals price nominated in rubles.

Tax payments, RUB MM



The total amount of tax and other mandatory payments in the Russian Federation in 2018 amounted to RUB 44,802 MM, which is 68% higher than the 2017 level; at this, 70% of all payments belong to the Federal Budget (FB) of the Russian Federation, 26% to the consolidated budgets of the subjects (CBS) and 4% to the non-budgetary funds (NBF).



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DEVELOPMENT STRATEGY





Sergey Kudryashov
General Director of
Zarubezhneft JSC

Statement of the General Director

Dear Colleagues!

I hereby present to you the Report on Zarubezhneft Group of Companies' Activities in the Area of Sustainable Development in 2018, which is an integral part of our Annual Production Report. In this Report, we have focused on the development projects and on the technologies and approaches that will allow us to implement our mission in the long-term. I sincerely believe that the Company's social mission not only includes the development of its personnel's career potential and introduction of innovations, but also concerns the area of building constructive partnerships with institutions

and agencies of the states where we operate and where we plan to launch new projects in the nearest future. In my opinion, this present unique historical position of Zarubezhneft JSC naturally corresponds to the UN's global initiative to fulfill the Sustainable Development Goals.

In 2018, the Company continued its efforts to establish a basis for entering new projects. We have developed cooperation with the industry-specific state authorities and petroleum companies; we have formed a geologic and technical basis for entering new projects in Egypt, Ecuador,

Gabon, Sudan, Iraq and Argentina. The establishment of the joint venture with Uzbekneftegaz JSC in Uzbekistan has already become a historical milestone. Work aimed at entering projects in Cambodia has commenced.

In our production activities, we maintain focus on small, hard-to-develop fields and fields with a high depletion degree. Continuous work is underway to expand the resource base at the active assets. The increment of reserves in 2018 amounted to 12 MM TOE, the most significant contribution to which was from the share of our Vietnamese asset – JV "Vietsovetpetro".

In the reporting years, the South-Syrkharatinskoye and Urernyrdszkoye oil fields were put into development on a permanent basis. Production at the fields of the joint company RUSVIETPETRO amounted to 3 million tons for the sixth year in a row, and the total accumulated production since the commencement of the Central Khoreyver Uplift fields development amounted to 22 million tons; our major Russian asset has celebrated its 10-th anniversary with this success.

2018 was full of milestone events for another of our subsidiaries – ZARUBEZHNEFT-Dobycha Kharyaga. In its two years of operation, we managed to almost double the revenues of the state and partners. In July 2018, an Addendum to the Kharyaga Production sharing agreements (PSA) was signed, based upon which the term of the Agreement was extended to December 31, 2031.

We continue active efforts to expand the activities of the Zarubezhneft Group of Companies. Firstly, I would like to note the acquisition of 100% participating interest in VRJ and obtaining the investment license for Block 09-2, as well as the signing of the documents on the entry of JV "Vietsovetpetro" and Zarubezhneft JSC into Block 09-2/09 that took place during the meeting of President of the Russian Federation Vladimir Putin and Secretary General of the Central Committee of the Communist Party of Vietnam Nguyen Phu Trong.

Relating to the Downstream segment, I would like to specifically note the continuation of the Brod Refinery Gasification Project in 2018. My meeting with President of the Republic of Croatia Kolinda Grabar-Kitarovic has shown positive results of the works performed. We have also reached agreements in terms of comprehensive support

of the project and its continuation until full completion. The use of natural gas as fuel for the Oil Refinery will allow us to solve the current environmental problems of the plant and bring the emissions from the refinery's furnaces into compliance with the European Union's standards. Apart from this, a project for the construction of the oil sludge disposal unit at the Brod Refinery has been completed. The unit has been commissioned. The New Boiler-room Construction Project is almost complete.

Responding to the challenges of the industry, Zarubezhneft JSC has begun implementing a complex of digital transformation projects. At this stage, most of the initiatives relate to the main segment – Upstream. However, this direction is a strategic one that will cover the whole of Zarubezhneft Group of Companies' management structure. It has already been agreed to define a separate digital transformation section in the Long-term Development Program. We have successfully implemented a renewable energy project: a relevant direction has been allocated in the Company's business development unit. The main prospects are associated with the construction of a 100 MW solar power plant in Cuba and Vietnam. Hevel Company has become Zarubezhneft JSC's strategic partner in the area of solar power generation.

As per the 2018 year-end results, the consolidated revenue figure increased by 45% compared to the actual 2017 result, which has allowed the Company to retain one of the top places in terms of dividends paid compared to the financial performance and to undertake obligations to pay dividends to the state in 2019 valued at RUB 4 billion.

A large set of initiatives is being implemented to provide new












projects with competent personnel. In the reporting year we successfully tested a key personnel rotation system. An intra-corporate contest Nestro Lead was held, in its framework an HR reserve for the future projects teams was developed. 757 employees of the Russian subdivisions of the Group took part in the contest, 40 best experts of them entered the HR reserve. We have currently arranged advanced training and education coursed for them in order to facilitate entry into complex projects to a maximum degree.

In February 2018, Zarubezhneft Group of Companies joined the international concept Vision Zero that was established by the International Social Security Association (ISSA). Integration of Vision Zero's provisions into the corporate culture and the fundamental values of the Group will allow to achieve a zero injury rate at the production facilities in the near term. I would like to note that Zarubezhneft was the first Russian international company to join the Concept.

While consistently implementing the principles of corporate responsibility, we also pay close attention to the informational openness and transparency of our business. Continuous improvement of the quality of information disclosure has allowed Zarubezhneft JSC to become one of the leaders as per the indices of the Russian Union of Industrialists and Entrepreneurs (RUIE) in the area of sustainable development. I hope that this Report will allow you to get a deeper understanding of our corporate culture and that it will serve as an invitation to constructive dialog with all parties interested in establishing long-term partnerships.

United Nations Sustainable Development Goals

Priority strategic directions

Priorities	Production tasks	UN sustainable development goals
Development of technological competencies and current assets efficiency improvement	Geologic exploration works – resource base expansion	 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
	Oil recovery factor increasing	 Conserve and sustainable use the oceans, seas and marine resources for sustainable development
	Search and application of new infrastructure solutions to decrease CAPEX and OPEX and reduce the term for the field commissioning	 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Entry into new projects	Evaluation of new projects in different regions at various stages – express-evaluation, detailed evaluation and transactions preparations	 Take urgent action to combat climate change and its impacts
		 Strengthen the means of implementation and revitalize the global partnership for sustainable development
Organizational development for the project groups efficient management	Conversion to the “Strategic controller” management model comprising systematic and methodologic control over subsidiaries, establishment of a unified methodological base, unified operating rules for the key processes in the subsidiaries	 Ensure healthy lives and promote well-being for all at all ages
		 Ensure inclusive and equitable quality education and promote lifelong learning opportunities
		 Achieve gender equality and empower all women and girls
Implementation of improvements program in the Downstream segment	Operational improvements program of Brod Refinery A.D., operational improvements program of Modriča Motor Oil A.D., operational improvements in retail and wholesale performed	 Ensure access to affordable, reliable, sustainable and modern energy for all
Service assets segment development – synergy with the Upstream segment	Ensure qualified scientific and design support for the Russian and foreign production assets of the Company on the basis of the corporate industrial institutes VNIIneft JSC and Giprovostokneft JSC, RMNTK Nefteotdacha JSC, Zarubezhneftstroyontazh LLC	 Ensure sustainable consumption and production patterns
		 Protect, restore and promote sustainable use of terrestrial ecosystems, sustainable manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

THE COMPANY'S OPERATING CONTEXT

The average price of Urals-grade oil as per the 2018 year-end results was slightly more than 70.2 USD/bbl. Apart from the extension of the OPEC+ deal, price stabilization and

growth in 2018 were worsened by the political situation in a number of oil-exporting countries and the strengthening of the sanctions pressure. Due to the measures taken by OPEC, the Brent grade oil price remained at the level of above 70 USD/bbl for most of the year. In Q4,

it exceeded 84 USD/bbl. In 2018, the oil supply surplus on the world market was partially mitigated owing to the collective efforts of the countries participating in the OPEC+ production restriction deal. However, significant growth of oil price caused production intensification and resulted in price

compensation to the October 2017 level. Year-end 2018 was characterized by conservative forecasts based on expected overproduction of liquid hydrocarbons.

The established tax environment in the Russian Federation, along with the actual couple of “oil price – USD exchange rate” partially mitigated the growth of the average Urals-grade oil price per ton after taxes. Despite the significant growth of the global price, the price in rubles after taxes increased only by 16% due to the absence of the price change compensation effect and due to fluctuations in the currency exchange rates. At this, the tax burden per 1 ton of oil increased by 50% compared to 2017.

The oil products market dynamics in the Mediterranean region where the Downstream assets of Zarubezhneft JSC are operating allowed to maintain a high level of the assets' operating efficiency up to Q4.

Changes in the environmental legislation in 2018

A major reform of environmental legislation continued in 2018. A number of new laws and amendments to current regulations previously adopted towards the end of 2017 have introduced significant changes in the environmental assessment and waste handling processes. The

Russian federal law dated December 28, 2017 N 422-FZ introduced changes to Article 14 of the Russian Federal Law – Concerning Environmental Assessment and Art. 12 of the Federal Law – Concerning Changes in the Federal Law – Concerning Environment Protection. The Russian federal law dated December 30, 2017 N 503-FZ – Concerning Changes in the Federal Law – Concerning Production and Consumption Waste, as well as individual statutory acts of the Russian Federation, have changed the rules regulating waste handling at enterprises and the handling of solid household waste. The procedure for the calculation of the environmental payments made by the enterprise to the budget as compensation of the negative environmental impact has also been changed.

Changes to production technology

The Company is integrating modern technologies intensively to increase the development efficiency of the existing fields. This includes adaptation of front-end EOR methods for fractured carbonate reservoir conditions. The possibility of applying tertiary enhanced oil recovery methods is being analyzed: gas bank injection, smart water application, thermal and gas treatment, surfactant-polymer flooding. These technologies contribute to the increase of the displacement factor and, therefore, the increase of

the ultimate oil recovery factor, and are therefore widely applied by the leading oil producing companies (BP, Shell, Equinor (ex. Statoil), Total). In 2016-2018, Zarubezhneft carried out R&D for these technologies and in 2019, it plans to perform a number of pilot production tests at the fields to integrate the front-end scientific developments into production.

Digital transformation projects

The Company is currently implementing long-term projects aimed at improving controllability, increasing accuracy of information and enhancing production efficiency. Thus, in 2018, the in-house developed software – the integrated engineering system NestroWay, software complexes for managing the integrity of oil and gas equipment and planning of power infrastructure, production automation projects in the subsidiaries were tested. Apart from this, in 2018, the Company established and commissioned the corporate Knowledge Management System (KMS) which corresponds to the best international similar software and is a unified platform for obtaining information, sharing experience and providing opportunity for direct communications with the company's experts specializing in various occupational knowledge areas.





Strategic priorities

In 2018, the Company continued the second stage of implementation of the Zarubezhneft JSC Corporate Development Strategy called "Readiness for Growth and First Successes" to be completed in 2020. The main focus of this stage is the development of the Upstream segment where Zarubezhneft JSC shall focus on fields where it is possible to expand its own competencies, particularly fields with out-of-balance development systems and fields with complex reservoirs similar to those being developed in the Company's regions of presence. The third stage, which is estimated to last until 2030, is called "Intensive Growth" and envisions the launch of more than five new projects and achievement of the 15 MM TOE production level (5.2 MM TOE by year-end 2018).

Expansion of the area of activity

The basis for the Company's long-term growth as per the Zarubezhneft JSC Corporate Strategy is its launch of new oil projects.

During the reporting period, the Company implemented several measures to develop this business line that included the following:

- Zarubezhneft JSC's policy in the field of business development

in the UPSTREAM sector was developed and approved;

- a new version of the Business Process Standard "Search and Evaluation of New Assets" was prepared;
- The IT-system for monitoring the evaluation process and entering new projects was launched into pilot operation;
- The Benchmarking concept was developed; a comparative analysis of the activities of Russian and foreign companies on entering new projects is now underway.

In 2018, more than 30 projects were reviewed in the Russian Federation and abroad; Investment Committee meetings were held on 22 projects. Experts of the Corporate Center and its subsidiaries carried out four process audits of new fields. In addition to the countries of the Company's traditional presence (Vietnam and Cuba), the Company began focusing its activities on searching, evaluating and developing projects in the following regions:

- Middle East and Africa (Iraq, Egypt, Gabon);
- South America (Ecuador, Colombia, Argentina);
- Southeast Asia (Indonesia, Brunei).

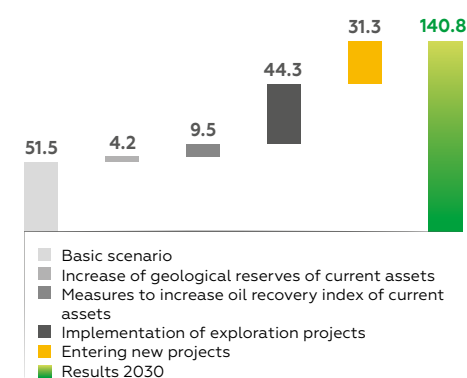
During the reporting period, a number of documents were signed with

foreign partners that laid the legal foundation for future cooperation: Confidentiality agreements were signed with the Ministry of Oil and Ore Mining of Sudan, Sudapet Sudan National Oil and Gas Company, Stream Oil (Gabon) and Pura Vida (Australia) private companies, and a Memorandum of Understanding was signed with the Ministry of Oil of South Sudan.

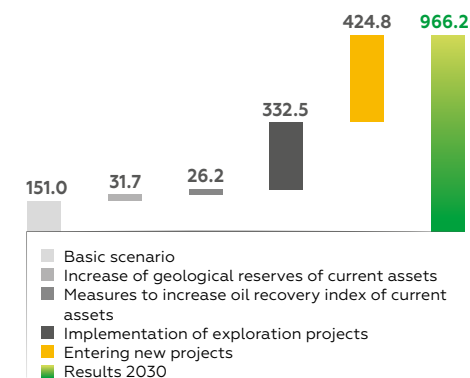
LONG-TERM DEVELOPMENT PROGRAM

For the comprehensive evaluation of the Company's assets under the Long-term Development Program¹, three main development scenarios for the existing entities with an outlook for 2030 and two prospective development options were contemplated: projects of geologic exploration works, in which Zarubezhneft JSC participates directly or indirectly, as well as potentially attractive major investment projects.

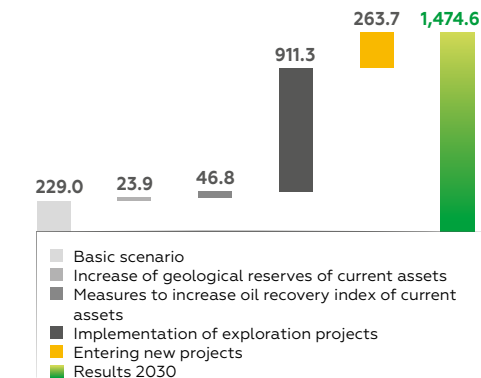
Accumulated hydrocarbon production, MM tons



CAPEX, RUB billion



EBITDA, RUB billion



The priority goal for the future development of the Company is not only intensive development of its current production assets (especially LLC "JC "RUSVIETPETRO" and JV "Vietsovetpetro"), but also the active search for and entry into prospective major oil and gas production investment projects.

The potential regions in which the Company has accumulated significant experience in integrated project implementation, particularly Vietnam, Russian Federation and the Middle East, are of top priority for consideration. The accumulated significant experience in increasing the current value of assets by incrementing the current assets' resource base and improving its development efficiency by raising the oil recovery factor for the fractured basement deposits as well as active engagement in the development of low-capacity terrigenous block structures allow outlining the strengths of the Company's existing competencies.

To improve performance in the major Upstream segment, Zarubezhneft JSC is making target-oriented efforts in several key areas:

1. Maximization the synergy of the Group of Companies' current assets with the new projects.

2. Competency development for the efficient development of complex reservoirs by expanding the scientific assets of the Company, VNIIneft JSC and Giprovostokneft JSC.

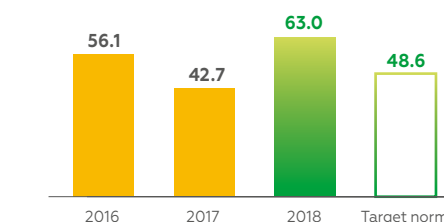
3. Development of full-range service package for fields at any development stage by establishing full-scale construction and drilling contractors on the service segment basis. Zarubezhneftestroyontazh LLC continues its work as a full-scale construction contractor for the Group with expansion of its own capacities. RMNTK Nefteotdacha JSC launched projects for sidetracking service development and further replacement of third-party contractors for the performance of work and supervising at LLC "JC "RUSVIETPETRO" remote fields.

CSR PROGRAMS IMPLEMENTED AS PART OF THE STRATEGY AND PART OF THE LONG-TERM DEVELOPMENT PROGRAM

The Company's KPI system includes the basic mechanism for motivating the management of the Company and its subsidiaries to perform the tasks assigned by the State as the 100% shareholder of the

Company, the target indicators of Zarubezhneft's Strategy, the LDP, Zarubezhneft's Business Plan indicators and the investment projects being implemented by Zarubezhneft JSC. The benchmark list includes a number of CSR aspects reflected in the KPIs: labor capacity and OPEX decrease.

Labor capacity, thous. RUB/man-hour



Показатель «Производительность» The "Labor capacity" indicator is estimated as the revenue of Zarubezhneft JSC as per RAS, calculated in conditions comparable to 2017 and correlated with the number of man-hours worked by the Company's employees. In 2018, the figure was 63.0 thousand RUB/man-hours, with the established target value of 48.6 thousand RUB/man-hours. The indicator growth rate to the previous year's level was 111%. Thus, the target growth rate of 108.2%

¹ Zarubezhneft JSC's Long-term Development Program (LDP) was formed in pursuance of the instructions of the Government of the Russian Federation dated July 17, 2014, No. 4955n-П13. The Zarubezhneft JSC Board of Directors approved the LDP on November 20, 2014 (Minutes of Meeting #91).

was fulfilled, which was fixed in the Action Plan for ensuring increased productivity and the creation and modernization of high-performance workplaces approved by Decree of the Government of the Russian Federation No. 1250-r dated July 9, 2014.

Reduction of the operating expenditure reduction was approved with a target value of -2% (Directives No. 2303n-П13 dated April 16, 2015). As per the Cost Efficiency Improvement and Optimization Report for 2018, the actual Operating Expenditure Reduction value by year-end 2018 was 3.1% (Minutes of the Meeting of Zarubezhneft JSC Board of Directors No. 164 dated February 26, 2019), and exceeded the value established by the Directive of the Government of the Russian Federation.

Apart from the strategic KPI, the following indicators are controlled under the Long-term Development Program: Occupational Health, Industrial Safety, Environment Protection, Security and Zarubezhneft JSC Social Responsibility.

In 2018, 22 projects were implemented under the Zarubezhneft JSC Innovational Development Program for 2016-2020 (with an outlook for 2030). The expected results were achieved for all projects, the set milestones were passed.

In 2018, the Comprehensive Program for Replacement of Purchasing of Foreign Products, Works and Services with Equivalent Russian Products, Works and Services was updated.

In 2014, Zarubezhneft JSC joined the Anti-corruption Charter of Russian Business. An anti-corruption policy is in force within the company (Version 2.0, adopted by the Board of Directors in 2016). The policy highlights the unacceptability of corrupt actions that include conflicts of interests both towards the representatives of the state, public institutions, politicians and other third parties and the employees of the Company and subsidiaries through the abuse of official capacity for personal benefit. In 2017, an independent anti-corruption audit of the Company's

Internal Corruption Risk Control and Management System was performed. In the reporting year, adjustments were made in the following regulations: "Procurement management", "Legal support", "Finance and treasury operations management", "Investment planning", "Personnel management", "Communications management", "Charity and sponsorship", "M&A deals making" and "Gifts and representative costs".

Zarubezhneft JSC expressly declares its non-acceptance of corruption, and strictly follows the requirements of Russian laws and the laws of other countries where the Company is carrying out or plans to carry out its activities.

Anti-corruption clauses were included in the bodies of contracts and agreements with partners and counter-agents, labor contracts with Zarubezhneft JSC employees, contracts on material remuneration of Russian employees working abroad, as well as the numerous internal regulatory documents.



Being a participant of the Anti-corruption Charter of Russian Business, the Company regularly undergoes a procedure to confirm proper and full implementation of the anti-corruption measures.

One of the key tasks of the second stage of implementation of the Company's Strategy in terms of organizational development in the context of planned inorganic growth in the number of assets is the transition to the STRATEGIC CONTROLLER management model, a management model in which the Corporate Center becomes a strategic system and methodological controller of subsidiaries, ensuring the creation of a unified methodological base and uniform rules of work on key processes in the corporate center and in subsidiaries.

To implement this task, the Company has implemented a system of business

processes that operates effectively.

In 2018, the improvement project "Implementation of the Organizational Framework and the Updated Regulatory System" was successfully completed, under which:

- the principles and the matrix of functional distribution between the CC and SC was developed;
- the standard for a new business process, "Corporate Subsidiary Management", was approved, including the Corporate Management Matrix and the Business Processes Decision-making Matrix;
- The Specific organizational framework for business processes was developed – a set of standard requirements for enterprises of the Group of Companies;
- a single database of existing internal regulatory documents (about 500 internal regulatory documents) was formed;

- an institute of expert methodologists was established, 51 expert methodologists were appointed on 66 business processes.

INVESTMENT PROGRAM FOR THE MAIN PRODUCTION SEGMENTS

As part of the investment projects portfolio management, regular work on the analysis, monitoring and adjustment is being carried out that allows establishing a significant safety buffer against all possible negative fluctuations of the macroeconomic environment to retain a high positive economic efficiency.

Projects funding is performed as per the investment decisions adopted and is aimed at ensuring the Company's development as per the approved Long-term Development Program.

Here, the company provides funding in two directions:

- Search for new assets;
- Maximum development of the most efficient existing assets.

Upstream segment projects

The Upstream segment is the most efficient segment in terms of the implementation of investment projects. The efficiency of the segment's investment portfolio has significantly grown and the project implementation risks at the geologic exploration and production stage are sustainably decreasing owing to the regular monitoring and control of asset development projects, NPV integration into the management motivation system, as well as efficient decision making by the Zarubezhneft JSC Investment Committee.

As part of costs optimization for the Block 12/11 project, the Company's plans to account for the drilling and testing of the 4-th exploration well, as well as for development of a number of design documents for commissioning the Thien Nga – Hai Au structures. The option of using the infrastructure of the nearest Block 11-2 to optimize the cost of transporting products is being elaborated.

The period of pilot production development of the Boca de Jaruco project in the Republic of Cuba was extended for two years, and efforts to recover CUPET costs in this projects out of the Special Account's funds were also arranged. The Company managed to mitigate significant geological risks by stopping further development of Reservoir E; at this,

it plans on using the infrastructure developed for this reservoir to provide the project with its own gas. The main task for 2019 is the selection of the optimal cyclic steam treatment technology. The 2019 Work Program envisages drilling and developing three horizontal wells, as well as arranging a well production metering unit. A pilot production period of 5 years was adopted for the project.

Phased geologic exploration work, infrastructure construction and drilling of production wells are being performed under the Lutseyakhskiye Field Project to obtain first oil flow starting from 2020. At the same time, the main scenario for the development of a field is its movement to the taxation system using the Excess-Profits Tax.



Under the South-Pchelinskoye License Area Project, there are plans to drill prospecting and exploration and development wells in 2022-2023, as well as to develop the necessary infrastructure at the field. The field is expected to be commissioned in 2022.

Downstream segment projects

Under the 2019-2033 Investment Program, there are plans to implement investment projects for the maintenance of segment enterprises

investments for which were postponed in connection with the Optimization Program and Brod Refinery's operational downtime.

The new capital investments aimed at restoring the refinery's operations in 2019 will be the first priority under the 2019-2023 Investment Program.

The second priority for implementation is the project for the refinery's gasification to ensure compliance with the environmental standards, which

will also allow additional increase of stock products.

The investment program of Modriča Motor Oil Plant includes measures mainly aimed at maintaining the plant's operations. No investments for expanding and developing the capacities of the motor oil plant are planned.

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03

**IMPLEMENTATION
OF THE
SUSTAINABLE**
development strategy

Zarubezhneft JSC contributes to sustainable development as an employer, taxpayer and significant participant of economic activities. Zarubezhneft Group of Companies maintains constructive cooperation with state authorities and social institutions. The

company's subsidiaries annually adopt agreements with regional administrations regulating joint activities aimed at the regions' development. Zarubezhneft Group of Companies renders support to the socially unprotected groups and implements social and charity

projects in the areas of health care, education, improvement of living conditions, culture and sport, as well as social infrastructure development.

Interaction with stakeholders

In implementing its projects, Zarubezhneft JSC seeks to interact with all stakeholders in order to maintain and improve constructive relations. Zarubezhneft's subsidiary LLC "JC "RUSVIETPETRO" and the Administration of the Nenets Autonomous Area have an agreement No.392-99 dated May 21, 1999 on the joint stock company's participation in the economic and social development of NAA stipulating and fixing specific areas and scopes of the Company's investments into the region's social infrastructure.

use of natural resources by the native indigenous peoples of the North. To improve the Company's transparency to stakeholders, team-headquarters training exercises (THE) for emergency oil spill response in winter conditions were held at the Kharyaga Field on December 6, 2018. One of the purposes of THE was to test the readiness and practices of the volunteer emergency response team of ZARUBEZHNEFT-Dobycha Kharyaga LLC in adverse weather conditions during the winter period. The Company has clearly shown its commitment to minimizing the risk of oil spills and to ensuring environment protection. Representatives of the NAA Reindeer Breeders Union and

the regional community association Yasavey Nenets People Association were among the invited guests.

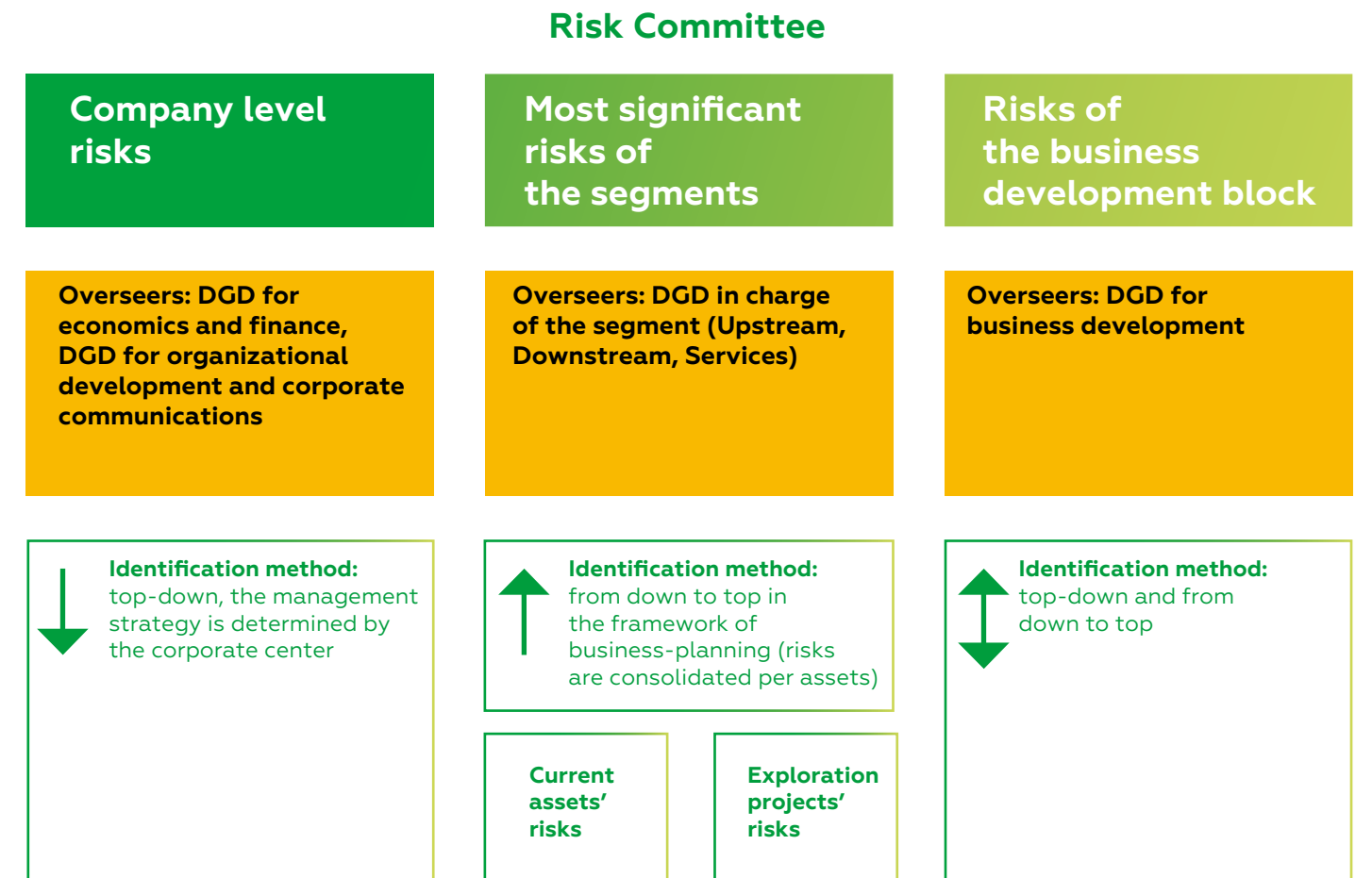
Since 2017, ZARUBEZHNEFT-Dobycha Kharyaga LLC has been implementing methodologic guidelines for conduct in the areas of the traditional

Risk management system

Responsibility for risk management and risk reporting is determined as per the linear and functional management system: an owner responsible for risk management is assigned to each risk. In every segment, as well as in all key business-processes, risk coordinators distributing and supporting the application of the corporate risks management principles are nominated among the managers. The risk analysis terms and tasks account for peculiarities and requirements of every business process at the level of which the risks are managed.

Responsibility for methodological support, development and maintenance of the Risk Management System is assigned to the Office of Prospective and Organizational Development.

The listed approach allows forming risk management responsibility areas and implement risk monitoring at all levels of the Company's management, as well as ensuring the development of target plans of response to material risks both at every subsidiary and within the Zarubezhneft Group of Companies as a whole.



THE COMPANY'S MOST SIGNIFICANT RISKS IN THE AREA OF SUSTAINABLE DEVELOPMENT

Risk group	Risk name
PRODUCTION SAFETY RISKS	
Risks in the field of industrial safety are the most significant group due to the legal requirements and the presence of a large number of hazardous production facilities. Including: <ul style="list-style-type: none"> • Accidents with employees and third parties; • Industrial accidents and disasters; • Non-compliance with legal requirements in the area of industrial safety; • Failure to comply with environmental safety legislative requirements. 	Risks in the area of industrial safety (including with damage to the environment, human life and health).
CORPORATE FRAUD AND CORRUPTION	
Involvement of the Company or employees in corruption activities, as well as non-compliance with the legislation of the Russian Federation and countries of presence entails the imposition of legal sanctions and / or other corrective actions on the part of supervisory authorities, which will lead to significant financial losses and loss of the Company's reputation.	Corporate fraud and corruption.
POLITICAL RISK	
Zarubezhneft JSC carries out its activities in the Asia-Pacific region, Eastern Europe, as well as the Russian Federation.	Political risk.



Corporate management system

A Methodology for the assessment of the corporate governance quality in Zarubezhneft JSC was adopted for self-assessment of corporate governance quality within the Company. In 2018, the Company held several events that allowed increasing Zarubezhneft JSC's corporate governance level almost to the maximum level. As part of the integration of the best practices of the Corporate Governance Code, profile Committees at the Board of Directors have been established and are successfully operating within the Company: Strategic Planning Committee, Audit Committee, Personnel and Remuneration Committee. The issues brought for the review of the Board of Directors are preliminary considered at the meetings of the profile Committees, including at in-person meetings.

In 2018, the authority of the Board of Directors was expanded as per the new revision of the Zarubezhneft JSC Articles of Association. The Zarubezhneft JSC Articles of Association has allocated a number of issues (including approving the dividends policy, business-plans, LDP and KPI) to the issues the decisions for which are made by qualified majority for not less than three fourths of all elected members of the Board of Directors. Internal regulatory documents of the Company ensure preparation and holding of the managing authorities with account of the best corporate governance practices.

CSR ISSUES CONSIDERED AT BOARD OF DIRECTORS' MEETINGS

In 2018, 14 meetings of the Company's Board of Directors were held. 78 issues were considered, including 9 issues dedicated to matters of corporate social responsibility, matters related to the implementation of the Company's Innovational Development Program, integration of professional standards within the Group, review of the performance report on the quality management system and the report on the measures for the arrangement of a risk management and internal control system in the area of corruption prevention and control etc.

Production Results

STATUS OF THE RESOURCE AND RAW MATERIALS BASE

The cumulative initial hydrocarbons reserves of the A+B1+C1 and B2+C2 categories of Zarubezhneft Group of Companies as of January 1, 2019

amount to 1,302.22 MM TOE, and the cumulative initial recoverable hydrocarbons reserves to 477.1 MM TOE. The amount of the cumulative recoverable hydrocarbons reserves with account of the Company's share as of early 2019 belonging to the

AB1+C1 (2P category is accounted for the SRV fields) amount to 100,193 thousand TOE.

GEOLOGIC EXPLORATION WORKS

In 2018, geologic exploration works were performed on sites in the Socialist Republic of Vietnam and the Russian Federation. The exploration

drilling volume in 2018 amounted to 35.7 thousand meters. The main task was clarification of structures containing undrilled reserves at the active fields and confirmation of the possible reserves at the new blocks. In the reporting year, the construction

of seven exploration wells offshore of the Socialist Republic of Vietnam, two wells in NAA and one well in the Orenburg Region was completed.

HYDROCARBON PRODUCTION

In 2018, the Company continued focusing on the maintenance of production stabilization through the implementation of geological and technical measures and organizational and technical measures as per the production program. Two fields belonging to LLC

JC RUSVIETPETRO—Urernyrdskiye and South Syurkharatinskoye were put into all-year exploitation. In general, 29 new wells were put into exploitation and a number of well works were successfully performed at the fields of the Russian segment. With account of Zarubezhneft's share, the 2018 hydrocarbon production was 5,149 thousand TOE, which was 3.6%

lower than in the last year. At this, the planned figure (5,054 thousand TOE) has been over-performed by 1.9%. The production decrease was due to the entry of the major fields of JV "Vietsovetpetro" White Tiger and Dragon into the complex final development stage.

DOWNSTREAM

As per the results of the segment's operations in 2018, the revenue of the segment increased by 17% compared to that of the previous year owing to the growth of the

average oil products sale price amid the rising global oil price. The growth of the investment program in 2018 amounted to 33% compared to 2017 due to the implementation of the priority project of Modriča Motor Oil Plant for the replacement

of the dewaxing unit filters. The consolidated indicator of the segment's operational efficiency under the results of the reporting period amounted to +4.6 MM EUR. The positive value of the indicator has been achieved for the past three consecutive years.

¹ Recommended by the letter from the Central Bank of the Russian Federation dated April 10, 2014, No.06-52/2463

Personnel Development

The HR Policy of Zarubezhneft Group of Companies is approved for the period of 2014–2019. The existing approach towards the selection, training and assessment of personnel corresponds to the Company's Strategy aimed at the development of fields with complex reservoirs and the development of new projects in Russia and abroad.

The main directions of the HR and Social Policy are:

- Creation of an efficient remuneration system and social package;
- Development of a personnel reserve and staff rotation;
- Improvement of the quality of personnel selection and adaptation;

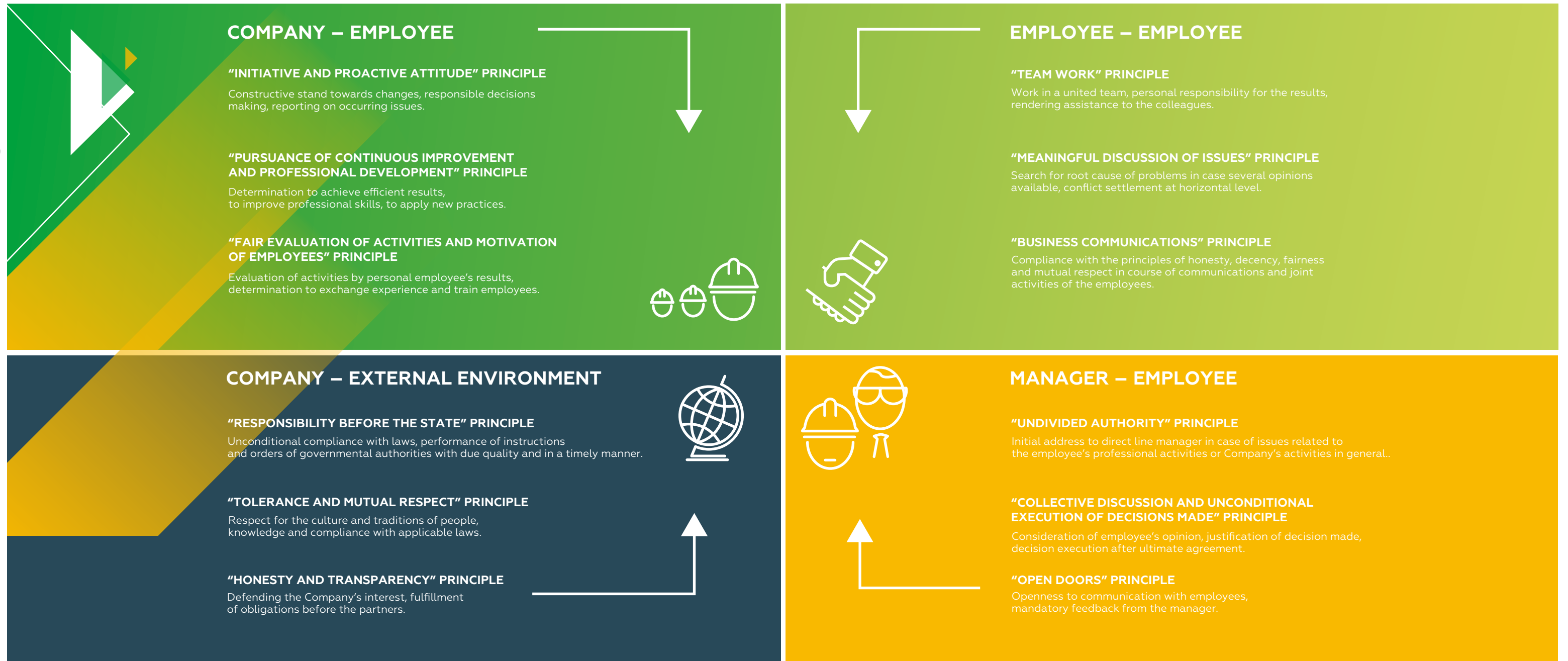
- Improvement of works results at all levels, staff training and employee development ;
- Establishment of an efficient corporate culture and its continuous development.

CORPORATE CULTURE

At the 8th Saint-Petersburg International Gas Forum (Russian Energy Week), the Company presented its system for corporate culture formation and the measures aimed at its development and

promotion within Zarubezhneft Group of Companies. Zarubezhneft JSC has previously carried out qualitative changes in part of organizational development, which were based on the principles of corporate interaction:

Key corporate interaction principles



The Company regularly hosts corporate events aimed at improving the loyalty and motivation of personnel and the establishment of intra-corporate communications not only within the Corporate Center but also among the enterprises of the Zarubezhneft Group of Companies.

The main change in 2018 was the distribution of the corporate culture development process and the corporate interaction principles to the subsidiaries. Principles that had

already been proof-tested within the Corporate Center were now being actively introduced at the enterprises.

PERSONNEL HEADCOUNT AND STRUCTURE

In 2018, the headcount within the Zarubezhneft Group of Companies of Companies was 12,681 people, which was 4% less than in 2017. The personnel headcount decreased due to the headcount optimization

measures being carried out: in Russia – by 1.5%, in the Socialist Republic of Vietnam – by 6.3% in the Republic of Srpska (Bosnia and Herzegovina) – by 2.1%.

Company headcount dynamics by countries of presence, persons

Country of presence	Actual			
	2015	2016	2017	2018
Total for the Group of Companies	14,531	13,846	13,245	12,681
Russia	3,302	3,627	3,909	3,851
Socialist Republic of Vietnam ¹	8,857	8,079	7,252	6,790
Republic of Srpska (Bosnia and Herzegovina)	2,356	2,127	2,073	2,029
Republic of Cuba	16	13	11	11

In general, the average headcount of the Group of Companies has a tendency for decrease, which is due to the ongoing headcount optimization measures within the Group of Companies: headcount decrease was

5.5% in the "Service and other assets" segment, 4.5% in the Upstream segment and 2.1% in the Downstream segment.

Company headcount dynamics by the areas of activities, persons

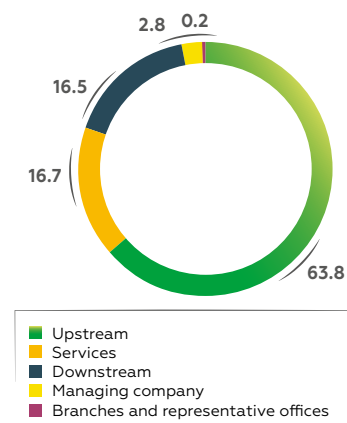
Area of activities	Actual			
	2015	2016	2017	2018
Total for the Group of Companies	14,531	13,846	13,245	12,681
Managing company	320	322	326	317
Zarubezhneft JSC branches and representative offices	30	26	25	24
Upstream ²	9,972	9,402	8,813	8,415
Downstream	2,356	2,127	2,073	2,029
Services	1,853	1,969	2,008	1,896

At this, the Upstream segment, which comprises 66% of all personnel, continues to be the priority area of the Group of Companies'

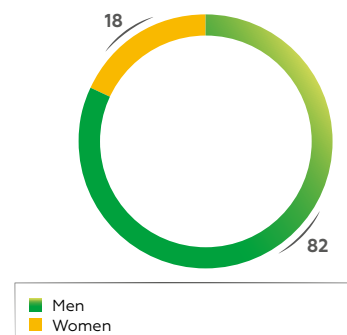
development. The headcount of downstream and services and other assets amounted to 34%.

¹ The personnel of JV "Vietsovpetro" was previously accounted for in the headcount in the Socialist Republic of Vietnam.
² Due to the headcount reporting expansion starting 2018, the current version of the Reports accounts for all personnel of other Blocks and Service projects of "Vietsovpetro".

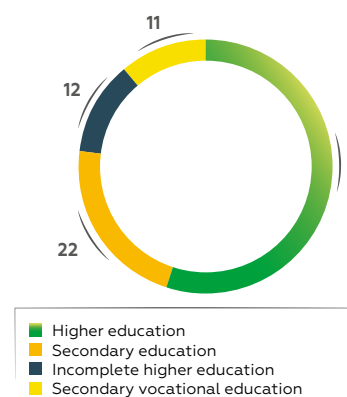
Personnel structure by areas of activities %



Gender balance, %



Personnel structure by education level (as of December 31, 2018), %



Dynamics of changes in the personnel structure by the categories of positions, %

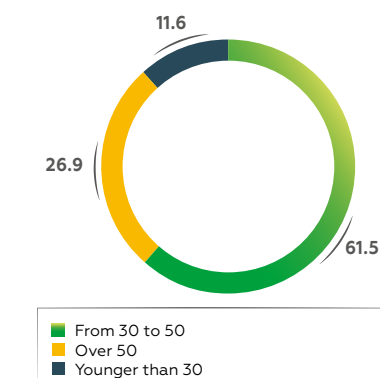
Name	as of 31.12.2016	as of 31.12.2017	as of 31.12.2018
Managers	19.0	16.0	16.0
Experts	33.0	41.1	40.9
Clerks	2.0	0.2	0.3
Workers	46.0	42.7	42.8

The personnel of the Zarubezhneft Group of Companies is predominantly men, who make up 82% of the headcount. This is because oil production requires working at remote fields (including on a rotational basis), and involves a significant share of physical labor, including at the drilling rigs (particularly at the JV "Vietsovpetro" facilities in Vietnam).

Personnel structure by categories of positions is formed to ensure balance between the managers, experts and workers.

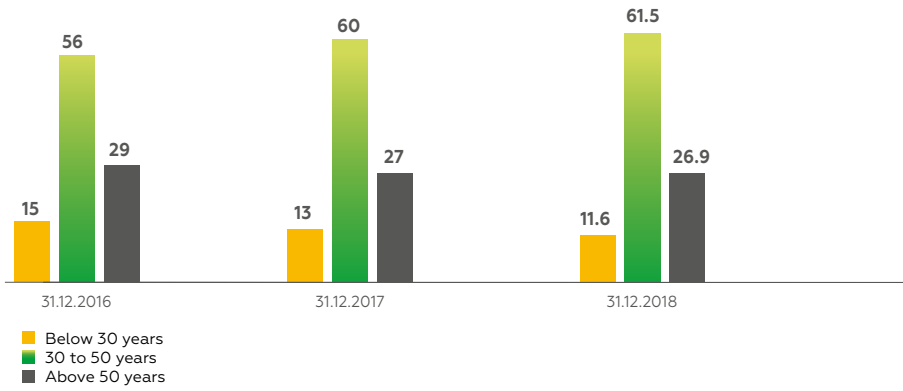
More than half of the Group of Companies' employees have higher education. However, considering the large number of workers, a significant part comprises employees with secondary and vocational secondary education.

Personnel composition by age (as of December 31, 2018), %



The age structure of personnel is traditionally formed in such a way that two thirds of it belong to the age category of 30-50 years. Such a strategy ensures the best balance of the qualities that are critical for a production company: physical capabilities and work experience. Traditionally, the significant specific weight is accounted for by the younger employees – 11.6 %, which establishes a sustainable basis for the development of new projects. Considering these factors, the Group maintains its average personnel age at the level of 42 years.

Changes in personnel composition by age, %



Acting within the International Labor Organization Conventions No. 138 – Concerning the Minimum Age of Work and the Russian Labor Law, Zarubezhneft JSC takes a tough stance against hiring workers under the age of 18 to work at its production facilities, regardless of the legislative framework of the country where the Company is implementing the project.

full-time basis. The Company does not employ part-time or seasonal workers.

loyalty, ensure a decent level of income and provide reasonable employment benefits and social packages.

PERSONNEL TURNOVER

The Company's active personnel turnover rate for 2018 decreased and amounted to 4.0% (5.5% in 2017).

In 2018, the personnel turnover rate decreased and amounted to 8.2 % (16.6 % in 2017), which was mainly due to the dismissal of the personnel of JV Vietsovpetro.

Permanent employment contracts are concluded with the Company's employees. Fixed-term employment contracts are concluded only for key employees' parental leaves. All the Company's employees work on a

However, the average turnover rate is low enough, which indicates personnel stability. This is the result of ongoing activities to establish a corporate culture, increase personnel

Personnel turnover rate by country of presence, %

Country of presence	2016		2017		2018	
	Active	Full	Active	Full	Active	Full
Total for the Group of Companies	3.7	11.2	5.5	16.6	4.0	8.2
Russia	9.4	16	14.3	20.5	9.3	15.9
Socialist Republic of Vietnam	1.3	10.2	1.7	18.5	1.8	4.1
Republic of Srpska (Bosnia and Herzegovina)	1.2	5.5	2.1	6.8	1.6	6.7
Republic of Cuba	0	46.7	0	27.3	0	54.5

The growth of full turnover in the Republic of Cuba is associated with the expiry of labor contracts; at this, there were no dismissals caused by reasons covered by active turnover.

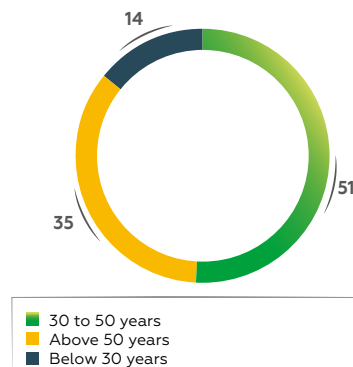
Turnover rate by areas of activities in 2018, %

Area of activities	Flow rate	
	Active	Full
Total for the Group of Companies	4.0	8.2
Managing company	6.5	22.3
Zarubezhneft JSC branches and representative offices	4.2	33.3
Upstream	2.1	4.8
Downstream	1.6	6.7
Services	14.7	21.9

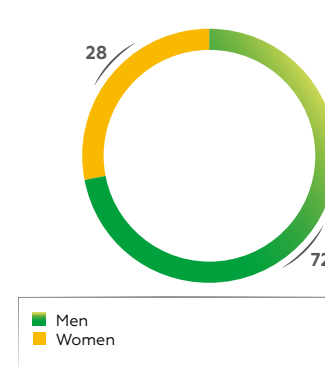
The high turnover rate in the Services segment in Russia is associated with the implementation of measures for labor performance improvement at Giprovostokneft JSC, VNIlneft

JSC, EXPLON LLC; in the Upstream segment – with the dismissal of personnel at JV "Vietsovpetro", at branches and representative offices – with low number of employees.

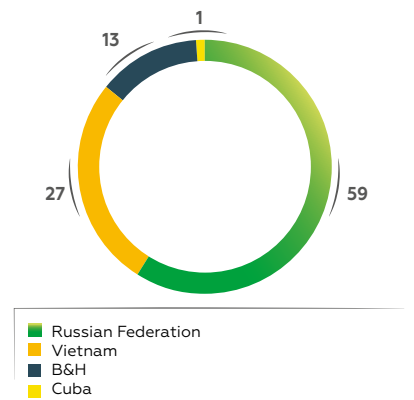
Structure of employees dismissed in 2018 by age, %



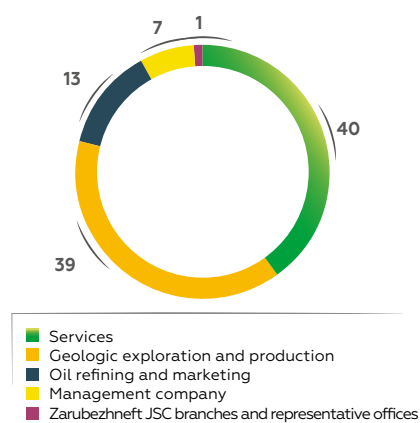
Structure of employees dismissed in 2018 by gender, %



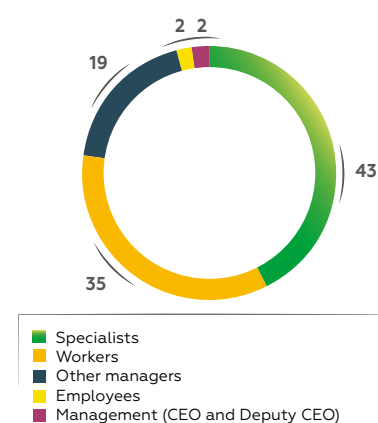
Structure of employees dismissed in 2018 by countries of presence, %



Structure of employees dismissed in 2018 by areas of activities, %



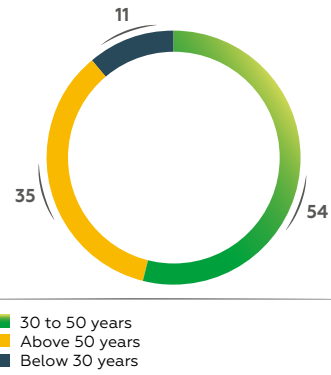
Structure of employees dismissed in 2018 by categories of positions, %



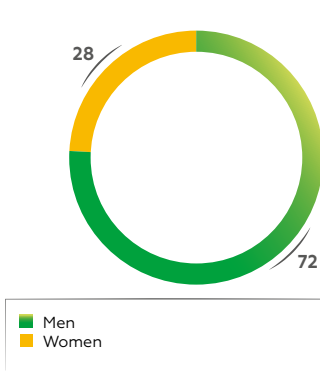
PERSONNEL SELECTION

The priority task in the area of personnel selection within the Zarubezhneft Group of Companies is satisfying the business's demand for highly qualified experts through maximum use of in-house candidates and personnel rotation.

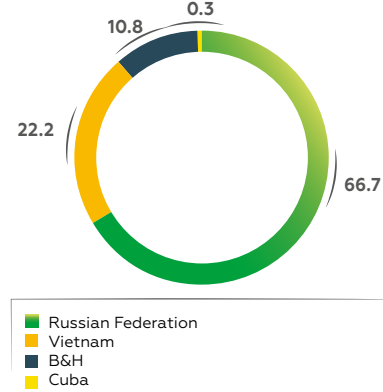
Structure of employees hired in 2018 by age, %



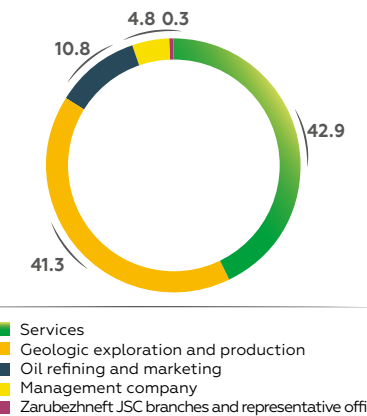
Structure of employees hired in 2018 by gender, %



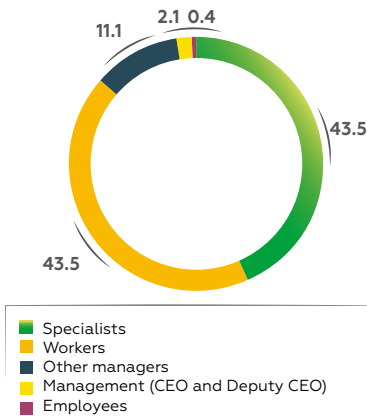
Structure of employees hired in 2018 by country of presence, %



Structure of employees hired in 2018 by areas of activities, %



Structure of employees hired in 2018 by categories, %



the Company, including the "New employee's guidebook", the "Code of corporate conduct" and other documents.

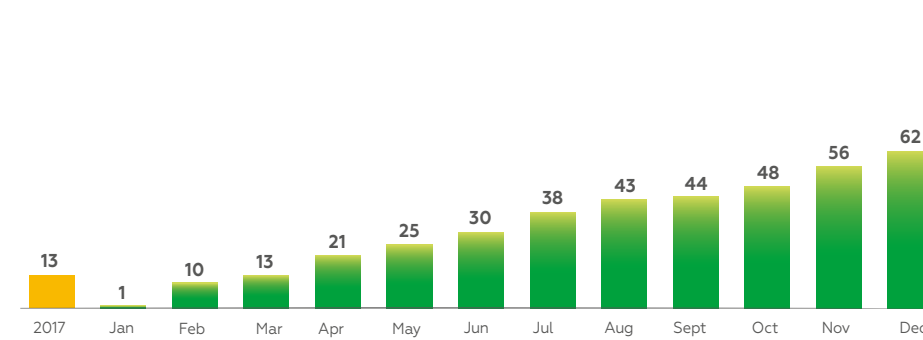
ROTATION PROGRAM AND PERSONNEL RESERVE

The company is developing its personnel reserve and implementing an internal rotation program to retain and motivate key employees as well as for the development of the necessary competencies and reduction of costs for the selection and adaptation of personnel.

In the reporting year, 62 internal rotations of employees were performed, including transfer to the international projects of the Company.

To rapidly form teams for new international and Russian projects, Zarubezhneft JSC has formed a mobile employee pool. The employee pool consists of more than two hundred employees of the Group of Companies at key positions of Zarubezhneft JSC; a mentor-supervisor from among the managers is assigned to each reservist. Throughout the year, the succession pool members are trained as per the approved Individual Development Plans (IDPs) for the development of professional and managerial competencies. To assess the dynamics of reservists'

Rotation dynamics of 2017-2018, total cumulative, persons



development, semi-annual monitoring of IDPs implementation is carried out. The degree of readiness of succession pool members for appointment is determined at Expert Group meetings under the supervision of the Company's top management and revised as per the results of enrichment activities and implementation of the tasks that are important for the Company.

To continuously develop the succession pool structure, the concept of modular training of succession pool members is implemented based on the Company's own Leadership and Management Capacity Development School. The main objectives of the School are:

- development of key high-potential employees;
- enhancing the management culture and the management;
- improvement of business and personal qualities;
- improving leadership capacity and teamwork.

In the reporting year, under the Leadership and Management Capacity Development School, 117 succession pool members took part in the following training programs: innovation in the Company's management system, system thinking, cross-functional management, leader's core values, and performance management aimed at developing management skills and personal qualities. For

the additional development of succession pool members and the implementation of individual development plans, programs for the in-place development of managerial and corporate competencies have been elaborated; an electronic library has been created for self-education and self-development by viewing books online and the opportunity to download useful material.

WORK WITH YOUNG EXPERTS AND INTERACTION WITH EDUCATIONAL INSTITUTIONS

To implement the program for innovation development and the policy for young experts, Zarubezhneft JSC actively interacts with Russia's leading higher education institutions in terms of recruiting and selecting high-potential students, facilitating students' movement into production practice and organizing employee retraining and advanced training. The Company has concluded agreements on cooperation, in addition to organizing scientific and technical interaction, with each higher education institution partner, which enables the operative solution of training issues for the Zarubezhneft Group of Companies' employees and young experts. This cooperation is implemented across various fields of activities: training, scientific and technical, and social and cultural.

Graduates of the following universities are top requested:

- Gubkin Oil and Gas Russian State University (Fields: oil and gas engineering, oil and gas field development and operation, oil and gas production physical processes, geology, economics and management at oil and gas sector enterprises);
- Lomonosov Moscow State University (Field: economics, Vietnamese and English translators);
- MGIMO University (Field: international economic relations);
- Tomsk Polytechnic University (Field: development and operation of oil and gas fields, studying at Heriot-Watt);
- Ukhta State Technical University (Field: development and exploitation of oil and gas fields);
- Samara State Technical University (Fields: development and operation of oil and gas fields, machinery and equipment of oil and gas production fields, economics and company management);
- Lomonosov Moscow State University (Fields: geology, jurisprudence, economics, mathematics, physics);
- Moscow Technological University (MIREA) (Field: chemistry);
- Moscow Institute of Physics and Technology (Field: mathematics, physics).

The Group of Companies regularly carries out work on attracting students from leading universities for practical training and internship. In 2018 in 2018, the number of students admitted for internship at the Corporate Center and its subsidiaries was 195 people.

The following types of assessments are used for selecting experts:

- Assessment of individual capabilities and personal qualities using certified testing methods as per international standards, as well as the determination of English language skills for all candidates for positions at the Corporate Center and candidates for individual positions at the subsidiaries;
- Assessment of professional and ancillary expertise and skills associated with the area of activities.

In 2018, the Group of Companies continued hiring personnel for the new subsidiary Zarubezhneft-Dobycha Kharyaga that was established in 2016. Personnel was also being hired

for the new production facilities of RUSVIETPETRO, RMNTK Nefteotdacha, Zarubezhneftstroyontazh, where the headcount of the foreign assets is decreasing.

Zarubezhneft JSC applies a unified approach and personnel adaptation methods: adaptation workshops are held for new employees, supervision and in-place training is practiced, and an individual employee adaptation plan is made. Also, for successful personnel adaptation at Zarubezhneft JSC, since 2018, the automated WebTutor personnel management system has been used: on the first working day, a personal account is created for a new employee of the Company, an invitation is sent to take compulsive introductory courses and get acquainted with materials about

In 2015, the Group of Companies launched a program on attracting students for salaried placement. The principles and conditions for the admission of students for salaried placement within the Company were developed and approved; a plan for the admission of students for salaried placement was drawn up and is approved annually. In 2018, the number of students who passed through salaried placement at the Corporate Center and its subsidiaries was 45 people.

Program for cooperation with higher educational institutions

Zarubezhneft JSC actively cooperates with leading technical universities of the Russian Federation, such as the Gubkin Oil and Gas Russian State University, Ufa State Petroleum Technological University, Tomsk Polytechnic University, Bauman Moscow State Technical University and others. Personnel training programs for the fuel and energy complex are realized on an ongoing basis:

- at the Gubkin Oil and Gas Russian State University in Moscow, young Serbian engineering specialists from among the children of employees of the Group of

Companies enterprises in Bosnia and Herzegovina are trained by the Company;

- more than 30 children of Russian specialists working at JV Vietsovetpetro undergo targeted training at specialized universities of the Russian Federation

Every year, employees of Zarubezhneft Group of Companies improve their skills at higher education institutions under various training programs in the area of oil and gas production, economics and management, development of oil and gas fields, well operations, financial management, budgeting and controlling at oil and gas enterprises, technological processes of oil and gas production and processing, and many others.

Young experts council

The priority field of the Company's activities is working with the young experts of the Group of Companies, which provides for the identification and professional growth of young prospective employees.

The Young Experts Council – a collegial social and professional association of the Company's active youth, continued its work in 2018. The

Council was established in 2013 as one of the tools for implementing the Company's Youth Policy.

The Young Experts Council is integrated into the Company's HR Policy in the area of work with youth and performs the following main functions:

- Assistance in the adaptation and engagement of young experts in production and community activities;
- Formation of a pro-active attitude and loyalty to the Company;
- Rallying the youth and fostering efficient communication between the "generations" of employees;
- Making young employees feel involved in the general business of the Company, engaging the youth in teamwork;
- Engaging the youth in innovative scientific and research project activities;
- Promoting a healthy lifestyle;
- Assistance in arranging conditions for increasing the creative initiative of youth.

In addition to Zarubezhneft JSC, Young Professionals Boards operate in seven companies: LLC "JC

youth of the oil and gas industry.

In 2018, corporate sport reached a new level. Every employee of the Company received the opportunity to attend volleyball and football training on a regular basis. The training process under professional trainers could not go unnoticed, and the results were not long in coming. A cross-functional team of young professionals of the Zarubezhneft Group of Companies showed excellent results in the Spartakiad among the enterprises of the Oil Refining and Sales segment in the Republic of Srpska (Bosnia and Herzegovina), taking the first place in women's volleyball and second place in football.

In the reporting year, billiard, beach volleyball and curling tournaments were held, which became a good tradition in the Company. The young people also came forward with an initiative to collectively pass the GTO standards and participate in the extreme race "Race of Heroes".

Athletes defended the Company's honor at the track-and-field events organized by the Ministry of Energy of Russia.

The most striking sporting event in 2018 was the corporate mini-football tournament dedicated to the anniversary of LLC "JC "RUSVIETPETRO", which was held on July 21 at the Cherenkov Academy of FC Spartak Moscow.

In the reporting year, the volunteer movement continued its development as part of the work of the Young Experts Council. During 2018, as part of the youth initiative, charity events were held with the involvement of the entire Company's staff.

In March, a charity event was organized at the Odoyevsky Nursing Home (Tver Region).

In May, the Young Professionals Board joined employees of the subsidiaries of VNIIneft JSC and LLC "JC "RUSVIETPETRO" to congratulate veterans on Victory Day.

In July, the Company's youth carried out an Environmental Campaign, as part of which the work was carried out on restoration of a playground in the history-themed natural park of Bitsevskiy Forest Park.

In the reporting year, the Young Experts Council completed good deeds with campaigns dedicated to the New Year, visiting children at a care home in the city of Gagarin in the Smolensk Region and residents of a nursing home in Zherekhovo Village in the Tver Region.

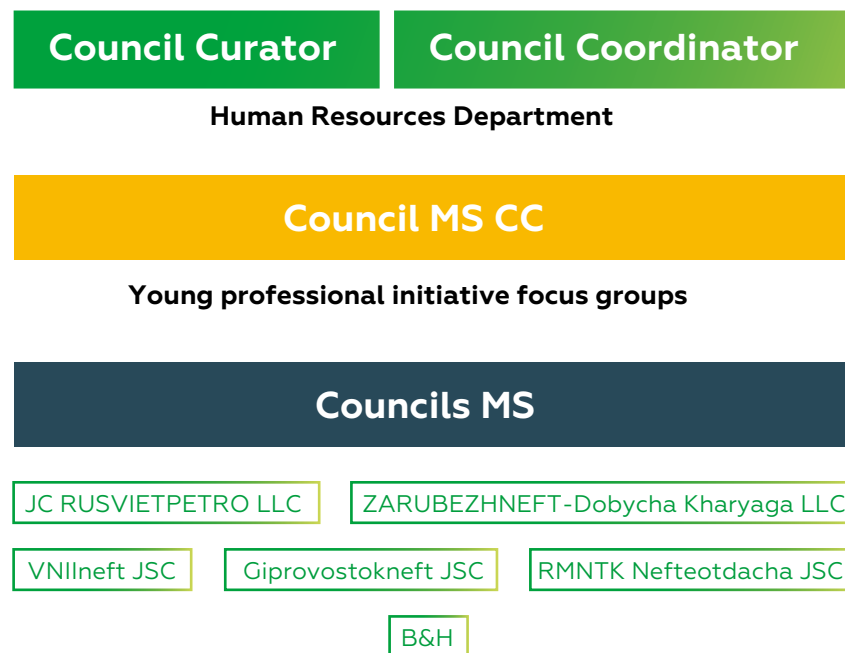
TRAINING AND EVALUATION

Zarubezhneft JSC's training system is designed to ensure not only an increase in the required employees' level of professional and technical competences, but also the fulfillment of 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 uses the full range of modern types, forms and methods of training. The training is conducted based on the best Russian and foreign organizations, as well as corporate training centers for retraining programs. The company applies long-term and short-term training and business education (special training programs, skills training). Employees are given an opportunity of full-time, correspondence and distance learning, including specialized courses based on the WebTutor automated system.

The Company provides the following training areas:

- corporate training in management and professional training programs as per the priority goals and objectives, aimed at developing corporate, managerial and professional competencies;
- professional and technical education aimed at developing the knowledge, abilities and skills required for the performance of functions;
- compulsory education conducted as per the requirements of state

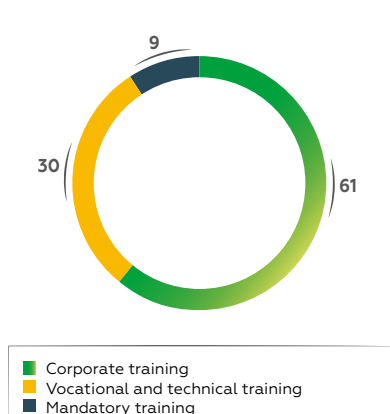
Structure of Youth Organization in ZARUBEZHNEFT JSC



bodies and the laws of the Russian Federation, supported by relevant documents.

- As part of the implementation of Zarubezhneft JSC's Development Strategy, the following became the key areas of personnel training and development in the reporting year:
- implementation of individual training programs aimed at improving the professional level as per current and strategic objectives, varied legislation requirements;
 - joint implementation of the learning process with the leading universities of the Russian Federation and foreign universities for training specialists in the areas that are highly-demanded at the Company;
 - implementation of the corporate program for the training and development of high-potential employees, aimed at improving knowledge in the field of developing the managerial potential;
 - implementation of a corporate training program for the production system and lean manufacturing – Lean Six Sigma;
 - implementation of a corporate English language program;
 - implementation of corporate training and development programs for key technical specialists of the Group of Companies.

Ratio of training programs at Zarubezhneft Group of Companies, %



For the planning and implementation of corporate training, a single menu of corporate programs for top managers, middle managers and specialists, the employee pool and young specialists has been formed and is being applied, which includes programs of strategic management, managerial and technical programs, as well as remote teaching and English language teaching.

The priority direction of the employee training system is the development of key vocational and technical competences in the field of geology, development, drilling, oil and gas production and project management.

Occupational and technical training is carried out based on the in-house Petroleum Engineering School. Both external and in-house lecturers of the Zarubezhneft Group of Companies have been engaged as part of the Petroleum Engineering School. The in-house lecturers managed to develop and carry out three new training courses in 2018:

- "Flooding and optimization of development systems";
- "Reef complexes";
- "Fundamentals of thermal methods".

In 2018, the Oil Engineering School managed to train a total of 196 people, including employees of the Corporate Center, the subsidiaries and Vietsovpetro Joint Venture; the corporate knowledge base is filled with the previous course materials on an ongoing basis.

Training on project competencies development is conducted at the in-house Project Management School based on the Gubkin Oil and Gas Russian State University – International Business School on the educational program of further vocational education – Master of Business Administration (MBA), Management of Oil and Gas Business. Project Management.

The Project Management School collaborated with the university to develop a training program taking into account the current and future

tasks of the Company's business, including the requirements of strategic projects. Between 2017 and 2018, 18 people graduated from the Project Management School, including the employees of the Corporate Center and Subsidiaries. For the implementation of training programs, both external and internal lecturers were involved. Following the presentation results, all students received state diplomas of the MBA degree.

Zarubezhneft JSC pays special attention to the development of talented and purposeful specialists with high professional and managerial competencies, and attracts them to work on new and current projects of the Company. The winners of the Nestro Lead Competition, the first open competition for employees of the Zarubezhneft Group of Companies that was the start of a common corporate personnel development program, were directed to the training on the comprehensive program "Modern Leader in International Environment" under the Gubkin Oil and Gas Russian State University – International Business School and the Skolkovo Moscow School of Management; an international internship is also provided for under the development agenda for the winners.

The goal of the training and development programs for the winners and finalists of Nestro Lead is to form an efficient and solid team for handling foreign assets, taking into account the Company's strategic interests, to assess and develop the personal potential of each team member, as well as to improve communication skills in the international environment.

Under the training program for the competition finalists, unique developmental trainings based on the Efficient Leader program have been developed under the Leadership and Management Capacity Development School.

In addition, the winners and finalists of the competition take remote courses on improving personal effectiveness in the WebTutor Training Portal, as well as

vocational training at various advanced training centers in Russia.

A training portal that includes all types of training implemented within the Company was developed for the professional and personal development of the employees. A process for the online placement of applications for training was developed for the expedite planning of the employees' training, which has allowed to cut the labor costs for the development and analysis of the proposals for training events submitted by the employees.

Training of experts at the Project Management School

Training for the development of project competencies is conducted under the in-house Project Management School based on the Gubkin Oil and Gas Russian State University – International Business School on the educational program of

further vocational education – Master of Business Administration (MBA). Oil and Gas Business Management. Project Management.

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Personnel evaluation

As per its Personnel Policy, the Company's evaluation system comprises a flexible, transparent staff performance management system aimed at the timely, high-quality achievement of strategic objectives.

Zarubezhneft JSC has implemented and operated a transparent system of annual personnel assessment based on uniform requirements for performance assessment and professional development of personnel for objective financial and non-financial remuneration as per the degree of the employees' involvement in achieving the strategic objectives of the Group of Companies.

The Company conducts annual personnel assessment on a regular basis, which allows evaluating personnel performance indicators systematically and objectively, identifying high-potential employees, stimulating the identified employees for positive work results and high professionalism, as well as determining the directions for both the professional and personal development of the employees.

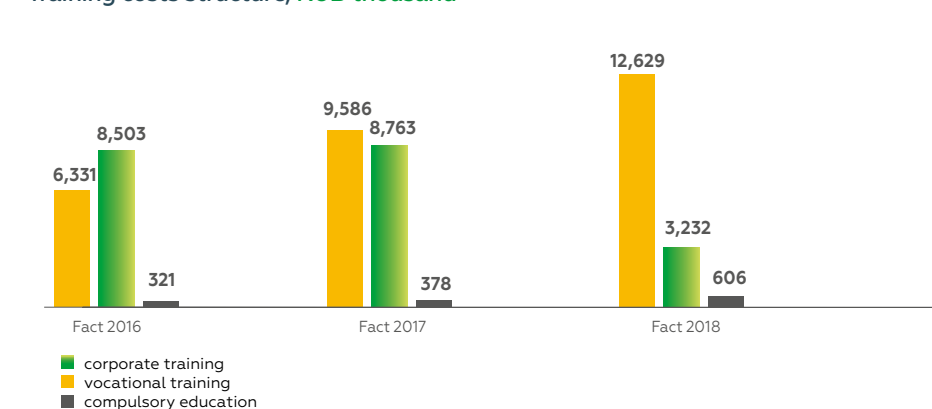
Based on the annual assessment results, employees are provided with detailed and reasonable information on their performance and competencies development level over the past year. Proposals are made and a decision is adopted on the upward mobility of the employee's professional status, changing the grade / shifting the position and the transfer of an employee to a senior position, including to the employee personnel reserve. Priorities in the development of the employee's key competencies and individual targets for the next year are also identified.

The Company implements external assessment measures, such as the Assessment Center, evaluation by the 180/360 degree method, as well as various types of testing to identify its employees' level of development of professional knowledge and skills, business and personal qualities, as well as verbal and numerical abilities.

Dynamics of the headcount of employees under training, persons

Training structure	Actual		
	2016	2017	2018
Corporate training	202	395	414
Professional and technical training	86	131	119
Mandatory training	26	66	157
TOTAL	314	592	690

Training costs structure, RUB thousand





In the reporting year, as part of the annual employee assessment, an additional survey of managers and supervisors was carried out using the 360-degree method to map out the current situation regarding compliance with the principles of corporate interaction as well as further development of an action plan for the development and promotion of these principles.

To implement a uniform personnel policy in the area of personnel evaluation, assessment activities are carried out throughout the Zarubezhneft Group of Companies.

The Company strives to keep up with current trends and apply the modern automated HR-technologies. The tools for the assessment, training and development of employees are automated and developed within one system and unified logic using

the WebTutor software. Owing to the introduction of the WebTutor system, the labor costs and time for the preparation and performance of assessment procedures and analysis of the results have been significantly reduced, as well as the number of employees trained in the Company increases, owing to the remote training courses. In the reporting year, this system was integrated almost in all subsidiaries of the Company, and it allows implementing assessment procedures online and arrange remote training.

Professional standards integration
In 2018, the Company continued to implement the Professional Standard Introduction Plan approved as per Decree of the Government of the Russian Federation No. 584 dated June 27, 2016 and Directives of the Government of the Russian Federation No. 5119n-П13 dated July 14, 2016.

All planned targets for 2018 were achieved:

- a list of applicable professional standards was defined;
- information about professional education and training of employees obtained from analysis of qualification requirements specified in professional standards was included in the employee training plans;
- changes were introduced to the Company's local regulations,
- and a list of documents subject to change as per the applicable professional standards was prepared.

Zarubezhneft JSC is a member of the Council for Workforce Skills in Oil and Gas Industry, which was formed by the Resolution of the National Council on Vocational Qualifications under the President of the Russian Federation on March 27, 2015 to form

and support the workforce skills system in the oil and gas industry.

The Zarubezhneft JSC Corporate Center has started introducing professional standards at the Company's subsidiaries.

By the end of 2018, 99 professional standards were introduced within the Group, and their requirements are mandatory in terms of the description of positions, trades or qualification requirements and are used in the Group as per the employers' decisions. Eighteen of the introduced standards are for the production, refining, transportation of oil and gas.

Employment for positions (trades, qualifications), which imply compensations, benefits or restrictions specified in the Labor Code of the Russian Federation or other federal legislation, includes

application of Zarubezhneft's professional standards.

The qualification characteristics contained in the professional standards and are not established to be mandatory are applied within the Group of Companies as a basis for defining the requirements to the employees' qualification with consideration of the labor functions they are to perform determined as per the applied technologies and the adopted production and labor arrangement.



MOTIVATION

Material

One of the top targets of the Zarubezhneft JSC Personnel Policy is the creation of an efficient personnel remuneration system that allows to attract, retain and motivate employees with the necessary competencies and level of performance to successfully accomplish the business goals of Zarubezhneft Group of Companies at a minimum expense.

The Group of Companies implements programs of financial and non-material incentives for the employees.

The material incentives include :

- fixed part (official salary, allowances and bonuses);
- variable part (monthly and annual bonus payments);
- social payments (mandatory and corporate).

The non-material incentives include:

- state, departmental and corporate awards;
- awarding honorary ranks and winning places at competitions.

The size of the fixed and variable part of employees remuneration depends on the following factors:

- position level expressed by the corresponding labor remuneration grade;
- level of professional competence and labor productivity implemented through the assignment of a certain professional status to an employee;
- work performance and achievement of the set goals for the reporting period, reflected to the extent of the variable remuneration part for the period;
- level of remuneration of comparable positions in the labor market at competing companies and the target position of Zarubezhneft Group of Companies on the labor market for this position level.

When determining the target position of the Group of Companies in the labor market, the following approaches are applied:

- selection of the appropriate labor market for various categories of personnel (Moscow, regional, international);
- singling out key groups of employees and positions for which the Group of Companies is ready to provide above-average salary level in the relevant labor market;
- for the rest of the employees, the

Group of Companies is ready to provide salary at the average level in the relevant labor market.

In this regard, Zarubezhneft JSC consistently undertakes work in the following areas:

- improving the staff remuneration scheme;
- improvement and development of the integrated staff planning system.

Since 2013, the Group of Companies has been implementing the Unified Labor Remuneration Scheme (ULRS).

The ULRS defines a unified procedure for setting employees' salaries based on a single grade line, reflects Company's business interests and priorities, ensures the alignment of the size of the annual staff remuneration with the achievement of key performance indicators (KPIs), and is one of the Company's main tools for managing employees' performance.

To attract and retain key managers, Zarubezhneft JSC has built a comprehensive motivation system that includes the following elements:

- fixed remuneration (official salary, allowances and surcharges as per the legislation);
- year-end bonuses based on the results of achieving KPIs;

- bonuses for achieving strategic goals (Challenge corporate BI).

The Group of Companies conducts a regular analysis of the inflation level and the consumer price index, based on which it adopts decisions on the revision (indexation) of its staff salary level.

The minimum salary is established at a level not lower than the subsistence rate in the region of activities.

An integral part of the Group of Companies' remuneration system is a program for the social support of employees and their families, which is taken into consideration when assessing the overall attractiveness and competitiveness of the proposed remuneration.

Zarubezhneft JSC Group of Companies has approved the Unified Concept of one-time payments and social policy, aiming at a decent standard of medical care, aid to employees in the event of the occurrence of various circumstances,

Personnel costs structure by country of presence¹, %

Country of presence	Actual							
	2015		2016		2017		2018	
	SF	SP	SF	SP	SF	SP	SF	SP
Total for the Group of Companies	90	10	89	11	88	12	88	12
Russia	92	8	94	6	92	8	89	11
Republic of Srpska (Bosnia and Herzegovina)	81	19	84	16	89	11	91	9
Republic of Cuba	94	6	94	6	93	7	95	5
Socialist Republic of Vietnam	93	7	82	18	77	23	88	12

reimbursement of lost earnings upon retirement, as well supporting the retirees of the Group of Companies.

¹ Salary fund (SF) and social payments (SP) comprise the personnel costs. The SP include: financial support, pension payments, welfare for the single parents, pregnancy and birth allowance from the enterprise, hotel vouchers compensation etc



03 To carry out activities to maintain the health and well-being of its staff, the Company is working to organize recreation at health resort institutions of the Republic of Crimea. Employees are given the opportunity to purchase vouchers for themselves and their family members, partially covered by Zarubezhneft JSC, and large families and families with children under 14 years old take precedence. The Company continues to operate a parity corporate program for the provision of non-state pensions to employees. As per this program, every

employee of Zarubezhneft JSC can make an individual pension contract with NPF GAZFOND and contribute a certain percentage of his / her salary to the fund on a monthly basis, while the Company contributes the same percentage, but not more than 10%.

Social payments by countries of presence

Country of presence	Actual			
	2015	2016	2017	2018
Russia ¹ , Thousand RUB	501 061	592 934	880 210	1 007 159
Socialist Republic of Vietnam, Thousand USD	11 755	23 646	28 782	13 338
Republic of Srpska (Bosnia and Herzegovina), Thousand EUR	3 292	2 474	1 526	1 387
Republic of Cuba, Thousand EUR	74	66	87	57

Non-financial
Non-financial motivation also occupies an important part in our personnel motivation system. To reward our employees and work teams for their significant contribution to the development of Zarubezhneft JSC, their achievements of high production, high financial

and economic performance, as well as to improve the corporate culture, the Company has established the following awards and ranks: "Honorary Worker of Zarubezhneft JSC", "Veteran of Zarubezhneft JSC", a Zarubezhneft Diploma, as well as a Certificate of Appreciation by Zarubezhneft.

Over the past year, 302 employees of the Zarubezhneft Group of Companies were handed state and corporate awards.

Employees awarded in 2018

Award type	Number of awarded persons	
	Total	Including Foreign citizen
National	4	–
Industrial	48	1
Corporate	250	–

INTERACTION WITH MANAGEMENT

With the integration of the Unified Social Policy Concept, including a unified list of benefits and a procedure for their provision,

subsidiaries are gradually stepping away from collective labor agreements, as the new approach includes a wider range of guarantees and compensations than individual collective agreements of subsidiaries. In 2018, collective labor agreements continued to be in force at

Arktikorneftegazrazvedka JSC and Giprovtokneft JSC. The collective agreements cover 8% of the Group of Companies' employees.

¹With account of the Corporate center

Occupational Health and Industrial Safety

CERTIFICATION IN THE AREA OF OCCUPATIONAL HEALTH AND INDUSTRIAL SAFETY

In 2018, a supervisory audit of the Zarubezhneft Corporate Center, LLC "JC "RUSVIETPETRO", ZARUBEZHNEFT-Dobycha Kharyaga LLC was successfully conducted for confirmation of the certification for compliance with international standards OHSAS 18001:2007. The subsidiaries RMNTK Neftetodacha JSC and Zarubezhneftstroyontazh LLC were introduced into the HSE Management System certification perimeter. A diagnostic audit of ZARUBEZHNEFT-Dobycha Samara LLC was conducted for compliance with the requirements of international standards OHSAS 18001:2007 for introduction into the certification perimeter in 2019.

In 2018, Zarubezhneft's enterprises joined the International Vision Zero Concept, developed by the International Social Security Association (ISSA).

On March 1, 2018, Zarubezhneft JSC, in positioning the state approach to improving the safety culture and striving for "Vision Zero", became the first international company in Russia to join the Concept.

On April 11, 2018, at the Fourth 2018 Russian National Labor Protection Week in Sochi, Hans-Horst Konkolewski, Secretary-General of the International Social Security Association Hans-Horst Konkolewsky presented a certificate of Zarubezhneft JSC's joining of the Vision Zero Concept.

On October 8, 2018, a meeting with the Ministry of Labor of the Russian Federation was held for setting clear goals and taking concrete practical steps, as a result of which the Unified

Program for the Implementation of the Zero Accident Concept – Vision Zero, at Zarubezhneft Group of Companies for 2018-2021 was formed and approved by Zarubezhneft JSC Director General S.I. Kudryashov on November 12, 2018.

Measures of the Unified Program for the Implementation of the Concept are represented via cascade communications to both the subsidiaries and the contractors as per the "Golden Rules":

1. Become a leader – show commitment
2. Identify hazards – control risks
3. Determine tasks – develop programs
4. Develop an occupational health and security system
5. Ensure safety at workplaces handling machinery and equipment
6. Enhance qualification – develop professional skills
7. Investment in personnel – motivate through participation.

The implementation of the Unified Program for the integration of the Concept – a structured but operable and fixed tool, will allow us to persistently improve the Company's safety culture while preserving the health and lives of the Company's employees.

To promote the Vision Zero Concept and engage contracting organizations in its implementation, the First International Conference with the contracting organizations of Zarubezhneft JSC GC was held on November 23, 2018 on the implementation of the Vision Zero Concept.

Cascade visiting strategic sessions "Leadership in the HSE. Zero Goal. Implementation of the Vision Zero Concept in Contracting

Organizations" were held in subsidiaries and contracting organizations in the Company's regions of presence (Moscow, Samara, Modriča, Usinsk). As per the results of the sessions, HSE Road Maps were formed with the key tasks for subsidiaries for 2019 placing an emphasis on the implementation of the Vision Zero Concept principles in the contracting organizations.

Starting from November 30, 2018, Zarubezhneft JSC has been an official member in the International Council for the implementation of the Vision Zero Concept.

MANAGEMENT SYSTEM AND TARGET INDICATORS

The Company's policy in the area of occupational health, industrial safety, environment protection and social responsibility is the basis for strategic planning and management of the current activities of Zarubezhneft JSC, as well as the setting and fulfillment of tasks, efficient monitoring and control and continuous operational improvement.

Zarubezhneft JSC acknowledges its responsibility for a favorable environment and the preservation of the life, health and wealth of people and undertakes the following obligations:

- Strive for the "Zero Goal", prevent injuries and the deterioration of people's health, environment pollution;
- Use natural resources, materials and energy rationally;
- Respect the interests and rights of local populations in the Company's regions of presence;
- Comply with the standards of Russian and international laws, fulfill undertaken obligations made to the local people,

governmental authorities, foreign and Russian business partners and other stakeholders;

- Continuously improve own occupational health, industrial safety and environment protection system.

During 2018, the Company provided it employees with special footwear, personal breathing protection equipment and overalls complying with the unified corporate style of Zarubezhneft GC. All necessary plans for the mitigation of emergencies and their consequences were developed and agreed upon in the subsidiaries (Oil Spill Contingency Plan, Emergency Response Plan).

Expert evaluations of industrial safety at hazardous production facilities (HPF) were carried out. Industrial safety statements for the HPF were developed in time.

In-process control is one of the most important elements of an efficient HSE management system. When carrying out in-process control over occupational health, industrial safety and environment protection, the personnel of subsidiaries is guided by the relevant legal and regulatory documents of the Russian Federation and the Company's regions of presence as well as internal regulatory documents, including the Regulation on the Performance of In-process Control Over the HSE Condition of the Zarubezhneft JC Group of Companies and the procedure – Risk Management in the Field of Occupational Health, Industrial Safety and Environment Protection. The mentioned procedure is an integral part of the general Corporate Risk Management System and regulates the order of HSE risk management in relation to:

- Violation of the facilities' integrity (emergency situations);

- Injury to workers, counter-agents and visitors;
- Negative environmental impact in carrying out works;
- Negative environmental impact of technological processes.

strategic sessions on leadership training, general training and advanced training in the area of HSE have been arranged for the managers and employees of the Corporate Center and the subsidiaries.

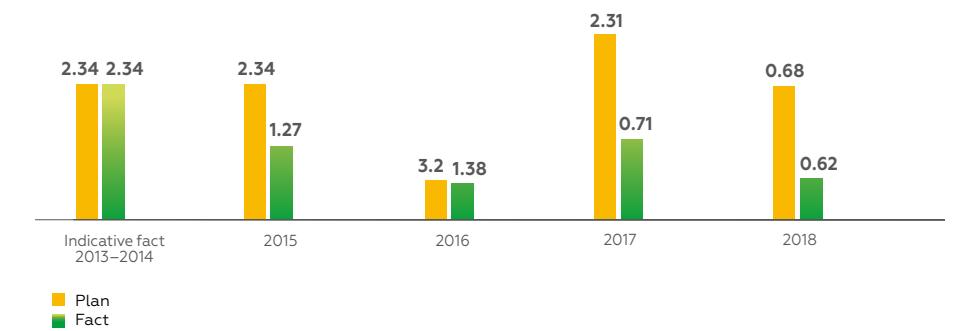
REDUCED OCCUPATIONAL INJURIES

The Lost Time Injury Frequency Rate (LTIFR) is adopted in international practice as the main indicator of the Company's efficiency in the area of occupational health and industrial safety. LTIFR has been applied in Zarubezhneft JSC since 2015.

In 2018, the accident index rate was 0.62 – more than two times lower than the 2015 figure (1.27).

The positive dynamics of this indicator is associated with the active development of the safety culture in the Group of Companies: annual

LTIFR dynamics, 2015–2018 годы





The subsidiaries regularly hold training sessions and examinations in the following categories in the area of the labor safety:

- "Industrial Safety";
- "Labor Safety and First Pre-medical Aid";
- "Basics of Fire Safety";
- "Knowledge of Rules and Norms of Working at Electrical Units";
- "Safe Operation of Electrical Units".

Zarubezhneft JSC has developed and approved the long-term Corporate Training Program in the Field of HSE for the Zarubezhneft Group of Companies for the Period 2017-2019.

The program is aimed at the development of leadership and a safe production culture.

EMERGENCY PREVENTION

The Company maintains preparedness for accidents and emergencies through an integrated approach by:

- Testing and maintaining safety facilities and training people in charge of civil defense and emergencies training centers;
- Timely development and approval from the state supervisory authorities of response plans for oil (OSR) and oil-products spills at the fields;

- Training and certifying emergency accident rescue teams in the fields;
- Concluding agreements to hold drills twice a year with specialized professional units that provide gas rescue and well blowout safety services;
- Training personnel on how to act in case of emergencies.

Constant planned interaction with contractor entities carrying out their activities at production facilities of Zarubezhneft JSC as per the laws of the Russian Federation and approved internal requirements of the Company is an integral part of Zarubezhneft JSC personnel operations as part of the occupational health and industrial safety management system.

The Company pays special attention to enhancing its production culture, leadership and engagement of managers, increasing the internal interaction level in the area of HSE, which it promotes through practical integration of the following targeted

programs at production facilities:

- "12 Life Saving Rules";
- "Leadership in Area of HSE";
- "HSE Risks Management";
- 5S system as part of the Zarubezhneft JSC Production system.

Training sessions have been held and in-house trainer groups for 5S have been established both at the Corporate Center and at the subsidiaries (142 persons) as part of the development of the 5S System within the Zarubezhneft JSC Group of Companies.

As at year-end 2018, the investment costs for the provision of safe labor

conditions within the Zarubezhneft Group of Companies amounted to RUB 509,771.043 thousand compared to the costs of 2017 – RUB 457,988.510 thousand.

The increase in costs is due to the provision of additional preventive measures against incidents, potentially hazardous accidents and production injuries. Apart from this, additional briefings and trainings with back-feed were held stemming from the investigations of the accidents and emergencies of all categories.

Environmental programs

MANAGEMENT SYSTEM, IMPACT ASSESSMENT AND PRIORITIES OF ENVIRONMENTAL PROGRAMS

Zarubezhneft JSC's policy in the area of occupational health, industrial safety and environment protection was approved by decision of the Zarubezhneft JSC Board of Directors (Minutes No. 133 dated December 27, 2016).

The subsidiaries of the Zarubezhneft Group of Companies monitor the integrity of inter-field oil pipelines on a monthly basis as one of the priorities of the Company's Environmental Policy.

In 2018, subsidiary companies of the Zarubezhneft Group of Companies operating in the Arctic zone of the Russian Federation (ZARUBEZHNEFT-Dobycha Kharyaga

LLC and LLC "JC "RUSVIETPETRO") continued working on biodiversity preservation as per the approved programs. The observation program for the established lists of indicator types by the Company's regions of activity is included in the Environmental Monitoring Program.

Caring for the Far North fragile ecosystem has traditionally been one of the Company's priorities: in 2018, LLC "JC "RUSVIETPETRO" released 154 thousand whitefish juveniles into the Usu River (the Pechora River basin). Since 2014, LLC "JC "RUSVIETPETRO" has facilitated the release of over 800 thousand juveniles of valuable fish species into the Pechora River basin.

Starting from 2014, Zarubezhneft JSC has undergone an independent Ecological Openness assessment, as per the World Wildlife Fund (WWF)

rating criteria. Among the 22 largest oil and gas companies in 2018, Zarubezhneft JSC came out second, rising from the 5th place that it occupied in 2017.

As per the "Search and Valuation of New Projects" standard, the Company pays special attention to environmental aspects and environmental risk assessment. All projects undergo the Environmental Audit primarily aimed at establishing the absence of specially-protected natural territories within the selected contract area. Project implementation is accompanied by an environmental impact assessment, with measures being developed to reduce landscape fragmentation and disturbed areas.

Zarubezhneft JSC has uniform HSE requirements for contractors. The regulations establish similar requirements for compliance with environmental standards for both



contractors of the Company and Zarubezhneft JSC subsidiaries. Collection of mushrooms and berries, hunting and fishing in the area of the Company's projects is prohibited

One of the priority areas of activities in 2018 was the implementation of the Gas Program for rational use of associated petroleum gas (APG) for 2017-2021 within the Zarubezhneft Group of Companies.

The disinvestment of the fixed capital for environment protection in 2018 is associated with the scheduled completion of the subsequent stage of implementation of the Gas Program. The increase in the expenses for the protection of water

bodies is associated with an increase in expenses under the biodiversity conservation program – release of juvenile fish into the Pechora River basin, five development projects commissioned for RUB 10 MM, as well as an increase in wastewater disposal costs and an increase in the water bodies monitoring frequency. The article "Expenditures in Other Areas in the Field of Environment Protection" previously took into account environmental monitoring costs; cost redistribution has resulted in these costs now falling under other items. The rising cost of land reclamation is associated with the completion of the drilling cycle and, consequently, the reclamation of drilling sites and sludge pits.

Environmental certification
In 2018, a supervisory audit of the Corporate Center of Zarubezhneft JSC, LLC JC RUSVIETPETRO, ZARUBEZHNEFT-Dobycha Kharyaga LLC was successfully conducted to confirm the certification for compliance with international standards ISO 14001: 2015. The subsidiaries RMNTK Nefteotdacha JSC and Zarubezhneftstroyromontazh LLC were introduced into the HSE Management System certification perimeter. A diagnostic audit of ZARUBEZHNEFT-Dobycha Samara LLC was conducted for compliance with the requirements of international standards ISO 14001: 2015 for introduction into the certification perimeter in 2019.

Funding of environmental programs

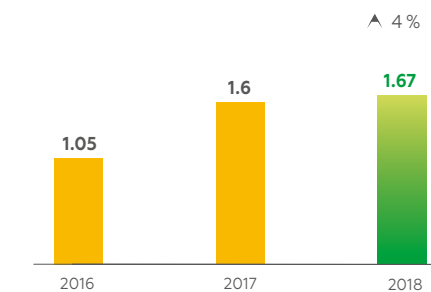
Environment Protection Investments, RUB MM

Indicators	2015	2016	2017	2018
Main capital investments for environment protection	41.360	97.800	270.220	228.210
Fines for negative environmental impact	19.890	27.283	28.509	20.380
Accrued fines for environment pollution	0.937	0.090	0.320	0.507
Current environment protection costs	196.920	142.630	160.600	163.800
including:				
for water bodies protection	3.000	4.580	7.680	23.000
for atmospheric air protection	1.580	1.650	3.500	3.700
for land resources protection from production and consumption waste	155.000	111.660	131.520	118.900
Land rehabilitation	31.190	12.990	12.090	17.400
Other environment protection areas	6.180	11.750	0.000	0.000

RESOURCES SAVING

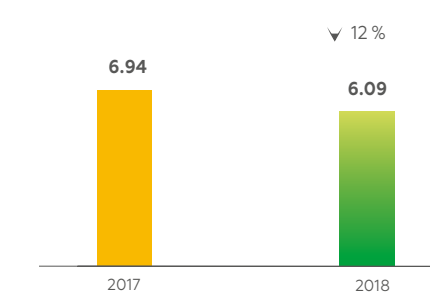
Water

Water withdrawal thous.t/thous. t of oil



Emissions

Atmospheric emissions, t/thou.t of oil



Emissions

In 2018, the Company continued its consistent work on controlling atmospheric emissions.

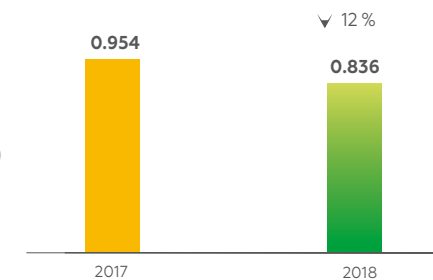
Thus, in the Downstream segment, Brod Refinery JSC continues its work on the gasification of technological processes for improving the energy efficiency of production and reducing the sulfur oxide emissions to comply with EU standards.

One of the priority activities directions in 2017 was the implementation of the Gas Program for the rational use of associated petroleum gas (APG) for the 2017-2021 period at Zarubezhneft Group of Companies.

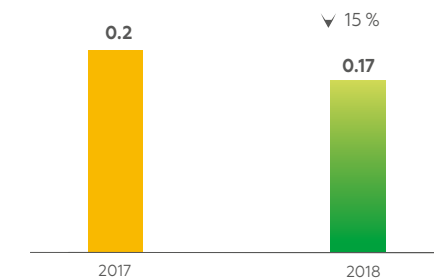
Gross atmospheric emissions of the Zarubezhneft Group of Companies in Upstream segments, thou.t

Показатели	2015	2016	2017	2018
Gross atmospheric emission of harmful substances, including:	11.278	27.483	32.528	29.2
Solids		0,865	0,549	0,437
Sulfur dioxide	0.118	0.865	0.549	0.437
Carbon oxide	0.240	3.309	7.507	6.909
Nitrogen oxides	3.752	9.697	8.874	7.914
Carbons (without volatile organic compounds)	0.581	1.138	1.391	1.213
Volatile organic compounds	4.320	8.952	10.115	8.804
Benzopyrene	1.921	3.337	4.069	3.900
Other gaseous and liquid substances	0.000	0.000	0.0	0.000
	0.346	0.186	0.0	0.000

Greenhouse gases, MM tons of CO₂ equivalent



AG emissions in Russia, thous.t/tous.t of oil



on December 15, 2015, Registration No. 40098, Zarubezhneft JSC has calculated the volume of greenhouse gas emissions in 2018 resulting from the production activities of mining companies. In 2018, the volume of emissions amounted to approximately 0.835 tons of CO₂ equivalent. Implementation of the Gas Program has allowed to reduce greenhouse gas emissions.

Implementation of the Gas Program in 2018 allowed to reduce the specific indicators of harmful substance emissions from 6.94 tons per thousand ton of oil produced in 2017 to 6.09 tons, as well as the specific emissions of greenhouse gases from 0.2 thousand tons of CO₂ equivalent per thousand ton of oil produced to 0.17 thousand tons of CO₂ equivalent per thousand ton of oil produced.

As per the "Methodological Guidelines for Quantitative Determination of Greenhouse Gas Emissions by Entities Carrying out Business and Other Activities in the Russian Federation" (approved by the Order of the Ministry of Natural Resources and Environment of the Russian Federation dated June 30, 2015, No. 300) registered with the Ministry of Justice of the Russian Federation

Production and use of associated petroleum gas at the Zarubezhneft Group of Companies, MM m³

Enterprise of Zarubezhneft Group of Companies	APG production	APG use for own needs	APG use %
LLC "JC "RUSVIETPETRO"	122.2	107.0	87.6
Orenburgnefteotdacha JSC	2.12	1.76	82.9
Ulyanovskneftegaz LLC	0.54	0.51	93.9
TOTAL	122.2	107.0	87.6
For reference: The APG production and use data of Zarubezhneft-Dobycha Kharyaga LLC for 2018 are given below			
Zarubezhneft-Dobycha Kharyaga LLC	210.6	60.0	28.5

Solid waste

In the area of environment protection, the subsidiaries have regularly trained its managers under the "Hazardous Waste Handling" program, developed and updated regulatory environmental documentation, carried out environmental audits, identified environmental risks and obtained all the necessary licenses and permits for emissions and discharges of pollutants as well as waste disposal limits.

In 2018, the drilling volumes doubled compared to 2017, which resulted in an increase of the drilling waste generated at the fields of LLC "JC "RUSVIETPETRO" and ZARUBEZHNEFT-Dobycha Kharyaga LLC. The specific waste generation indicators increased from 5.12 t in 2017 to 7.9 t per thousand ton of oil produced in 2018. 90% by weight of the generated waste is made up of class-IV hazardous waste – drilling cuttings. As per the Company's valid internal regulations, all cuttings were processed into inert material.

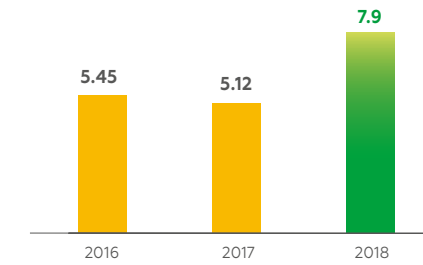
All waste generated in the subsidiaries is transferred for further use, neutralization and disposal at specialized sites under contracts concluded with specialized enterprises.

REHABILITATION

One of the most important environment protection objectives to minimize the negative impact of drilling waste is its neutralization and use thereof, with further elimination of sludge pits.

In 2018, four sludge pits were rehabilitated. The Group of Companies encountered no oil and oil products spills in the reporting period. There is no oil-contaminated plot of

Waste generation, t/thous.t of oil



land belonging to the Zarubezhneft Group of Companies.

Also in 2018, the Brod Refinery in the Republic of Srpska (BiH) continued implementing its plans to process acid sludge into inert materials with further use of the product in reclaiming containment ponds.

IMPACT ON BIODIVERSITY

As per the obtained licenses for the right to use subsoil areas, Zarubezhneft Group of Companies performs its operations for the prospecting, exploration and production of hydrocarbon raw materials, infrastructure development of fields outside the designated conservation areas (DCA); in turn, it may be adjacent to the boundaries of the territories of traditional nature management (TTNM) or the DCAs.

In 2018, subsidiary companies of Zarubezhneft Group of Companies performing their operating activities in the Arctic zone of the Russian Federation (ZARUBEZHNEFT-Dobycha Kharyaga LLC and LLC "JC "RUSVIETPETRO") continued working on biodiversity preservation as per the approved programs.

The observation program for the established lists of indicator types by Company activity regions is included in the Environmental Monitoring Program.

Caring for the Far North fragile ecosystem has traditionally been one of the Company's priorities: in 2018, LLC "JC "RUSVIETPETRO" released 154 thousand whitefish juveniles into the Usu River (the Pechora River basin). Since 2014, by efforts of LLC "JC "RUSVIETPETRO" over 800 thousand juveniles of valuable fish species have been released into the Pechora River basin.

As per the "Search and Valuation of New Projects" Standard, the Company pays special attention to environmental aspects and environmental risk assessment. All projects undergo the Environmental Audit, the main criterion of which is the absence of specially protected natural territories within the contract area. During the project implementation, an environmental impact assessment is carried out, and measures are developed to reduce landscape fragmentation and disturbed areas.

The subsidiaries of the Zarubezhneft Group of Companies monitor the integrity of inter-field oil pipelines on a monthly basis as one of the priorities of the Company's Environmental Policy.

Zarubezhneft JSC has uniform HSE requirements for contractors. The regulations establish similar requirements for compliance with environmental standards both for contractors operating in the Company and for Zarubezhneft JSC subsidiaries.

Supply chain

Zarubezhneft's purchasing activities are carried out as per Federal Law No. 223-FZ – Concerning the Purchase of Goods, Work and Services by Certain Types of Legal Entities, and by the Purchasing Policy. In 2018, Zarubezhneft arranged the review by the Tender Committee of 386 goods, works and service purchasing procedures valued at more than RUB 57 billion.

To improve purchasing openness and transparency, an online trading platform system was used and the purchasing information was published in the Unified State Information System and on corporate information resources. As a result, the number of bidders was increased and the Company's bid selection capabilities under the best conditions were enhanced.

03

The Company interacts with potential suppliers/ contactors to ensure cost optimization and saving. As per the analysis of the bidders' technical and commercial offers, where possible reductions of the costs of goods and service were identified, the bidders were given an opportunity to improve their commercial offers to provide a maximum possible discount. Thus, in 2018, a significant cash saving of RUB 1.4 billion was achieved.

The following results were achieved from measures undertaken to provide a wider purchasing access for small and medium business at Zarubezhneft JSC in 2018:

- public purchasing efficiency audit was provided by means of regular meetings of the Advisory Body to discuss Zarubezhneft's purchasing efficiency issues;
- the share of purchasing by small and medium business entities was 62.24%, with a current established target value of 18% (Decree of the Government of the Russian Federation No. 1352 dated December 11, 2014 – Concerning Aspects of Participation of Small and Medium Business Entities in the Purchase of Goods, Work and Services by Certain Types of Legal Entities);
- the share of purchasing carried out as a result of participation of only small and medium business entities reached 34.25% during the period under review, with a target value of 15%;
- 26 companies joined the Zarubezhneft Partnership Program, which comprised of small and medium business entities.

In conducting its business, Zarubezhneft follows the Import Substitution Policy adopted by

the Government of the Russian Federation, which is one of the strategic focus areas for state-owned companies for the next few years. In this regard, the Company carries out the planned and gradual substitution of foreign products with Russian products on a continuous basis. This results in the share of the purchased products, work and services of foreign origin consistently decreasing. As per the 2018 results, Zarubezhneft JSC cut its share of imported products from 9.34% (RUB 128.51 MM) to 1.61% (RUB 28.59 MM), with the general purchasing volume increasing by 28.97% (from RUB 1,376.13 MM to RUB 1,774.82 MM). The share of products of foreign origin purchased is currently below 1.03%.



Development of Regions of Presence

In its activities, Zarubezhneft Group of Companies has a significant impact on the social and economic development of the regions of its presence. Therefore, the Company adheres to the policy of high social responsibility to local communities and to the society as a whole.

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

In cooperating with the regions, the Company places emphasis on the development of local initiatives and social activities. Zarubezhneft Group of Companies is engaged in constructive cooperation with local government bodies and public organizations. Its subsidiaries annually conclude agreements with regional administrations governing activities for the joint development of the regions.

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

Zarubezhneft JSC has the relevant regulatory document allowing it to form common approaches under

charity and sponsorship activities, and meetings of the Commission to consider references of a social nature, held by both the Corporate Center and the Company's subsidiaries, are organized on a regular basis. These tools are aimed at creating the most effective, simple and transparent mechanism for providing assistance from the Zarubezhneft Group of Companies.

In the regulation approved in the minutes of Meeting No.145 of the Board of Directors dated November 26, 2017, the following areas of charity and sponsorship activities were defined:

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

In total, the Zarubezhneft Group of Companies allocated RUB 188.2 MM to charity and sponsorship in 2018 (taking into account the social and

economic agreements signed with the administrations of the regions where the subsidiaries and joint ventures operate).

As part of regional development, major work has been performed by ZARUBEZHNEFT-Dobycha Kharyaga LLC and LLC "JC "RUSVIETPETRO" in the Nenets Autonomous Region and the Republic of Komi where the enterprises carry out their activities.

In the area of interaction with the native peoples, ZARUBEZHNEFT-Dobycha Kharyaga LLC has continued its cooperation with the Reindeer Breeders Union of the Nenets Autonomous Area, traditionally supported the ski-doo cross-country race "Buran Day", and as part of the Preservation and Development of the Native Indigenous Peoples of the North State Program, Kharyaga PSA partners purchased the necessary equipment for the nomadic kindergarten for the reindeer breeders' children in the Kaninskaya Tundra.

In the area of the development of educational programs, Kharyaga PSA partners have allocated funds for the purchase of necessary equipment and software as part of the NAA Modern Digital Environment project that is aimed at providing the possibility for remote interaction of the education institutions of the region, rendered support to the high

school in Naryan-Mar by buying a set of educational construction kits, arranged establishment of named lecture halls for the Department of Ecology, Land Utilization and Natural Resources Management of the Ukhta State Technical University, as well as taken part in organizing the summer creative school "Children of the North – 2018" while it also bought professional musical instruments for the NAA Children's Arts School. The participation of the Company's partners in the launch of the Robot Technics Development Project deserves special mention. Materials and equipment for two platforms – "Roboquantum" and "IT-quantum" were bought and delivered to Naryan-Mar with funds provided by the investors. Both directions are aimed at training highly qualified engineering personnel from the youngest age and establishing a favorable environment for the expedite intellectual development of children.

LLC "JC "RUSVIETPETRO" has carried out a number of environmental events. The joint company has arranged the artificial reproduction and release of whitefish juveniles into the natural environment. The juveniles were released into the Izhma River (Pechora River basin). This was done as part of compensational measures to remediate harm caused to the water biological resources and habitat thereof when developing the Syurkharatinskoye and Sikhoreyskoye oil fields.

In the area of education, LLC "JC "RUSVIETPETRO" has supported the vocational professions tournament WorldSkills held in the Nenets Autonomous Area by allocating funds for the complete modernization of the material and technical base of the vocational education institutions of the region. In particular, the Company's funds have allowed the modernization of the educational equipment of the Nenets Vocational College, the Volkov Nenets Agricultural and Economic Technical College and the Vyucheykiy Naryan-Mar Social Humanitarian College.

In 2018, the development of the volunteer movement continued as part of the Young Experts Council work. Helping children on the eve of the Children's Day and the New Year and congratulating the veterans of the Zarubezhneft Group of Companies in celebration of the Victory Day in the Great Patriotic War, as well as trips to the wards of the Joy of Old Age Trust Fund, have become traditional campaigns.

The volunteer movement continues to develop actively at Zarubezhneft JSC subsidiaries: employees of ZARUBEZHNEFT-Dobycha Kharyaga LLC took part in "Running Hearts" charity marathon; blood donation in-place was organized for employees to support the donor movement. Employees of LLC "JC "RUSVIETPETRO" carried out similar

campaigns; in 2018, they donated blood twice, donor compensation was sent to purchase the necessary goods for wards of an orphan home in the city of Naryan-Mar. For the first time in 2018, employees of the joint company held a campaign to help homeless animals in a shelter.

Caring for ecology and rational use of resources is another important part of corporate volunteering. Employees also support such programs. Indeed, young experts of Zarubezhneft JSC and ZARUBEZHNEFT-Dobycha Kharyaga LLC managed to take part in an environmental campaign to restore the playground area in the Natural and Bitsevski Historical Park, organized jointly by the Directorate of the Park and Zapovedniki Eco Center.

Young experts carried out meaningful work on the restoration of land cover on an area of 400 m2 from campfire site consequences: following thorough cleaning, the volunteers "refreshed" the land by adding earth soil and also sowed it with grass and hedged the territory.

Holding volunteering and charity events helps contribute to forming the employees' feeling of personal responsibility, and encourages their pursuit to participate in public events. This is a unique part of the corporate culture that the Company supports and fosters.

01



02



03



04

04

APPENDICES

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GRI Services confirms that the GRI content index is presented clearly, and the references to the disclosure



of indicators from 102-40 to 102-49 correspond to the sections of the main body of the Report.

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102-49 Changes in reporting	n/a
102-50 Reporting period	31.12.2017 – 31.12.2018
102-51 Date of most recent report	June 2018
102-52 Reporting cycle	Annual
102-53 Contact point for questions regarding the report	71
102-54 This report has been prepared in accordance with the GRI Standards	Core option
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103-3 Evaluation of the management approach	See Annual Report
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403-3 Workers with high incidence or high risk of diseases related to their occupation	52
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Sustainable Development Tasks¹

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1	Universal eradication of poverty in all its forms		
2	Eliminating hunger, ensuring food security and improvement of nutrition and promoting sustainable agriculture		
3	Ensuring healthy life style and contributing to well-being for all at all ages		
4	Ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all		
5	Gender equality and empowerment of all women and girls		
6	Ensuring the availability and sustainable use of water resources and sanitation for all		
7	Ensuring universal access to affordable, reliable, sustainable and modern energy for all		
8	Promoting sustained, inclusive and stable economic growth, full and productive employment and decent working conditions for all		
9	Building resilient infrastructure, promoting inclusive and sustainable industrialization and innovation		
10	Reducing inequalities within and between countries		
11	Contributing to open, safe, resilient and environmentally sustainable cities and human settlements		
12	Ensuring the transition to sustainable consumption and production patterns		
13	Taking urgent action to combat climate change and its consequences*		
14	Preservation and sustainable use of oceans, seas and marine resources for sustainable development		
15	Protection, restoration and promotion of sustainable use of terrestrial ecosystems, sustainable forest exploration, combating desertification, halting and reversing land degradation and halting biodiversity loss		
16	Promoting a peaceful and inclusive society for sustainable development, ensuring access to justice for all and creating effective, accountable and inclusive institutions at all levels		
17	Strengthening the means of implementation and revitalizing the work of the Global Partnership for Sustainable Development		

UN sustainable development goals¹ are disclosed on page 20.

¹ PUN General Assembly Resolution "Transformation Our World: The 2030 Agenda for Sustainable Development" (September 25, 2015)

Identification of significant topics

The Company considers the international standard ISO 26000:2010 as one of the main methodological recommendation standards in the non-financial area. This standard defines the main topics of social responsibility: organizational management, human rights, labor practices, environmental matters, good business practices, consumer relations, as well as engagement and development of local communities.

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

A project team consisting of representatives of all the interested structural divisions of the Company was established to prepare the Report. The main tasks of the project team included clarifying the approaches to information disclosure, interacting with structural divisions when collecting information for the Report, as well as preparing a map of substantive GRI topics and determining their disclosure limits thereof. Preparation of the Report traditionally included analyzing the expert community's

feedback, studying the sustainable development reports of similar companies, as well as analyzing relevant publications in the mass media. The results of the study have shown the importance of mapping and elaborating the Company's initiatives and projects in case format in the Report and within the management approaches.

Contacts

Zarubezhneft JSC

Russian Federation, 101990, Moscow, Armianskiy pereulok, 9/1/1, bld. 1
Telephone +7 (495) 748-65-00
Fax +7 (495) 748-65-05
E-mail nestro@nestro.ru
Telex 113303 STEK RU
<http://www.zarubezhneft.ru/>

Zarubezhneft JSC Representative Offices in the Republic Of Cuba

Regional Office in Havana	Casa 4021, calle 5-ta Avenida y 248, Marina Hemingway, Santa Fe, ciudad Habana, Cuba
Branch in Havana	Avenida 3-ra entre calles 78 y 80, Miramar Trade Centre, Edificio Habana, piso #5, Miramar, Municipio Playa, ciudad Habana, Cuba

Zarubezhneft JSC Representative Offices in the Socialist Republic Of Vietnam

Representative Office in Vungtau	3 Le Quy Don St., Vung Tau Tel. (84-64-3) 85-2920 Fax (84-64-3) 85-2387 E-mail: nestrovn@hcm.vnn.vn
Representative Office in Hanoi	Office 302, Hanoi DAEWOO Hotel, DAEHA Business Center, 360 Kim Ma St., Ha Noi Tel. (84-43) 771-9990 Fax (84-43) 771-9993 E-mail: nestrohn@viettel.vn

