ZARUBEZHNEFT
JOINT STOCK COMPANY

2016 ANNUAL REPORT

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STATEMENT FROM THE GENERAL DIRECTOR

Dear colleagues!

Zarubezhneft JSC has continued to show a high performance capacity in its Strategy that was selected in 2014 under the similarly harsh conditions of 2016. This Strategy is based on a clear determination of the Company's niche, efficient geologic exploration works and geological and technical events, as well as the optimization of costs.

One of the most significant events of 2016 was the completion of a deal with the French company Total for transferring the participation interest and operatorship to our subsidiary ZARUBEZHNEFT-Production Kharyaga LLC in the framework of the Kharyaga field development project under PSA terms. It is important to note that the finalization of all the documents necessary for the closure of the deal was completed exactly according to the scheduled time and ZARUBEZHNEFT-Production Kharyaga commenced its duties as operator on August 1, 2016.

2016 was also marked by the completion of significant efforts to sign an intergovernmental agreement for JC RUSVIETPETRO and a protocol to the intergovernmental agreement for JV Vietsovpetro. This is yet another significant milestone on the way to enhance strategic cooperation with our Vietnamese partners, which was specially marked by a visit of the newly appointed Prime Minister of the Socialist Republic of Vietnam, Mr. Nguyễn Xuân Phúc, to the office of Zarubezhneft JSC in May 2016.

One of the most important events of 2016 was a deal between the French company Total and our subsidiary Zarubezhneft Production-Kharyaga LLC for the transfer of share and operatorship in the framework of development of Kharyaga field on PSA terms.

Financial and economic indicators

Notwithstanding the negative macro-parameters of the reporting year, as of the end of 2016, the Group of Companies has accomplished its set goals, and the results obtained allow us to state that the previously achieved level has not only been maintained but it has also increased significantly. Thus, EBITDA amounted to 15 billion Rubles, and the free cash flow amounted to more than 10 billion Rubles. These results have allowed the Company to perform its obligations to the state as its main shareholder in full: dividend payment amounts in 2016 were 12% higher than in the previous year.

Geologic exploration and production

As part of the results of 2016, the total volume of hydrocarbon production in the Company's effective ownership share was 5.2 million tons, which is 147 thousand tons more than the planned value and is 3.3% more than the actual production in 2015. We have managed to increase the efficiency of geologic exploration works by more than 80 percent. This resulted in the Company achieving the maximum reserves volume in the last 5 years (taking into account participating interest in the projects) – which is 92 million tons of oil equivalent. The success rate of geologic exploration works at the Company's key producing entities – Vietsovpetro and JC RUSVIETPETRO – even amounted to 100%.

First and foremost, we have succeeded in maintaining the oil production level at the fields of JV Vietsovpetro. Over 5 million tons of oil was produced in 2016. Further still, we plan on producing not less than this amount in 2017. The gas condensate field Thien Ung of Block 04-3 offshore Vietnam was put into operation in December of this year. Annual peak production will amount to 700 million cubic meters of gas. In addition, a commercial discovery of Beluga (Ca Tam) field that is planned to be put into operation in the first quarter of 2018 was made. A 100% success rate of wells was achieved upon the offshore geologic exploration performed in Vietnam in 2016. In total, three exploration wells in the Beluga (Ca Tam), White Tiger (Bach Ho) and White Rabbit (Tho Trang) fields were drilled in 2016.

As for our other production asset, JC RUSVIETPETRO, it is worth mentioning that two more oil fields – North Sikhoreyskoye– were brought into operation in winter 2016. Their start-up allowed us to achieve the planned production values of the company in 2016 in the amount over 3 million tons per year. Thanks to the complex of project decisions, the volume of APG utilization was successfully increased, by the end of 2016, comprised 81.2% compared to 62.2% in the previous year.

A pilot introduction of the Production system that will allow us maintaining the oil production level in the future was successfully completed in 2016.

Apart from this, a pilot introduction of the Production system intended to enable us to maintain the oil production level in the future was successfully completed at JC RUSVIETPETRO. The results show unmistakably that we are moving in a right direction – the enhancement of efficiency and the culture of production by means of the personnel involvement and processes systematization. December saw the start of a new project stage, which will enable the development of already existing instruments as well as the replication of Zarubezhneft JSC's Production System at other subsidiaries.

Efficient costs management remains one of our key competitive advantages. A comprehensive cost reduction program has allowed us to decrease production expenses at both of our major producing entities – Vietsovpetro and JC RUSVIETPETRO – by more than 20%. A specific indicator makes 2.6 USD/bbl. for RVP and 6.7 USD/bbl. for Vietsovpetro, which complies with best practices in the majority of oil producing regions. After the transfer of operatorship under the Kharyaga PSA, we have provided a 25% decrease in operational expenses in 2016: from 6.4 to 4.8 billion Rubles. Increase of labor productivity and reduction of operational expensesare being carried out in the Downstream segment as well. As part of the results of 2016, the accumulative positive effect was equal to 9.5 million euro.

Oil refining and marketing

With the Upstream segment being the basis of our company's development, we were setting slightly different goals for the Downstream segment. We focused on the maximum improvement of this project's efficiency and we have succeeded. As part of the results of 2016, for the first time in the ten years of the project's implementation, the Company has managed to achieve an operational profit under the EBITDA indicator in this segment. The production and commercial indicators have improved significantly. As such, yield of light oil products increased by 13%, from 47% to 60%, and the retail sales volume reached 100 thousand tons per year, which comprised a 50% gain in the last 7 years. Furthermore, fuel losses and consumption for the Company's own needs decreased by 2.1%.

Corporate center

In recent years, we have done a lot to develop the Company's organizational system, but we have not stopped at the achieved level and we continue to carry out further implementation of projects for the purpose of the qualitative improvement of the Zarubezhneft Group of companies as a whole. Therefore, in 2016, fundamental corporate ethics documents were finalized and approved – the Corporate Ethics Code and Key Corporate interaction guidelines, which form the corporate culture, and promote the main values and rules of business conduct. This year they were significantly amended as part of establishing efficient communication both between the employees, the Company itself and its external stakeholders. Our corporate schools – the Petroleum Engineering School and the Project Management School (established on the basis of the Gubkin RSU International Business School) – continue their successful operation.

In the unfavorable macroeconomic environment the Company has shown that it is capable of not only retaining the previously achieved results but also of significantly improving them.

In 2016, we congratulated the first graduates of the Project Management School. The graduate theses of the students were based on a comprehensive study of the best practices of this management approach, Zarubezhneft JSC's corporate project management system, as well as lessons learnt and cases constructed based on the actual projects of the Company. We are proud that all students of the School graduated with honors.

Goals

Starting in 2017, we commence the implementation of a next three-year stage of our New Growth strategy. Its implementation stipulates the purchase of shares in 3–5 new assets in the framework of developed competencies. In general, the main goals of this stage are determined by three key focus areas: the further development of technological competencies, entering into new projects abroad and the further improvement of management efficiency. It is worth mentioning that the Company's performance is ahead of schedule in a number of key focus areas. Apart from the increase of interests in the Kharyaga field, in 2016, Zarubezhneft entered into a project of North Karasevskoye Petroleum Enterprise LLC – the Lutseyakhskoye field in the Yamal-Nenets Autonomous Area with reserves, of more than 11 million tons. A production sharing agreement for the new Block 16-1/15 offshore Socialist Republic of Vietnam was signed in May.

In the current unfavorable macroeconomic environment, the Company has shown that it is capable not only of maintaining previously achieved results but also of significantly improving them: thanks to the efficient management and implementation of a comprehensive optimization program, we are able to extend our own investment activities, and mobilize the capacities intended to search for and enter into new prospective complex investment projects.

This year, we have set even more ambitious goals for ourselves, therefore, it is important to maintain the outperforming rates and establish reliable capacities for further progress.

SERGEY KUDRYASHOV
General Director
of Zarubezhneft JSC

COMPANY PROFILE

01

THE COMPANY AND ITS MAJOR AREAS OF ACTIVITIES

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

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

The professionalism of the Company's management, the availability of highly qualified personnel and the application of the very best and up-to-date asset management methods enable Zarubezhneft JSC to develop sustainably and successfully compete with other major oil and gas companies.

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

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

Upstream

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

Downstream

Operation of oil refining and lubricant producing capacities. Wholesale and retail marketing of oil products and motor oils.

Services

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

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

Technological equipment export/import transactions.

BELARUS

Visha-Termogaz

BOSNIA & HERZEGOVINA

Brod Refinery
Modriča Oil Plant
OPTIMA Grupa
Nestro Petrol

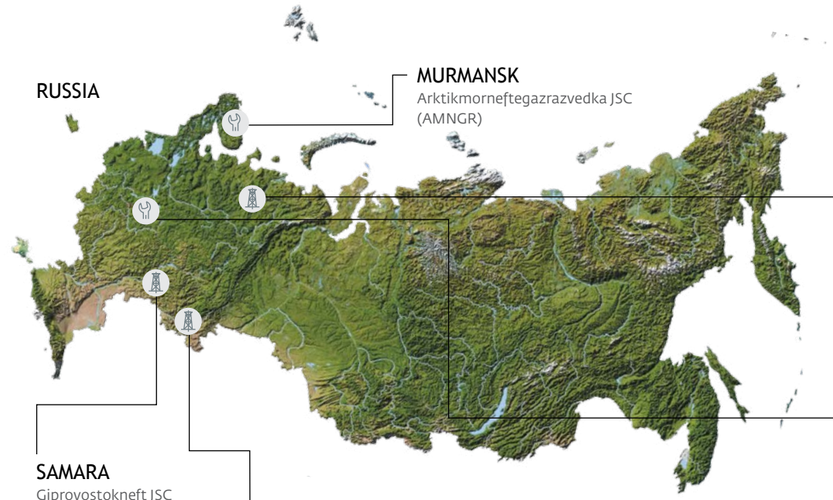
VIETNAM

JV Vietsovpetro
VRJ Petroleum Co (Block 09-3)
Block 04-3
Block 09/3-12
Block 12/11

REPUBLIC OF CUBA

Boca de Jaruco field

Map of activities of Zarubezhneft Group of Companies



Detailed corporate and project structure of Zarubezhneft Group of Companies

UPSTREAM SEGMENT

49%	JV Vietsovpetro Block 09-1
50%	VRJ Petroleum Co Block 09-3
51%	LLC JC RUSVIETPETRO
40%	Kharyaga PSA
100%	Orenburgnefteotdacha JSC
100%	ZARUBEZHNEFT-Production Samara LLC
100%	North-Karasevskoye Petroleum Enterprise LLC
100%	Ul'yanovskneftegaz LLC

GEOLOGIC EXPLORATION PROJECTS

49%	Block 04-3
100%	Block 12/11
100%	Boca de Jaruco
26.95%	Block 09/3-12

DOWNSTREAM SEGMENT

95%	Oil and Gas Innovation Corporation JSC
80%	Bord Refinery A.D.
80%	Nestro Petrol A.D.
92%	Modriča Oil Plant A.D.
100%	OPTIMA Grupa

SERVICES SEGMENT

100%	RMNTK Nefteotdacha JSC
100%	Explon LLC
70.3%	VNIIneft JSC
100%	Zarnestservice LLC
60.1%	Giprovostokneft JSC
100%	Zarubezhneftestroymontazh LLC
100%	Arktikmorneftegazrazvedka JSC
100%	ZNSM-BLK d.o.o. Brod (Republika Srpska)

MAIN EVENTS OF 2016

PRODUCTION EVENTS

January. Total and Zarubezhneft came to an agreement regarding the change of their participating interests in the Kharyaga field development and an oil production agreement under production sharing terms (Kharyaga PSA).

April. The cumulative production of the joint Russian-Vietnamese venture Vietsovpetro, the participants of which are Zarubezhneft JSC and PetroVietnam OGC, reached 220 million tons.

June. JV Vietsovpetro produced and transported the 30 billion m^3 of gas on the shore of the Socialist Republic of Vietnam, of which 20.5 billion m^3 originated from the Block 09-1 developed by the Company.

August. Total and Zarubezhneft completed the deal on farm-out of 20% participating interest and transfer of operatorship in the Kharyaga Production Sharing Agreement (KhPSA).

August. The joint Russian-Vietnamese venture Vietsovpetro, the participants of which are Zarubezhneft JSC and PetroVietnam OGC, produced the 15 million ton of oil since the commencement of development of the fields in the Nenets Autonomous Area.

August. JV Vietsovpetro put the new jack-up rig "TamDao-05" into operation.

August. A flow of water-free oil with a flow rate of 650 m^3 per day was obtained from the Oligocene deposits in the course of tests of the first target in the exploration well CT-4X, Block 09/3-12. The well penetrated the productive deposits at a deeper level than the previous successful exploration well CT-3X did, which indicates the improvement of the commercial potential of the Beluga field offshore Vietnam.

October. LLC "JC "RUSVIETPETRO" obtained a license for geologic exploration of underlying horizons of fields in development.

December. A new commercial discovery was made on the Block 09-1 offshore Vietnam. A stable flow of oil with a flow rate of 630 m^3 per day was obtained during the test of the exploration well BT-47 at the White Tiger field.

December. A wellhead platform on the Tien Ung field, Block 04-3, was successfully commissioned; the 6-TU well with a flow rate of more than 300 m^3 of gas and 100 m^3 of gas condensate per day was put into operation.

INTERNATIONAL COOPERATION

March. The joint Russian-Vietnamese JC RUSVIETPETRO (Zarubezhneft JSC and PetroVietnam OGC) that produces oil in the Nenets Autonomous Area was awarded with a Champion's Banner in the competition of the Government of the Socialist Republic of Vietnam.

April. Intergovernmental documents regarding the activities of JC RUSVIETPETRO and JV Vietsovpetro, which are joint projects of Zarubezhneft JSC and PetroVietnam OGC, were signed between Russia and Vietnam in Hanoi.

May. A petroleum product sharing agreement for the Block 16-1/15 offshore the Socialist Republic of Vietnam was signed in the Government of the Russian Federation.

May. The newly appointed Prime Minister of the Socialist Republic of Vietnam, Mr. Nguyễn Xuân Phúc, attended the office of Zarubezhneft JSC in the framework of his first formal visit to the Russian Federation.

June. The office of Zarubezhneft JSC was visited by a delegation of high-level officials from the Republic of Cuba led by the Deputy Chairman of the Ministers' Council, Mr. Ricardo Cabrisas Ruiz.

August. A joint venture of Zarubezhneft JSC and PetroVietnam OGC JV Vietsovpetro celebrated its 35-th anniversary.

September. The Deputy Chairman of the Government of the Socialist Republic of Vietnam, Mr. Trịnh Đình Dũng, attended the office of Zarubezhneft JSC in the framework of his visit to the Russian Federation.

CORPORATE EVENTS

August. A corporate professional mastership contest entitled Best in Profession – 2016 was held in the city of Usinsk at the production facilities of JC RUSVIETPETRO.

September. The fourth contest of scientific and technical works for the young experts of Zarubezhneft Group of Companies was held at Zarubezhneft JSC.

September. A Best Facility contest for the Zarubezhneft Group of Companies was held in the Company.

December. Zarubezhneft JSC won the title of Crude Oil Stock Market Leader 2016 by the estimate of the Saint Petersburg International Mercantile Exchange JSC (SPIMEX JSC).

SCIENCE, TRAINING, IMPROVEMENT OF COMPETENCIES

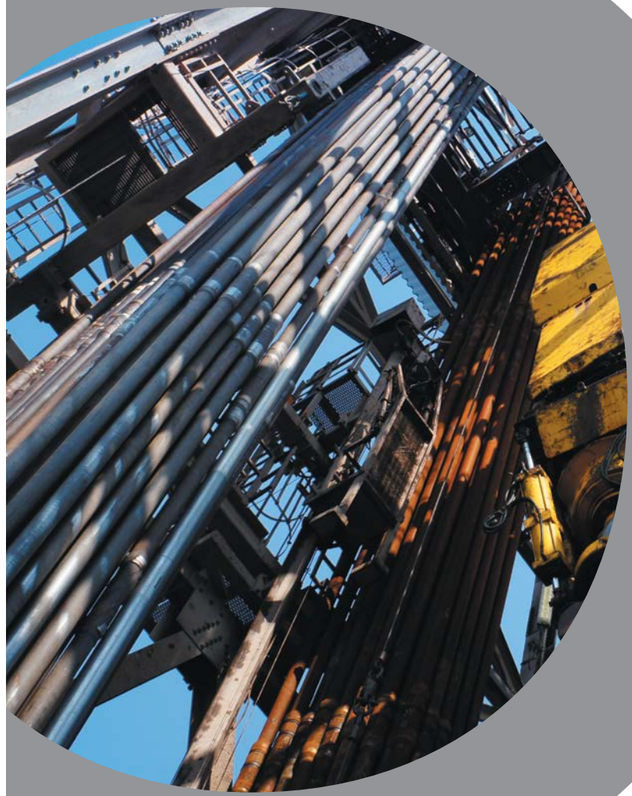
August. The major institute of Giprovostokneft JSC, part of the Zarubezhneft Group of Companies, celebrated its 70-th anniversary.

September. The first graduates defended their theses in the Project Management School of Zarubezhneft JSC.

September. Zarubezhneft JSC opened a personalized auditorium at the Gubkin Oil and Gas RSU.

STRATEGIC REPORT

02



MARKET CONDITIONS

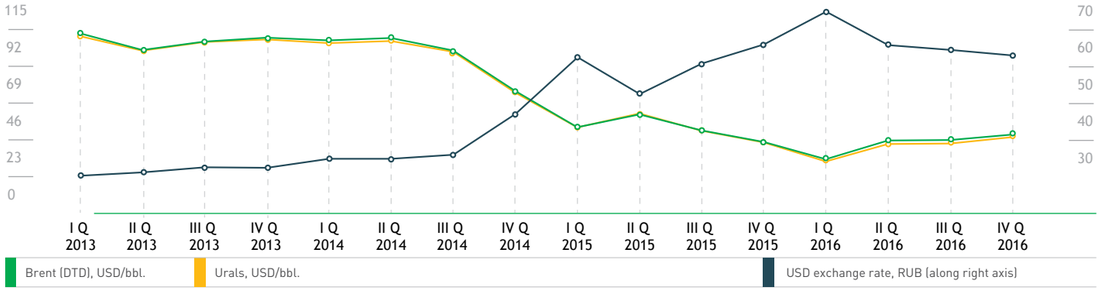
In early 2016, the oil market reached its "bottom" price – 1 barrel of Urals grade oil was quoted at 25 USD/bbl., proving that the "sensitivity" of the oil price does not comply with the classic elasticity laws.

During 2016, oil price dynamics generally depended on the political interaction of OPEC members and major independent producers.

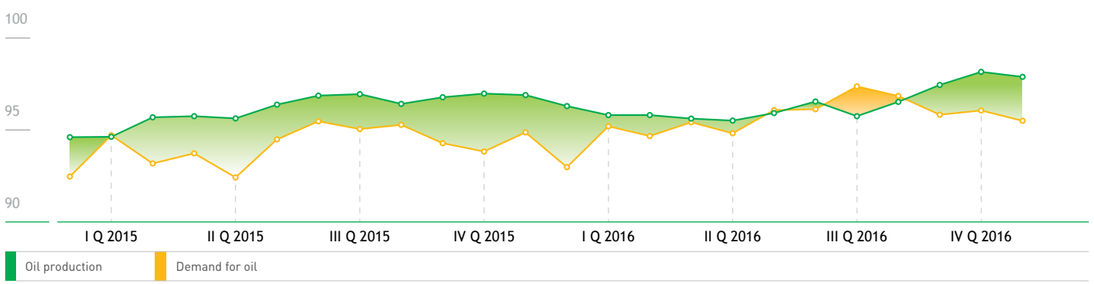
The continuous growth of the oil price throughout the year indicated the degree of readiness of major producing countries to come to a compromise for the purpose of the stabilizing production levels and decreasing the supply on the global market.

In general, the reporting year can be characterized as unassuming for the global oil market, as continuous negotiations and the vague promises of cutting/freezing production levels by OPEC countries and independent producers prevented the oil price from a dynamic recovery to its early 2015 levels at least. By the end of the year, positive oil price dynamics were established owing to the agreement of OPEC countries to cut oil production levels for a 6-month period.

Oil Price and the USD/RUB Exchange Rate



World Oil Production and Demand, million bbl./day



Oil Price Dynamics by Year

Name	2014	2015	I Q 2016	II Q 2016	III Q 2016	IV Q 2016	2016	+ / -	%
Brent (Dtd), USD/bbl.	98.95	52.4	33.9	45.6	45.9	49.3	43.7	–8.7	–16.5
Urals (Rdam), USD/bbl.	97.62	52.3	32.5	43.4	43.7	47.7	41.9	–10.4	–20.0
Urals (MED), USD/bbl.	97.24	52.0	32.7	44.3	44.4	48.6	42.5	–9.5	–18.2
USD exchange rate, RUB	38.35	61.1	75.0	65.9	64.6	63.1	67.1	6.0	9.8
Cost of Urals (Rdam), RUB/bbl.	3,657	3,156	2,426	2,853	2,824	3,007	2,779	–377.0	–11.9
Cost of Urals (MED), RUB/bbl.	3,729	3,174	2,450	2,915	2,865	3,066	2,849	–325.1	–10.2

Oil Price Dynamics by Year, Depending on Duties and Taxes

Name	2014	2015	I Q 2016	II Q 2016	III Q 2016	IV Q 2016	2016	+ / -	%
Urals (MED), USD/bbl.	97.24	51.95	32.7	44.3	44.4	48.6	42.5	-9.48	-18.2%
USD exchange rate, RUB	38.35	61.10	75.0	65.9	64.6	63.1	67.1	5.98	9.8%
Export duty, USD/ton	366.7	120.3	54.9	67.2	88.7	91.7	75.6	-44.64	-37.1%
Mineral extraction tax, RUB/ton	5,831	6,326	4,076	6,136	6,099	6,768	5,770	-556.75	-8.8%
Price without account of duties and taxes, RUB/ton	**7,069**	**9,276**	**9,517**	**10,518**	**8,886**	**9,622**	**9,758**	**482.06**	**5.2%**

The average price of Urals (MED) grade oil in 2016 was 42.5 USD/bbl., which is 18% lower than the average value in 2015. Considering the positive dynamics of the USD/RUB exchange rate, the decrease of the oil barrel price in Rubles (2,849 RUB/bbl.) was slightly mitigated and amounted to 10%.

That said, the established tax environment in the Russian Federation, along with the actual pair "oil price – USD exchange rate" for Russian assets, have partially mitigated the consequences of the crisis. Oil price indicator dynamics after export duty and mineral extraction taxes reflect a level not lower than that of 2015.

Continuous oil price growth during the year was indicating the degree of readiness of the major producing countries to come to a compromise for the purpose of the production level stabilization and decreasing supply at the global market.

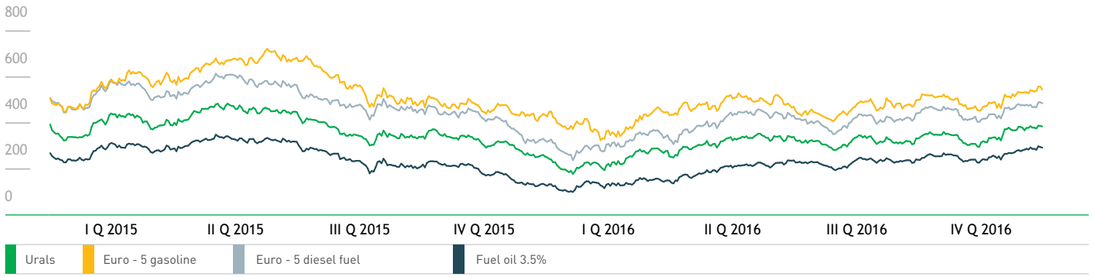
For current and prospective foreign assets with direct funding, maintaining high operational efficiency is a tough challenge when considering the two-year continuing weakness of Ruble to USD and the low oil price level. Implementation of the medium-term programs for operating activities optimization and firm control over the implementation of production programs for foreign projects allowed us to maintain the results achieved in 2015 and longing for the results of 2014.

For the oil refining and marketing segment of Zarubezhneft JSC in the Bosnian region, the established oil products quotations and the actual obtained oil products spread allowed us to maintain the operational efficiency level of the assets.

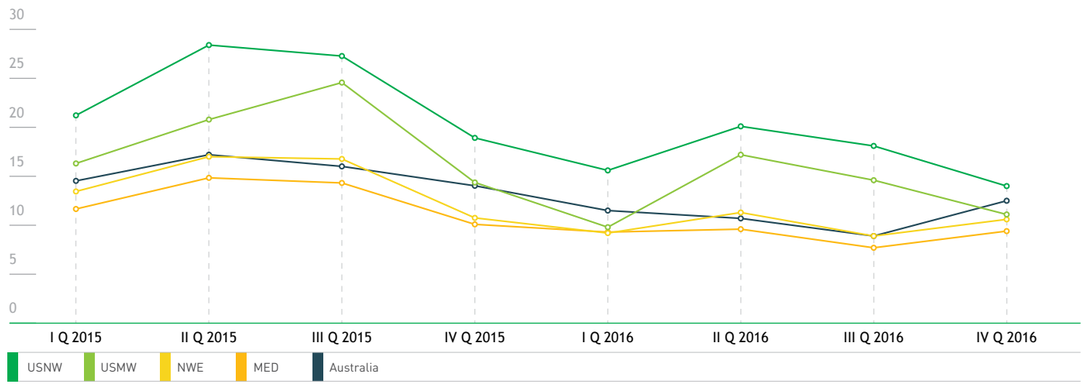
Oil Products Prices in 2014-2016

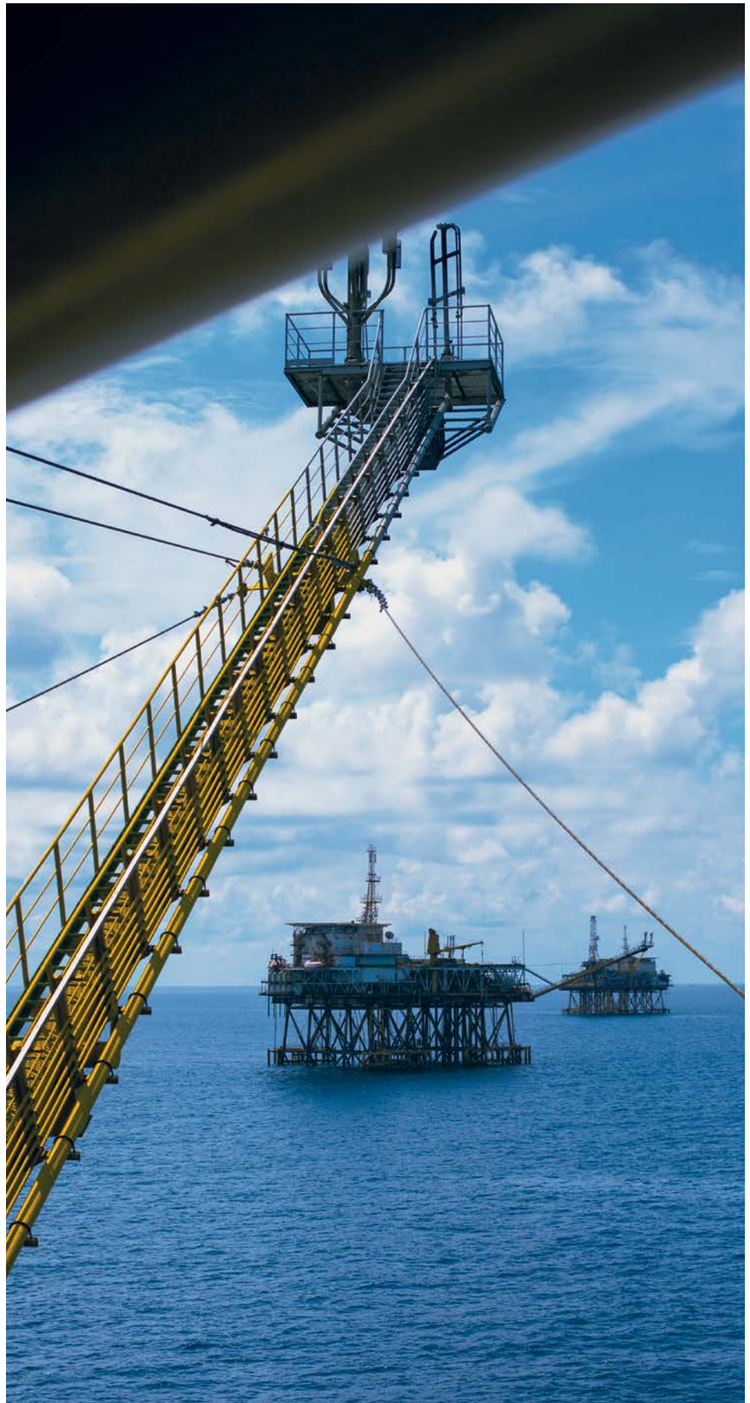
Name	2014	2015	I Q 2016	II Q 2016	III Q 2016	IV Q 2016	2016	+ / -	%
Urals (Rdam), USD/bbl.	705.05	378.4	235.8	316.8	318.4	347.9	305.4	–73.1	–19.3
Euro-5 gasoline, USD/bbl.	904.40	557.9	396.7	486.9	461.2	505.1	462.9	–95.0	–17.0
Euro-5 diesel fuel, USD/bbl.	849.94	494.5	311.1	408.8	408.1	451.4	395.6	–98.9	–20.0
Fuel oil 3.5%, USD/bbl.	525.97	255.2	134.2	198.9	228.5	259.6	206.1	–49.2	–19.3

Oil and oil products quotations in 2015-2016, USD/ton



Marginality of Oil Refiners, USD/bbl.





The increase of light oil products positive spread and the decrease of the dark oil products negative spread do not constitute any direct evidence of a favorable macroeconomic environment, as the oil refiner's marginality in the region of their presence remains at one of the lowest levels compared to other regions.

Prospects

In general, 2016 was the commencement of a thaw in the investment activities of oil producing companies. An increase in geologic exploration activity, an increase in development drilling volumes, as well as the active search and development of investment projects was forecasted.

Zarubezhneft Group of Companies' results for the last two years indicate that the Company is capable of not only maintaining the previously achieved results in the unfavorable macro-economic environment, but also of significantly improving them, increasing the efforts to search for and enter into prospective and complex investment projects owing to the efficient management of the Company and the comprehensive implementation of the optimization program.

In unfavorable macroeconomic environment the Company is capable of not only maintaining the previously achieved results but also significantly improving them.

DEVELOPMENT STRATEGY

In 2016, the Company completed the first stage of the Zarubezhneft's development strategy until 2030 entitled "Preparation for Growth".

The main achievements in all areas of activities were noted at the Zarubezhneft Board of Directors' meeting in December 2016. All performance targets of the first stage of the Corporate strategy were met despite the significant changes in macroeconomic conditions.

The Zarubezhneft's development strategy until 2030 was approved by the Board of Directors in 2014 (Minutes No. 85 dated June 26, 2014). In accordance with this Strategy, the main focus of the Company is the Production segment. As such, in this segment, Zarubezhneft JSC focuses on the fields in which it can enhance already existing competencies; in particular, at fields with misbalanced development systems and at fields with complex reservoirs similar to those being developed in the regions of its presence.

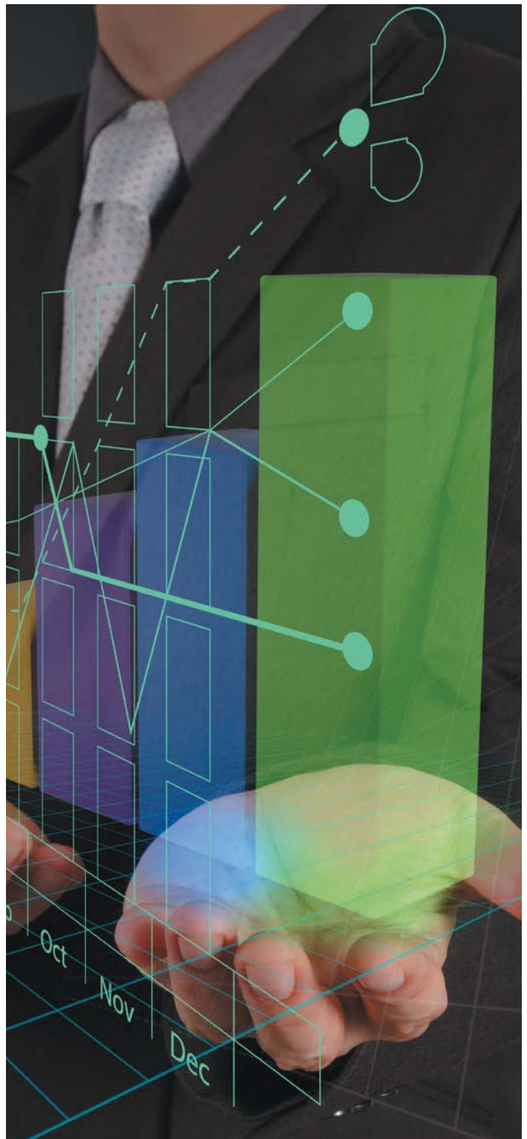
Corporate strategy implementation involves three stages.

Stage One: Preparation for Growth (2014–2016) – active operations at current assets, the development of competencies and the increase of efficiency of all organizational processes.

Stage Two: Readiness for Growth (2017–2020) – a business development team should be assembled and 3–5 new assets should be entered into in the framework of the developed competencies at this stage.

Stage Three: Intensive Growth (2020–2030) – assumes entering into 5 and more new projects, the achievement of a production level over 15 million tons by 2030.

The "Plan of priority activities to implement the strategy" with detailed strategy goals and measures is formed annually for the purpose of ensuring control over the achievement of goals established by the Corporate strategy. The Plan of priority activities is being monitored quarterly. The measures under the Plan are included into the KPI charts of the Deputies General Director for the relevant activities.



MAIN PERFORMANCE RESULTS IN 2016 IN THE FRAMEWORK OF THE STRATEGY — STAGE ONE

I. Optimization and stabilizaton of production. Development of key technological competencies

The optimization and stabilization of production at the joint projects with Vietnam – JC RUSVIETPETRO and JV Vietsovpetro – was included into the list of priority strategic tasks for Stage One of the Corporate strategy implementation.

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

Positive production dynamics was ensured owing to:
- Optimizing the formation pressure maintenance system at White Tiger field reservoirs;
- Engaging undrilled reserves into development, putting the White Rabbit field into commercial operation;
- Implementing highly efficient well interventions at the base fields;
- Putting the reserves of the Northwest division of LLC "JC "RUSVIETPERO" into development.

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

1.1 STC team was formed on the basis of VNIIneft JSC:

- A scientific and technical center of the Company was organized within VNIIneft JSC.
- Project teams were selected for the following main assets:
  - Support group for Central Khoreyver Uplift and Kharyaga PSA fields development – competence development of carbonate hydrophobic reservoirs.
  - Support group for Vietnamese assets development – competence development of offshore projects.
  - Support group for Boca de Jaruco development – competence development of bitumen fields.
  - Support group for geologic exploration works – competence development of geologic exploration.

1.2. The following information systems were integrated to ensure the support of key technological operations:

- Remote drilling monitoring information system (RDMIS);
- Development management and monitoring information system (DMMIS);
- Geology and production monitoring information system (GPMIS);
- Integrated engineering information system (NestroWay software).

1.3. A road map of R&D implementation aimed at increasing the displacement efficiency (Kdisp) and oil recovery efficiency (ORE) in carbonate hydrophobic reservoirs was drawn up, and a solution to other key issues was found:

- Testing and application of gas methods (including thermal and gas treatment and water and gas treatment);
- Testing and application of acid and alkali;
- Surface active polymer agents treatment;
- Thermal and gas treatment of formation and cyclic steam treatment;
- Smart water injection;
- Integrated fields engineering.

1.4. The following geological and technical measures were carried out:

- Implementation of a formation pressure maintenance system in the terrigenous formations of JV Vietsovpetro and the DIIIfm4 formation of JC RUSVIETPETRO;
- Application of dual completion assemblies at JV Vietsovpetro;
- Drilling of complex trajectory wells (horizontal and branched) at JC RUSVIETPETRO and Orenburgnefteotdacha JSC.

1.5. The testing process for new technologies was arranged. A project portfolio for the following activities was formed:

- Water shut-off (JC RUSVIETPETRO);
- Asphalts, resins, and paraffins deposition control technologies (JC RUSVIETPETRO);
- High-viscosity oil production in the operation of the artificial lift well stock (ZARUBEZHNEFT-production Samara LLC);
- Sucker-rod pumping units operation monitoring quality improvement (ZARUBEZHNEFT-production Samara LLC).

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

- The rate of base production decline at the base well stock in terms of the Company's main assets (JV Vietsovpetro and JC RUSVIETPETRO) decreased from 25 to 13%.
- The efficiency of geologic exploration works increased by more than 30% (from 60% in 2013 to 80% in 2016).
- Economic efficiency of drilling new wells in the Socialist Republic of Vietnam increased from 60 to 80% in the last 3 years.

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

II. New assets search and evaluation activities development

In accordance with the Corporate Zarubezhneft's Strategy, entering into new petroleum projects is the basis of the Company's the prospective growth.

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

- A new business line for consistent Search and evaluation of new projects in Russia and abroad was established at the Company;
- A Concept of improving business development efficiency from the initial study to the actual entry into new projects was developed
- Tools for the express evaluation and detailed study of assets were developed, including the process audit of the assets with the on-site inspections of Zarubezhneft JSC experts.

34 projects were reviewed for potential participation and examined in detail at Investment Committee meetings, including 22 projects in the Russian Federation and CIS countries, as well as 12 projects abroad.

New assets abroad:

A systematic search for new assets abroad is being currently carried out. The Company relies on the following key principles in these activities:

- Applying our own technologies and competencies,
- Establishment of partnerships with primarily national petroleum companies.

A rating of countries for priority analysis was updated to allow evaluation of new regions of the Company's presence in 2016, apart from the traditional countries of its presence (Vietnam, Cuba), including the following regions (and countries):

- Latin America (Columbia, Ecuador, Mexico, Argentina),
- Middle East (Iran, Iraq),
- Southeast Asia (Indonesia).

New assets in the Russian Federation and CIS:

The Company carries out active evaluation of new projects not only abroad but also in the Russian Federation and CIS countries by means of considering potential assets within the range of allocated and unallocated subsurface funds.

As such, the Company's prospective goals include the fields and license areas in following regions of the Russian Federation and CIS:

- Timano-Pechora region;
- Khanty-Mansi and Yamal-Nenets Autonomous Areas;
- Volga and Urals region;
- Republic of Kazakhstan.

The search and evaluation for new assets in the Russian Federation resulted in the Company entering into a project with North-Karasevskoye Petroleum Enterprise LLC (at the Lutseyakhskoye field in the Yamal-Nenets Autonomous Area) with reserves of more than 11 million tons (C1 + C2 Russian categories) in 2016.

Increasing the Company's participating interest in Kharyaga PSA and obtaining operatorship of the project were the key results of Zarubezhneft JSC's activities in 2016 within the business line, Search and evaluation of new assets in the Russian Federation and CIS countries.

III. Organizational development

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

During the period of 2013-2016 the key systems for Company's activities management were established in the framework of implementation of improvement projects.

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

Thus, in the framework of the implementation of improvement projects from 2013–2016, key systems for the management of the Company's activities were established. These systems connect the subsidiaries to the Corporate Center by unifying requirements, principles, information and data flows.

- **A unified production management system was established, in the framework of which the following was implemented:**
  - Unified standards for typical operations,
  - Operations arrangement standard for teams,
  - "Lean production (5S)" unified system,
  - Unified HSE requirements.
- **Production data flows are supported by unified information systems (IS) in the framework of the following production processes:**
  - Drilling management (DMIS),
  - Geology and production monitoring (GPMIS),
  - Development management and monitoring (DMMIS),
  - OIS Production,
  - Capital construction.
- **A unified personnel management system was integrated across all subsidiaries and at the Corporate Center:**
  - Organizational structures were unified,
  - Unified grade and salary system was integrated,
  - Unified principles of corporate interactions were introduced,
  - Corporate training programs are being implemented (Petroleum engineering school, Project management school, Leadership and management potential development school).

- Personnel management processes have been automated as well, and the following have been applied:
  - Unified labor and personnel management accounting system on the basis of 1C;
  - Unified personnel training information system (Web Tutor).
- **The following tools were integrated under the Organizational efficiency and corporate governance activities:**
  - Unified management efficiency monitoring system (KPI, ratings);
  - Unified business processes standardization and optimization system;
  - Integrated risk management system;
  - Internal audit system;
  - Corporate governance standard.
- **The following planning and accounting standards were integrated under the Economics and finance activities:**
  - Unified accounting and fiscal record-keeping methodology;
  - Unified methodology for accounting according to international standards (IFRS);
  - Unified management accounting methodology;
  - Unified treasury.
- **All accounting processes are supported by the following unified information systems:**
  - Accounting and fiscal record-keeping on the basis of 1C;
  - Accounting according to international standards on the basis of 1C;
  - Management accounting on the basis of Oracle Hyperion.

IV. Implementation of the improvement program for the downstream segment

The Company's priority tasks for the Downstream segment were defined as the minimization of its unprofitability and the search for a strategic partner.

The following was implemented with the aim of minimizing the Company's losses in the segment:
- Operational improvements program for the Brod Refinery A.D.;
- Operational improvements program for the Modriča Oil Plant A.D.;
- Operational improvements of wholesale and retail sales.

The implementation of these programs contributed to the significant improvement of process and financial indicators in the following segments:
- Fuel losses and consumption for the Company's own needs decreased by 2%.
- The output of light oil products increased by more than 10% (from 47 to 60%) thanks to the optimization of technological processes and the procurement of alternative oil grades'.
- Additional savings on operational expenses of up to 180 thousand euro annually was ensured thanks to the unification of supporting functions.
- Retail sales volume increased to the level of 100 thousand tons (by 50% in 7 years).

V. Development of the service and other assets segment — synergy with the geologic exploration and production segment

The priority guidelines for the development of the services segment necessitate the maximum implementation of synergies with the Company's key segments – exploration and production.

The qualified scientific and engineering support needed for the Company's producing assets was ensured on the basis of the VNIIneft JSC and Giprovostokneft JSC corporate sectoral research institutes.

VNIIneft JSC
- 100% coverage of the corporate demand for the FB (Feasibility Study) of new projects, integrated engineering, geologic exploration planning and monitoring the development of Zarubezhneft JSC's key fields was provided.
- A fully featured R&D center responsible for optimizing the development of the fields and arranging development plans for all of Zarubezhneft JSC's assets were established on the basis of VNIIneft JSC.
- Personnel capacity at the R&D center was enhanced in terms of long-term development optimization and the analysis of economic efficiency and the reservoir modeling division was enhanced.

Giprovostokneft JSC
- 100% coverage of the corporate demand for comprehensive engineering (conceptual design, field construction engineering) was provided.
- A drilling engineering center with the following functions was established on the basis of Giprovostokneft JSC in the framework of implementing the Company's Strategy:
  - Timely provision of quality design and estimate documentation for the construction and workover of wells;
  - Scientific, technical and methodological support for drilling with modern technologies, materials and equipment;
  - Designer supervision,
  - Engineering and process support for drilling with the implementation of remote monitoring methods and instrumental control over drilling processes; support for the transfer to separate contracting;
- Preparation of quality design and estimated documentation in accordance with the plans for the optimization of field development prepared by the R&D center were ensured; support for the R&D center in the area of conceptual construction during the optimization of field development;

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

RMNTK Nefteotdacha JSC (RMNTK)
A qualified internal contractor providing a full range of oil services was established on the basis of RMNTK Nefteotdacha JSC:
- Provision of integrated services in the process of well construction (directional drilling, bit services, mud flush, well cementing);
- Supervisory support for drilling at JC RUSVIETPETRO and Kharyaga PSA facilities;
- Well maintenance and workover (5 maintenance and workover teams were assembled, 5 hoist units were purchased);
- Provision of well logging and well production test services.

Zarubezhneftestroymontazh LLC (ZNSM LLC)
A center for internal capital construction competencies was established on the basis of Zarubezhneftestroymontazh.
- EPC functions were developed.
- Initiatives for the development of the Company's own capacities intended to perform works by its own efforts are being implemented:
  - Management project for construction and assembly works was delivered;
  - Non-destructive testing laboratory was established.

LONG-TERM DEVELOPMENT PROGRAM

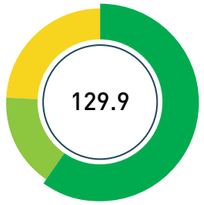
A Long-term Development Program for Zarubezhneft JSC was formed pursuant to the guidelines of the Government of the Russian Federation dated July 17, 2014 No 4955п-П13.

The Long-term Development Program (hereinafter, LDP) of Zarubezhneft JSC was approved by the Zarubezhneft Board of Directors on November 20, 2014 (Minutes No. 91). The LDP was completed in agreement with the following supervisory bodies:

- Strategic Planning Committee at the Zarubezhneft Board of Directors, Minutes No. 1, dated September 19, 2014;
- Expert Council at the Government of the Russian Federation, Letter No ЭС-2909/02, dated September 29, 2014, and No ЭС-1211/02, dated November 12, 2014;
- Rosimuschestvo, the Federal Property Management Agency, Letter No. 05/43392, dated October 10, 2014;
- Ministry of Economic Development of the Russian Federation, letter No. 26273-НП/Д07и dated October 24, 2014;
- Governmental Commission for the fuel and energy complex development, mineral raw material base replacement and energy efficient economy, Minutes No. 2, dated October 23, 2014.

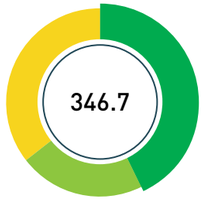
For the purpose of a comprehensive evaluation of the Company's assets in the framework of LDP, three main development scenarios for existing entities with an outlook until 2030 and two prospective development options were contemplated: projects of geologic exploration works in which Zarubezhneft JSC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

Accumulated Production of Hydrocarbons till 2030, million tons



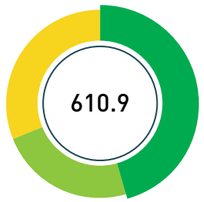
Basic assets' development	77.9
Implementation of geologic exploration projects	20.9
Entry into new projects	31.1

CAPEX till 2030, billion Rubles



Basic assets' development	148.9
Implementation of geologic exploration projects	75.0
Entry into new projects	122.8

EBITDA till 2030, billion Rubles



Basic assets' development	278.8
Implementation of geologic exploration projects	143.3
Entry into new projects	188.8

A priority goal for the Company's future development is not only the intensive development of current production assets (especially JC RUSVIETPETRO and JV Vietsovpetro) 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 of projects implementation are of top priority for consideration, in particular, in Iran and Vietnam. Significant experience accumulated in increasing the current value by means of the current assets' resource base incrementing and improving its development efficiency by increasing the oil recovery factor for the fractured basement deposits, as well as the active engagement of terrigenous block structures of low thickness into development, allow us to outline the advantages of the Company's available competencies.

Zarubezhneft JSC is making dedicated efforts to develop competencies in the development of complex reservoirs for the purpose of increasing its performance in the main Upstream segment. A center for oil and gas bearing systems simulation operates on the basis of the Company's scientific assets and VNIIneft JSC for the purpose of identifying prospective sites. The results of the center's work include:

- A number of prospective sites in the Timano-Pechora petroleum bearing province was selected for the assessment of its investment attractiveness and the determination of synergetic effect with JC RUSVIETPETRO.
- A development program for deposits of low-thickness terrigenous block structures is being implemented for the purpose of increasing the efficiency of JV Vietsovpetro's reserves development.

It is worth mentioning that the first stage of acquiring Total's 20% share in the Kharyaga PSA project was completed in 2016. This resulted in the Zarubezhneft Group of Companies owning 40% of the participating interest in the project, as well as becoming the project's Operator, which allows us to significantly improve the economic efficiency, primarily by means of replacing foreign contractors with domestic ones who possess a similar competency level.

AUDIT OF ZARUBEZHNEFT JSC'S LDP

Pursuant to the guidelines of the Government of the Russian Federation dated July 17, 2014, No 4955п-П13, two audits of LDP by different independent auditors have been carried out since 2014:

- In 2015, an audit was conducted by "Finance and tax audit" LLC, which is a division of the WiseAdvise group of companies, that has confirmed the achievement of LDP's goals for 2014, as stated in the report on Audit Results of Zarubezhneft JSC's LDP, dated July 1, 2015.
- Results of the LDP's audit for 2014 were submitted for the consideration of the Strategic Planning Committee at the Zarubezhneft Board of Directors (Minutes No. 7, dated September 21, 2015), in addition to being sent to the Ministry of Energy of the Russian Federation on October 5, 2015.
- In 2016, Nexia Pacioli LLC confirmed the accuracy of the values of the actual performance indicators of the Zarubezhneft Group of Companies for 2015 under the results of its audit and in accordance with the report on the Audit results of the implementation of LDP for 2015, dated April 28, 2016.
- In 2017, Nexia Pacioli LLC confirmed the accuracy of the values of the actual performance indicators of the Zarubezhneft Group of Companies for 2016 under the results of its audit and in accordance with the report on the results of the provision of consultation services in the framework of the implementation of the audit of Zarubezhneft JSC's LDP for 2016 dated April 15, 2017. The data from the financial and economic model of LDP was confirmed by the financial statements of the Zarubezhneft Group of Companies and the audited consolidated financial statements of the Zarubezhneft Group of Companies in compliance with the initial data for the calculation of the actual target KPIs of Zarubezhneft JSC for 2016. The target nature of the application of funds in the framework of the approved investment budgets in accordance with the scheduled Development Projects events was confirmed.

Methodological guidelines for the formation of operational expenses and the determination of a decrease indicator operational expenses were developed to comply with the requirements of the guidelines of the Government of the Russian Federation No 4750п-П13 dated July 4, 2016.

Methodological guidelines for the formation of operational expenses and the determination of a decrease indicator operational expenses and an Action plan to decrease operational expenses (costs) by 10% in 2016 were developed to comply with the requirements of the guidelines of the Government of the Russian Federation No 4750п-П13 dated July 4, 2016. The abovementioned changes were included into Appendix No. 9 of Zarubezhneft JSC's LDP and approved by decision of the Zarubezhneft Board of Directors on September 14, 2016 (Minutes No. 127).

A procedure for converting indicators in accordance with the IFRS's approaches was implemented in order to bring the approved key performance indicators of LDP in compliance with the accounting policy accepted within the Company. The results were included in Appendix 7.1 to the LDP and approved by decision of the Zarubezhneft Board of Directors on December 22, 2016 (Minutes No. 132).

A monitoring of LDP implementation for the 9 months of 2016 was additionally conducted in the framework of a request by the Ministry of Energy of the Russian Federation dated November 30, 2016, No AT-13153/08. This monitoring has shown positive dynamics for the implementation of the Zarubezhneft Group of Companies' key indicators.

SYSTEM OF KEY PERFORMANCE INDICATORS OF ZARUBEZHNEFT GROUP OF COMPANIES

The system of key performance indicators (KPI) of Zarubezhneft JSC is intended to motivate the management of the Company and subsidiaries to fulfill the tasks set by the state (as the Company's 100% shareholder), key indicators of the Zarubezhneft's Strategy, LDP, Zarubezhneft JSC's Business Plan indicators, as well as Zarubezhneft JSC's ongoing investment projects.

KPI system indicators are synchronized with the KPI of LDP.

The Company's KPI system consists of 3 main groups:
- **Corporate KPI** (financial and industry indicators):
  The main indicators of the Company's activities are approved and controlled by the Board of Directors and the Audit Committee at the Board of Directors. These KPI are included in the charts of the General Director and department heads and are decomposed in the KPIs of the general directors of subsidiaries;
- **Functional KPI** (operational indicators by business activities):
  Indicators of functional activities that are established for the deputy general directors, department heads and general directors of the subsidiaries in accordance with the authority and responsibility matrix; they are approved and controlled by the General Director;
- **Project KPI** (strategic initiatives by business activities):
  Indicators of the performance of TOP-business initiatives and project tasks; established for the deputy general directors, department heads and general directors of the subsidiaries; they are approved and controlled by the General Director.

The KPI system in Zarubezhneft (Regulation on KPI, list of corporate KPIs) fully complies with the Methodological Guidelines for the application of key performance indicators by state-owned companies (developed by the Federal State Property Management Agency, communicated by the guidelines of the Government of the Russian Federation dated April 25, 2014 No 2579n-П13).

The following measures were carried out in 2016 as part of the KPI system's operation and improvement:
- The Board of Directors reviewed the report on the performance of the corporate KPIs for 2015 (Minutes of the Meeting of the Board of Directors No. 123, dated May 30, 2016) in accordance with the Methodological Guidelines for the application of key performance indicators by state-owned companies;
- The Passports of KPIs and a Regulation on KPI were updated (Minutes of the Meeting of the Board of Directors No. 131, dated November 25, 2016) taking into account the conclusions of the Audit Committee of Zarubezhneft JSC under the results of the inspection for 2015;
- A key value of the Operational costs (expenses) decrease indicator for 2016 was approved in the amount of 10% (Minutes of the Meeting of the Board of Directors No. 131, dated November 25, 2016) considering the necessity of implementing the guidelines of the Government of the Russian Federation No 4750п-П13 dated July 4, 2016;
- Key values of corporate KPIs for 2017 were updated (Minutes of the Meeting of the Board of Directors No. 132, dated December 22, 2016);
- Preliminary results of KPI performance for the 9 months of 2016 were reviewed at the Zarubezhneft Board of Directors' Meeting (Minutes No. 131, dated November 25, 2016);
- In accordance with Zarubezhneft JSC's KPI system regulation and rules, a semi-annual and an annual defense of the KPI performance of Zarubezhneft JSC's management (deputy general directors, department heads) and the general directors of subsidiaries was carried out before the General Director;
- KPI system was decomposed to the level of the deputy general directors of subsidiaries, a production contract (a unified set of indicators for the Top management of subsidiaries) was developed.

As such, the KPI system of the Company covered all the key management levels of the Group of Companies in 2016:
- Management of the Corporate Center (deputy general directors and department heads) – 38 persons;
- General directors of the subsidiaries – 16 persons;
- Deputy general directors of the subsidiaries – 51 person.

Consolidated revenue, billion Rubles

EBITDA, billion Rubles

The total amount of controlled indicators comprises over 400.

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

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

An actual value of the Consolidated revenue indicator was 60,9 million Rubles.

In 2016 Zarubezhenft JSC achieved target values of main corporate KPIs. The achievement degree of key performance indicators reached 109%.

KPI Performance in 2016

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

The actual EBITDA value was 15,181 million Rubles, which exceeds the target value. The effects of the assets impairment are not accounted for in the actual value of this indicator.

Setting the KPI targets for 2016 was carried out in the framework of the budget campaign 2015–2019 (Minutes of the Meeting of the Board of Directors No. 94, dated December 24, 2014). Despite the deterioration of the oil price in 2016, the management's KPIs were left unchanged and the measures developed are intended to achieve goals that were included in the Business Plan for 2016. When considering the targets and results of 2016 in comparable terms by taking into account the normalization methods[1] (for the factors beyond control of the management), the target revenue is estimated to be exceeded by at least 4 billion Rubles, and the target EBITDA is estimated to be exceeded by 4.5 billion Rubles.

A consolidated revenue indicator also belonged to the bonus reduction indicators in 2016, as in case its target value amounted to less than 70%, the bonus index could be decreased upon the decision of the Board of Directors.

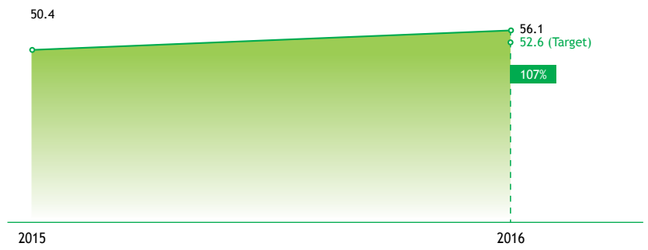
The target level of dividends was determined in accordance with the results of 2015 and the Governmental decree No. 705-p, dated April 18, 2016. A calculation procedure considers that the amount of dividends constitutes 50% of the larger of two: the net profit under Russian accounting standards adjusted for income/costs from the revaluation of the subsidiaries' securities traded on the market and associated profit tax, or the net profit under IFRS. The actual value of the Dividends amount indicator was 4,549 million Rubles, and this target was met. The payment of dividends for shares belonging to the Russian Federation was made on August 22, 2016.

As part of the results of 2016, the Return on Equity indicator under IFRS was 8% with a target value of 7.3%.

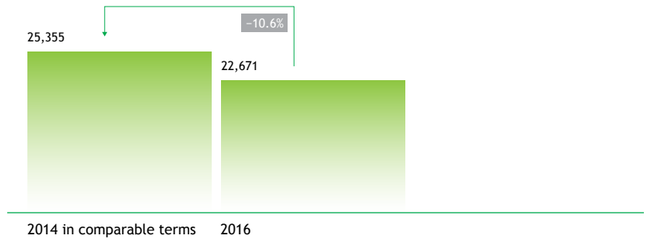
The actual labor efficiency determined as part of the revenue of Zarubezhneft JSC under Russian accounting standards, calculated under terms comparable with 2014 and referred to as the number of man-hours worked by the employees of the Company, was 56.1 thousand Rubles/man-hours, which is higher than the target value of 52.6 thousand Rubles/man-hours. Therefore, the goal of providing a target growth rate of 107% as established in the action plan for ensuring an increase in performance, and the establishment and modernization of high-performance work positions as approved by the Regulation of the Government of the Russian Federation dated July 9, 2014, No 1250-p, was met.

1 KPI passports of Zarubezhneft JSC were approved at the Zarubezhneft JSC Board of Directors' Meeting on 25.11.2016, Minutes No. 131;
Normalization methods for the Zarubezhneft Group of Companies' main performance indicators (NoMTY.БП.3.4-001, Revision 1.00, Order No. 402, dated 21.09.2016).
2 In comparable terms when setting KPI targets for 2015-2017.

Increase in Labor Efficiency[2], thousand Rubles/man-hour



Dynamics of Operational Costs Decrease for 2016, million Rubles



A target value of -2% was approved for the OPEX decrease (No2303п-П13 dated April 16, 2015). The value was changed to -10%, and 2014 was established as a base year for comparison (No 4750п-П13 dated July 4, 2016).

In accordance with Report on comprehensive implementation of the operational expenses decrease, the actual value of the Operational expenses decrease indicator was 10.6% as per the results of 2016 (Minutes of the Meeting of the Zarubezhneft Board of Directors No. 134, dated February 16, 2017), which is higher than the value established by the directive of the Government of the Russian Federation.

The actual gross production of hydrocarbons at the Zarubezhneft Group of Companies was 5,208 thousand tons of oil equivalent, which is 2% higher than the planned value of 5,149 thousand tons of oil equivalent. The overachievement of the plan was secured by the increase of the participating interest in Kharyaga PSA to 40%, a water-cut decrease and the commissioning of additional wells after drilling in the fields of JC RUSVIETPETRO, as well as production increase at JV Vietsovpetro.

Efficient geologic exploration resulted in exceeding the planned reserves level and achieving the maximum reserves volume in the last 5 years. The actual reserves at the end of 2016 amounted to 92,041 thousand tons of oil equivalent, i.e. the target value with account of the additional target was exceeded by 20% (with the target value being 83,938 thousand tons of oil equivalent). A reserves increment was provided at Block 09-1 owing to a follow-up exploration of deposits at the White Tiger and White Rabbit fields in development. The positive dynamics of the reserves is also associated with the acquisition of assets with proven reserves: a 20% share in Kharyaga PSA and a 100% share in North-Karasevskoye Petroleum Enterprise LLC. The acquired reserves have mitigated the disposal of non-economic reserves due to the sale of the Arctic Oil Company LLC in August 2016 in terms of the share of Zarubezhneft JSC.

The actual calculation of integral KPI for innovative activities was carried out with a 100% performance limit set for each component of the indicator.

Apart from this, the target value of the bonus reduction indicator – Net Debt/EBITDA – was met. The net debt for 2016 with account of cash remaining on deposit accounts was 9,516 million Rubles, as a result, the Net Debt/EBITDA indicator is equal to 0.6, which is lower than the threshold value of 2.1. This ratio corresponds to an optimum level for petroleum companies. The value of the actual indicator takes the amount of cash and cash equivalents of 22,034 million Rubles in 2016 into consideration. As such, the amount accounted for in calculation is considered to be of high liquidity by the Company.

As a result, the achievement degree of key performance indicators in 2016 was 109%.

In accordance with the operational costs decrease comprehensive measures implementation report, the actual value of the "Operational expenses decrease" indicator was 10.6% under results of 2016.

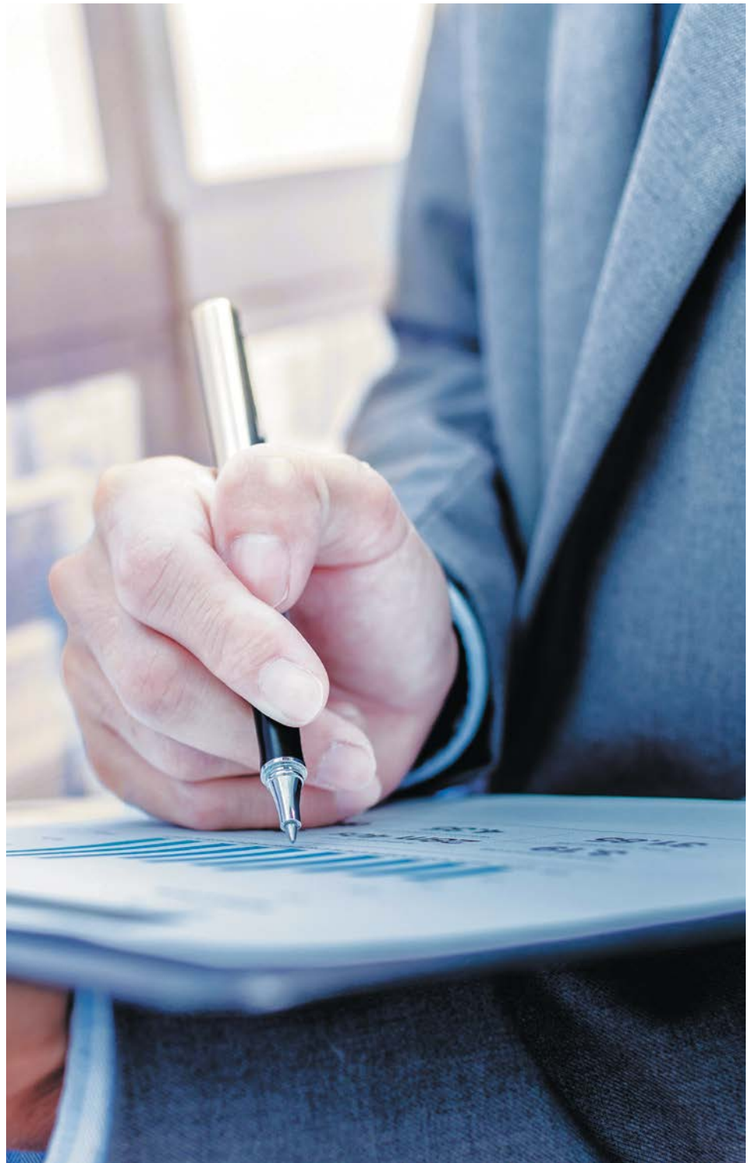
INVESTMENT PORTFOLIO MANAGEMENT SYSTEM

The investment portfolio management process was established at the Company by an investment activities' standard (approved by the order No. 333, dated July 15, 2015).

A general set of tools applied for the purposes of managing projects and the investments portfolio is defined in the Regulation on the improvement of investment and operational efficiency and the decrease of costs. The said regulation, approved by a decision of the Zarubezhneft Board of Directors (Minutes of the Meeting No. 117, dated January 29, 2016) complies with the requirements of the guidelines of the Government of the Russian Federation No 3984п-П13 dated June 24, 2015.

An investment projects rating system whose aim is to identify priority investment directions that contribute to the achievement of the strategic goals of Zarubezhneft Group of Companies and a scoring system for investment projects that enables us to determine the compliance of the project with the Strategy are the main tools of investment portfolio management at the planning and entry stage of the projects. The projects are analyzed from the point of view of production capacities as well as their effect on the cash flows of the Zarubezhneft Group of Companies, in accordance with LDP and a mid-term plan.

A focus on the Company's Strategy and the established LDP is a primary a reference in the formation process of the investment portfolio for the purpose of achieving a balanced and rational diversification of investment activities. An expert evaluation of projects is a tool that provides a comprehensive evaluation of the peculiarities of each of the investment projects from the point of view of every activity of the Group of Companies.



Analysis of changes to the investment portfolio's efficiency

	Results of 2015		Results of 2016	
Summary portfolio indicators	NPV, bln RUB	PI	NPV, bln RUB	PI
	24.1	1.07	36.3	1.21
Vajor projects (Geologic exploration stage)	NPV, bln RUB	PI	NPV, bln RUB	PI
	12.9	1.05	15.8	1.16
Upstream (Operation)	NPV, bln RUB	PI	NPV, bln RUB	PI
	8.6	1.49	17.8	1.74
Downstream	NPV, bln RUB	PI	NPV, bln RUB	PI
	0.8	1.58	1.2	2.06
Services	NPV, bln RUB	PI	NPV, bln RUB	PI
	0.4	2.11	0.7	2.38

Evaluation by the dedicated experts of structural departments enables a comprehensive evaluation of all opportunities and risks associated with the implementation of each project and contributes to balanced management decisions.

The additional ranging of all projects in a coordinates system for general projects is carried out for the purpose of identifying the most attractive initiatives among similar projects from the point of view of both the economic indicators and production capacities of each project.

The Investment Committee (hereinafter, "IC") is a deliberative corporate authority that has been operating within the Company since 2013.

Its main function is to make decisions on the most efficient funding for various investment projects. The selection of the most efficient projects and proposals regarding the improvement of economic indicators for projects under consideration are part of the activities of the Investment Committee's framework. The Investment Committee carries out control over the implementation of approved investment projects by means of efficiently monitoring the implementation process and its stages.

The main tool for investment portfolio management at the design and implementation stage is the monitoring of investment projects. The main objective of monitoring investment projects is to obtain accurate data on the results and prospects of the implementation of investment projects for the purpose of making justified and timely management decisions.

All projects that have been given approval status by the Company's Investment Committee are subject to monitoring.

Changes to the investment portfolio are introduced under the results of the Investment Committee's decisions, including those made under the results of the IC's escalation of issues due to the monitoring of investment projects.

Due to the requirement of a mandatory quality staging process, as established by the Policy of the corporate project management system, an up-to-date financial and economic project model shall be formed in order to make the project move from one stage to another. Thus, an evaluation of the project's economic efficiency at various stages up to the completion of the project is provided.

In order to maintain the relevancy of the project's information, the provision of updated financial and economic project information is a mandatory requirement in the framework of monitoring investment projects. This process allows prompt responses to both changes within the Company's activities and the realization of risks in the course of investment project management.

The general trend for cumulative projects reflects an increase of the net present value upon the decrease / maintenance of investment volumes, which can be determined from the portfolio profitability index value.

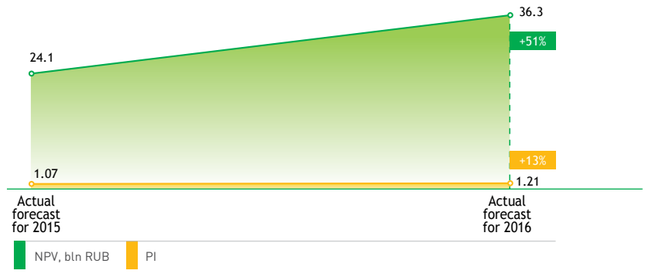
The results of the monitoring of investment projects in 2016 enabled the conclusion of the successful implementation of Zarubezhneft Group of Companies' investment projects thanks to an enhanced continuous OPEX and CAPEX control system that ensured compliance with the set project costs levels. An existing system for investment decisions making that specifies the high level requirements for the development of each of the projects separately enables the achievement of costs planning accuracy with +/- 10% in the early stage of the implementation of investment projects.

According to the results of the monitoring of investment projects, the dynamics of the Company's net present value of the current investment portfolio remains positive as of January 1, 2017.

Apart from the quarterly monitoring procedure, a monthly geologic and technical actions (GTA) control, including the analysis of the sensitivity of such actions to changes in the macro-environment, is performed at the Company. Each such GTA is subject to express-evaluation in accordance with investment analysis principles. Mandatory determination of a minimum viable oil price for the zero commercial result of each project and an initial screening of projects not capable of "positive" results in the "target" macroeconomic conditions are performed in the framework of these indicated actions.

The cumulative application of the tools presented allows the achievement of the maximum efficiency of Company's investment activities at each investment planning process stage.

NPV and PI dynamics in the framework of monitoring the investment projects portfolio



RISK MANAGEMENT SYSTEM OF ZARUBEZHNEFT GROUP OF COMPANIES

Zarubezhneft Group of Companies is aiming to boost its shareholder value to the maximum level by working on improving the efficiency of its activities, ensuring its sustainable development and enhancing its competitiveness in providing for the state's interests.

Zarubezhneft JSC pursues long-term objectives, carries out analyses of the current problems, threats and opportunities within all lines of the Company's activities and considers potential risks when making decisions.

In accordance with the requirements of the Risk Management Policy, the Corporate Risk Management System (CRMS)[1], which is intended for ensuring a reasonable confidence in achieving the Company's objectives, is currently functioning and is constantly being improved within the Zarubezhneft Group of Companies (Zarubezhneft GC).

The CRMS is an aggregate of processes, policies, and procedures integrated into various business-processes of the Company, including the processes of strategic business planning to be implemented by the Board of Directors, the management and officers at all management levels, aimed at achieving the Zarubezhneft Group of Companies activities' objectives.

The CRMS's objectives are defined in the Risk Management Policy of the Zarubezhneft Group of Companies and have been developed with regard to the recommendations of international professional organizations in the area of internal control and risk management, and international corporate governance practice, including the risk management model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO ERM).

The CRMS's objectives are defined in accordance with the best international practice, including COSO ERM methods.

The objectives of the CRMS are classified into four major categories in accordance with the COSO method:

- Strategic objectives – contributing to an increase of the Company's capitalization, ensuring its sustainable development and enhancing competitiveness with consideration of the state's interests;
- Operational objectives – relating to the issues of the efficiency of financial and operating activities, as well as to the safety of assets;
- Objectives in the area of Zarubezhneft Group of Companies's compliance activities – compliance with the applicable requirements of legal and internal regulatory documents, including the requirements of industrial, ecological, economical, informational safety and currency legislation, license agreements, joint operating agreements, etc.;
- Objectives in the area of statements preparation – a timely preparation and provisioning of the reliability of financial, managerial and non-financial statements.

The CRMS regulatory documents include:

- Zarubezhneft Group of Companies's risk management policy, dated June 27, 2016 (approved by the order of Board of Directors No. 125).
- Standard for the Zarubezhneft Group of Companies risk management business process (order No. 480).
- Risk management standard for major upstream project (order No. 208).
- The Regulation of the Zarubezhneft JSC Corporate Committee on risk management (order No. 159, dated April 26, 2016).

1 The Risk Management Policy of the Zarubezhneft Group of Companies (approved by decision of Board of Directors of Zarubezhneft JSC, Minutes of Meeting No. 125, dated June 27, 2016).

PARTICIPANTS OF CORPORATE RISK MANAGEMENT SYSTEM

Risk management at the Zarubezhneft Group of Companies is a continuous process that requires the participation and interaction of different levels managers and/or representatives from different divisions within the Group.

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

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

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

CRMS Organizational Chart

RISK MANAGEMENT STRATEGY AND PRINCIPLES

The value of Zarubezhneft Group of Companies is created, retained or decreased depending on the decisions made by the management: from strategy development to operational management.

The Zarubezhneft Group of Companies's Strategy and goals ensure optimal balance between growth, profitability, and risks with an efficient use of resources.

The CRMS of Zarubezhneft Group of Companies considers a structured approach to the evaluation of capacities and risks, a comparison of which enables us to make more balanced managerial decisions.

The CRMS key principles are as follows:
- The CRMS key principles are as follows:
- Continuity – ensuring that the CRMS of the Zarubezhneft Group of Companies is operating on permanent basis;
- Integration – the CRMS covers all lines of activities and risk types arising within their framework and at all management levels;
- Complexity – the CRMS is an integral part of the corporate governance system and the business and decision-making processes of Zarubezhneft Group of Companies;
- Full responsibility – all CRMS participants bear the responsibility of risk identification, evaluation, analysis and monitoring, adjustment of business processes, and the development and implementation of risk management measures;
- Consistency of the methodology – the CRMS' procedures are implemented based on approaches and standards that are the same for the whole Group of companies;

- Optimality and cost-efficiency – a ratio of the costs of introducing procedures and its effects, and/or risk management measures are analyzed;
- Priority ranking – Zarubezhneft Group of Companies is taking the required priority measures in relation to critical risks;
- A principle of reasonable confidence – the management of Zarubezhneft Group of Companies makes decisions with account of the risk analysis carried out (when risks are identified and analyzed) and takes measures to mitigate them.

DEVELOPMENT OF THE RISK MANAGEMENT SYSTEM

The risk management system is being improved in accordance with the requirements of legislation, and international standards, taking into account the best practices of risk management.

The approaches for arranging risk management system are influenced by:
- Corporate Management Code of the Bank of Russia[1];
- Requirement by Rosimuschestvo for the preparation of the Company's LDP's risk section[2];
- Instruction of the President of the Russian Federation to the Government of the Russian Federation regarding the development of regulations on risk management systems at state-owned companies[3];
- Requirements by Rosimuschestvo for the risks section in the annual reports of state-owned companies[4];
- Changes of the GRI requirements for the risks section of sustainable development reports[5].

Evolution of risks management key milestones of RMS development

2013 – FIRST STEPS
- 1-st strategic session on risks
- RMS project CS
- Establishment of risks committee
- Development of IRD: RM standard
- Determination of TOP-20 risks
- Assignement of owners
- Development of plans

2014 – PROCESS ESTABLISHMENT
- Enhancement of basic RMS processes: identification
- Risk managment plans monitoring
- Integration of RMS with internal audit
- Quality assessment of risks managment under results of 2013–2014

2015 – COVERAGE EXPANSION – SUBSIDIATRES INTEGRATION WITH INVESTMENT PROCESS
- Project of RMS in Sub. development
- Stratrgic sessions on risks in Sub.
- Establishment of RM committee in Sub.
- Integration into decision making process: investments manage-ment
- Assignments of the Russian President orders of the Russian Government

2016 – STANDARTIZATION, RISKS ASSESSMENT DEVELOPMENT, INTEGRATION +
- RMS standartization in Sub. (focus on TOP-5)
- Integration into business-planning process
- Risks funding, RUB
- Development of key risk indicators (KRI)
- Analysis of occurred risks
- Integration of RMS into M&A process: ZNDKh, AOC

2017 – IMPROVERMENT: FOCUS ON EFFICIENCY
- RMS modernization: roles of CC and SC
- Risks in business-processes
- Integration with efficiency managment process
- Process development and analysis of lessons learnt (in a from of open dialogue)

1 Corporate Management Code recommended in the letter of Bank of Russia No. OG-52/2463, dated April 10, 2014.
2 Letter of Rosimuschestvo No. OD-11/18576, dated April 29, 2014, "On the development of new key strategic documents for state-owned companies".
3 Assignment of the President of the Russian Federation No. Pr-3013, clause 1.
4 Letter of Rosimuschestvo No. 11/2035, dated January 23, 2015, "On the additions to the annual report at state-owned companies".
5 Global Reporting Initiative (GRI). G4 Sustainability reporting guidelines.

In 2016, the development activities of the CRMS continued and the following measures were implemented:

- A risk matrix was formed for the Business Plan for 2016–2020, and risk management charts were developed.
- KPIs for risk/opportunities management were developed and established.
- 6 meetings of the Working Committee on risk management were held (5 attendee meetings and 1 absentee meeting).
- The regular monitoring of risks (the change of their probability and/or impact), as well as plans for management measures thereof, is performed on quarterly basis.
- The risk management process is integrated into the investment process by means of investment projects' due diligence intended to verify the completeness of risks accounted for.
- The risk management system was replicated and standardized for the level of the subsidiaries (committees for risks were created, risk registers and matrices were approved, risk owners were appointed, risk charts with actions plans, dates, and responsible parties were established, and the monitoring of the plan's implementation is being performed).
- In June 2016, the Board of Directors approved the Group of Companies' risk management policy at its meeting, and this policy was adopted by all subsidiaries.
- Programs of training/seminars for risk management were developed under the Risk management discipline for the Gubkin State Oil and Gas University and Zarubezhneft JSC's Project Management School.

Major activities and priorities scheduled for 2017:

- Improvement of the approaches and methods for qualitative and quantitative risk assessment.
- Elaboration of the methodology for the determination of risk appetite.
- Updating the methodology in the corporate risk management area.
- Maintaining a sustainable process of risk management in the subsidiaries.
- Standardization of the risk management system's processes at the subsidiaries, with a focus on the Company's strategic risks, and the development of a strategic opportunities management system.
- Organization of the risk management Committee's work on quarterly basis.
- Consideration and updating the risks of LDP and the Business Plan of the Zarubezhneft Group of Companies.
- Provision of insurance coverage for the Zarubezhneft Group of Companies' risks and the improvement of the efficiency of the Zarubezhneft Group of Companies' insurance programs.

MAIN RISK FACTORS

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

Strategic risks

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

Operational risks

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

Finanacial risks and risks related to financial statement preparation

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

Risks of compliance with legal requirmenets

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

Strategic risks

Risk name	Risk description	Risk management measures
Political risk	Zarubezhneft JSC conducts its activity in the Asia-Pacific Region, Eastern Europe, and the Middle East, as well in the Russian Federation.	Zarubezhneft JSC carries out regular consultations with the representatives of the Russian federal executive authorities, foreign embassies and companies concerning current situations in the countries of its presence, the prospect of participation in various projects abroad, and sanction measures of USA and EU. The corruption rating of the countries of the current and prospective presence of Zarubezhneft JSC is being monitored.
Investment risk	The possibility that the anticipated (estimated) profit (rate of return) for the investment will not be obtained. Such risks are related to investments in the form of capital investments and financial investments (investing into shares and equity shares of other entities).	Strategic guidelines for the Company's development have been elaborated: priority by country, region, scoring model, and the required competences were defined. A priority action plan was approved for the implementation of the Strategy for 2016–2017. Quarterly monitoring of the Plan is being carried out. Centers of competencies are being established based on service subsidiaries (VNIIneft JSC, RMNTK-Nefteotdacha JSC, Giprovostokneft JSC, Zarubezhneftestroymontazh LLC). The Company develops and supports the investment process and performs quarterly monitoring of the investment projects' implementation, an expert evaluation of the materials is to be brought before the Investment Committee for the purpose of making balances managerial decisions is carried out. Work Groups for the evaluation of assets were formed: projects in Russia (35 meetings) and abroad (26 meetings) were considered.
Macroeconomic risks, including volatility of the oil price, its decrease or stagnation at a low level, Offshore drilling contracts, market crises	Material influence of the macroeconomic environment (changes of oil/oil products prices, spreads between oil and oil products quotations, decrease of Jack-Up Rig operation rates) and their negative impact on revenue / cash flow of the Company, on the economic efficiency of the Downstream segment and the impossibility of providing the drill ship of AMNGR JSC with contracts	The Company has calculated economic efficiency for 55/60 and 30/85 case scenarios, as well as their minimum marginal prices. A costs efficiency improvement and optimization program was developed and implemented, allowing the partial mitigation of the negative influence of the macroeconomic environment thanks to the measures taken by the management. A sensitivity analysis of the geological and technical measures program was carried out at all enterprises of the segment. The capital investments program was adjusted: part of the Compressor stations program's volumes that did not influence the production level of 2016 were carried over to the later periods. The investment activities of the Group of companies' enterprises remain at a high level. Geologic exploration projects were performed without the limitation of funding sources. A diversification of the credit portfolio with engagement of new lenders was carried out as part of granting loans within the enterprises of Zarubezhneft Group of Companies. A "hedging" project concerning the development of strategies, methods and models of hedging the risks of The Company's goods and raw materials is being implemented. The search for and engagement of strategic partners in the Downstream and service segments is carried out for the purpose of increasing the profitability of assets and implementing the program to increase the efficiency of oil products sales. The following measures are performed for the purpose of fulfilling the main strategic tasks of AMNGR JSC: • Marketing surveys and analysis, participation in tenders for the purpose of searching for contracts for the Murmanskaya Jack-Up Rig and Deep Venture drill ship; • Elaboration of options for engaging the drilling rig in operation of both external and internal customers; • Engagement of a Jack-Up Rig for operation offshore the Socialist Republic of Vietnam, in particular, in framework of the Block 12/11 project; • Negotiations on engaging the Deep Venture drill ship in the drilling projects of major petroleum companies in Russia and abroad; • AMNGR JSC is selling its non-core assets in order to improve the efficiency of its activities.

Operational risks

Risk name	Risk description	Risk management measures
Geological risk	Risks connected with the uncertainty of volumes and the quality of reserves, and the possible additional costs connected with reservoir pressure reduction, etc. (Geological risks are considered in connection with economic conditions, which are put into the calculation of production efficiency)	Considering the changes in macro-parameters, a justification of exploration works has been carried out by the Company. The developed financial and economic models of the projects for asset development include only efficient exploration activities. The Company conducts the monitoring of its resource base, including the growth of recoverable reserves. A rating of prospective areas was made. The newest technologies were employed in seismic survey works (Block 12/11; White Tiger field). An information system called Geology and Production Monitoring Management was introduced. The Company conducts an annual evaluation for the recalculation of recoverable hydrocarbons reserves of the Zarubezhneft Group of Companies in accordance with PRMS and SEC international standards. In addition, the Company conducts work on the development of its competencies regarding the development of complex structure fields. The increment of the Company's hydrocarbon reserves and the achievement of the maximum reserves volume in the last 5 years is primarily due to the growth of the Lutseyakhskoye field reserves, the increase of participating interest in KhPSA and a commercial discovery in the Block 09-3/12 provided in 2016.
Infrastructural risk	Risk of restriction of technical capacities for oil transportation	In Russian oil and gas industry the Russian petroleum companies compete in the main areas of economic and production activities, including obtaining access to the critically important oil transportation infrastructure. The Company pays significant attention to looking for ways to decrease these risks: • Carries out methodical cooperation with natural monopolies in the area of pipeline transport to ensure uninterrupted activities for the oil volumes of the Company • Carries out methodical work for planning and relocating transportation flows and oil delivery for relevant directions • Holds negotiations on possibility of oil transport through alternative oil delivery points, implements measures in part of commissioning treatment facilities along the oil export pipeline • Construction of tanks for the purpose of ensuring a 3-day reserve of free volumes • Develops own transportation and logistics infrastructure to ensure oil delivery under international projects A risk associated with impossibility of export transportation of produced volumes (infrastructural restrictions) was effected in 2016. Despite the reduction of transportation, the Revenue Plan for 2016 was completed, an agreement on a long-term tariff contemplating funding of measured removing the restriction was signed. These measures allow decreasing risks associated with using services and purchasing goods from monopolist providers to the acceptable level and ensure uninterrupted activities of the Company.
Accident risk	Risks related to accidents (and emergencies) – blowout in the course of drilling, the completion and operation of wells, as well as at offshore oil and gas producing platforms offshore the Socialist Republic of Vietnam.	The Company carries out constant work on improving its system of prevention of emergencies and accidents in the course of drilling, the completion and operation of wells, as well as at oil and gas producing platforms offshore the Socialist Republic of Vietnam. The Zarubezhneft Group of Companies has developed a double-level occupational health, industrial safety and environment protection (HSE) control system. The Company has approved and put into force Regulations on the prevention of open, uncontrolled flow in the operation of oil and gas producing platforms. During this year, the subsidiaries held audits intended to verify the availability of the regulatory base for observing safety rules in operation of oil and gas producing platforms; an audit of compliance with the safety requirements during well drilling by the Murmanskaya Jack-Up Rig and the Deep Venture drill ship; an audit of the equipment and availability of spare parts needed and compliance with safety rules in drilling and completion by Jack-Up Rigs and Drill Ships. AMNGR's MODU audit was carried out to check the compliance with rules of operation. External companies carried out additional audits. The condition of the MODU was satisfactory. An absence of emergency situations affirms the efficient performance of response plans by the personnel. An occupational accident in the Upstream segment, including harsh health consequences for an employee of JC RUSVIETPETRO, took place in 2016. This case allowed us to identify all weak spots at production site, hold additional briefings for the employees, and develop internal regulatory documents for the performance of particularly hazardous works. The objective for the risk is the absence of uncontrolled explosions and emissions of hazardous substances (succeeded in the avoidance of accidents during the year). A complex of occupational health and industrial safety measures performed in the Downstream segment resulted in decrease of the lost time injuries frequency factor (LTIFR) to 2.21 for 11 months of 2016, which is significantly lower than in the similar period of 2014 (4.5) and 2015 (2.85).

Financial risks and risks related to financial statement preparation

Risk name	Risk description	Risk management measures
Risks concerning statement preparation and formation.	Circumstances of economic activity or certain business processes which may become a reason for incompleteness/ delay of financial and managerial statements.	In the area of transfer pricing: Zarubezhneft JSC and its subsidiaries carry out a regular analysis of the initial documentation with the purpose of creating a list of the deals under their control. The risk probability is expected to below – a significant number of control procedures for the statement closure and formation were implemented, unified reference books were blocks and are updated with reference data. An Expert Committee for the qualification of costs for taxation purposes was established in the framework of decreasing tax risks. Costs that were previously not accepted for taxation purposes are being minimized in accordance with the approved procedures. A centralized closure with specific terms for each stage, including the reporting period, a closure system blocking was introduced upon the control of the statements' formation. An analysis of deals between the enterprises of Zarubezhneft Group of Companies and its affiliated entities is carried out. All enterprises of Zarubezhneft Group of Companies are guided by unified accounting principles established by the Accounting policy and a unified Accounts chart. All methodological changes are agreed upon at the Corporate Center. The main interested structural departments – IT & Metrology Department and Economics and Business Planning Department – are involved in the control over the agreement of changes to its implementation. A unified centralized date for closing accounting operations in the system was introduced in a checklist format that is to be submitted upon the formation of accounting (financial) and consolidated statements were developed.
Interest risk	The risk of a change in the interest rate paid under attracted funds. This risk has a negative impact on the politics of external borrowings, the credit policy and funds management process, and the Company's expected cash flow.	A Single financial and credit policy (approved by the order No. 22, dated January 27, 2016) was updated in 2016. The Company succeeded in restructuring the credit portfolio of OPTIMA Grupa d.o.o. by decreasing the credit interest rates for the purpose of the diversification of funding sources. Analysis of the necessity of attracting additional means of credit or refinancing current debt was carried out, and the debts liabilities' terms of maturity were revised. An analysis of terms for obtaining a tranche in the framework of an open credit line in comparison with making a new loan-raising contract is mandatory for making decisions on raising funds under a valid credit line. Payment processing, cache pooling, long-term loans and deposits services are provided to the Group by a single corporate bank that has a high credit rating, which ensures optimal terms of services and interest rates for the Group (both for raising and placing funds).
Liquidity risks	Risks connected with possible lack in funds for the Company's obligations performance, the impossibility to dispose of investments at their market price, and the devaluation of assets, etc.	The Company conducts a monthly analysis of liquidity indicators. Zarubezhneft JSC carries out planning of the cash flow budget and implements constant control of turnover funds for the performance of its operational activities. In-process liquidity management is carried out by means of setting up a payment schedule with a breakdown into banks and currencies, as well as with account of granting and receiving intra-group loans.
Currency risks	The probability of change in the cross-rates of basic currencies and its negative impact on financial reporting indicators and/or cash flow.	In connection with the growth of currency rates, the Zarubezhneft Group of Companies has an increased the currency risk in terms of the growth of costs expressed in foreign currency. However, this risk is mitigated by the fact that part of the revenues of the Zarubezhneft Group of Companies is in the realization of the export proceeds of oil and oil-products.

Risks of compliance with the requirements of laws and regulatory authorities

Risk name	Risk description	Risk management measures
Ecological risks	Risks connected with the probability of environmental pollution, fines and the application of other sanctions on the part of regulatory bodies, in connection to non-compliance with the applicable environmental legislation, etc.	The Company and its subsidiaries introduced internal normative HSE regulating documents: the HSE, security and social responsibility policy and the HSE management system standard. Implementation of the previously approved nature conservation and ecological permits programs is being carried out as planned. The elimination of sludge pits (acid sludge) at the Brod Refinery A.D. and the Modriča Oil Plant A.D. includes survey of facilities and the search for applicable technologies. The approval of the stabilization and solidification technology application by the Government of Republika Srpska is pending. The subsidiary constantly enhances the HSE management system in accordance with the environmental legislation and international standards ISO 14001 and OHSAS 18001, in particular: the Brod Refinery A.D. and the Modriča Oil Plant A.D confirmed compliance of their HSE management systems with the international standards OHSAS 18001-2007 and ISO 14001-2004 in 2016. An environmental permit valid until 2021 was obtained by the Brod Refinery A.D. Zarubezhneft JSC and JC RUSVIETPETRO carry out preparations for the certification of compliance with ISO 14001 and OHSAS 18001.
Occupational health and industrial safety risks	Risks of non-performance/non-compliance with the work safety rules, which can cause accidents, damage or the loss of durable equipment, and also the deterioration of the Company's business reputation.	A number of internal regulatory documents were updated in accordance with the requirements of international standards OHSAS 18001 and ISO 14001 in 2016 in the framework of the HSE system's methodological support. All of the subsidiaries joined the Zarubezhneft JSC policy of occupational health, industrial safety, environment protection, security and social responsibility established by the internal regulatory documents, and they operate under unified management standards. A program of "12 Life Saving Rules" was introduced and is supported, STOP cards of work safety performance were developed and introduced on the basis of JC RUSVIETPETRO. Constant HSE training is being performed: training for safety methods and techniques of work execution and first aid for the injured at the production site according to "First aid pre-doctor treatment for the injured"; a strategic session on the leadership for the subsidiaries' general directors was carried out. Unscheduled inspections of the technical condition and integrity of equipment at the main production facilities were carried out.
Legal risks	Related to the ambiguity, uncertainty, the contradictions of applicable laws, changes to the legal application practice of the court and administration authorities.	The Company performs constant monitoring of changes to Russian laws (taxes, currency, customs, subsoil use, licensing, etc.) and the monitoring of court practice with the purpose of settling disputable issues arising in the course of the Zarubezhneft JSC activities. For example, the Company has certain divisions aimed at studying the changes of tax laws, the analysis of the tax burden and at monitoring compliance with license agreements.

CORPORATE INSURANCE

Zarubezhneft JSC utilizes insurance as an economical tool that allows the mitigation of risk-induced impacts and consequences and decreases the probability of their occurrence.

The Company's main production assets are insured by major Russian insurers, all of which have high reliability ratings. Insurance coverage is provided for the property complex of the oil industry, and the life, health and medical care costs of personnel, construction and assembly works, the civil liability of enterprises, and many other risks.

Surveys (engineering) inspections enable the Company to make a quality assessment of the risks and their financial consequences are being carried out under the majority of the insurance programs.

The regulatory documents for insurance are as follows:
- Regulation on the interaction of Zarubezhneft JSC and Arktikmorneftegazrazvedka JSC for the purpose of arranging full comprehensive insurance for mobile offshore drilling units (approved by the order No. 457, dated October 31, 2016).
- Regulation on voluntary medical insurance of the Zarubezhneft JSC personnel (approved by the order No. 461, dated October 3, 2016).
- Zarubezhneft Group of Companies Voluntary medical insurance policy for Zarubezhneft Group of Companies' personnel (approved by the order No. 110, dated March 29, 2016).
- Zarubezhneft Group of Companies' corporate risks insurance policy (approved by the order No. 458, dated November 1, 2013).

IMPLEMENTATION OF INTRA-CORPORATE IMRPOVEMENT PROJECTS

The achievement of Zarubezhneft JSC's strategic milestones is performed using an Intra-corporate improvement projects tool.

51 projects have been initiated since 2015, including 15 projects successfully completed in 2015 and 9 in 2016. As of the end of 2016, 22 projects have "ongoing" status.

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

The improvement projects have brought the following actual results in 2016:

Project management school was established at Zarubezhneft JSC on the basis of the International business school of Gubkin Oil and Gas RSU.

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

Training is implemented based on the Gubkin Oil and Gas RSU under a program of additional (sand higher) professional education such as a Master of Business Administration (MBA) and Oil and Gas Business Management.

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

Successful implementation of the "pilot" project and the high level of student satisfaction allowed us to further develop the Project management school and the second enrollment of students to graduate in 2017–2018 was initiated in 2016.

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

A project of Standardization and optimization of business-processes was implemented to improve the organizational efficiency of the Company; its main objectives are:
- Regulation and optimization of key business-processes;
- Division of officers' responsibilities and authority in the implementation of business-processes;
- Determination of the indicative and target KPIs of business-processes;
- Introduction of a constant business-processes improvement cycle, a procedure for the identification of areas for improvement and the implementation of measures intended to achieve the "As supposed to be" status of business-processes.

In accordance with the quality management system requirements, the business-processes for the upper levels are described in accordance with the PDCA (Plan, Do, Check, Act) cycle. Each process has its analysis block singled out, in the framework of which the process owner performs a system analysis of the efficiency and results of the process implementation, the process KPI performance monitoring, the analysis of the quality of interaction with related business units and subsidiaries, and forms business-process optimization measures under the results thereof.

A Production system for Zarubezhneft JSC was introduced at the production facilities of JC RUSVIETPETRO (a subsidiary of Zarubezhneft JSC).

In order to increase the competitive ability of the Zarubezhneft Group of Companies, a project to establish a Production system for Zarubezhneft JSC was initiated and implemented, including the following main objectives:
- Increase the efficiency of the Production process,
- Engage personnel and determine active employees,
- Enhance production practices.

Implementation of this project is to be carried out by means of:
- Formation of an active position of the management and line personnel.
- Formation of a culture of leadership.
- Formation of unified approach to solving production problems, bringing production sites to a unified standard.

- Optimization of technological processes and information flows and a decrease in the various types of losses.
- Implementation of a "visual management" KPI and rating system setup in the framework of production competition.
- Engagement of employees into a process of the constant enhancement of their activities, the formation of a culture of prudent attitude towards the Company's resources and property.

As such, 4 of the system's priority areas were identified and successfully implemented on the basis of the performed analysis of the Best practices for the arrangement and implementation of the Production system:

- "Arrangement of team work":
  Key technological operations were standardized, which allowed an increase in the safety and reliability of their performance.
- "Workplace arrangement - 5S":
  Site operations at indoor and outdoor production locations were optimized, time for performing operations was reduced and material supplies were decreased.
- "Arrangement of a system for constant improvements":
  A system for submitting and implementing ideas and proposals from everyone team workers to the management was arranged.
- "Culture of a prudent attitude":
  Work for improving the commitment of the personnel to maintaining a prudent attitude towards the Company's equipment and property was arranged. The most important areas of potential savings were identified, prudent attitude examples were elaborated, and agitation works were carried out.

A system for managing the headcount of Zarubezhneft JSC's Corporate Center was established.

A project for establishing a regulation system for Zarubezhneft JSC's headcount was implemented for the purpose of identifying measures intended to increase the labor efficiency of the Corporate Center, including the following main objectives:

- Determination of the economic justification of the headcount of the Corporate Center Zarubezhneft JSC;
- Development and testing of headcount regulation methods within structural departments.

The implementation of the project has brought the following quality results:

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

Apart from this, the following results can be identified for projects whose implementation is to be continued in 2017:

- A process for the technological audit of potential assets for entry was arranged;
- The risk management process was distributed to the subsidiaries of the Zarubezhneft Group of Companies;
- The Corporate Ethics Code of Zarubezhneft JSC, which reveals the 12 main principles of corporate interaction within the Company, was adopted.

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

- Zarubezhneft JSC's Corporate strategy for development until 2030 and a Plan for priority Strategy implementation measures;
- Maturity models for key processes and functions;
- Results of the evaluation and audit of the efficiency of the business-processes operating at the Company;
- Requirements of the external regulatory authorities (the Government of the Russian Federation, Rosimuschestvo, etc.).

ENERGY EFFICIENCY

The power conservation and energy efficiency program for 2016 was developed and implemented across the Zarubezhneft GC. The program was approved on December 26, 2015, by the order no. 616.

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

- Implementation of a "lean production" policy based on introduction of measures with payoff period of 3-5 years;
- Development of measures intended to decrease specific energy costs per production unit, the production of oil-containing fluids and formation pressure maintenance (in the Upstream segment), the refining of raw materials (in the Downstream segment) and to decrease the resources of annual power consumption (in the Service and Other Assets segment);
- Engagement of all personnel in enterprises in the process of power resource conservation (lean production);
- Engagement of secondary power resources and production waste (APG, spent oil waste) in the production process.

This program is an extension of the Power conservation and energy efficiency improvement program that was successfully implemented at Zarubezhneft GC in 2011–2015. The strategic goal of developing and implementing this program for 2016 is to decrease the self-cost of commercial products in the Group of Companies' production business-segments and, as a consequence, to increase competitive ability in domestic and global markets. The program considers the decrease of specific power resource costs for the production of oil-containing fluid (OCF) volume at the oil producing subsidiaries of the Russian segment by 1.5% compared to the level of 2015. The Brod Refinery A.D. and the Modriča Oil Plant A.D. oil refining enterprises of the foreign segment also participated in the implementation of Zarubezhneft GC' program. The joint venture Vietsovpetro joined the implementation of the Power conservation and energy efficiency improvement program for the Zarubezhneft GC in 2016 for the first time.

394 MILLION RUBLES – is an estimated economic effect from integration of the new energy conservation program measures for the calendar year

The development and implementation of new measures (along with the operation of measures implemented in 2013–2015) when accounting for the peculiarities of segmented division of activities, the organizational structure and the specifics of Zarubezhneft GC' activities as a whole, were identified as target milestones of the Power conservation program for 2016.

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

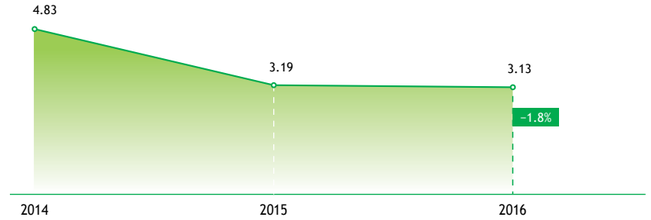
The main subsidiaries of Zarubezhneft JSC in the Russian segment – JC RUSVIETPETRO, Orenburgnefteotdacha JSC, Ul'yanovskneftegaz LLC, Giprovostokneft JSC, VNIIneft JSC and the administrative building of Zarubezhneft JSC – have undergone a mandatory repeated energy inspection in accordance with the Federal law No. 261-FZ, dated November 23, 2009, in 2016. In the foreign segment, the Modriča Oil Plant A.D. was subject to energy inspection. The potential for energy conservation was determined and measures for including them into energy conservation programs for the next five years were developed under results of the energy inspections of the subsidiaries.

66 measures were implemented at the Zarubezhneft GC as a whole in 2016, 16 of which are at the final stage of implementation. The total economic effect from the implementation of the Power conservation program in 2016 (measures taken in 2016 and measures in previous years with an ongoing three-year monitoring period in accordance with the methodological guidelines) for the Zarubezhneft GC was 1,031,687 thousand Rubles or 43,483 tons of reference fuel, including:

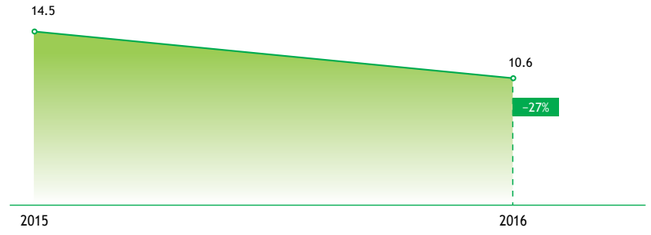
- Savings in the Russian segment comprised 940 million Rubles (36,044 tons of reference fuel);
- JV Vietsovpetro – 10 million Rubles (2,092 tons of reference fuel).
- Brod Refinery A.D. and Modriča Oil Plant A.D. – 81 million Rubles (5,347 tons of reference fuel).

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

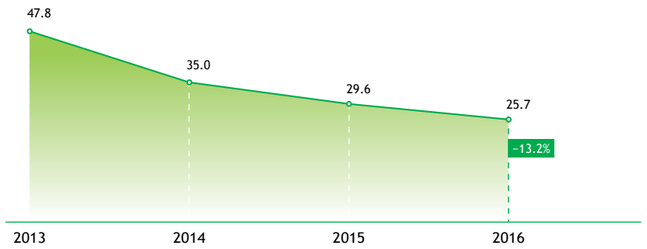
Changes of Specific Energy Costs for OCF Production at Zarubezhneft Group of Companies (Russian segment), tons of reference fuel / thousand m^3



Specific Energy Costs for OCF Production in JV Vietsovpetro, tons of reference fuel / thousand m^3



Changes of Specific Energy Costs for Refining Raw Material in Monetary Terms for Brod Refinery A.D. and Modriča Oil Plant A.D., thousand Euros / thousand tons



20,600 TONS
of reference fuel of energy resources are planned to be saved by Zarubezhneft Group of Companies in 2017

The main energy efficiency measures of Zarubezhneft GC implemented in 2016:

- Implementation of a program of measures for the optimization of inefficient energy costs for electric heating: the basic heating of process equipment and production spaces, the disconnection of heating cables from out-of-service process equipment (JC RUSVIETPETRO);
- Implementation of reactive capacity compensation measures (LLC "JC "RUSIVIETPETRO");
- Commissioning of the 35/110 kV substation, and a 110 kV power transmission line (LLC "JC "RUSIVIETPETRO");
- Calculation of electric grid parameters (LLC "JC "RUSIVIETPETRO");
- Installation of an associated petroleum gas (APG) fueled heat generator for the purpose of heating oil-containing fluid (OCF) at the Sulakskoye field (Ul'yanovskneftegaz LLC);
- Replacement of pumping equipment units with more energy efficient ones (15 kW NSh-80 with 11 kW KM-80-50-2006) (Ul'yanovskneftegaz LLC);
- Installation of variable frequency drives for pumping equipment (LLC "JC "RUSIVIETPETRO", Ul'yanovskneftegaz LLC);
- Integration of frequency control equipment for the air-cooling units (ACU) of sections 34, 36 (2 pcs.) and ACU (4 pcs.) of section 35 (Brod Refinery A.D.);
- Modernization of power supply circuit of waste-heat boilers of sections 04, 06 (Modriča Oil Plant A.D.);
- Conversion of paraffin heating line from steam to electric power (Modriča Oil Plant A.D.);
- Replacement of 32% of thermodynamic condensate extractors with thermostatic ones. (Modriča Oil Plant A.D.);
- Performance of works to decrease the energy consumption for own needs of diesel power stations DPS 4, 2 (shore facilities) (JV Vietsovpetro);
- Provision the berthing of electric supply of vessels at the offshore facilities of JV Vietsovpetro from the electric power system.

Efforts for the further development of energy conservation and the increase of the energy efficiency of Zarubezhneft GC were carried out in 2016. A program for energy conservation for 2017 was developed and approved; it included 102 developed measures, 16 of which are in a final implementation stage in 2016. Beginning in 2017, the subsidiary Company ZARUBEZHNEFT-production Kharyaga joined the energy conservation program of the Group of Companies. The costs for implementation of the program's measures, not including those for the long-term, have been estimated in the amount of 753 million Rubles, the estimated economic effect of which for the calendar year of application is approximately 394 million Rubles or 12,409 tons of reference fuel. The payoff period of the organizational and cost-based energy conservation measures under the Program for 2017 is 1.8 years. An energy inspection with the development of a long-term energy conservation program has been scheduled for the Brod Refinery A.D. in 2017.

The Zarubezhneft GC plans on saving not less than 20,600 tons of reference fuel of power resources, decreasing the specific indicators of power resource consumption per OCF production volume at the oil producing enterprises of the Russian segment by 2.5% compared to the level of 2015 in 2017. JV Vietsovpetro plans of decreasing specific indicators of power resources consumption for oil-containing fluid production by 6% compared to the level achieved in 2016 by means of introducing activities under Energy efficiency program in 2017. It has been planned to maintain the trend of decreasing the specific indicators of power resources consumption per ton of refined raw material in monetary terms in the Downstream segment. It has also planned been to decrease the level of actually used power resources by 1.5% compared to the achieved level of 2016 in the Service and Other Assets segment.

ENVIRONMENT PROTECTION

The ecological policy of Zarubezhneft JSC defines ecological well-being as the basis for economic prosperity.

In its daily activities, the Company realizes its principles in practice by the constant improvement of nature conservation activities, the rational use of natural resources, the reduction of the number of contaminants and decreasing the toxicity of both contaminants and waste emissions. An international approach to solving these tasks enables the introduction of advanced scientific achievements into the Company's production and environmental protection work.

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

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

- Ecological training of the personnel;
- Prevention of air pollution and the safeguarding water and land resources;
- Neutralization of production waste;
- Industrial environmental control;
- Monitoring environmental conditions and the production facilities' impact thereof;
- Prevention and liquidation of pipeline accidents;
- Construction of new and re-construction of existing environmental facilities.

Environmental Protection Investments, million Rubles

Investments	2014	2015	2016
Fixed capital investments for environment protection	**106.57**	**41.36**	**97.80**
Charges for negative impact on the environment	4.36	19.89	2,804.04
Environmental damage compensation	0	0	
Charged penalties for environment pollution	0.38	0.937	0.09
Current environment protection costs	**441.12**	**196.92**	**142.63**
Including costs for:			
Protection for bodies of water	6.29	3.00	4.58
Protection of atmospheric air	289.77	1.58	1.65
Protection of land resources from production and consumption waste	133.09	155.00	111.66
Rehabilitation of lands	11.18	31.19	12.99
Other areas of environmental protection	0.86	6.18	11.75

In 2016, current funding for the environmental activities for subsidiaries located within the Russian Federation totaled approximately 142.6 million Rubles.

Costs for the conservation of biodiversity and the protection of natural sites at JC RUSVIETPETRO in 2016 amounted to 2.2 million Rubles.

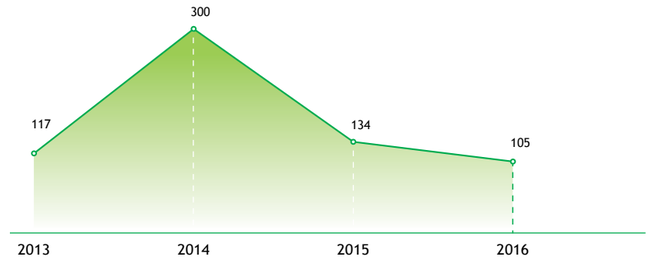
In the area of environmental protection, our subsidiaries regularly conduct training for managers under "The hazardous waste management" program; the development and updating of regulatory ecological documentation was completed, ecological audits were accomplished, ecological risks were established and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

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

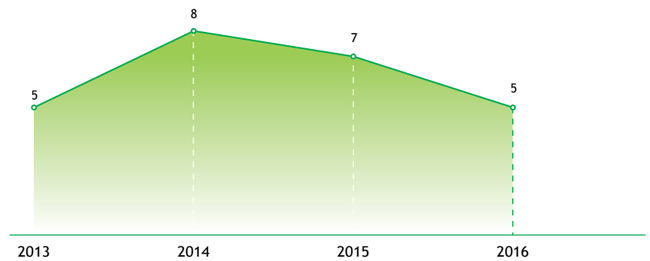
One of the most important tasks for the minimizing the negative impact of drilling waste is the treatment and subsequent reclamation of waste pits.

So, in 2016, JC RUSVIETPETRO rehabilitated approximately 104.9 hectares (ha) of disturbed lands and liquidated 5 waste pits through contractor organizations.

Rehabilitation of Lands, ha



Rehabilitation of Pits, pcs



142.6 MILLION RUBLES – is the level of funding of environment protection measures in subsidiaries within the Russian Federation in 2016

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

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

Considering the transfer of operatorship from Total E&P Russie to the subsidiary of Zarubezhneft JSC – ZARUBEZHNEFT-Production Kharyaga LLC, the emissions thereof were accounted for in the total volume of the emissions of Zarubezhneft JSC and amount to 5.4 thousand tons.

The following measures were implemented for the purpose of reducing the atmospheric emissions of harmful substances by JC RUSVIETPETRO:

- Pilot operation of a multi-phase pumping station (MPPS) is being carried out at the North Oshkotynskoye field; the commercial operation of MPPS will allow the transportation of APG as part of an oil and gas mixture to the West Khosedayu field with subsequent transport to the North Khosedayu CPF via pipeline. It will allow us to achieve a 95% APG use ratio at the North Oshkotynskoye field in 2017.
- PWDU-3 of the West Khosedayu field was switched to a design operation mode, which provided an opportunity to transfer all of the associated petroleum gas to the North Khosedayu CPF and to cease gas flaring at the West Khosedayu field completely.
- "Grasis" sulfur recovery units were commissioned under a design schedule.
- "Uderndyrskaya" MPPS is under construction, its commissioning will allow us to decrease the volume of associated petroleum gas flared at the Syurkharatinskoye and Urendyrskoye oil fields and to further achieve a 95% ratio of gas use.

Gas production in 2016 increased by 12% compared to the previous year. As such, the use of APG for internal needs to generate thermal and electric power increased: the APG use level was 80%, which is 11% higher than in 2015.

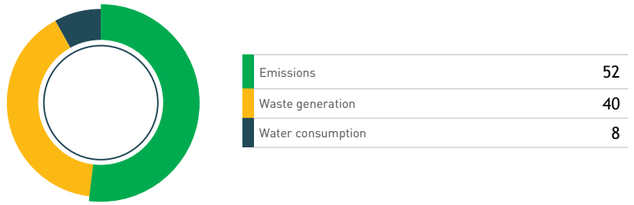
APG production and use volume is calculated based on the values at gas metering points.

As for the Downstream segment, the technological process of gasification at the Brod Refinery A.D. is being carried out for the purpose of improving the power efficiency of production and complying with the harmful substances emission standards established by Republika Srpska in accordance with the European Union's standards for 2016.

Implementation of the plans to refine acid sludge into safe inert substances with the subsequent use of a refined product in course of the remediation of sludge pits continued at the Brod Refinery A.D. in 2016. The Ministry of territorial planning, construction and the environment of Republika Srpska reviewed the proposals of Zarubezhneft JSC regarding the implementation of the implementation of the Acid sludge disposal plan for 2016 and proposed to conduct an environmental impact assessment of the selected solidification technology.

An environmental permit for the Brod Refinery A.D. valid for 5 years was received in 2016, which confirms the compliance of the production activities of the Refinery with the legal requirements of Republika Srpska.

Structure of Specific Indicators in 2016, %



80% – is the index of APG use in the Group of Companies[1] in 2016 (+31.5% compared to 2015)

Specific Environmental Protection Indicators in Zarubezhneft GC in the Russian Federation, tons / thousand tons of oil

2013	2014	2015	2016	
3.36	3.4	3.33	5.65	Emissions
0.79	1.38	1.14	0.85	Water consumption
10.22	8.39	5.45	4.44	Waste generation

Amounts of emissions of the Zarubezhneft GC as a whole increased in 2016 due to acceptance of operatorship in KhPSA project. Emissions of ZARUBEZHNEFT-Production Kharyaga LLC are accounted in the total amount of emissions of Zarubezhneft JSC.

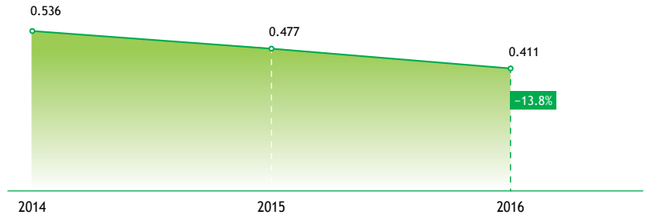
Production and use of associated petroleum gas in Zarubezhneft Group of Companies, million m³

Entity of Zarubezhneft Group of Companies	APG Production	Use of APG for own needs	% of APG utilization
LLC "JC "RUSVIETPETRO"	133.05	108.06	81.22
Orenburgnefteotdacha JSC	1.58	0.63	39.58
Ul'yanovskneftegaz LLC	0.40	0.07	17.04
Arctic Oil Company LLC	2.16	0.73	33.95
TOTAL[1]	**137.19**	**109.49**	**80.00**
ZARUBEZHNEFT-Production Kharyaga LLC	206.1	48.8	24

1 Without taking into account of ZN Production Kharyaga.

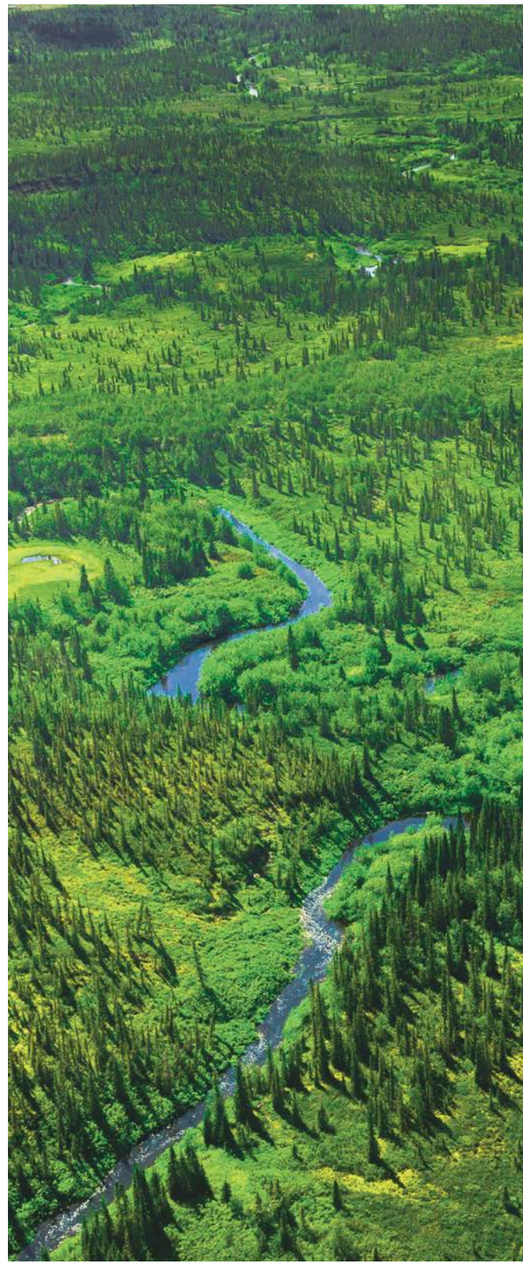
DECREASE OF GREENHOUSE GASES EMISSION

GHG in CO_2-Equivalent[2], million m³



Zarubezhneft JSC considers the Kyoto Protocol mechanism an important step towards increasing the efficient use of associated gas. The Mechanism of Activities Implemented Jointly (AIJ), provided by the Kyoto Protocol to the UNFCCC, remains one of the most serious incentives for the realization of associated petroleum gas disposal projects and other projects aimed at the reduction of atmospheric GHG emissions.

In accordance with the "Methodical recommendations and guidelines for the quantitative calculation of the volume of GHG emissions by enterprises conducting its business or other activities in the Russian Federation" (approved by the Order of the Ministry of the Natural Resources and Ecology of the Russian Federation No. 300, dated June 30, 2015, registered with the Ministry of Justice of the Russian Federation on December 15, 2015, Registration No. 40098), Zarubezhneft JSC determined the atmospheric GHG emission volume for 2016 as a result of the production activities of the enterprises. The emissions volume in 2016 amounted to approximately 0.411 million m³ of CO_2 equivalent, which is 0.066 million m³ less than in 2015. Such a decrease is due to the increase of the associated petroleum gas use ratio by 11%.



2 The volume of greenhouse gases emissions produced by ZARUBEZNHEFT-Production Kharyaga LLC in 2016 amounted to 0.153 million m³ of CO_2-equivalent.

INDUSTRIAL SAFETY AND OCCUPATIONAL HEALTH

Occupational health, industrial safety, environment protection and social responsibility policy is the basis for the strategic planning and management of the current activities of Zarubezhneft JSC, setting and achieving goals, carrying out efficient monitoring and control, constant improvement of activities.

The occupational health, industrial safety, environment protection and social responsibility policy was updated and approved by the Zarubezhneft Board of Directors in 2016.

Recognizing its responsibility for maintaining the environment in a favorable condition and the preservation of the life, health and wellness of human beings, Zarubezhneft JSC undertakes the following obligations:

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

In accordance with these obligations, Zarubezhneft JSC:

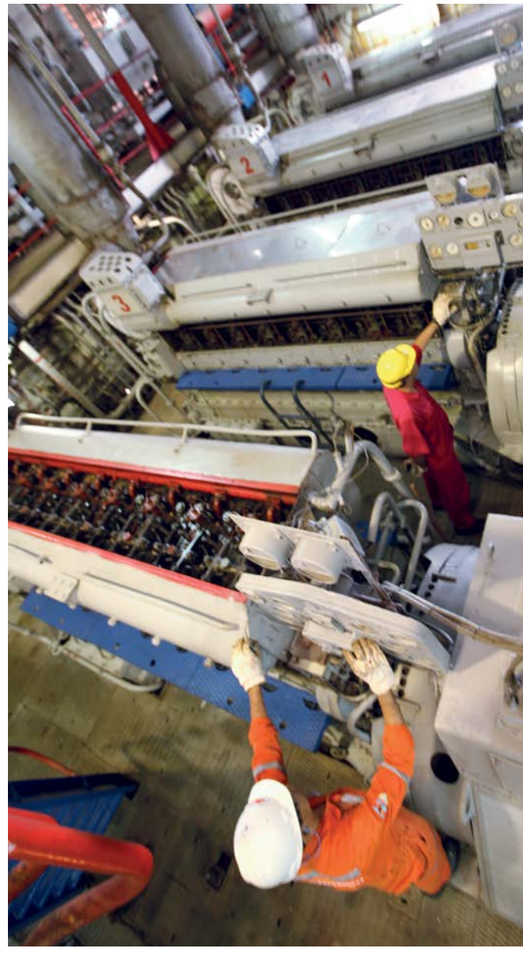
- Aims to implement an environmental management system and an occupational safety management system in compliance with the requirements of the international standards ISO 14001:2004 and OHSAS 18001:2007;

Zarubezhneft JSC identifies and implements opportunities for continuous improvement of its occupational health, industrial safety, environment protection and social responsibility performance.

- Considers the management of occupational health, industrial safety, environment protection, security and social responsibility (HSES & SR) issues to be a priority in its activities;
- Determines and assesses its HSE risks and takes measures to eliminate and minimize the identified risks;
- Identifies and implements the possibilities for constant improvement in the area of HSES & SR;
- Forms a corporate culture of security based on the principles of commitment and the participation of all employees of Zarubezhneft JSC in the settlement of HSES & SR issues;
- Motivates the personnel to achieve the best results in terms of HSES & SR and provides stimulation bonuses for the achievement of high results;
- Ensures the competency and awareness of the personnel in terms of HSES & SR;
- Requires contractors to manage their HSSE and SR issues in accordance with this policy;
- Arranges consultations with internal personnel and the personnel of the contractor entities engaged at the production facilities of the Company regarding the issues of ensuring industrial and environmental safety and occupational health;
- Contributes to the promotion of the best industrial operating practices, the introduction of the best available technologies and the implementation of efficient innovative projects;
- Takes active part in social activities in the regions of its presence and assists the social and economic development of these regions;
- Complies with the standards of social responsibility when implementing foreign projects in accordance with the priorities of the external policy of the Russian Federation;
- Informs the society of its work results in terms of HSES & SR.

The following internal regulatory documents were updated and adopted in 2016 in the framework of methodological support of HSE system in Zarubezhneft JSC and in accordance with the requirement of international standards OHSAS 18001 and ISO 14001:

- Standards for the occupational health, industrial safety and environment protection management system;
- Standards for the Internal Audit department of the occupational health, industrial safety and environment protection management system;
- Management procedure for occupational health, industrial safety and environment protection risks and opportunities;
- Regulation for the Team for the development and implementation of the occupational health, industrial safety and environment protection corporate governance system at Zarubezhneft JSC;
- Anti-alcohol and anti-drug policy of Zarubezhneft JSC;
- Regulation for the Procedure for in-process control over the HSE condition of the Zarubezhneft Group of Companies;
- Regulation on application of information system of HSE indicators monitoring;
- Civil defense plan of Zarubezhneft JSC;
- Action plan for prevention and response to natural and industrial emergencies of Zarubezhneft JSC;
- Regulation on interaction and coordination of actions between structural department of Zarubezhneft JSC in case of emergency occurrence at the offshore petroleum facilities of JV Vietsovpetro and VRJ Petroleum Co.



The effect of the occupational health, industrial safety and environment protection standards adopted at Zarubezhneft JSC covers all of its subsidiaries, and thus production activities are carried out across a unified managerial area.

Measures for the preparation of the certification audit of HSE management system to verify compliance with the requirements of international standards OHSAS 18001 and ISO 14001 were carried out at Zarubezhneft JSC (at the Company's Corporate Center) and JC RUSVIETPETRO during 2016.

Teams for the development and integration of a corporate HSE management system were established, diagnostic and internal audits were performed at the fields and in the offices of Zarubezhneft JSC, and adjustment and preventive measures were developed and adopted for implementation.

A Register of obligations for compliance with the legal requirements of the Russian laws as part of the HSE of Zarubezhneft JSC was developed. The internal auditors performed an inspection that confirmed strict compliance with the requirements of laws and regulatory acts at the Company.

The subsidiaries seek to constantly improve the HSE management system in accordance with the nature conservation legislation as well as with the OHSAS 18001-2007 and ISO 14001-2004 international standards, in particular:

- The Brod Refinery A.D. and Modriča Oil Plant A.D. confirmed the conformity of their HSE management system to the OHSAS 18001-2007 and ISO 14001-2004 international standards;

The subsidiaries have regularly held training and examinations in the following categories in the area of the labor safety:

- "Industrial safety";
- "Labor safety and pre-medical first aid";
- "Basics of fire safety";
- "Knowledge of rules and norms for working at electrical units";
- "Safe operation of electrical units".

The internal auditors have performed an inspection that has confirmed strict compliance with the requirements of laws and regulatory legal acts in the Company.

In addition, obligatory employee medical examinations and special evaluations of working conditions (SEWC) at workplaces were carried out.

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

With the aim of enhancing the HSE system and introducing best international practices and elements of international standards in the industrial safety, a "12 Life Saving Rules" production program was successfully implemented across the Zarubezhneft Group of Companies in 2016. Special attention was paid to the observance of safe working methods, the breach of which may result in the risk of severe injuries or even cause death.

All of the necessary emergency response and consequences mitigation plans were developed and approved at the subsidiaries.

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

In-process control is one of the most important elements of the efficient operation of an HSE management system: when carrying out in-process control over occupational health, industrial safety and environment protection, the personnel of the subsidiaries are guided by the relevant legal and regulatory documents of the Russian Federation and 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 Group of Companies and a procedure for "Management of occupational health, industrial safety and environmental protection risks".

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

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

The Company maintains preparedness for civil defense and emergencies, which is ensured through an integrated approach by the following:

- Testing safety facilities and training of the 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;
- Teaching and the attestation of emergency accident rescue teams at the fields;
- The conclusion of agreements to hold drills twice a year with specialized professional units for the provision of gas rescue and well blowout safety services.
- Training personnel to act in case of possible emergencies.

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

Considering the importance of understanding and strict compliance with Zarubezhneft JSC's requirements of contractor entities, joint strategic sessions called "Leadership in HSE: Zero Goal" were held for top and middle managers of subsidiaries and contractor entities in 2016.

The strategic session "Leadership in HSE: Zero Goal" was also held for the Top management of Zarubezhneft JSC and the general directors of subsidiaries.

The Company pays special attention to enhancing the production culture, leadership and involvement of its managers, to increasing the internal interaction level in the area of HSE and the actual integration of the following target programs at production facilities that contribute to this cause:

- "12 Life Saving Rules";
- "Leadership in the area of HSE";
- "Management of HSE risks";
- 5S system in the framework of Zarubezhneft JSC's Production system.

A process of Zarubezhneft JSC's Production system integration at the production facilities of JC RUSVIETPETRO was completed in 2016, with one of its components being the 5S System supervised by the HSE Department of the Corporate Center.

The Company's Management has noted the positive result of the integration of the Production system in 2016, and a decision was made to distribute the Production system to ZARUBEZHNEFT-Production Samara LLC, ZARUBEZNHEFT-Production Kharyaga LLC and RMNTK Nefteotdacha JSC.

It is also necessary to highlight the successful integration of the 5S System in the enterprises of Downstream segment: the employees of the Brod Refinery A.D. and Modriča Oil Plant A.D. applied the principles of the 5S System to their production activities in 2016 guided by the positive experience of their Russian colleagues.

PERSONNEL MANAGEMENT AND CORPORATE CULTURE

The Company's work in improving HR management is being implemented in accordance with the "Personnel Policy of the Zarubezhneft Group of Companies for 2014–2019".

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

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

PERSONNEL STRUCTURE AND HEADCOUNT

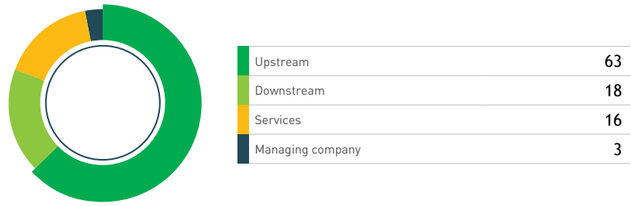
In 2016, the headcount of the Zarubezhneft Group of Companies was 12,093 persons, which is 5% less than in 2015. In general, the average headcount of the Group of Companies shows a tendency to decrease. These changes are due to the ongoing headcount optimization measures in the Downstream and Upstream segments, along with the headcount optimization measures in subsidiaries, and also due to sale of Arctic Oil Company LLC. The headcount decrease in the Downstream segment was 10%. The headcount decrease in the Upstream segment was 9%. Furthermore, the headcount in the "Service and Other Assets" segment grew by 6% due to the expansion of activities.

Headcount of Zarubezhneft Group of Companies

Area of activities	2013	2014	2015	2016
Managing Company	329	329	320	322
Representatives and branches of Zarubezhneft JSC	25	31	30	26
Upstream	8,094	7,923	8,135	7,495
Downstream	2,667	2,517	2,356	2,127
Service and other assets	2,260	1,898	1,853	1,969
Total	**13,375**	**12,698**	**12,694**	**12,093**

Decrease of headcount is due to optimization measures in Upstream and Downstream segments.

Personnel Structure at Zarubezhneft Group of Companies in 2016 by Areas of Activities, %



Personnel Structure by Categories of Positions as of December 31, 2016, %

The Upstream segment, which contains 62% of all personnel, is a priority direction of the Group of Companies' development.

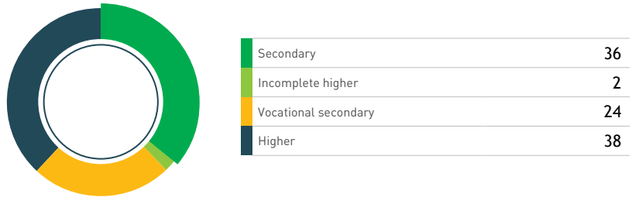
Considering the fact that oil production activities require a heavy workload at drilling rigs (especially at the facilities of JV Vietsovpetro in Vietnam), men dominate among the personnel of Zarubezhneft Group of Companies, comprising 81% of headcount.

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

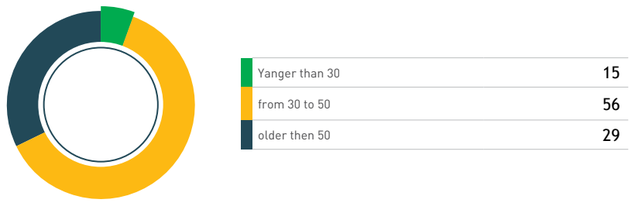
The personnel structure by level of education shows that a significant share of the Group of Companies' employees have higher education (38%), however, considering the large number of operating personnel, the employees with secondary and vocational secondary education.

62%
of the personnel belongs to the Upstream segment which is a priority one for the Group

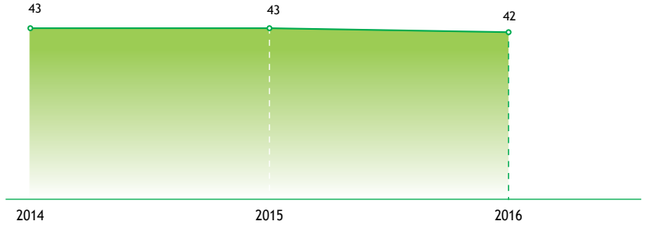
Personnel Structure by Level of Education as of December 31, 2016, %



Personnel Structure by Age as of December 31, 2016, %



Average age of personnel of Zarubezhneft Group of Companies, years



The age structure of personnel is traditionally formed in such manner so that half of the personnel fall within the age range of 30-50 years to ensure the best proportion of work experience and physical capabilities. A significant specific weight is accounted for by the younger employees - 15%.

The average age of personnel at the Zarubezhneft Group of Companies decreased in 2016 and stood at 42 years.

15% – is the specific percentage of the youth among the personnel of the Company

PERSONNEL MOTIVATION AND INCOME STRUCTURE

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

In this regard, Zarubezhneft JSC carries out consistent work in the following areas:
- Enhancement of the employee payment and motivation system;
- Enhancement and development of a comprehensive headcount planning system accounting for the demands of the business areas of the Zarubezhneft Group of Companies, its reasonable allocation and efficient engagement for the purpose of increasing labor efficiency;
- Monitoring best practices as part of the remuneration structure for key managers;
- Monitoring of salary levels in the regions of activities by priority discipline and profession.

A unified remuneration system developed in 2013 is in force at Zarubezhneft JSC. This system defines a unified procedure for establishing the salary of employees on the basis of a unified grading system. The amount of annual remuneration (revenue) of the sole executive authority Zarubezhneft JSC in 2016 amounted to 53.9 million Rubles.

This system reflects the business interests and priorities of the Companies, ensures matching the achievement of annual key performance indicators (KPI) with the amount of annual remuneration for employees, and is one of the tools for managing the efficiency of employee activities for the benefit of the Company.

A comprehensive motivation system comprising the following elements was established for the purpose of attracting and retaining key managers at Zarubezhneft JSC:
- Fixed remuneration (salary, bonuses and extra payments in accordance with the legislation);
- Short-term motivation (monthly bonuses, annual bonuses as a result of KPI achievement);
- Long-term motivation system (for the performance of long-term goals in accordance with the Strategy of the Zarubezhneft Group of Companies).

The main principles of long-term motivation include:
- Program cycle – 3 years;
- Main payments – achievement of long-term KPI;
- Payment procedure – upon the completion of the Program's cycle.

The results of the project for the implementation of "Establishing a headcount management system" that was commenced in 2015 were summarized in the framework of labor efficiency improvement measures at Zarubezhneft JSC.

The key results of the project include:
- Calculation of target and actual labor costs with a breakdown into business processes and functions was made;
- Comparative analysis of labor intensity of planning / performance / control operations was performed (under PDCA);
- Target results were determined (key function documents);
- KPI of functions and business processes were clarified;
- Troubled functions / areas for improvement were determined (doubling, "long chains", excessive labor costs / lack of resources);
- Labor efficiency enhancement measures were identified (automation, reengineering of processes);
- Functions were clarified, and the headcount for the performance of business process/function was agreed and approved.

The framework of the project includes:
- Development and approval of methodological recommendations for the determination of a standard staffing number for Zarubezhneft JSC;
- Update of the procedure for introducing changes to the organizational chart and staff schedule of Zarubezhneft JSC.

The average market level salary for the industrial labor market is maintained at the Zarubezhneft Group of Companies. An increase in the average monthly salary of the Zarubezhneft Group of Companies' employees is ensured through the annual indexation of salaries and tariff rates.

SOCIAL PROGRAMS

An efficient social protection system remains the basis for successful industrial activity and promotes the retention of highly qualified personnel. The Group of Companies pays special attention to the development of social programs.

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

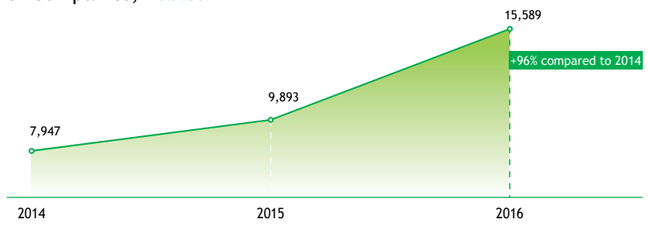
- The creation of conditions for the improvement of the personnel's health, and the maintenance of corporate sports and fitness complexes;
- Health protection, including voluntary medical insurance for employees and their family members and non-working retirees;
- Material support for veterans and non-working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

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

286

EMPLOYEES of Zarubezhneft Group of Companies were given awards in 2016

Dynamics of Social Payments per 1 Employee at the Group of Companies, Rubles



A parity corporate program providing a non-state pension to the workers continued its operation. Since 2014, the volume of social payments per 1 employee has doubled in the Group of Companies.

Non-financial motivation also occupies an important place in our personnel motivation system. For the purpose of rewarding the employees and work teams for their significant contribution to the development of Zarubezhneft JSC, their achievements of high production, high financial and economic performance, and in order 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, and an Appreciation from Zarubezhneft certificate.

Over the past year, state and corporate awards have been given to 286 employees of the Zarubezhneft Group of Companies.

Type of Awards	Number of Award Recipients	including	
		Employees of Subsidiaries	Foreign Citizens
State	9	2	2
Industrial	68	43	13
Corporate	209	100	64

INTEGRATION OF PROFESSIONAL STANDARDS

Action Plan for integrating professional standards at the Company was developed and approved in 2016 in accordance with the decree of the Government of the Russian Federation No. 584, dated June 6, 2016 and guidelines of the Government of the Russian Federation No. 5119p-P13, dated July 14, 2016 for the integration of professional standards at Zarubezhneft JSC.

A Work group for integrating professional standards consisting of 6 persons was established at Zarubezhneft JSC.

The Work group held 2 meetings in 2016 with the following results:

- Agreement on a list of job positions and professions at Zarubezhneft JSC for which the application of professional standards is to be mandatory;
- Agreement of a list of local regulatory acts that need to be amended due to the integration of professional standards;
- Necessity of professional training for employees was determined on the basis of the analysis of the qualification requirements for professional standards.

Employees of Zarubezhneft JSC are informed of all measures being implemented in the framework of the integration of professional standards. All the necessary information is published on the corporate portal of the Company.

Corporate center of Zarubezhneft JSC initated integration of professional standards in subsidiaries.

The Corporate Center of Zarubezhneft JSC initiated work towards the integration of professional standards at the subsidiaries. As the affect of the Decree of the Government of the Russian Federation and the guidelines regarding the application procedure for professional standards does not cover the subsidiaries of Zarubezhneft JSC, the subsidiaries made their own decisions in terms of integrating professional standards into their activities.

In most of the subsidiaries, work groups or committees have been established (ZARUBEZHNEFT-Production Samara LLC, Zarubezhneftestroymontazh LLC, RMNTK Nefteotdacha JSC, Giprovostokneft JSC), and stage-by-stage integration plans for professional standards were developed (JC RUSVIETPETRO, Zarubezhneftestroymontazh LLC, ZARUBEZHNEFT-Production Samara LLC, Giprovostokneft JSC, RMNTK Nefteotdacha JSC), and in accordance therewith, the employees of the subsidiaries were informed of the regulatory base for the integration of professional standards by means of information distribution via e-mail or the creation of dedicated pages on internal sites (Giprovostokneft JSC). Lists of professional standards scheduled for application into the activities of the companies were established; amendments to the job specifications of employees have already been or are in effect at a number of entities (completed at JC RUSVIETPETRO and LLC "Zarubezhneftestroymontazh").

SELECTION AND ADAPTATION OF PERSONNEL

The selection of highly professional specialists is one of the main factors behind the Company's successful development. Zarubezhneft JSC has established a target profile for candidates. In the selection process, a three-level assessment system is applied:

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

To reduce the adaptation period for newly recruited workers and to enhance efficiency and loyalty to the Company, certain adaptation activities are carried out, including: adaptation workshops, supervisory responsibilities, training at the workplace and the preparation of individual plans for the worker's adaptation.

Zarubezhneft JSC applies a three-level assessment system for selection of specialists.

PERSONNEL TRAINING AND DEVELOPMENT

Highly qualified personnel is the most important asset of the Company that ensures competitive advantages and allows the Company's dynamic development. The key guidelines for the achievement of the strategic goals in the area of HR is the Personnel Policy of Zarubezhneft JSC are intended to provide:

- Efficient HR management by taking the best global practices into account;
- The rational use of HR potential;
- The development of professional skills;
- The creation of favorable and safe working conditions.

The implementation of the HR policy in terms of the evaluation, training and development of personnel is aimed at the formation of sustainable personnel, the increase of their professional level and the implementation of the potential of each of the Company's employees. The key directions for personnel development in the reporting year were the following:

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

Zarubezhneft JSC regularly conducts internal and external evaluations, such as annual personnel assessment, Assessment center, evaluation under a 180/360 degrees method, various types of tests intended to determine the development level of their professional expertise and skills, business and personal qualities, as well as their verbal and numerical abilities.

The main evaluation event at the Company is the annual assessment of personnel that enables the systematic and reliable evaluation of the employees' performance indicators and identifies employees of high potential, motivates them towards positive labor results and a high professional level, as well as the personal growth of employees. The annual assessment of personnel is conducted under following parameters:

- Assessment of the performance of an individual worker's goals (KPI);
- Assessment of their professional level (the development of their professional expertise and skills, the level of the functional performance of their duties);
- Assessment of the development of their corporate and managerial competencies level.

A number of measures intended to improve the annual personnel assessment process was implemented in the reporting year, in particular, target job position profiles (with the required set of professional skills and expertise) were developed, which enable a more reliable assessment of the employees' professional level; a system for setting individual tasks for employees derived from the management's key performance indicators (KPI) charts was established. Due to the implementation of the internal improvements project for corporate interaction, the corporate model of competencies was updated. All assessment events are held in an automated mode on the training portal WebTutor.

For the purpose of implementing a unified personnel policy as part of the assessment of personnel, assessment measures have been integrated and implemented across almost all of the Zarubezhneft Group of Companies. It has been planned to improve the quality and transparency of the assessment process and to improve system automation efforts in 2017.

The formation and development of HR reserves allows the provision of management succession at the Company, of which the operative rotation of managerial personnel and is aimed at the career development of the Company's key experts.

A concept of modular training of reserve personnel on the basis of own School for development of leadership and managerial potential was designed for the purpose of continuous development of labor pool.

Work with HR reserves was improved in the reporting year and new criteria for candidate selection for target positions were applied; an assessment by job position profile was carried out in order to determine the areas of professional development for reserve members. The HR reserve was formed not only from the employees of the Corporate Center (Zarubezhneft JSC) but also from the employees of the entirety of the Zarubezhneft Group of Companies through of the self-nomination and submission of recommendations from structural departments heads.

A concept for a school of modular training of reserve members on the basis of their own leadership and the development of their managerial potential was developed for the purpose of implementing the constant development of the HR reserve content. The school's main tasks include the following:

- Development of key high-potential workers;
- Enhancement of the management culture;
- Improvement of the personnel's business and personal qualities;
- Increasing of the efficiency of teamwork.

50 reserve members participated in training events in the framework of the school under the following programs: systems thinking, cross-functional management, team and personal leadership. These programs are aimed at the development of managerial skills and personal qualities. Programs for the development of managerial and corporate competencies at the workplace were also developed in 2016. An e-library (enabling employees to read books online and download them) was established for the purposes of self-education and self-development.

Personnel training and advanced training and the improvement of their competencies and skills is one of the priority directions of development that strengthens the Company's competitiveness. The personnel training system is intended to provide not only an increase in the employees' required professional and technical competence but also an increase in the Company's compliance with the state's mandatory requirements for the training degree of oil and gas workers in the area of industrial and occupational safety.

Zarubezhneft JSC utilizes a full range of modern training types and method. Training is implemented on the basis of best Russian and foreign educational organizations that carry out educational activities, as well as by corporate training centers covering retraining, long-term and short-term advanced training, and business education programs (special training programs, skill trainings). The Company provides training in the following areas:

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

For the purposes of planning and the completion of corporate training, a range of corporate programs is provided, including training programs for top and medium-level managers as well as experts, the members of the HR reserve and young experts, aimed at the personal and professional development of personnel.

Year over year, the personnel training and development system has transformed into a unified corporate knowledge management process that enables the increase in the development level of the corporate culture and its motivation of personnel, as well as bolstering the Company's positive image.

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

Over years the personnel training and development system transforms into a unified corporate knowledge management process that allows increasing the level of corporate culture, personnel's motivation as well as the positive image of the Company.

The framework of the petroleum engineering school includes the following:

- Training courses and educational materials have been developed for production and technical programs;
- 131 man-courses have been conducted (employees from the Corporate Center and subsidiaries participated in the training);
- The corporate knowledge base is being expanded on permanent basis.

Acting on the basis of the international business school, the following has been carried out within the framework of the project management school:

- 120 man-courses have been conducted (employees from the Corporate Center and subsidiaries participated in the training);
- Both external and internal lecturers have been actively attracted;
- Upon the results of defending their thesis work, students received state MBA degrees.

In order to provide an automated personnel training and assessment process, the Company has been actively engaged in the process of developing and introducing the WebTutor software. Various assessment measures are being currently implemented in automated mode, of which a 180/360 degrees annual personnel assessment was performed in 2016, and a training portal including all types of training and education implemented by the Company was established for the purpose of the professional and personal development of employees. For the purpose of the operational planning of personnel training, a process of applications for online training was established, which allows us to decrease labor costs for the formation and analysis of submitted proposals for the arrangement of training events in 2017. The next stage of this system's introduction will be a general setting of all bases by blocks, as well its integration into the Company's subsidiaries.

WORK WITH YOUNG EXPERTS AND INTERACTION WITH EDUCATIONAL INSTITUTIONS

For the purpose of the implementation of the program for innovation development and a policy for young experts, Zarubezhneft JSC has actively interacts with the Russian Federation's leading higher education institutions in terms of recruiting and selecting high-potential students, the provision of moving students into production practice and the organization of employee retraining and advanced training. The Company has concluded agreements on cooperation with, in addition to organizing scientific and technical interaction with, each higher education institution partner that 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.

Over the last 5 years, the Zarubezhneft Group of Companies has employed 158 young experts. The highest demand is for the graduates from the following higher education institutions:

- Gubkin Oil & Gas RSU (Study programs: Petroleum Engineering, Oil and Gas Field Development and Operation, Physical Processes of Petroleum Production, Geology, Economics and Management at Oil and Gas Enterprises);
- Tomsk Polytechnic University (Study programs: Oil and Gas Field Development and Operation, training at Heriot-Watt University);
- Ukhta State Technical University (Study program: Oil and Gas Field Development and Operation);
- Samara State Technical University (Study programs: Oil and Gas Field Development and Operation, Machinery and Equipment at Oil and Gas Fields, Economics and Management at Enterprises);
- Lomonosov Moscow State University (Study programs: Geology, Law, Economics, Mathematics, Physics);
- Moscow Technological University (Study program: Chemistry);
- Lomonosov North (Arctic) Federal University (Study program: Oil and Gas Field Development and Operation).

158
young experts
were hired in Zarubezhneft Group of Companies during the last 5 years

Young experts who graduated from higher education institutions with industry-specific education have relevant and sufficient theoretical knowledge in the areas of activities.

Production practice and on-site training, including paid training, are annually arranged for students and graduates of higher education institutions on the basis of Zarubezhneft JSC. On-site training programs for employees from the list of the higher-education institutions" teaching personnel are also implemented.

Currently, Zarubezhneft JSC carries out active cooperation with the leading technical higher education institutions of the Russian Federation, such as the Gubkin Oil & Gas RSU, Ufa State Oil University, Tomsk Polytechnic University, Bauman Moscow State Technical University and others. Programs intended to train personnel for the fuel and energy complex are implemented on permanent basis:

- The Company has carried out training of young Serbian experts with engineering specialties from the families of the employees of the Group of Companies' enterprises in Bosnia and Herzegovina at the Gubkin Oil & Gas RSE in Moscow since 2011. Currently, 13 individuals have completed their study;
- More than 20 children of Russian experts employed at JV Vietsovpetro are currently studying at the industry-specific higher education institutions in the Russian Federation.

More than 140 employees of the Zarubezhneft Group of Companies annually undergo advanced training at higher education institutions under various study programs in the areas of petroleum production, economics and management, oil and gas field development, well workover, financial management, budgeting and controlling at petroleum complex enterprises, oil and gas gathering, the treatment of technological processes and many others.

One of the Company's priority directions is work with the young experts of the Group of Companies, which requires the identification and professional development of prospective youth. Zarubezhneft JSC offers assistance in training to students who are the children of JV Vietsovpetro's Russian specialists at higher education institutions of the Russian Federation.

The Young Experts Council – a collegial social and professional association of active youth established with the purpose of forming a basis for the youth policy, rallying young employees, ensuring the development and maximum efficient application of their scientific, technical and creative potential (the Young Experts Council was established in 2013) – continued its operation in 2016.

The Young Experts Council is integrated into the HR policy of the Company 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 youth and fostering efficient communication between the "generations" of employees;
- Making young employees feel involved in the general business of the Company, engaging youth in team work;
- Engaging youth in innovative scientific and research project activities;
- Promoting a healthy lifestyle;
- Assistance in arranging conditions for increasing the creative initiative of youth.

2016 became a point of development and revision of the approaches and principles of the management of youth movement for the youth policy of Zarubezhneft Group of Companies, including:

- Statutory and regulatory documents regarding work with youth were updated in the reporting year;
- An analysis of the roles and tasks of youth active in achieving the general goals of the Company was made, a Concept for the youth association development at the Zarubezhneft Group of Companies was developed and approved;
- The Council was expanded and received a wider range of functions;
- Work for the distribution of the youth policy at the Group of Companies commenced: youth associations were established at the Company's Russian and foreign production, scientific and design subsidiaries.

Today, the activities of the Young Experts Council at the Zarubezhneft Group of Companies is coordinated at the Corporate Center and are carried out in the following areas:

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

In the framework of developing the scientific and technical potential of young experts, the Young Experts Council of Zarubezhneft JSC holds an annual contest for the scientific and technical papers of Young Experts. The fourth annual Contest was held in September 2016.

Considering that the Contest gives each young employee of the Zarubezhneft Group of Companies an opportunity to bring new innovative technical and organizational solutions to the Company that could be further applied in production activities, the number of participants increases each year. From 2013–2016, more than 150 young employees participated in the contest and presented 130 innovative projects aimed at the solution of key production and organizational tasks of the Zarubezhneft Group of Companies.

In 2016, the requirements for the preliminary examination of papers to participate in the Contest were made stricter. When selecting papers for the Contest, the experts are primarily guided by the potential effect of the Company from point of view of the project's future implementation. Around 50 reports submitted in 2016 by the youth of the Corporate Center and from the subsidiaries of the Russian segment, as well as from subsidiaries located in Vietnam and Republika Srpska (Bosnia and Herzegovina) were presented. Half of them were selected for subsequent integration into production activities.

In 2016, the systematic monitoring and efficiency evaluation of the implementation of the work of young experts at the enterprises of the Zarubezhneft Group of Companies continued. In 2016, the Company developed and approved a "Regulation on the procedure of holding a scientific and technical paper contest and the evaluation of its results" as well as an internal method of the evaluation of the efficiency of the production integration of the projects by prevailing effect (technological and organizational) for the purpose of regulating the processes associated with the selection, arrangement and monitoring of the projects' integration in production activities. Considering that the young experts' projects are intended to improve the production indicators and achieve organizational goals, the results of their integration in production are reviewed and verified by the Scientific and Technical board of Zarubezhneft (STB).

The share of projects successfully integrated in production activities is increasing annually.

A number of prospective projects for distribution across the enterprises of the Zarubezhneft Group of Companies is growing as well.

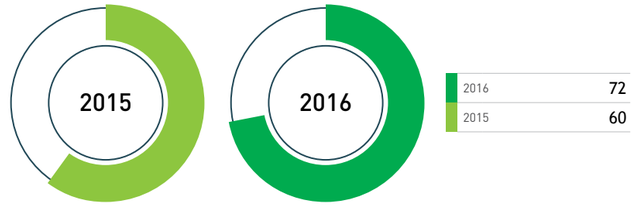
Such high results are achieved through a systematic approach to organization of the management process for scientific and technical developments, the support of the management and the application of a joint work principle in which young employees and the authors of innovative projects directly participate in their integration production.

In 2016, the Young experts' council continued its activities for the development of corporate sports: the youth association arranges annual corporate tournaments intended to strengthen the corporate spirit and unify the collective and engage employee involvement in teamwork. In 2016, billiards, beach volleyball and bowling tournaments that have become a tradition for the Company were held, the youth also came forward with an initiative and successfully implemented a program of collective testing for the compliance of the Zarubezhneft Group of Companies' personnel with the GTO (Russia's "Ready for Labor and Defense" standard of physical fitness) in the reporting year. In autumn 2016, the team of Zarubezhneft JSC took part in a major soccer tournament for the first time, in the III Official Mini-Soccer Championship of Moscow for corporate teams, and came in honorable third place.

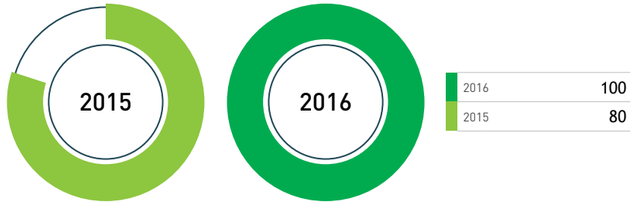
The volunteering movement in the framework of the Young Experts Council's activities was widespread in the reporting year. Charity events with participation from all of the Company's personnel were held in the framework of the youth initiative in 2016.

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

Share of works integrated in production, %



Share of works integrated in production with positive effect, %



Structure of integrated works prospective for distribution, %

FORMATION OF CORPORATE CULTURE AND ETHICS

The establishment and maintenance of fundamental values and standards of activities, ethical standards, and an environment that is creative and open for innovation, the contribution of a high level of involvement from each employee in the settlement of main business issues are strategic goals in the area of developing a corporate culture at the Group of Companies.

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

Zarubezhneft JSC pays significant attention to corporate ethics. The 12 principles of corporate interaction in four areas that were approved in 2016 include:

- "Company – Employee";
- "Employee – Employee";
- "Manager – Employee";
- "Company – External environment".

Relevant changes were introduced to the Corporate Ethics Code. The Code was published in the form of a desk brochure with an appendix containing situational examples for corporate interaction principles. These interaction principles are widely distributed across the Zarubezhneft Group of Companies and full compliance therewith is key for the success of employees at the Company in terms of career and professional progression.

Professional contests based at the subsidiaries and the Corporate Center of the Zarubezhneft Group of Companies are held in order to motivate employees to achieve a high level of professional performance.

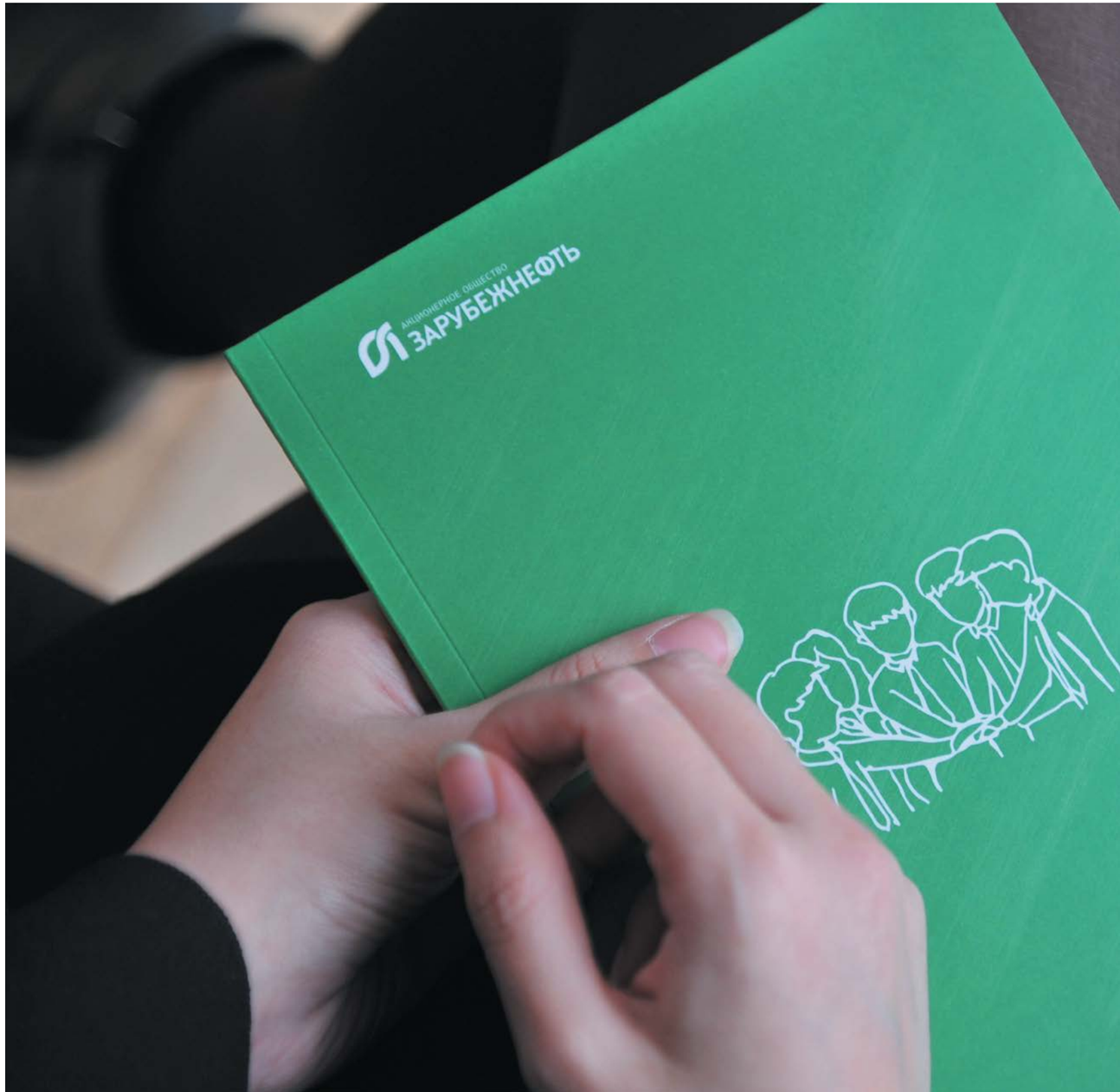
In 2016, participants from the subsidiaries of the Zarubezhneft Group of Companies gathered in the Republic of Komi to take part in the "Best in Profession" contest held at the production site of JC RUSVIETPETRO. The winners were determined in four disciplines: Oil and Gas Production Operator, Electric and Gas Welder Maintenance Technician and Special Vehicle Driver. It is a traditionally international event, with the employees of the Modriča Oil Plant A.D. and the Brod Refinery A.D. from Republika Srpska and JV Vietsovpetro from the Socialist Republic of Vietnam having participated in the contest in 2016. The employees of ZARUBEZHNEFT-Production Kharyaga LLC won the team competition.

In 2016, yet another "Best Facility" contest was held at the Zarubezhneft Group of Companies in the category of High Production Culture Facility category for two areas: Oil, Gas and Water Treatment and Transport and Oil Production. This contest was designed to foster a thrifty and solicitous attitude of the refinery workers towards the facilities, equipment and workplaces, as well as to encourage the organization of a high level of production culture. The facilities of JC RUSVIETPETRO were the winners in both categories in 2016.

The Company holds a regular contest for the Best Employee.

For the purpose of strengthening the corporate culture, developing internal communications and horizontal connections, projects of a socio-cultural nature are being introduced across the Zarubezhneft Group of Companies. The Company pays special attention to the support of family values in order to increase the loyalty of its employees. The creative team of employees staged an amateur performance with the involvement of the children of the concert's participants on the occasion of a corporate celebration. Family walking city tours are arranged as well.

Intellectual tournaments for the teams of the Zarubezhneft Group of Companies' subsidiaries were successfully held for the second year in a row. The games are conducted in an exciting and competitive atmosphere and are aimed at increasing team-building skills and the general involvement in a common cause.



SOCIAL POLICY IN THE COMPANY'S REGIONS OF PRESENCE

Within the areas of its operation, the Zarubezhneft Group of Companies exerts a significant influence on the social and economic development of the regions of its presence.

Therefore, the Company adheres to a policy of high social responsibility to local communities and the society at large.

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

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

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

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

13
MILLION RUBLES
is the amount of the budget for sponsorship support of socially significant projects of Zarubezhneft Group of Companies in 2016

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

- Support for culture, sport and a healthy way of life for the local population.
- The conservation of cultural and historical heritage, and support for military and patriotic activities and events.
- Assistance to creative teams and artists;
- Support for the poor and financially disadvantaged layers of society, orphaned children, veterans and disabled people.
- Development of scientific and educational programs, as well as advanced vocational training programs.
- The organization of activities on the occasion of significant events in the fuel and energy complex.

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

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

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

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

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 is supported and fostered by the Company.

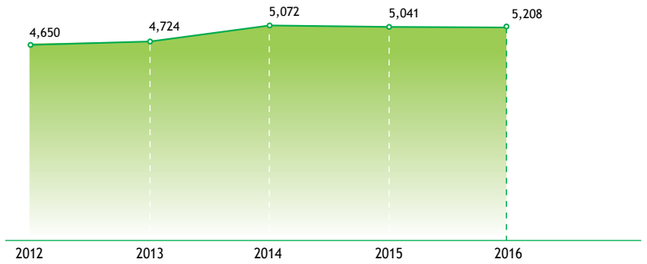
99
MILLION RUBLES
were allocated for charity and sponsorship in 2016

THE RESULTS OF THE COMPANY'S ACTIVITIES FOR THE YEAR 2016

03

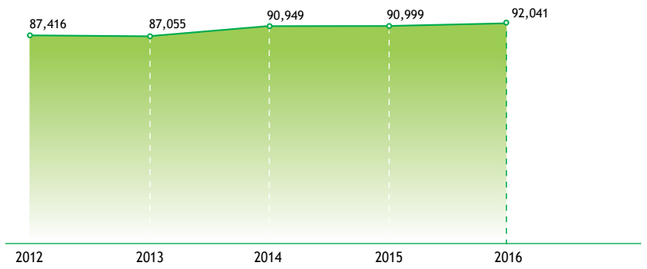
CONSOLIDATED INDICATORS OF ZARUBEZHNEFT GROUP OF COMPANIES

Gross Hydrocarbons Production of Zarubezhneft Group of Companies (including share increase), thousand tons O.E.



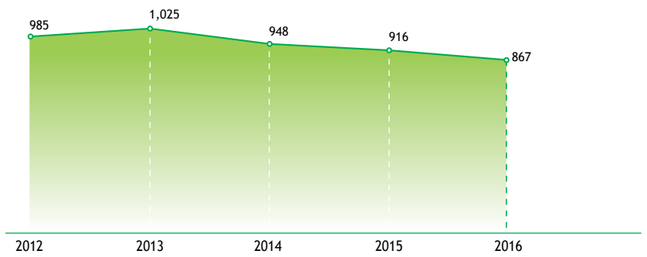
Application of efficient geological and technical measures, formation pressure stabilization and engagement of undrilled reserves into development have ensured an increasing trend of hydrocarbons production volume.

Reserves Volume of Zarubezhneft Group of Companies (including share increase), thousand tons O.E.



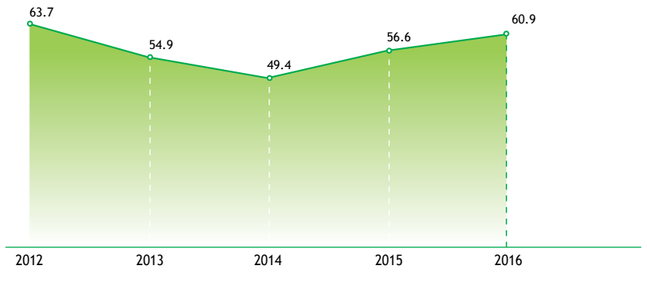
Efficient geologic exploration resulted in the actual level of reserves in the last 5 years. This growth was due to the share increase in Kharyaga PSA, the acquisition of the Lutseyakhskiy license area and increase of reserves volume.

Oil Refining Volume of Zarubezhneft Group of Companies, thousand tons



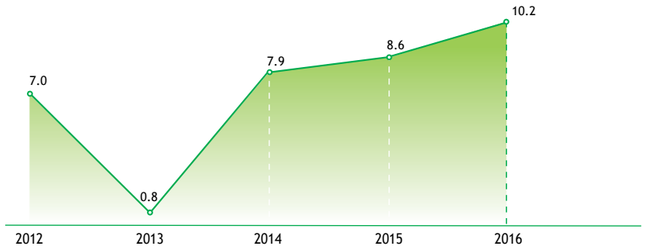
The refining volume achieved as per the results of 2016 is an optimal one from the point of view of the production program, marketing capacities and financial results of the segment.

Dynamics of Consolidated Revenue of Zarubezhneft Group of Companies (under IFRS), billion Rubles



The deterioration of the macroeconomic environment had an especially significant impact on the Downstream segment's results, as well as the results of VSP. Signing an Intergovernmental agreement between JV Vietsovpetro and JC RUSVIETPETRO had a material influence on the changes in revenue. The scope of works under the contract of the Murmanskaya Jack-Up Rig and the Deep Venture drill ship was reduced.

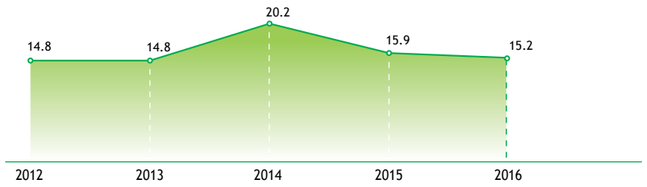
Dynamics of Consolidated FCF of Zarubezhneft Group of Companies (under IFRS), billion Rubles



The net cash flow of Zarubezhneft JSC increased by 19% and exceeded 10 billion Rubles (without account of the purchase of a 20% share in Kharyaga PSA) due to a sustainable commitment to increasing economic efficiency. Positive dynamics was ensured thanks to:

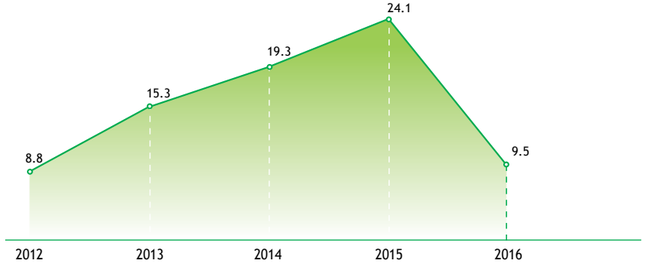
- Increasing the operational efficiency of the Upstream segment's assets, primarily at JC RUSVIETPETRO;
- Achieving a positive EBITDA value and a positive operational cash flow for the Downstream segment;
- Providing efficient management and control over the projects' budgets at the exploration stage.

Dynamics of Consolidated EBITDA of Zarubezhneft Group of Companies (under IFRS), billion Rubles



The Upstream segment provided a positive impact due to the implementation of the costs optimization program, signing an Intergovernmental agreement and the increase of Zarubezhneft JSC's share in Kharyaga PSA to 40%. The main negative impact on the results was from the negative exchange difference regarding the loans of Zarubezhneft JSC and the results of AMNGR's activities .

Net Debt of Zarubezhneft Group of Companies (under IFRS), billion Rubles



In 2016, the Company carried out a comprehensive optimization of its debt portfolio through active efforts to accumulate the available funds of projects generating a positive cash flow. Apart from this, the strengthening of the Ruble exchange rate had a positive effect since the main part of loan portfolio of the Group of Companies is composed of foreign currencies. The cumulative effect of these factors enabled the achievement a decrease in Net debt of more than 60%.

TAX LIABILITIES AND EXEMPTIONS OF ZARUBEZHNEFT GROUP OF COMPANIES' SUBSIDIARIES

TAX PAYMENTS

Taxation, along with such macroeconomic factors as changes in the oil price and the Ruble exchange rate, significantly influences the performance of the Zarubezhneft Group of Companies. The share of tax and other mandatory charges in the Production segment costs comprises 48% and 39% of the revenue.

The calculation and payment of tax and other mandatory charges by the Zarubezhneft Group of Companies is conducted in strict compliance with the current legislation of the Russian Federation, Bosnia and Herzegovina and the Socialist Republic of Vietnam.

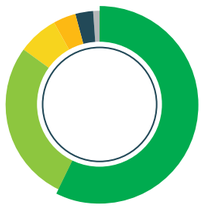
The subsidiaries of Zarubezhneft JSC perform their obligations to pay taxes, charges, duties, and insurance contributions to the budgets of all levels and non-budget funds of the Russian Federation in full.

The total amount of tax and other mandatory payments into the Russian Federation in 2016 amounted to 24,954 million Rubles, which is 21% higher than in 2015. As such, 81% of all payments are accounted for the federal budget (FB) of the Russian Federation, the consolidated budgets (CB) of the subjects (13%) and non-budget funds (NB) (5%).

Taxes and Other Mandatory Payments to the Budget system of the Russian Federation, million Rubles

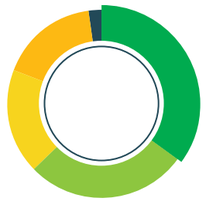
2015	2016	
1,157	1,333	NB
4,834	3,364	CB
14,628	20,256	FB

Structure of Taxes and Other Mandatory Payments in the Upstream segment, %



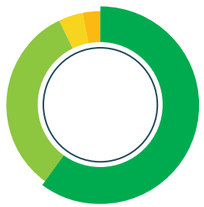
MET	58
Export duty	28
Profit tax	7
Property tax	4
Social contributions	3
Other	1

Structure of Taxes and Other Mandatory Payments in the Service and Other Assets segment, %



Social contributions	35
VAT	28
PIT	18
Profit tax	17
Other	2

Structure of Taxes and Other Mandatory payments in the Downstream segment, %



Excise duties	60
VAT	33
Social contributions	4
Other	3

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

The structure of tax payments in the Upstream and Service and Other Assets segments of activities differs greatly due to the industry-specific taxes (minerals extraction tax, export customs duties) in the Upstream area.

The largest share of mandatory payments comprises minerals extraction tax (MET) (58%); export duty (28%), profit tax (7%), property tax (4%) and social insurance contributions (3%).

The main tax burden of the Downstream segment's enterprises is associated with VAT (35%), social insurance contributions (28%), profit tax (17%), PIT (18%) and other taxes (2%).

The Bosnian region enterprises of the Zarubezhneft Group of Companies as a whole is a major taxpayer into the budget system of Bosnia and Herzegovina. The amount of payments into the budgets of all levels in 2016 was 219 million EUR. The main tax burden of the enterprises is associated with the indirect taxes (excise duties – 60%, VAT – 33%), and social insurance contributions – 4%. Other taxes account for only 3%.

The subsidiaries in the Vietnamese sector of the Zarubezhneft Group of Companies makes payments into the budget system of the Socialist Republic of Vietnam. In 2016, this amounted to 925 million USD.

GEOLOGIC EXPLORATION AND PRODUCTION OF HYDROCARBONS (UPSTREAM)

CURRENT PORTFOLIO OF ASSETS/PROJECTS IN THE SEGMENT

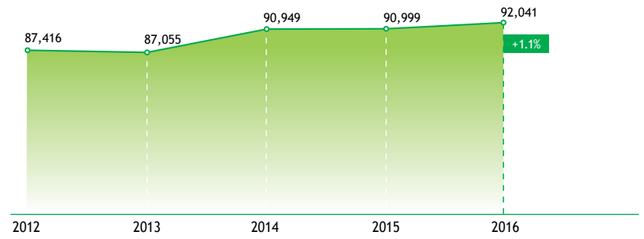
Operator/Subsoil User	Projects	Life Cycle Stage
Socialist Republic of Vietnam		
JV Vietsovpetro	Block 09-1, oil fields: White Tiger, Dragon, White Rabbit, White Bear, White Cat	Exploration and production
	Block 04-3, Tien Ung – Mang Cau oil and gas condensate field	Exploration and production
	Block 09-3/12	Exploration
	Block 12/11	Exploration
PVEP	Block 42	Exploration
VRJ (Block 09-3)	Blocks 09-3 and 09-1 Nam Rong – Doi Moi unitization area	Exploration and production
Republic of Cuba		
Branch of Zarubezhneft JSC	Boca de Jaruco oil field	Exploration and pilot operation
Russian Federation		
JC RUSVIETPETRO	CKU Block 1, North Khosedayu oil field	Production
	CKU Block 2, oil fields: Visovoye, Verkhnekolvinskoye	Exploration and production
	CKU Block 3, oil fields: West Khosedayu, Sikhoreyskoye, East Sikhoreyskoye, North Sikhoreyskoye	Exploration and production
	CKU Block 4, oilfields: Syurkharatinskoye, North Oshkotynskoye, Pyuseyskoye, South Syurkharatinskoye, Urernyrdskoye, East Yanemdeyskoye	Exploration and production
ZARUBEZHNEFT-Production Kharyaga LLC	Kharyaga oil field	Production
Orenburgnefteotdacha JSC	Pashkinskoye oil field	Exploration and production
	Kirsanovskoye oil field	Exploration and production
	Chernovskoye oil field	Exploration and production
Arctic Oil Company LLC	Peschanoozerskoye oil and gas condensate field	Asset sold on August 23, 2016
North Karasevskoye Petroleum Enterprise LLC	Lutseyakhskoye field	Exploration
Ul'yanovskneftegaz LLC	Ruzhevskoye oil field	Production
	Slavkinskoye oil field	Production
	Kondakovskoye oil field	Production
	Sulakskoye oil field	Exploration and production
	Radischevskiy site	Exploration

STATUS OF THE RESOURCES AND RAW MATERIALS BASE

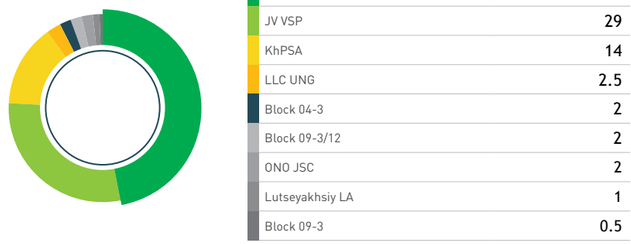
The performance of geologic exploration works and the expansion of the hydrocarbon (HC) resources base are strategic tasks for the Company for the purpose of ensuring further sustainable mid-term and long-term production growth.

In 2016, the Zarubezhneft Group of Companies owned 17 licenses for the search, exploration and production of hydrocarbons for 27 fields within 16 subsoil plots in the Russian Federation (a list of licenses is attached to the report in the Appendix).

Dynamics of Current Recoverable Reserves (A+B1+B2+C1) of Zarubezhneft Group of Companies with Account of Participating Interest, thousand tons of O.E.



Structure of Reserves as of December 31, 2016, %



The total initial recoverable HC reserves of the A+B1+C1 (new classification) categories with consideration of Zarubezhneft JSC's participating interest as of January 1, 2017, amounted to 61.53 million tons of oil equivalent for Russian assets and 30.51 million tons of oil equivalent for foreign assets.

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

Enterprise / Project	Actual in 2015	Planned in 2016	Actual in 2016
JV VSP	29,522	25,577	26,809
BLOCK 04-3	1,706	1,677	1,704
BLOCK 09-3 VRJ	458	408	448
LLC JC RVP	44,532	41,972	43,272
KhPSA	6,570	12,505	12,536
ONO JSC	2,414	2,321	2,315
UNG LLC	2,392	2,448	2,349
AOC LLC[1]	3,405	3,386	–
Lutseyakhskiy LA	–	–	1,056
Block 09-3/12	–	–	1,552
TOTAL	**90,999**	**90,294**	**92,041**

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

The status of the HC resources base indicates that the Zarubezhneft Group of Companies has a balanced portfolio of assets consisting of exploration areas and fields, which enables sustainable investments in geologic exploration and putting new fields into development, which in turn helps maintain the financial stability of the Company.

1 Sold asset.

GEOLOGIC-EXPLORATION WORKS

The Company's strategic goal is to carry out exploration operations and to expand its hydrocarbons resource base in order to ensure the further sustainable growth of hydrocarbon production for the medium and long term.

In 2016, exploration operations were carried out at facilities in the Socialist Republic of Vietnam and in the Russian Federation.

Main Results of Exploration Drilling in 2016

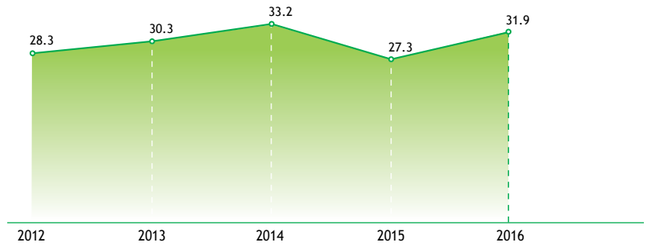
Project, Operator	Site	Project Results in 2016
Socialist Republic of Vietnam		
Block 09-1 JV Vietsovpetro	Offshore	Exploration wells were drilled in the following fields: White Tiger, White Rabbit. Increment of C1 category recoverable oil reserves – 1.006 million tons
Block 09-3/12 JV Vietsovpetro	Offshore	Third exploration well CT-3X was drilled at the central site of Beluga structure, an increment of recoverable oil reserves of 4.27 million tons was achieved. The general recoverable oil reserves of the field were 5.76 million tons, 1.552 million tons with account of the Company's share.
Block 04-3 JV Vietsovpetro	Offshore	Field underdevelopment, operational wells are being drilled
Block 12-11 JV Vietsovpetro	Offshore	Construction of the QF-1X exploration well in the Mandarin structure was completed.
Block 42 PVEP	Offshore	Draft Working program for the extension period of the first geologic exploration phase for two years was concluded. Approved by the Ministry of Industry and Trade of SRV.
Republic of Cuba		
Boca de Jaruco field, Branch of Zarubezhneft JSC	Onshore	Implementation of a pilot operation program at Formation M. Since July 1, 2016, the project has been converted from the EOR section to geologic exploration and bituminous (heavy) oil production.
Russian Federation		
Russian Federation CKU Block 04, JC RUSVIETPETRO	Onshore	Two exploration wells, 14P and 5P, were drilled in the South Syurkharatinskoye field. Under the results of the tests of 14P, C2 category reserves were converted to the commercial oil category C1 in the amount of 0.703 million tons. The oil reserves increment for the enterprise amounted to 0.737 million tons in general with account of the reserves' increment of the North Oshkotynskoye field.
Sulakskoye field, Ul'yanovskneftegaz LLC	Onshore	Processing and interpretation of 3D (5 km²) seismic exploration data were carried out.
Radischevskiy area, Ul'yanovskneftegaz LLC	Onshore	Processing and interpretation of 3D (46km²) and 2D (60 line kilometers) seismic exploration data were carried out.
Kirsanovskoye field, Orenburgnefteotdacha JSC	Onshore	Construction of the exploration well 5P was completed.

Both 2D and 3D seismic data interpretations were conducted at Ul'yanovskneftegaz LLC. Data from 3D 4C studies performed by JV Vietsovpetro in 2015 in Block 09-1 were processed.

The exploration drilling volume in 2016 comprised 31.9 thousand meters, which is 17% more than in 2015. The main goal of these works was to ascertain the structures containing undrilled reserves in the active fields and to confirm any probable reserves in the new blocks.

As a result, 4 exploration wells were drilled offshore the Socialist Republic of Vietnam, along with 2 wells in the Nenets Autonomous Area and 1 well in the Orenburg region.

Exploration Drilling Volume, thousand meters



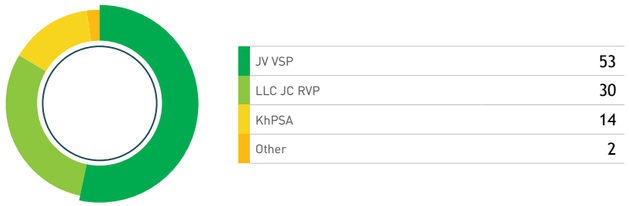
31.9
THOUSAND METERS of exploration wells were drilled in 2016 (+17% to 2015)

OIL PRODUCTION

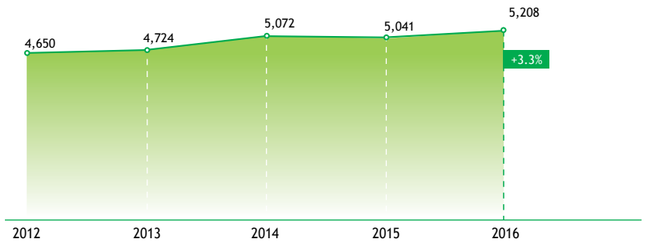
In 2016, the Company continued its active development of the Upstream segment by focusing its efforts on maintaining a sustainable level of production during the complicated domestic macro-economic situation (the drop in oil prices and the growth of the US Dollar exchange rate). In accordance with the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

Taking Zarubezhneft JSC's share into account, the hydrocarbon production volume increased and totaled 167 thousand tons (+3.3%) in 2016.

Structure of Production in 2016, %

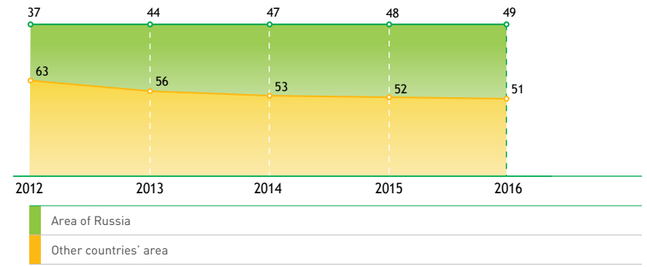


Zarubezhneft Group of Companies' Production of Hydrocarbons (including share increase), thousand tons of O.E.



ASSETS

Production Share Dynamics in Accordance with Zarubezhneft JSC's Regions of Presence, %



In 2016, the major producing assets in the Upstream Segment and in the Company's structure were JV Vietsovpetro and JC RUSVIETPETRO. The share of overall production from Russian assets increased from 48% in 2015 to 49%, thanks to active drilling at the West Khosedayu field, which is the largest field by reserves, the commissioning of fields belonging to the northwestern areas of JC RUSVIETPETRO, and the commissioning of new wells in the Kirsanovskoye field of Orenburgnefteotdacha JSC.

Production with Account of Zarubezhneft JSC's Share, thousand tons	Actual in 2015	Planned in 2016	Actual in 2016
JV VSP	2,550	2,450	2,470
LLC JC RVP	1,654	1,596	1,635
KhPSA	302	300	432
Block 09-3	62	45	49
ONO JSC	77	94	99
UNG LLC	42	44	43
AOC LLC	18	18	10
Block 04-3	0	6	1
TOTAL	**4,705**	**4,553**	**4,740**

SOCIALIST REPUBLIC OF VIETNAM

BLOCK 09-1 (JV VIETSOVPETRO)

The development of Block 09-1 is carried out in accordance with the Intergovernmental agreement dated December 27, 2010.

Technological Base

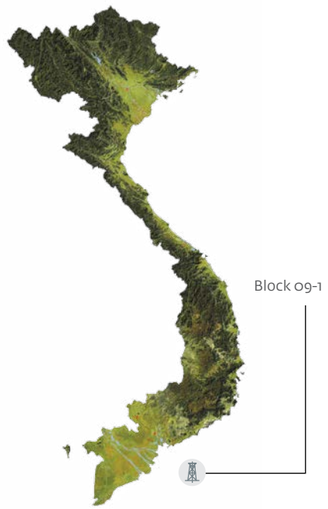
The unique White Tiger and Dragon fields, as well as White Rabbit and White Bear developed by JV Vietsovpetro, are located 150 km from the shore of southern Vietnam. 13 fixed offshore platforms, 25 well-head platforms (WHPs), 2 oil processing platforms, 3 compressor stations and 2 formation pressure maintenance (FPM) platforms have been built. A unified LP gas gathering system ensures the successful execution of the entire process of gas gathering and its transportation onshore, as well as gas treatment and its use for a gaslift production method at the fields of JV Vietsovpetro, enabling the disposal of up to 90% of the gas produced.

Commissioning

The RC-9 wellhead platform (WHP) with 7 producing wells was constructed and commissioned in the Dragon field in 2016.

At JV Vietsovpetro, one of the best shore bases in Southeast Asia has been created for the offshore construction and installation of satellite platforms and for the process of drilling wells for oil & gas production. The JV Vietsovpetro has 5 offshore Jack-Up Rigs, one of which ("Tam Dao-05") was commissioned in November 2016, with a fleet of more than 20 units, including derrick barges, fire-fighting, diving and supply vessels, and 3 floating storage and offloading units (FSOs). JV Vietsovpetro is the operator of projects implemented with the direct participation of Zarubezhneft JSC, and carries out numerous service operations.

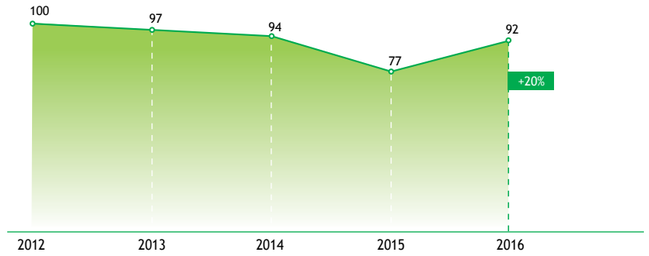
Specific OPEX in 2016 were decreased by **27%** owing to the implementation of the efficiency improvement program.



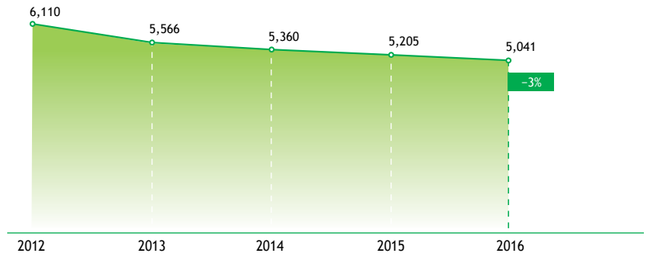
Ownership Structure, %

PetroVietnam OGC	51
Zarubezhneft JSC	49

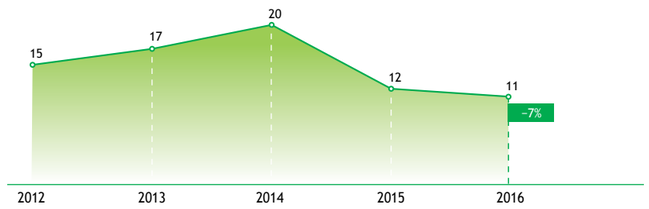
Development Drilling Volume, thousand meters



Oil Production Volume, thousand tons



Exploration Drilling Volume, thousand meters



Development and Production

The actual oil production of Block 09-1 in 2016 was 5,040.5 thousand tons, which is 1% more than planned. A gas condensate deposit of the Dragon field was also put into development in 2016, thus ensuring additional production in the amount of 17 thousand tons of condensate and 59 million m³ of natural gas.

Percentage of total oil produced by lifting method:
- Free-flow method – 30.9%;
- Artificial lift – 69.1%.

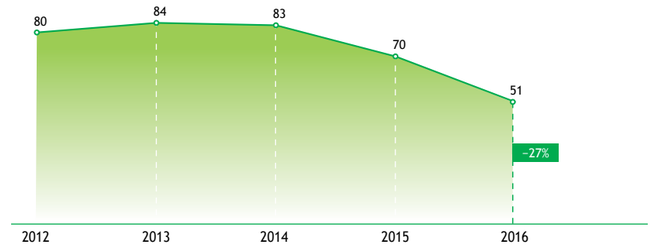
The recovery rate of Block 09–1 is 81.4%, with an average production water-cut of 50.8%. The existing well stock consists of 317 producers and 74 injectors.

In 2016, 25 new wells, including three sidetracks, were drilled in Block 09–1. Operations for the establishment of a formation pressure maintenance system in the field's terrigenous deposits continued in 2016.

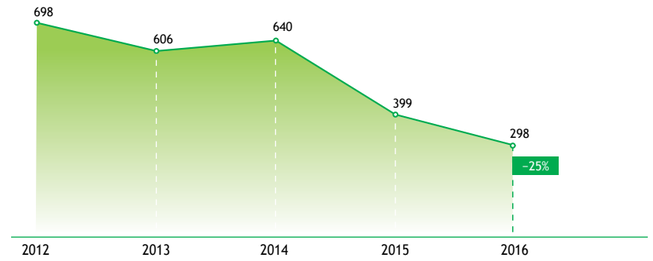
These performed measures enabled the Company to implement its strategy to retain production volumes and maintain development drilling rates in the fields of Block 09-1.

Financial Indicators

Operational Expenses, USD/ton



Capital Investments, million USD



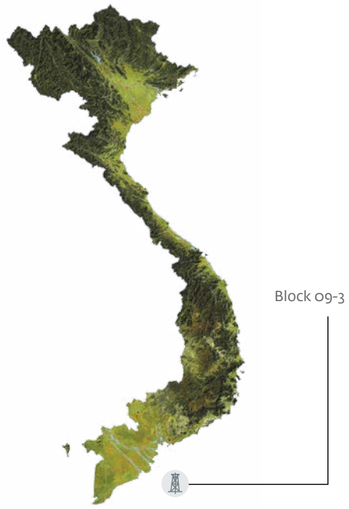
Taking the implementation of the program developed to increase efficiency and optimize costs into account, specific operational expenses have been reduced by 27%. The revision of the Company's production program resulted in capital investments being reduced by 25%.

Prospects

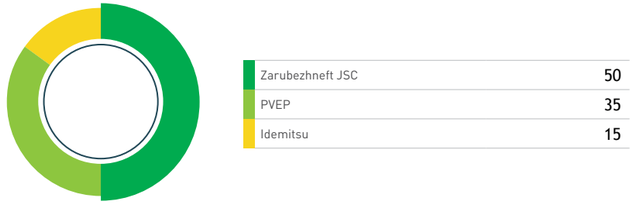
The work program for 2017 was established by taking into account the necessary tasks for the maximum involvement of explored reserves to ensure the increment of hydrocarbon production. The following was considered:
- Construction and commissioning of WHP ThTC-3 at the White Rabbit field;
- Construction of 8.9 km of pipelines to ensure oil transportation from the new fields;
- Commencement of the commercial development of a gas condensate deposit in the northeastern area of the Dragon field, as well as other measures.

BLOCK 09-3 (VRJ PETROLEUM CO)

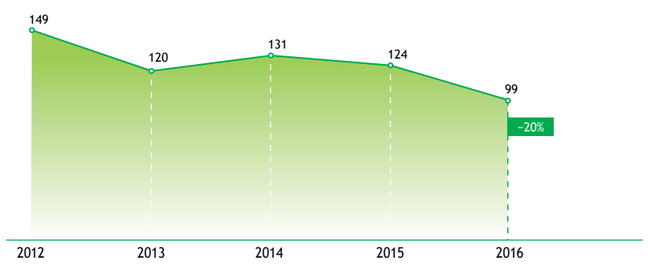
The work at Block 09-3 is being carried out in accordance with the petroleum contract for the operation and development of Block 09-3's reserves offshore SRV dated January 19, 2002 and the Nam Rong- Doi Moi (NR-DM) field Joint Development Agreement dated June 26, 2009. In accordance with the terms of JDA, the participation share and production allocation from Blocks 09-1 and 09-3 in the NR-DM field unitization area amounts to 50% and 50% in each case.



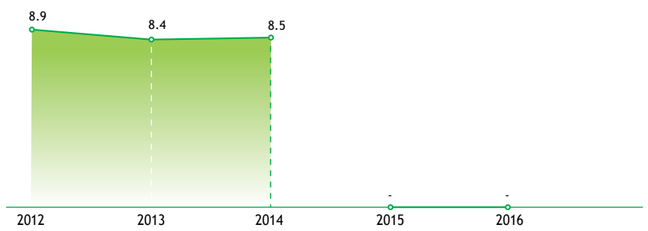
Ownership Structure, %



Oil Production Volume, thousand tons



Development Drilling Volume, thousand meters

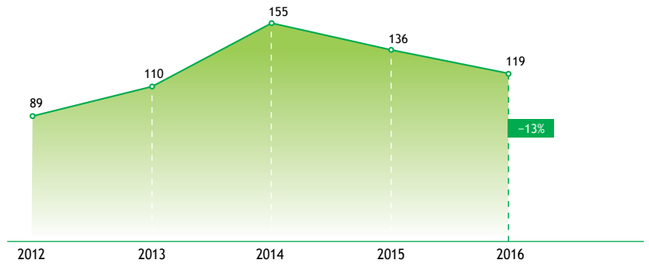


Commissioning and Production

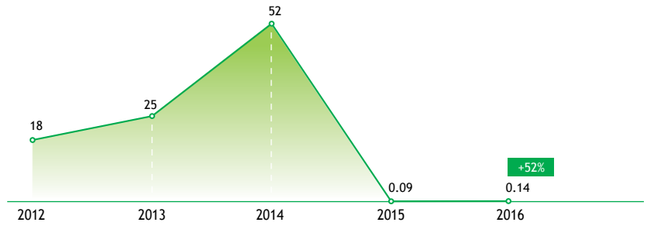
In 2010, Blocks 09-3 and 09-1 of the Nam-Rong–Doi Moi field unitization area were commissioned. Production is now conducted from the fractured rock of the crystalline basement. The total production since the operation's commencement has amounted to 889.7 thousand tons (VRJ's part). The recovery of reserves from Block 09-3 stands at 50.2%, with an average production water-cut of 52.8%. The active well stock consists of 17 producers and 1 injector.

In 2016, VRJ produced 99 thousand tons of oil, including 8 thousand tons more than planned. The decrease in production in comparison to 2015 was due to a decrease in the base production caused by water-cut and the depletion of involved reserves.

Operational Expenses, USD/ton



Capital Investments, million USD



Financial Indicators

An Addendum to TSA No. 5 that resulted in a decrease of the tariff rates for oil treatment, offshore facility maintenance, gaslift and FPM by 4% was signed in April 2016.

Taking into account the implementation of the program developed to optimize costs and to improve efficiency, specific operational expenses have been reduced by 13%.

Prospects

It has been planned to use the potential of terrigenous deposits in 2017, which will enable us to improve the dynamics of the resource base of the project. It has also been planned to optimize costs for the maintenance of the RP-1 production platform and the floating storage and offloading units (FSO).

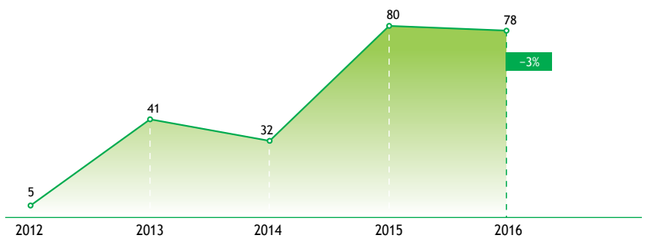
BLOCK 04-3

Block 04-3 is located in the northern part of the South Con Son basin offshore SRV, 280 km southeast of Vung Tau. The Thien Ung-Mang Cau structure is located within the bounds of Block 04-3.

Ownership Structure, %

PetroVietnam OGC	51
Zarubezhneft JSC	49

Capital Investments, million USD



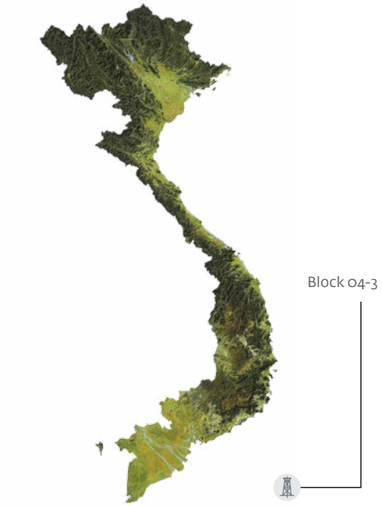
A petroleum contract for Block 04-3 offshore the Socialist Republic of Vietnam between PetroVietnam OGC and Zarubezhneft JSC was signed on June 26, 2009. JV Vietsovpetro is the operator of this project.

Commissioning and Production

Work on the construction, transportation and installation of the Thien-Ung Wellhead Platform topside on the substructure were completed. Commissioning works were carried out in the framework of the work program 2016. The Thien-Ung Wellhead Platform was commissioned on December 20, 2016, after the completion of drilling and testing of the 6-TU gas condensate well. Development for well drilling and the operation of the Thien-Ung Wellhead Platform, in accordance with the approved work program, were continued in 2017.

4,460.3

THOUSAND M³ of natural gas were produced in 2016



4,460.3 thousand m³ of natural gas and 1,383 thousand tons of gas condensate were produced in 2016.

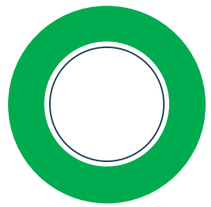
Prospects

In accordance with the approved work program, it has been planned to conduct the re-entry of well No. 3X-TU, to complete the construction of well No. 7-TU, as well as to construct 4 development wells in 2017.

BLOCK 12/11

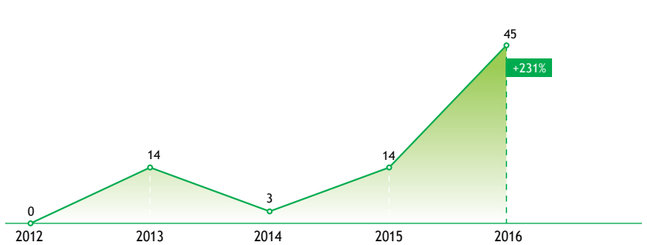
Block 12/11 is located within the South Con Son oil and gas basin, 350 km south-east of Vung Tau, with an area of 6,534 km². The sea depth is within a range of 70-120 m. A production sharing agreement between PetroVietnam OGC and Zarubezhneft JSC was signed on December 19, 2012; an investment certificate was issued on December 28.

Ownership Structure, %



Zarubezhneft JSC	100

Capital Investments, million USD



Exploration and Development

More than 12 thousand line kilometers of 2D seismic and 2,434 km² of 3D seismic data were obtained in the area of Block 12/11. 14 prospecting and exploration wells and 4 appraisal wells (including Block 12W) were drilled in Block 12/11. Apart from this, sidetracks were drilled for the purpose of a follow-up exploration, 6 fields were identified, including 4 gas fields (Quyt, Hoang Yen, Hai Au, Thien Nga) and 2 oil fields (Chim Sao and Dua).

Drilling at the QF-1X exploration well was completed in February 2016 and three objects of the Quyt structure were tested. As per the results of this drilling, a valuation of Block 12/11 was performed, the production program was adjusted, and drilling locations for the 2nd and 3rd wells were determined.

The drilling of a 2nd exploration well in Thien Nga structure commenced in August 2016. Drilling pilot holes in the exploration well allowed us to ascertain the geological potential of the structure. Drilling a horizontal section of TN-3X for the purpose of determining the production potential commenced in December 2016.

Prospects

All works contained under the first mandatory stage of geologic exploration works are to be completed in 2017. It has been planned to make a summary report on Block 12/11's commercial prospects as per the results of these works.

REPUBLIC OF CUBA

BOCA DE JARUCO

The Boca de Jaruco field is located on northern coast of Cuba, 30 km from Havana. The 37 km² contract area is located in the northwest part of the field, 3.7 km west of the Boca de Jaruco village. It was discovered in 1969 and is operated by the Cuban state oil Company CubaPetroleo.

2,160 TONS
of oil were produced since the commencement of the project implementation

Zarubezhneft JSC functions as a as a Contractor for the project in accordance with the Agreement of International Economic Association (AIEA) dated June 24, 2011. The duration of the agreement is 25 years and includes two stages: a period for pilot works set for 4 years (with the possibility of a 4 year extension) and the exploitation period. The return on investment for Zarubezhneft JSC is provided for by the terms of the AIEA

Exploration and Development

A follow-up exploration in the M formation and a pilot works stage in the E1 formation were completed in June 2016. Since the beginning of the project's implementation, 2,160 tons of oil were produced, including 829 tons of super-viscous heavy oil from the M formation.

An additional agreement to AIEA on the completion of works in the E1 formation due to the unprofitability of further operations and the transfer of the M formation to a new stage, the pilot operation, which is 1.5 years long (from July 1, 2016 until December 31, 2017, with a possible 2-years extension), was signed in October 2016. The pilot operation stage is to be implemented under new terms, with the project being co-funded by the Cuban side.

A series of works with the involvement of a well workover team intended to prepare three wells (BJ-2001, BJ-2002, BJ-2003) for steam treatment was carried out in 2016. Injection is performed at a temperature range of up to 350°C.

Ownership Structure, %

RUSSIAN FEDERATION

JC RUSVIETPETRO

JC RUSVIETPETRO is the major Russian production asset held by Zarubezhneft JSC. Hydrocarbon production activities have been carried out from the assets in the Central Khoreyver Uplift in the Nenets Autonomous Area since September 2010, mostly from Upper Devonian carbonate deposits.

North Sikhoreyskoye and South Syurkharatinskoye fields were commissioned by LLC "JC "RUSVIETPERO" in winter 2016.

Commissioning

Three major wells were put into commercial development in a record-setting short term thanks to the project's clearly established implementation structure:

- In 2010 – North Khosedayu,
- In 2011 – Visovoye,
- In 2012 – West-Khosedayu.

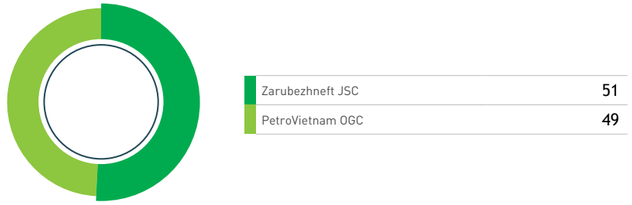
2 oil fields, North Sikhoreyskoye and South Syurkharatinskoye, were commissioned by LLC "JC "RUSVIETPERO" in winter 2016. The start-up of these fields allowed us to achieve the planned production indicators for JC RUSVIETPETRO in 2016.

Technological base

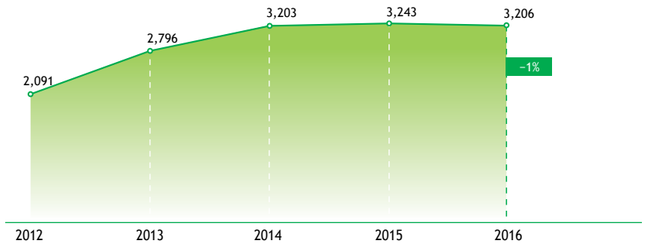
The following capital construction facilities were commissioned in 2016:

- Multi-phase pumping station at the North Oshkotynskoye field;
- Oil and gas gathering pipeline from well pad No. 1 of the East-Yanemdeyskoye field to MPPS of the North Oshkotynskoye field (14.7 km long);
- Vertical steel oil storage tank (VST) of 10 thousand m³ in volume at the central production facility (CPF) of the North Khosedayu field;
- Gas desulfurization units at the CPF of the North Khosedayu field.

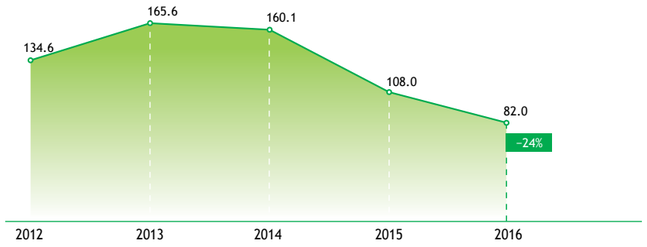
Ownership Structure, %



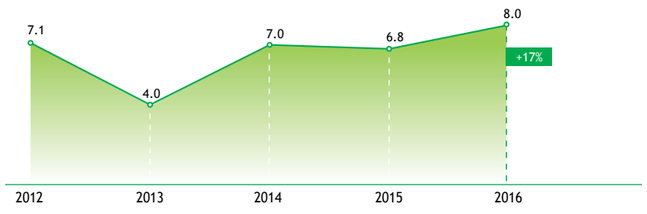
Oil Production Volume, thousand tons



Development Drilling Volume, thousand meters



Exploration Drilling Volume, thousand meters



Development and Production

The reserves recovery rate for the 3 main fields (North Khosedayu, West Khosedayu and Visovoye) stands at 19%, with an average production water-cut rate of 42-63%. The active well stock includes 224 producers, 18 injectors and 4 pressure observation wells.

A reserve increment of 0.737 million tons of oil was obtained as a result of drilling 2 exploration wells the in South Syurkharatinskoye field and the testing of a development well in North Oshkotynskoye field.

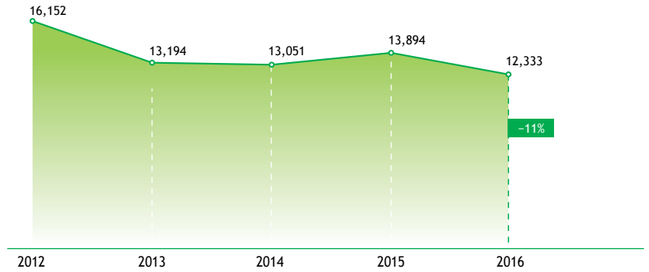
The development of fields is being carried out in strict compliance with the approved construction projects with consideration of new technologies and latest equipment.

28 wells and 8 sidetracks, as well as 1 exploration well, were completed by construction in the fields of JC RUSVIETPETRO in 2016. The development drilling program for the asset's main fields – North Khosedayu, West Khosedayu, North Oshkotynskoye, North Sikhoryeskoye and East Yanemdeyskoye – continued.

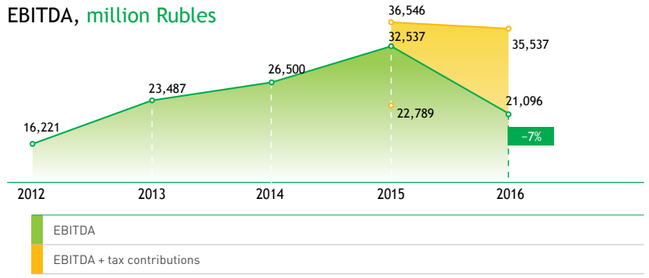
All of JC RUSVIETPETRO project solutions are aimed at the maximum use of associated petroleum gas (for the generation of power for its own needs): construction and assembly works and the commissioning of Power Block No. 3 were completed at Energy Center No. 2.

The implementation of these measures allowed us to achieve an associated petroleum gas (APG) use level of 81.2% by the end of 2016 (compared to 62.4% in 2015) and provided an opportunity to increase this in 2017 at all the fields of JC RUSVIETPETRO.

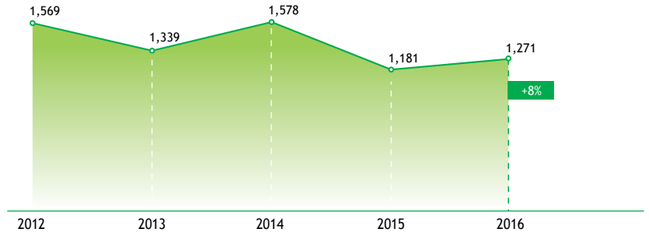
Capital investments, million Rubles



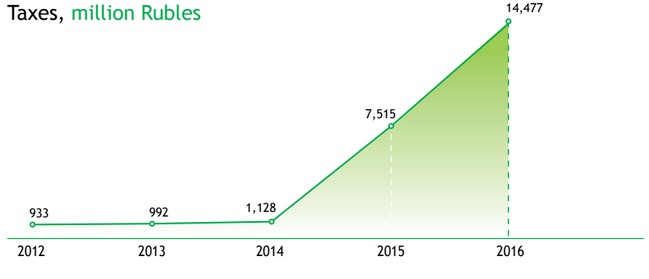
EBITDA, million Rubles



Operational Expenses, RUB/ton



Taxes, million Rubles



Financial Indicators

JC RUSVIETPETRO obtained the right to MET privileges for the Central Khoreyver Uplift plots (Block No. 1 and Block No. 2) thanks to signing an agreement between the Government of the Russian Federation and the Government of the Socialist Republic of Vietnam in 2016.

Prospects

The measures implemented in 2016 will enable us to maintain the oil production level above 3 million tons per year, achieving the established financial and economic indicators and enhancing the production culture.

81.2% –
is the level of APG utilization at the fields of JC RUSVIETPETRO by the end of 2016 (+18.8% to 2015)

KHARYAGA PSA

Zarubezhneft JSC entered into the Kharyaga PSA project with a 20% participating interest on January 1, 2010.

Changes in the Ownership Structure

Addendum No. 3 to the Agreement on development and oil production at the Kharyaga field under production sharing terms (Kharyaga PSA) was signed on August 1, 2016.

In accordance with this Addendum, the Total E&P Russie has assigned 20% of its participating interest and operatorship in the project to a subsidiary of Zarubezhneft JSC – ZARUBEZHNEFT-Production Kharyaga LLC. As a result, the participants of Kharyaga PSA are as follows: Zarubezhneft JSC (40%), Statoil Sverige AB (30%), Nenets Oil Company JSC (10%) and Total (20%).

A bilateral inventory survey, an audit of assets and liabilities of Total as of the deal's closure date, as well as an inventory survey of the construction in progress and an environmental audit, were performed in 2016 in order to ensure the closure of the deal, and the results were approved.

Production

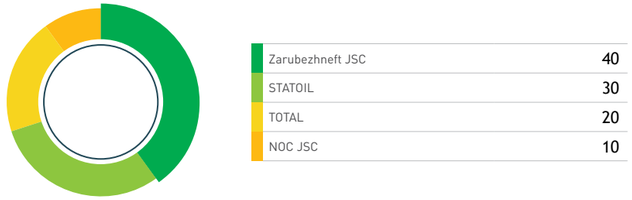
Oil production in 2016 amounted to 1,509 thousand tons, which is 1% more than planned.

Financial Indicators

The decrease in operational and general and administrative costs is primarily due to increasing the share of Russian suppliers after the transfer of operatorship to ZARUBEZHNEFT-Production Kharyaga LLC.

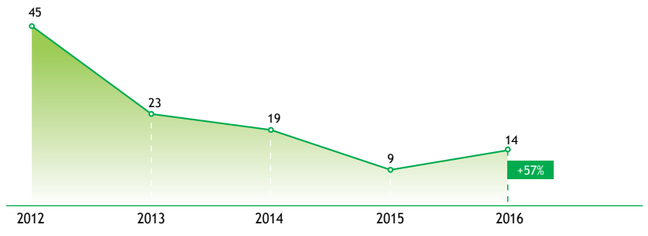
Specific operation costs decreased by 2% (-25 million USD) compared to the actual values of 2015 thanks to the implementation of the program to increase efficiency and optimize costs in 2016.

Ownership Structure , %



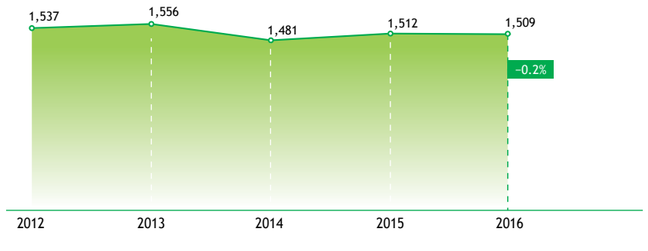
Zarubezhneft JSC	40
STATOIL	30
TOTAL	20
NOC JSC	10

Investor's Profitability Share in Zarubezhneft JSC, million USD

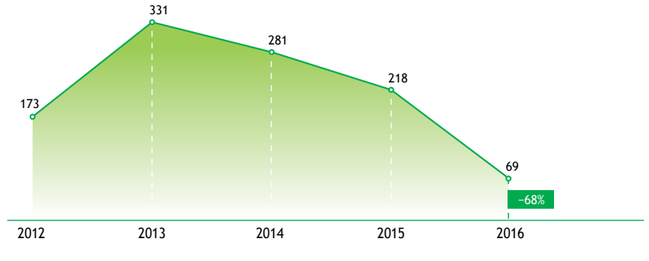


Operational Expenses, USD/ton

Oil Production Volume, thousand tons



Capital Investments, million USD



In 2016 specific operation costs decreased by 2% (-25 million USD) compared to the actual values of 2015.

UL'YANOVSKNEFTEGAZ LLC

Ul'yanovskneftegaz LLC is an oil-producing asset that is engaged in prospecting, exploration and production in 5 licensed areas located in the Ul'yanovsk region.

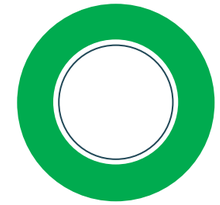
The production is conducted from Lower and Medium Carboniferous deposits, predominantly represented by terrigenous reservoirs. The Ul'yanovskneftegaz LLC reserve recovery rate stands between 3% and 13% at the Kondakovskoye and Sulakskoye fields and is between 41% and 91% at the Slavkinskoye and Ruzhevskoye fields; the average oil water-cut from the fields ranges from 25% to 80%.

For the purpose of increasing oil production at the Kondakovskoye field, studies for the selection of chemical compounds for hydrochloric and acid treatment and clay and acid treatment were carried out in 2016. Apart from this, water disposal was arranged at Kondakovskoye, Sulakskoye, and Slavkinskoye fields.

These implemented measures resulted in an increase of oil production in 2016 by 3% compared to 2015.

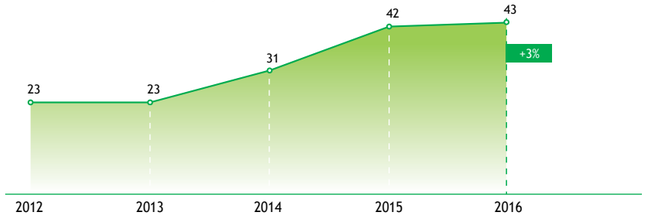
Oil production in 2016 increased by +3% compared to 2015 owing to the implemented measures

Ownership Structure, %

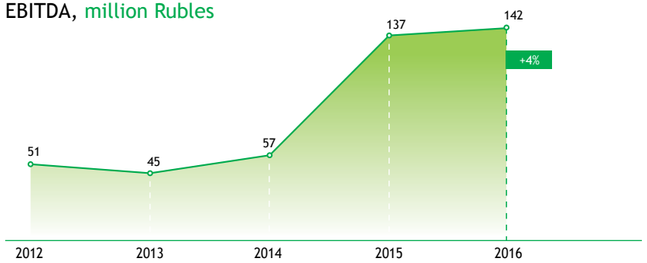


Zarubezhneft JSC	100

Oil Production Volume, thousand tons

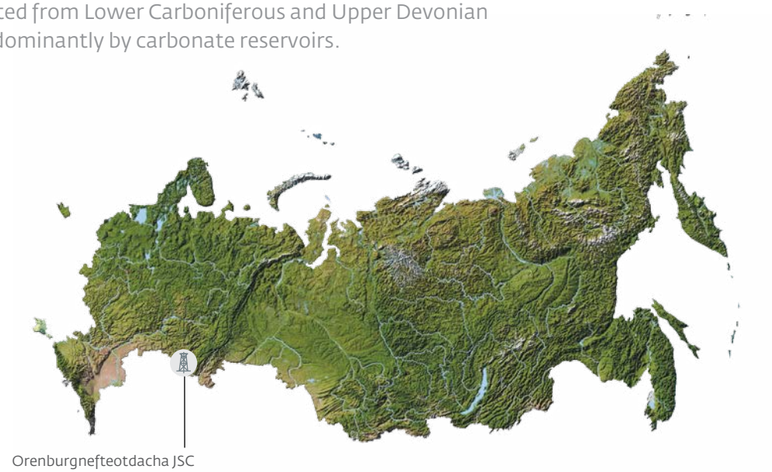


EBITDA, million Rubles



ORENBURGNEFTEOTDACHA JSC

Orenburgnefteotdacha JSC is an oil-producing asset that is engaged in prospecting, exploration and production at 3 license areas located in the Orenburg region. The production is conducted from Lower Carboniferous and Upper Devonian deposits represented predominantly by carbonate reservoirs.



Development and Production

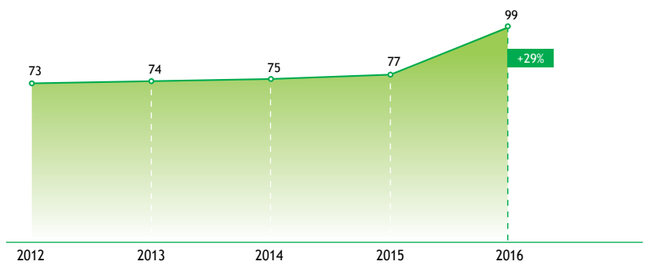
The reserve recovery rates of Orenburgnefteotdacha JSC's fields vary from 6% in the Chernovskoye field to 23% in the Kirsanovskoye field and 34% in the Pashkinskoye fields, with an average oil water-cut of 5-58%.

3 horizontal wells and 1 exploration well in the Kirsanovskoye field, as well as 3 directional wells in Pashkinskoye field, were drilled in 2016. Apart from this, the arrangement of a formation pressure maintenance system (FPM) at the Kirsanovskoye field commenced for the purpose of maintaining the base production and 2 injection wells were drilled.

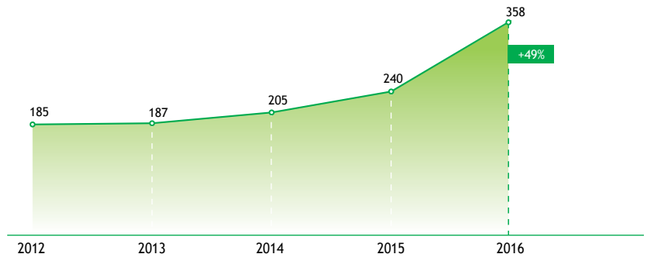
The construction of preliminary water discharge units (RWDU) commenced in 2016 for the purpose of decreasing the water-cut of transported production and establishing an FPM system at the Pashkinskoye field.

Ownership Structure, %

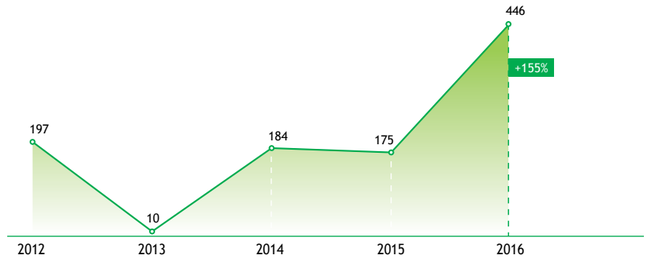
Oil Production Volume, thousand tons



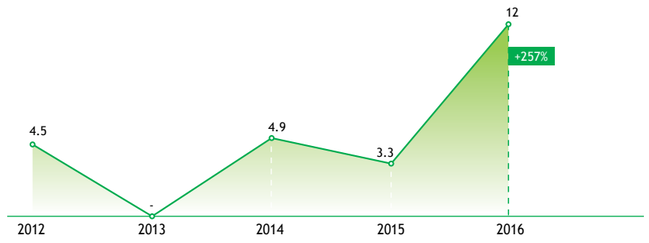
EBITDA, million Rubles



Capital Investments, million Rubles



Development Drilling Volume, thousand meters



Financial Indicators

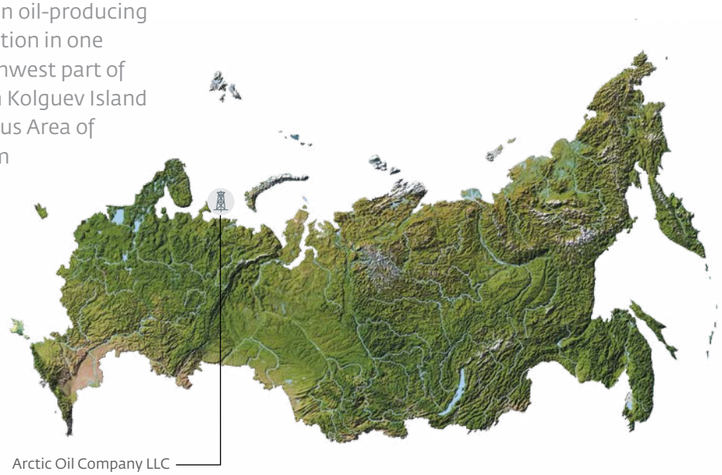
EBITDA value in 2016 was 358 million Rubles, which is 49% more than the level of the previous year. Specific operational expenses increased by 14% compared to 2015.

Capital costs in 2016 amounted to 446 million Rubles, which is 2.5 times more than in 2015. The main share of costs is associated with the drilling of horizontal wells in the Kirsanovskoye field (12G, 18G and 17G) and the construction of preliminary water discharge units at the Pashkinskoye field.

EBITDA value in 2016 was **358** MILLION RUBLES (+49% compared to 2015)

ARCTIC OIL COMPANY LLC

The Arctic Oil Company LLC is an oil-producing asset that is engaged in production in one license area located in the northwest part of the Timan-Pechora province on Kolguev Island in the of the Nenets Autonomous Area of the Arkhangelsk region, 200 km from Naryan-Mar.



Sale of the Unprofitable Asset

Implemented measures intended to decrease operational results allowed us to achieve the best effect ensuring the minimal unprofitability of the asset. Further improvement of the development efficiency of the Peschanoozerskoye field was possible only subject to synergy with other fields. Considering the heavy wear of main field's facilities, the complex geologic structure and declining production, a decision was made to sell the unprofitable asset.

In late August 2016, a 100% share in the Arctic Oil Company LLC was sold to Arktikneft JSC. As a result, the material environmental risks associated with the technical condition of oil tanks and the offshore pipeline for lifting oil to the tankers, the financial costs for the maintenance of this infrastructure, abandonment costs, and reputational risks in case of an accidental oil spill, were eliminated.

NORTH-KARASEVSKOYE PETROLEUM ENTERPRISE LLC

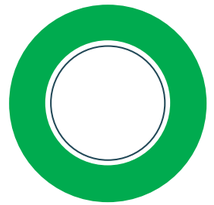
The Lutseyakhskoye oil field, with an area of 360.8 km², is located in the Nadym district of the Yamal-Nenets Autonomous Area in the Tyumen region. The field was discovered in 2011 as a result of drilling of prospecting and appraisal well No. 70-Lutseyakhskaya. A subsoil use license dated March 1, 2013, belongs to North-Karasevskoye Petroleum Enterprise LLC.

Acquisition of the Asset

A sale and purchase agreement between Dedaci Enterprises Limited and the Zarubezhneft Group of Companies (ZARUBEZHNEFT-Production Samara LLC) for the purchase of 100% of participating interest in North-Karasevskoye LLC was signed in June 2016.

In accordance with the Tax Code of the Russian Federation, the application of a geographic decreasing factor (Kkan = 0) until 2021, as well MET as a decreasing factor (Kd = 0.4) regarding hard-to-recover oil reserves within 15 years since the commencement of production, was considered in the development of Lutseyakhskoye field. Apart from this, the field's development parameters comply with the criteria required to obtain the right to apply for a special export duty calculation formula. However, the possibility of such a special formula application is directly subject to the sole decision of the Government of the Russian Federation.

Ownership Structure, %



Zarubezhneft JSC	100

Preparatory works for well No. 70-Lutseyakhskaya re-entry, hydraulic fracturing and a well test for determining the production potential of productive horizon Ach3 were carried out in 2016.

Prospects

It has been planned to invest 133 million Rubles for geologic exploration works in the framework of the Project in 2017.

The primary task for the further development of the subsidiary is ensuring the growth of the asset's current value by means of increasing the resource base and putting new oil deposits and hard-to-recover deposits of the Tyumen site into development.

OIL REFINING AND MARKETING (DOWNSTREAM)

CONSOLIDATED RESULTS OF THE SEGMENT

The operational results of the segment in 2016 were positive and amounted to 6.4 million EUR. Compared to the previous periods where EBITDA was negative, a significant positive effect has been achieved

The consolidated financial result of the Downstream segment under the results of operations in 2016 is characterized by material improvement.

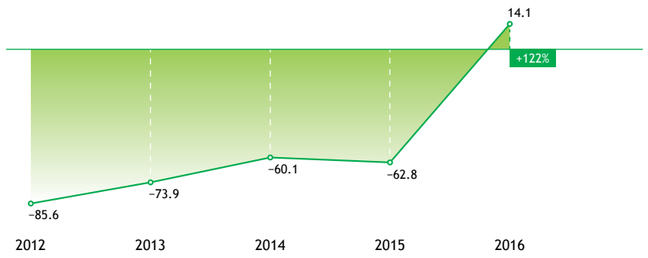
The investment dynamics reflect the main concept of the segment's development:
- Optimization of capital investments,
- Priority implementation of projects aimed at the maintenance and optimization of production activities.

The reduction of the actual investment program in 2016 compared to 2015 totaled 31%.

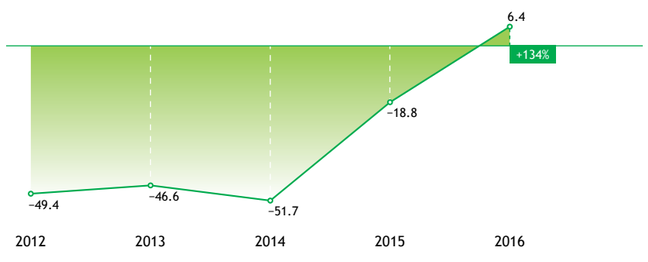
The amount the segment's net the cash flow for operational and investment activities before taxes (FCF) in 2016 had a positive value, which was a result of the material improvement of operational efficiency among other things.

At the same time, the fund raising amount in 2016 reduced drastically compared to that in 2015 (-79%) and amounted to 11.1 million EUR.

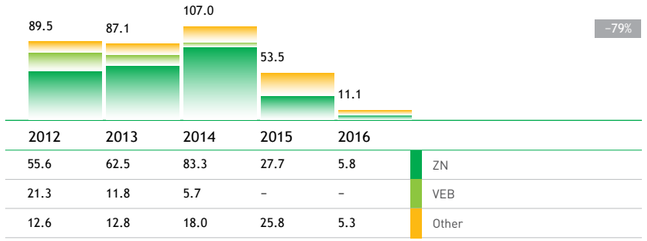
FCF (before %), million EUR



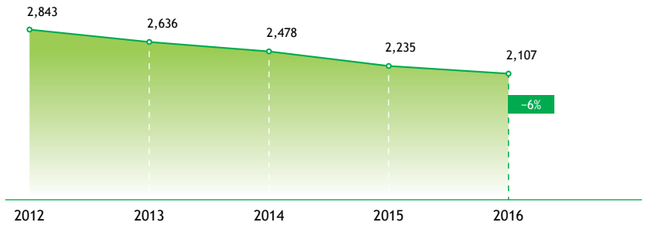
EBITDA, million EUR



Loans and Borrowings Raised, million EUR



Headcount (at the year-end), persons



The target purpose of external loans/borrowings in 2016 was to fund the Brod Refinery A.D. investment program (5.8 million EUR) and the working capital constraints of the OPTIMA Grupa d.o.o. (7.5 million EUR) out of the funds of Zarubezhneft JSC and external credit institutions. As such, the amount for the repayment of loans to external banks in 2016 was 2.2 million EUR (1.4 million EUR – Modriča Oil Plant A.D.; 0.8 million EUR – Nestro Petrol A.D.).

As the results of the support functions center implementing the production efficiency improvement program, the segment's overall headcount was reduced by 6% in comparison to the previous year and totaled 2,107 persons at the year-end. When compared to the level of 2012, the number of personnel decreased by 26%.

FCF value is positive in 2016, which is, among other things, owing to the significant improvement of operational activities.

SEGMENT STRUCTURE

Zarubezhneft JSC's project for the reconstruction and upgrading of the enterprises of its Downstream segment in Bosnia and Herzegovina commenced on February 2, 2007, after signing an agreement with the Government of Republika Srpska (the state of Bosnia and Herzegovina [BiH]) for the purchase of the Brod Refinery, Modriča Oil Plant and the retail network of NestroPetrol that consisted of 79 fuel stations at the time of purchase.

The segment is comprised of the following companies:

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

THE OIL PRODUCTS MARKET, PRICING, AND COMPETITVE ENVIRONMENT

This segment's companies located in Republika Srpska produce oil products using their own capacities and sell them to the wholesale markets of Bosnia and Herzegovina and adjoining countries, as well as in the retail segment of Republika Srpska (Bosnia and Herzegovina).

Bosnia and Herzegovina

The marketing of oil products through major distributors (traders) is a characteristic feature of the main marginal market of the segment production sale – market of Bosnia and Herzegovina (BiH). Along with the OPTIMA Grupa d.o.o., such companies as INA, NIS, Petrol BH that supply oil products from the cross-border regions carry out their activities in BiH. Therefore, the BiH market is open to foreign (alternative) products. The background for the current situation is the absence of legal restrictions on the supply of imported fuel, which involves a simple procedure of company registration for the purpose of selling and purchasing oil products and does not requiring any licensing.

In addition to oil products produced by its neighboring countries (Croatia and Serbia), there is a significant quantity of products (Eurodiesel-5 and Gasoline-95) imported from distant countries, including small traders, in the BiH market.
This creates an additional competitive environment in the south and southeast of BiH, where the main demand for oil products is concentrated.

The major wholesale suppliers in the market are: OPTIMA Group (35%), INA (32%), Petrol BH (13%) and NIS (7%) and other suppliers (13%).

The volume of oil product sales by the OPTIMA Grupa d.o.o. in 2016 comprised 35% of the BiH market, which is 6% less than in the previous period. This decrease of the OPTIMA Grupa d.o.o.'s market share was caused by a new law on the sale of heating oil (which banned its sale at fuel stations), and the intensification of competition in terms of motor gasoline because of the entry of new product by the Pančevo refinery. The high level of the OPTIMA Grupa d.o.o.'s prices compared to that of the rivals and a focus on the cream skimming strategy for the purpose of increasing the profit from sales. Apart from this, the decrease of the market share is also influenced by the absence of protectionist measures regarding foreign rival companies in BiH, as well as significant logistics issues of the OPTIMA Grupa d.o.o., including an unfavorable location of the refinery (high price of fuel delivery) and no access to the railroad infrastructure.

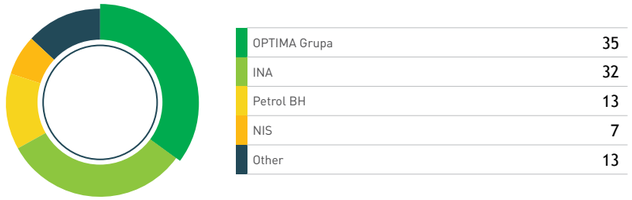
The main factors of the wholesale oil products price in the market of Bosnia and Herzegovina and in the region as whole are:

- Oil product quotations as announced by Platt's European Market scan;
- Price premiums for each type of oil product.

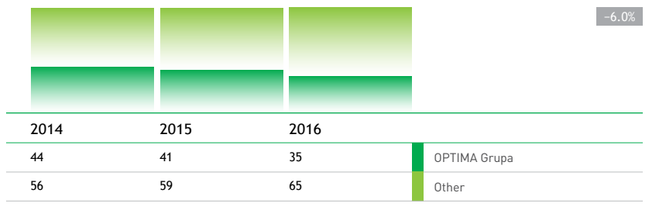
The dynamics of Platt's quotation is highly dependent on the price of crude oil. The difference between the crude oil price and the oil product price (market spread) provides the refining margin.

In 2016, the average spread calculated for by the standard quoted basket oil products decreased in comparison to the previous periods – this decrease was 27.6% compared to 2015.

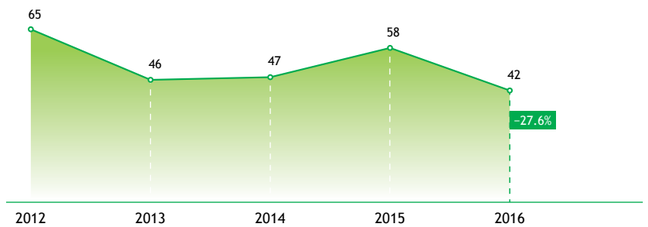
Structure of the Bosnia and Herzegovina Market by Main Oil Product Suppliers, %



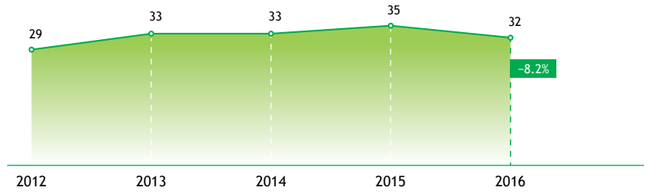
Dynamics of the OPTIMA Grupa d.o.o. Share in the Oil Product Wholesale Market, %



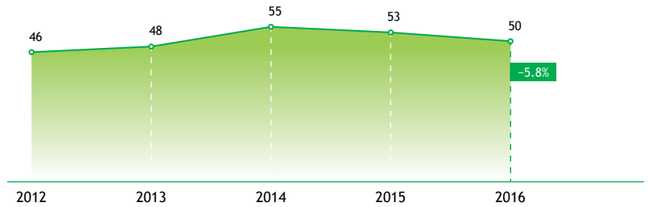
Market Spread for the Basket of Quoted Oil Products, USD/ton



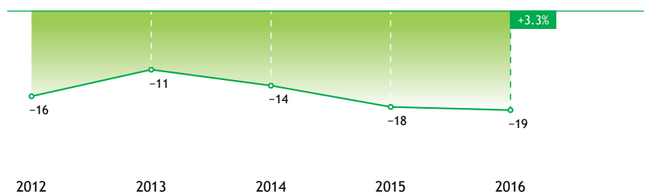
Premiums for the Basket of Oil Products in the Reporting Period, USD/ton



Oil Product Premiums in the Domestic Market, USD/ton



Oil Product Premiums for Export, USD/ton



Price premiums in the oil product market are defined by the supply and demand, and alternative possibilities for the buyer amid stiff competition between several producers and traders in Bosnia and Herzegovina. Unlike Russia, the BiH and regional market is a buyer's, not a seller's market; therefore, the possibilities to form prices by producers/sellers are lower. In 2016, the price of premiums by basket of oil products sold by the OPTIMA Grupa d.o.o. decreased by 8.2%, compared to 2015, due to market competition. The decrease of premiums occurred both in the domestic market and in the export sale of oil products.

The domestic market of Bosnia and Herzegovina provides a positive premium value for sold oil products and this is the main outlet for marketing the products of this segment. The export market had a negative premium value for oil products during the entire period of this segment's activity in the region.

In 2016 the average price of premiums by basket of oil products sold by the OPTIMA Grupa d.o.o. decreased by 8.2% compared to 2015 due to increased market competition.

BROD REFINERY A.D.

The Brod Refinery A.D. is the main production asset in the Downstream segment.

The Brod Refinery A.D. started its refining activity in Bosnia and Herzegovina in 1968. It has been a member of the Zarubezhneft Group of Companies since 2007.

The Brod Refinery A.D. is the only oil-refining complex in Bosnia and Herzegovina.

The products produced by the Refinery include the following types of oil products:
- Motor gasoline;
- Diesel fuel;
- Bitumen;
- Fuel oil;
- Heating oil;
- Liquefied gas;
- Raw materials for base oils and paraffin production.

Operational Indicators

In 2016, refining throughput totaled 867 thousand tons, which is 49 thousand tons less than in 2015. The refining throughput was reduced to optimize the production program and the financial results of the segment in the environment of harsh price dumping by competitors that took place in the reporting year.

The output of light products has seen a 2% decrease compared to the previous reporting period due to the deterioration of potential of light oil products made from REBCO oil that was supplied to the refinery during the 2016.

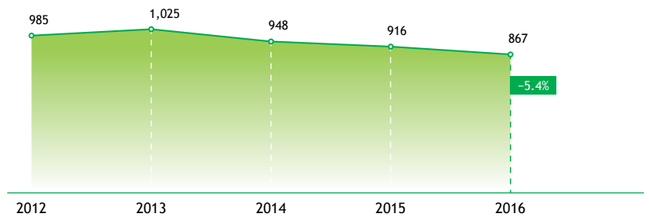
Ownership Structure, %

Oil & Gas Innovation Corp.	80
Other shareholders	20

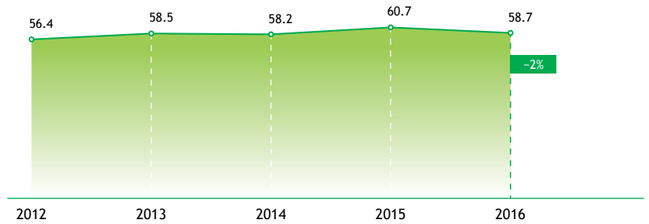
Fuel consumption for internal needs and processing losses in 2016 was 0.1% lower than in the previous period.

The implementation of measures for improving the power efficiency of production contributing to the optimization of products and materials balance in oil refining and decrease of operational expenses was carried within the framework of performing the production program for 2016.

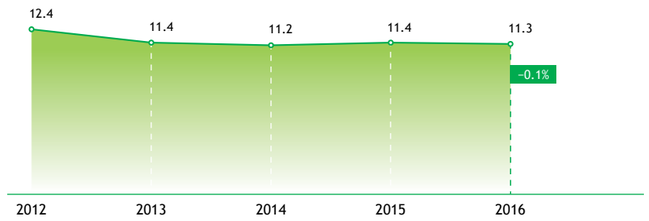
Oil Refining Volume, thousand tons



Light Oil Products Output, %



Losses and Internal Needs, %



Financial Indicators

The operational efficiency of the company was positively influenced by a decrease in operational expenses in 2016 by 5% compared to the level of 2015. This main decrease in labor costs was achieved due to the optimization of the personnel headcount.

The implementation of the following process and organizational measures also contributed to the decrease of operational expenses in 2016:

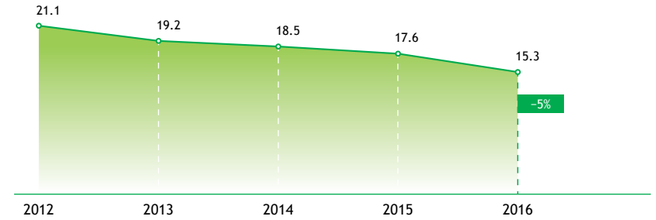
- Completion of the reconstruction project for the primary oil processing unit's vacuum formation system;
- Completion of the automated fire extinguishing and automated alarm projects at the refinery's facilities;
- Implementation of the 5S project;
- Obtaining a new ecological permit;
- Inspection of the refinery for compliance with the ISO 9001, 14001, OHSAS 18001 standards.

The total volume of capital investments in 2016 was 5.9 million EUR. The investment structure in 2016 is presented in the table below.

The following measures were implemented in the framework of the Investment program 2016:

- Works under the new boiler house construction project were carried out;
- Capital repair of the process units of the refinery was performed;
- Projects for the vacuum formation system, automated fire extinguishing system and alarm system were completed;
- A high pressure nitrogen and hydrogen compressor unit was assembled; Climate system units were fully upgraded in the unified control room and at the P-20 substation.

Operational Expenses, million EUR



The operational efficiency of the company was positively influenced by a decrease in operational expenses in 2016 by 5% compared to the level of 2015.

Investments Structure in 2016

Name	million EUR
Process units	**0.41**
Future FEED	0.25
Restoration/modernization of units	0.16
Restoration of water treatment unit	0.11
Offplot facilities	**1.75**
Future FEED	0.02
Construction	1.19
New boiler house	1.19
Restoration/modernization of units	0.54
Fixed automated fire extingushing system and alram	0.31
Climate control in operator's room	0.09
Automated level measurement	0.08
Other	0.06
Other	**3.70**
Capital repair works	2.11
Equipment replacement	1.14
Catalysts	0.45
TOTAL	**5.85**

MODRIČA OIL PLANT A.D.

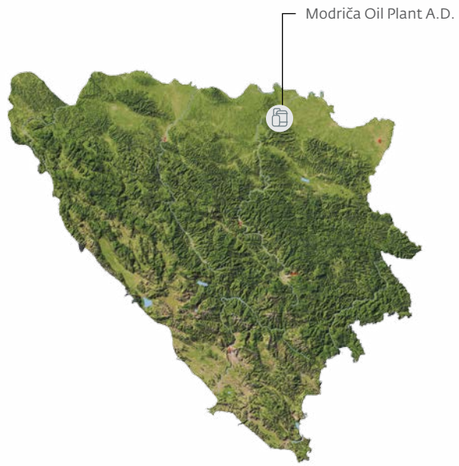
The Modriča Oil Plant A.D. is an asset engaged in oil distillate processing and motor oil and lubricant production.

The Modriča Oil Plant A.D. started its production activity in the territory of Bosnia and Herzegovina in 1957. It has been a member of the Zarubezhneft Group of Companies since 2007.

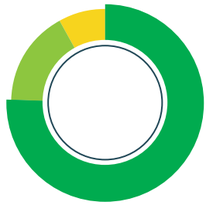
The Modriča Oil Plant A.D. is the only oil and lubricant production plant in Bosnia and Herzegovina.

The range of the oil refinery's products amounts to over 220 items. Currently, the Modriča Oil Plant A.D. is producing the following types of products:
- Base oils;
- Paraffin;
- Lubricants and liquids for motor vehicle equipment;
- Lubricants and liquids for industrial units;
- Motor oils for gasoline and diesel engines;
- Industrial oils and liquids for metal working;
- Lubricant greases.

The Modriča Oil Plant A.D.'s products are certified by major motor vehicle and industrial machinery producers (such as Audi, Volkswagen, BMW, Daimler-Chrysler, Opel, Scania, Volvo, MAN, Caterpillar, John Deere, etc.), as well as by South Korean companies such as Hyundai and KIA Motors that are actively operating in the European market, which helps increasing the competitiveness of its products.

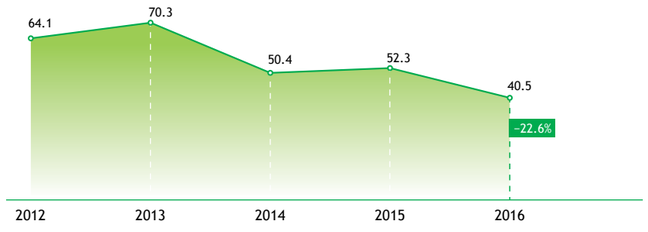


Ownership Structure, %

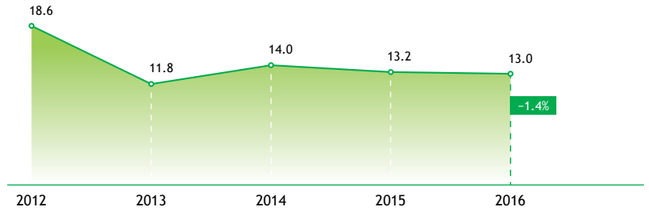


Oil & Gas Innovation Corp.	75.7
Nestro Petrol	16.3
Other shareholders	8

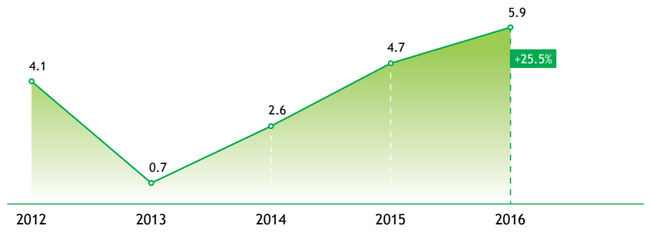
Oil Distillate Refining Volume, thousand tons



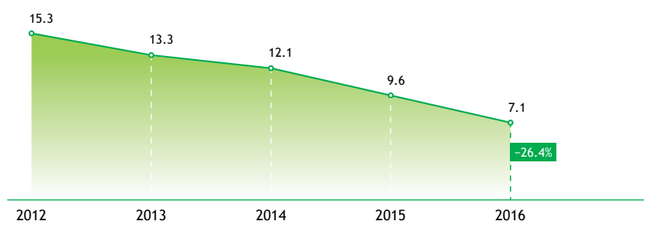
Motor Oil and Lube Production Volume, thousand tons



EBITDA, million EUR



Operational Expenses[1], million EUR



Operational Indicators

In 2016, the oil distillate refining volume was 40.5 thousand tons, which is a 22.6% decrease compared to the level of 2015. This reduction of the refining throughput is due to the adjustment of actual products and materials balance of oil refining at the Brod Refinery A.D. and a decrease in the volume of raw material delivery to the oil plant.

In 2016, the production volume of motor oils and lubricants totaled 13 thousand tons, including 2.5 thousand tons of products produced by special orders with bio-oils. The production volume corresponds to the level of the previous period.

In 2016, the Company continued to implement measures aimed at increasing the reliability of equipment operation and the efficiency of its production operations.

Financial Indicators

The operational efficiency indicator (EBITDA) in 2016 amounted to 5.9 million euro, which is 25.5% higher than in 2015. This deviation is due to a decrease in operational expenses in 2016, the total amount of which decreased by 26.4% in comparison to 2015. The main savings factor was the reduction of salary costs due to a decrease in the personnel headcount, as well as a decrease in fuel costs due to the reduction of fuel oil consumption in proportion to the BUS (wide oil fraction) refining volume decrease, as well as to the lower average price of fuel oil (286 EUR/ton compared to 325 EUR/ton). As such, the reduction of fuel costs was mostly compensated by lower revenue for the variable processing component.

1 For the purpose of data comparability, the OPEX of 2012-2014 do not include costs for raw materials or materials for the production of motor oils and lubes. (The oil plant has converted to processing since July 2014).

In addition to this, the implementation of the following measures contributed to operational costs savings:

- Installation of low pressure steam measurement units at the oil blending complex that allowed us to ensure precise control over the fuel oil consumption level;
- optimization of start-up regime for base oils and paraffin production units;
- Efficient operation of the thermal pump;
- Installation of thermostatic condensate drains;
- Arrangement of electric heating instead of steam heating;
- Tuning of the boiler's process parameters;
- Optimization of the equipment repair work plans;
- Optimization of contract terms for bleaching clay disposal;
- Obtaining an ecologic permit for the combustion of waste oil instead of commercial fuel oil;
- free of charge disposal of greasy clay (transfer to a third Company using this material in the technological process);
- Power audit of the plant's internal production units.

EBITDA in 2016 amounted to

5.9

MILLION EURO (+25.5% compared to 2015), which is due to a decrease in operational expenses

Investment Structure in 2016

Name	million EUR
Process units	**0.07**
Restoration/modernization of units	0.07
Dewaxing unit (preparation of technical specification)	0.07
Offplot facilities	**0.10**
Restoration/modernization of units	0.10
Sand catcher construction	0.03
Restoration of roof and front of commerical production storage	0.07
Other	**0.55**
Equipment replacement	0.52
Energy efficiency improvement measures	0.03
TOTAL	**0.73**

The main directions for investment funding in 2016 are as follows:

- Construction of a modern sand catcher (industrial water treatment facilities);
- Replacement of thermodynamic condensate drains with thermostatic ones;
- Development of project documents for capital repair works to replace the filters of the dewaxing unit;
- Replacement of obsolete and worn-out equipment.

The funding for investments of the Modriča Oil Plant A.D. is obtained fully from the Company's own funds. Apart from this, the loans obtained from Nova Bank A.D. and Sberbank JSC in 2011 and 2014 for the purpose of funding the Investment program are currently being repaid by means of a free cash flow. As of the end of 2016, the outstanding amount of the Sberbank JSC loan was 0.26 million EUR.

The funding for investments of the Modriča Oil Plant A.D. is obtained fully from the Company's own funds.

OPTIMA GRUPA D.O.O.

The OPTIMA Grupa d.o.o. is a commercial asset in the Downstream segment that is engaged in the purchase of hydrocarbon raw materials for processing at refineries, raw materials for motor oil production at oil and lube plants, and further wholesale distribution of finished products from oil production plants and refineries within the territory of Bosnia and Herzegovina, as well as in adjoining countries.

Operational Indicators

In 2016, the OPTIMA Grupa d.o.o. continued to implement its policy of selling oil products intended to increase the share of end buyers, as well as to retain the share of fuel sales in the domestic market.

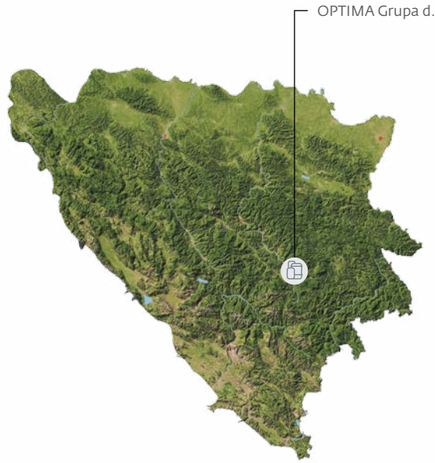
In 2016, the wholesale volume of oil products totaled 731 thousand tons, a 5.8% drop compared to 2015, which was due to the new legal requirements that prohibit the sale of furnace oil and fuel stations, as well as due to price dumping by competitors during the reporting period.

The structure of oil products sales by markets in 2016 demonstrates an insignificant sales decrease in the domestic market (74%) when compared with the previous period (75%).

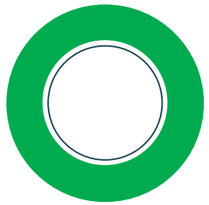
Based on the results of commercial activity in 2015, the OPTIMA Grupa d.o.o. held 35% of the sale of oil products in Bosnia and Herzegovina's market.

The base oil and paraffin sales volume in 2016 was 29.3 thousand tons, which is 32.6% less than in 2015. The main cause for this deviation was a decrease in base oils and paraffin production due to the adjustment of the raw materials volume supplied by the refinery.

The motor oils and lubes sales volume in 2016 exceeded the level of 2015 by 3.5% as a result of the commercial service's operation. The share of motor oil and lubes sold in the market of Bosnia and Herzegovina in 2016 was 39%, which corresponds with the level of 2015.

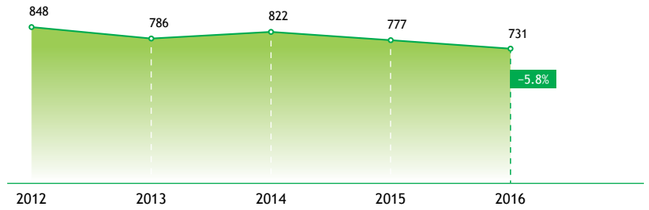


Ownership Structure, %

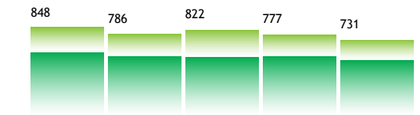


Oil & Gas Innovation Corporation	100

Oil Products Wholesale Marketing Volume, thousand tons



Oil Products Marketing Structure, thousand tons

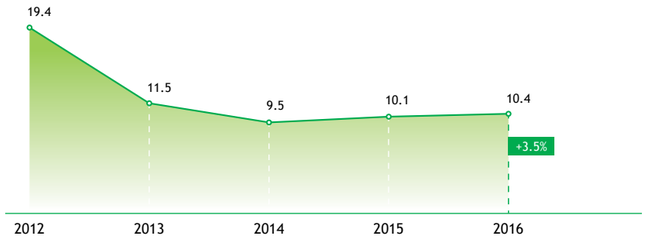


	2012	2013	2014	2015	2016
For export	73%	74%	69%	75%	74%
For domestic market	27%	26%	31%	25%	26%

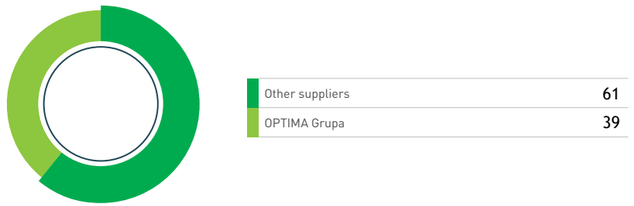
Share in Oil Products Market in Bosnia and Herzegovina, %

Other suppliers	65
OPTIMA Grupa	35

Motor Oils and Lubes Marketing Volume, thousand tons



Share of Motor Oils and Lubes Market in Bosnia and Herzegovina, %



Share of end users of OPTIMA Grupa in the total volume of light oil products sales in Bosnia and Herzegovina in 2016 was
56.1%
(+10.2% compared to 2015)

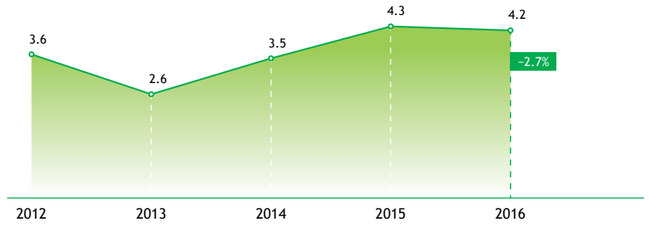
Financial Indicators

The amount of the general and administrative costs of the OPTIMA Grupa d.o.o. in 2016 was 2.7% lower than the level of 2015 thanks to the decrease of costs in consulting services, including the renegotiation of engineering services contract terms under the framework of supervision by Vnesheconombank.

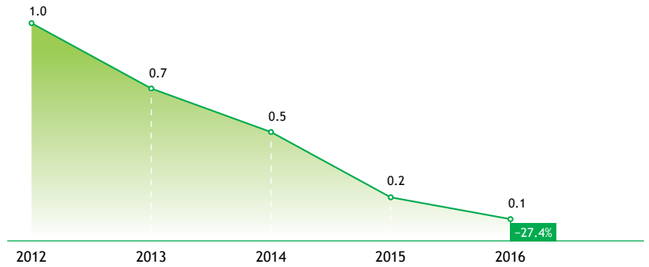
The following measures had a direct influence on the operational result amount in 2016:

- Optimization of the sales policy for the purpose of increasing sales to end users (share of end users in the total volume of oil products sales in Bosnia and Herzegovina in 2016 was 56.1%, which exceeded the level of 2015 by 10.2%);
- Constant monitoring of the competitive environment on the market, forming daily price-lists for the purpose of an adequate response to the changes in market conditions;
- Holding promotions for the purpose of increasing base and motor oils sales in the market of Bosnia and Herzegovina and adjoining countries;
- Regular supply of products from the Modriča Oil Plant A.D. products to Vietnam and to the market of Ukraine;
- Implementation of a project to select the optimal oil grades for refining at the Brod Refinery A.D. (the economic effect from refining alternative oil grades in 2016 amounted to 3.2 million EUR).

General & Administrative Costs, million EUR



Commercial Costs, million EUR



In 2016 the amount of external raisings decreased by
79%
compared to 2015 owing to the improvement of operational efficiency

Furthermore, it is worth mentioning the following organizational measures implemented in the reporting period:

- Integration of a Regulation on the procedure for initiating legal proceedings;
- Integration of a Regulation on the annual assessment of employees;
- Integration of a motivation system for different categories of employees in the framework of an integrated labor payment system;
- Bringing the occupational health, industrial safety and environment protection management system in compliance with the requirements of the ISO 14001, OHSAS 18001 international standards.

The negative marginality of marketed products is the main reason of the regular scarcity of the working assets of OPTIMA Grupa d.o.o.

The amount of external raisings in 2016 was 7.4 million EUR, which is 79% lower than that of 2016 and is significantly lower than the volume of loans in the previous periods. The main reason for the increase in product marginality and the decrease in external funding was the significant improvement of operational efficiency thanks to the reasons stated above.

Successful cash flow management during the reporting period also had its positive effect on the reduction of external funding.

NESTRO PETROL A.D.

Nestro Petrol A.D. is a commercial asset of the Downstream segment that is engaged in the retail sale of basic types of products produced by the Brod Refinery A.D. and the Modriča Oil Plant A.D.

The Company owns production assets in the territory of Republika Srpska, Bosnia and Herzegovina. A retail fuel station network was established in 1945, which operates as a member of Zarubezhneft Group of Companies since 2007. The retail sale of oil products, as well as additional items, is carried out through the retail network, which made up of 87 currently operating fuel stations.

Operational Indicators

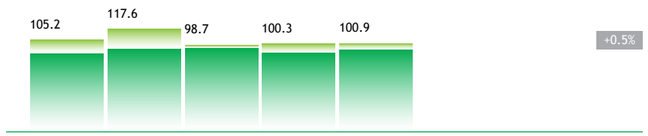
The retail trade volume of oil products at the Company's fuel stations has shown positive dynamics, with retail fuel sales in 2016 up by 0.5% compared to 2015.

A law that prohibits the sale of furnace oil through retail networks came into effect in Republika Srpska in May 2016. The negative impact of this ban on furnace oil sales was compensated by natural market growth and an increase in diesel fuel sales.

Revenues from the sale of additional items at fuel stations were up 5.1% compared to the previous period, which had positive effect of the operating efficiency of the Company. The number of operating fuel stations as of year-end 2016 did not change compared to the previous period.

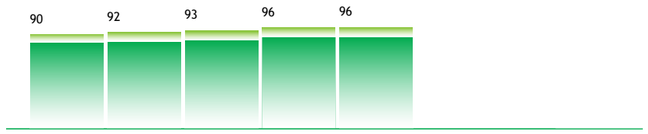
The level of daily fuel sales per one fuel station in 2016 was 3 tons per day, which is 4.5% higher than the level of 2015.

Oil Products Retail Marketing Volume, thousand tons



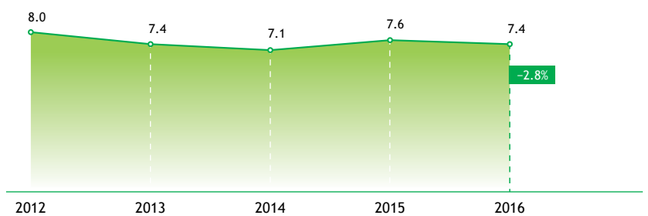
	2012	2013	2014	2015	2016
Retail	90.0	95.1	96.1	90.4	94.4
Small wholesale	15.2	22.6	2.6	10.0	6.4

Number of Fuel Stations, units

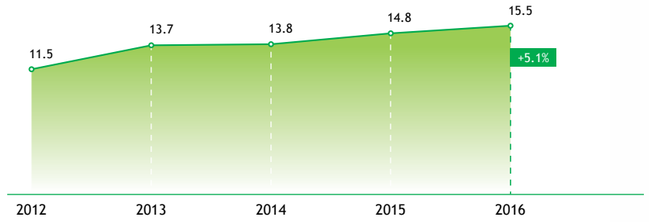


	2012	2013	2014	2015	2016
In operation	82	83	84	87	87
In rent	8	9	9	9	9

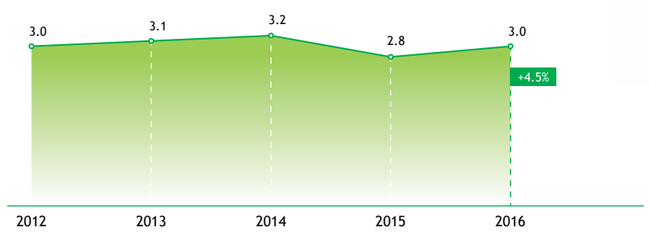
Operational Expenses, million EUR



Revenue from Additional Items Sales, million EUR



Average Daily Sales Volume per 1 Fuel Station, ton/day



Financial Indicators

The absolute amount of operational expenses in 2016 decreased by 2.8% compared to the level of 2015.

The main investment measures in 2016 were aimed at supporting and developing the basic network, including:

- Installation of gas equipment;
- Equipment of fuel stations with self-service terminals;
- Installation of security and CCTV systems;
- Reconstruction of the Srpske Toplice fuel station (obtaining of permits);
- Installation of retail equipment in the shops and cafes of the fuel stations;
- Purchase of process equipment for the fuel stations.

The loan of Banka Intesa ZAO raised in 2011 was fully repaid in 2016.

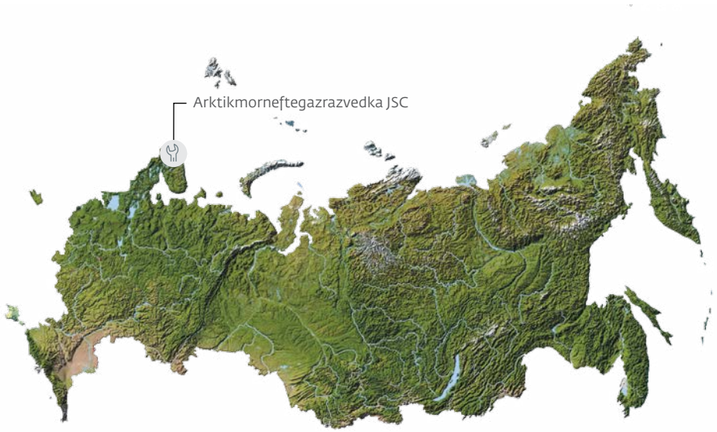
Ownership Structure, %

Oil & Gas Innovarion Corporation	80
Other shareholders	20

SERVICE AND OTHER ASSETS

ARKTIKMORNEFTEGAZRAZVEDKA JSC

Arktikmorneftegazrazvedka JSC (AMNGR JSC) is a Company that renders services in the oil and gas sector. AMNGR JSC operates in Murmansk where the head office of the entity is located.



Activities

The priority region of the Company's activities is in South-East Asia where it participates in prospective projects for drilling the wells offshore the Socialist Republic of Vietnam.

The main line of AMNGR JSC's development is the implementation of Zarubezhneft JSC's projects for offshore wells construction as a drilling contractor.

Ownership structure, %

Assets of AMNGR JSC

Murmanskaya Jack-Up Rig

Murmanskaya Jack-Up Rig
A jack-up rig, capable of drilling wells up to a depth of 6,000 meters with a maximum sea depth of 100 meters

- Year of construction / modernization **1991/2014**
- Dimensions **109 x 68 m**
- Living spaces **84 persons**
- Total weight **14 465 t**

DeepVenture DS (formerly "Valentin Shashin")

A vessel capable of drilling wells up to a depth of 7,000 meters with a maximum sea depth of 1,715 meters

- Year of construction / modernization **1982/2014**
- Dimensions **149 x 28 m**
- Living spaces **116 persons**

The on-shore infrastructure of Arktikmornef tegazrazvedka JSC includes:

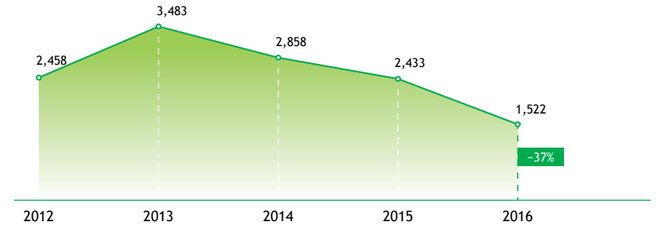
The on-shore infrastructure of Arktikmorneftegazrazvedka JSC includes:

- Maintenance Engineering Station (MES) – (Kola, Kildinskoye highway 2),
- Professional and technical training school.

Operation results for 2016

In 2016, the DeepVenture drill ship was engaged in a project of Zarubezhneft JSC at Block 12/11 offshore the Socialist Republic of Vietnam for the purpose of transporting and storing fuel, water and equipment for the support of the Murmanskaya jack-up and for the purpose of being in stand-by mode in order to drill a relief well if necessary.

Operational Expenses, million Rubles



Arktikmorneftegazrazvedka JSC is currently holding negotiations on the engagement of the DeepVenture drill ship in the drilling projects of major petroleum companies in Russia and abroad. Such regions as Mexico, India, Nigeria, Indonesia, Vietnam, Malaysia are of special interest.

In 2016, the Murmanskaya jack-up performed successful drilling works in the framework of a contract with JV Vietsovpetro. One well was competed to construction (BH-58XP). The drilling of the TN-3X well was started, of which 8,507 meters were drilled. The commercial drilling rate was 2,974 meters/standard per month. The rig's non-productive time was 0%.

In the framework of implementation of the contract with JV Vietsovpetro, the day rate of the Murmanskaya Jack-Up Rig was agreed in accordance with the current market level and amounted to following: from October 20, 2009 – 111 thousand USD per day, from August 12, 2011 – 108 thousand USD per day, from October 16, 2013 – 111.34 thousand, from February 15, 2015 – 85 thousand, from November 26, 2015 – 80 thousand, from August 20, 2016 – 40 thousand USD per day.

Financial Indicators

The decrease of operational expenses in 2016 in comparison to the previous reporting period was due to the change of operating schedules on the jack-up and drill ship, as well as thanks to the implementation of the improving efficiency, optimizing costs and the non-core assets disposal program.

GIPROVOSTOKNEFT JSC

Giprovostokneft JSC is a scientific organization that renders engineering services and implements FEED, scientific research, planning and surveying for oil and gas companies.

Operating Results in 2016:

The following works were performed in 2016:

- Performed FEED as a general designer for the construction, treatment and transport facilities of the Kuyumbinskoye field (Slavneft-Krasnoyarskneftegaz LLC) and Srednebotuobinskoye field (Taas-Yurakhneftegazdobycha LLC);
- Performed FEED for the construction of additional well pads at the Kharyaga field (Total E&P Russie, then ZARUBEZHNEFT-Production Kharyaga LLC);
- Project to extend the pipeline system of the Caspian pipeline consortium in the Russian Federation;
- Engineering studies and design works:
  - For the construction, treatment and export transport facilities of the Central Khoreyver Uplify fields;
  - For the gathering system, infield oil transport and construction facilities of the Verkhnechonskoye oil and gas condensate field;
  - For the construction, treatment and export transport facilities of the Suzunskoye field;
- FEED for construction, treatment and export transport facilities of Orenburgneft JSC and Buguruslanneft LLC;
- Design of well drilling for Orenburgneft JSC.

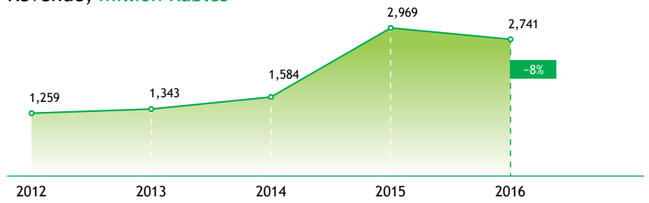
Ownership Structure, %

Other	40
RMNTK JSC	38
Zarubezhneft JSC	22

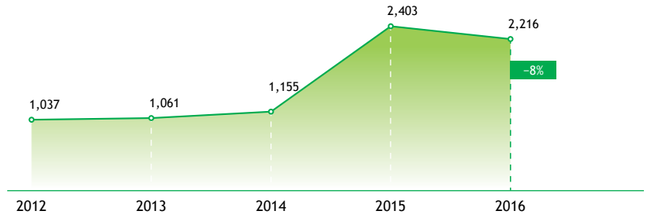
Project to extend the pipeline system of the Caspian pipeline consortium in the Russian Federation was completed in 2016.

Financial Indicators

Revenue, million Rubles



Operational Expenses, million Rubles



VNIINEFT JSC

VNIIneft JSC is a scientific research institute engaged in solving the problems of oil field development and enhanced oil recovery.

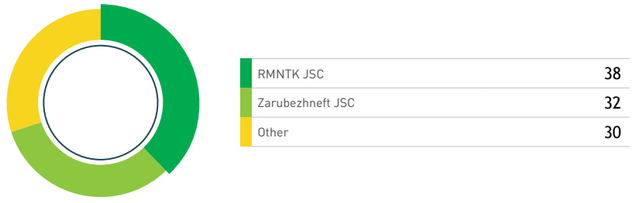
59
WORKS
for the amount of more than 371.6 million Rubles were performed by the entitiy in 2016

Activities

The primary objective of VNIIneft JSC is the creation of a Scientific and Technical Center (STC) responsible for geological research, optimization of field development and the creation of integrated development plans for all of Zarubezhneft JSC's assets.

In addition to supporting the Zarubezhneft Group of Companies main activities in the Upstream segment, the STC is intended to help drive the Group's innovative development, support planning and R&D, as well as develop and adapt available technologies on the part of the STC's competencies.

Ownership Structure, %



Operating Results in 2016

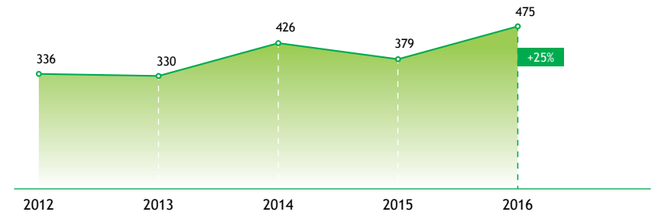
The entity performed 59 scientific and research, engineering and other works in the amount of more than 371.6 million Rubles in 2016.

In 2016, its main customers were: Zarubezhneft JSC, JC RUSVIETPETRO, and Slavneft-Megionneftegaz JSC.

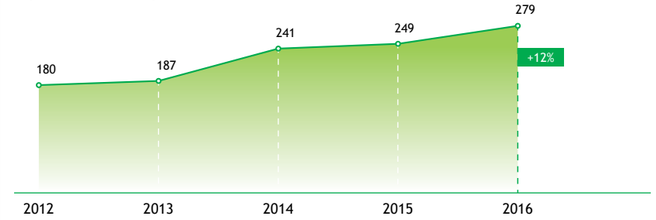
The following tasks and projects of strategic importance were performed in 2016:

- Research and development (R&D) works for the large volume sulfuric acid injection were completed;
- R&D works for flow deviation technologies were completed;
- R&D works for studying the influence of extraction methods and aging on the porosity and permeability of the rocks of the Central Khoreyver Uplift fields were completed;
- R&D works for study of chemical and physical processes occurring in the oil containing rock of the Vishanskoye field in course of thermal and gas formation treatment were completed;
- The project for Justification for applying water and gas treatment at the fields of the Russian Federation and the Socialist Republic of Vietnam" was completed;
- Joint works with the Research Center of the Moscow Physics and Technical Institute in the framework of the project, Development of software for the construction of a tensor hydrodynamic model of fractures and the porous and fractured reservoir for the purpose of increasing development efficiency of the fields in the Russian Federation and SRV, were carried out;
- Support for innovative activities and the innovative development program of Zarubezhneft JSC was carried out;
- A contract for a detailed representation of the geological structure of the Upper Oligocene of the White Tiger field was completed;
- A series of agreements was made and joint works were performed in the framework of Zarubezhneft JSC's laboratory base development strategy;
- More than 30 students completed their internship;
- A course for the advanced training of Tatneft PJSC employees' was given under contract with Kazan Federal University;
- 13 articles were published;
- Applications for 4 patents were submitted.

Revenue, million Rubles



Operational Expenses, million Rubles



Financial Indicators

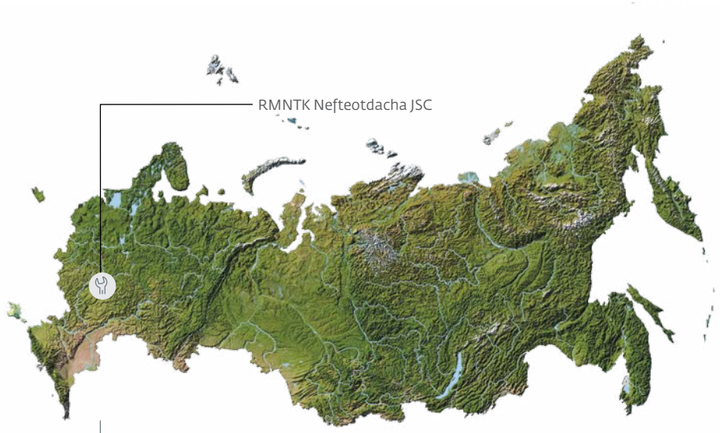
In the structure of revenues received from all types of activities, a significant amount belongs to revenue from scientific and technical products.

The increased revenue in 2016 in comparison to 2015 was due to changes in macroeconomic parameters that had an influence on the changes in structure and volume of the orders portfolio, including those for Zarubezhneft Group of Companies.

The costs optimization and management costs decrease activities implemented in 2016 allowed VNIIneft JSC to improve its financial and economic performance.

RMNTK NEFTEOTDACHA JSC

RMNTK Nefteotdacha JSC belongs to the fuel and energy complex and oil producing industry.



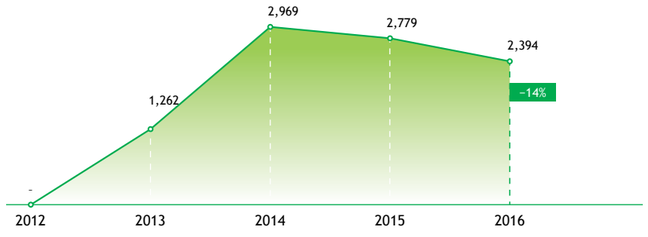
Activities

In accordance with the Articles of Incorporation, the main activities of RMNTK Nefteotdacha JSC include the following:

- Carrying out fundamental and applied research to create new production technologies and EOR methods, as well as technical means and chemical products for these purposes, and the development and introduction of well repair technologies;
- Participation in development and coordination of scientific and technical programs for the implementation of integrated sectorial and inter-sectorial oil production techniques and technology, and EOR field methods;
- Technical and economic research in oil, gas and bitumen production; the development of proposals on economic support for creating and introducing new technical means and technologies for production and EOR methods;
- The creation and improvement of calculation methods for hydrocarbon raw materials and associated components;
- Making forecasts of hydrocarbon raw materials production methods development in the Russian Federation;

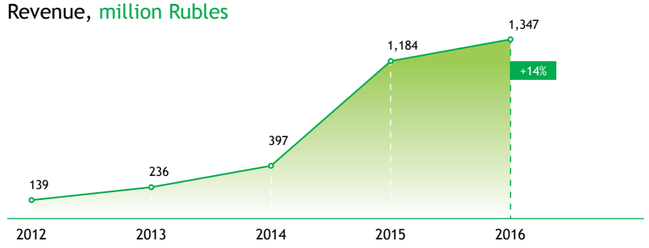
Ownership Structure, %

Geological and Technical Studies in the Course of Well Drilling at JC RUSVIETPETRO Facilities, days

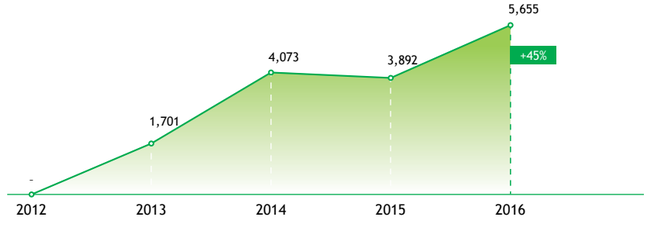


The development of new activities in 2016 allowed us to carry out the revenue plan in addition to increasing it by 14% compared to 2015.

Revenue, million Rubles



Supervision During JC RUSVIETPETRO Well Construction, days



- Development of projects for technological schemes for field development and the construction of field surface facilities;
- Appraisal of draft technological schemes for oil field development and construction.

In the mid-term, the main scope of works carried out were related to the provision of integrated well drilling and workover services for the fields of JC RUSVIETPETRO and ZARUBEZHNEFT-Production Kharyaga LLC.

Financial Indicators

The development of new activities in 2016 allowed us to carry out the revenue plan in addition to increasing it by 14% compared to 2015. The decrease of the EBITDA indicator in comparison to 2015 was due to the development of internal production capacities that enable us to ensure sustainable revenue as well as covering the demand for the services of the Zarubezhneft Group of Companies.

Equipment for providing services of routine well repairs and workovers, geologic and technological well surveys and hydrodynamic well surveys was purchased in 2016 in the framework of the Investment plan.

The increase of the scope of well construction supervising in 2016 was due to the length of the construction of remote exploration well pads. As such, drilling volumes were decreased, which explains the reduction of the volume of geological and technical works.

ZARUBEZHNEFTESTROYMONTAZH LLC

Zarubezhneftestroymontazh LLC (ZNSM LLC) is a Company that performs the organization of construction, reconstruction, overhaul, construction control, and preparation of design documentation, engaged by developers or customers, based on a general contractor agreement.

Activities

The activities of Zarubezhneftestroymontazh LLC in 2016 were focused on the Zarubezhneft Group of Companies and included the following:

- Construction of facilities for JC RUSVIETPETRO at the oil fields of the Central Khoreyver Uplift (3,353 million Rubles).
- Organization of construction works on the site of pilot works at the E1 and M formations of the Boca de Jaruco field, Republic of Cuba.
- Commencement of works under contract with Orenburgneftеotdacha JSC for the construction, assembly and commissioning of works for the project, Pashkinskoye oil field construction. Site for installation of preliminary water discharge unit (PWDU). 1-st line of construction – construction of PWDU for the formation pressure increase system;
- Performance of organizational works for further construction and assembly works at the facilities of the Kharyaga field under contracts with ZARUBEZHNEFT-Production Kharyaga LLC.
- Performance of part of construction and assembly works for the control of weld joints. Establishment of a construction and assembly works department and laboratory of radiographic, visual and dimensional inspection.

Ownership Structure, %

Zarubezhneft JSC	80
Zarnestservice LLC	20

In 2016, Zarubezhneftestroymontazh LLC constructed 79.5 km of pipelines, carried out preparatory backfilling works in the amount of 534 thousand m³, and constructed 8 on-site facilities.

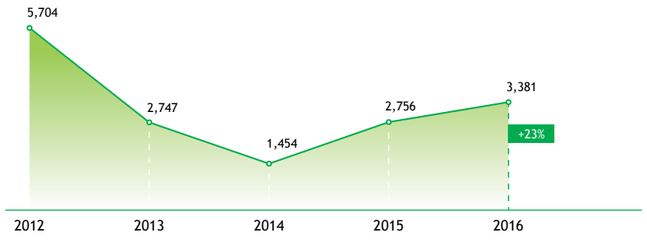
Financial Indicators

2016 saw an increase in revenue thanks to a larger volume of works performed at the facilities of the Central Khoreyver Uplift (customer – JC RUSVIETPETRO).

The increase of operational expenses is associated with the growth of the actual volume of performed works. The growth of work volumes and the decrease of the net cost of performed works had a positive effect on the change of the EBITDA indicator.

The decrease in the net cost of performed works was achieved by decreasing the value of subcontract agreements and reducing the share of conditional-constant costs.

Revenue, million Rubles



In 2016:

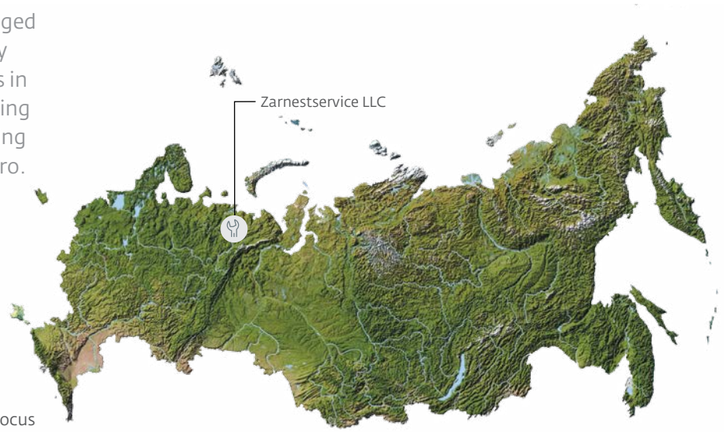
79.5 KM
of pipelines were laid

534 THOUSAND M³
of backfilling works were carried out

8 ON-SITE FACILITIES
were constructed

ZARNESTSERVICE LLC

Zarnestservice LLC is a Company engaged in marketing the crude oil produced by the Zarubezhneft Group of Companies in domestic and foreign markets, supplying materials and equipment, and rendering services for the needs of JV Vietsovpetro.



Activities

The order portfolio of Zarnestservice LLC has a focus on the Zarubezhneft Group of Companies.

The areas of its activities include:

- Supplying Russian goods to JV Vietsovpetro and other companies in SRV;
- Commission operations for the oil sales of Zarubezhneft JSC's subsidiaries in domestic and foreign markets;
- Commission operations for chartering a supply and tug vessel for the needs of JV Vietsovpetro;
- Commission operations for oil sales to external producers;
- Supplying goods to Zarubezhneft JSC's subsidiaries.

Operating Results in 2016

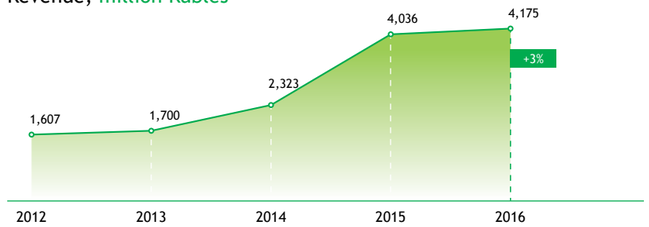
Zarnestservice LLC performs commission operations for marketing oil from the resources of subsidiaries that carry out oil production in the Russian Federation under 6 brokerage agreements for oil marketing, including: JC RUSVIETPETRO (export and domestic market of the Russian Federation), Orenburgnefteotdacha JSC (export and domestic market of the Russian Federation), Ul'yanovskneftegaz LLC (export) and the Arctic Oil Company LLC (export).

Ownership Structure, %

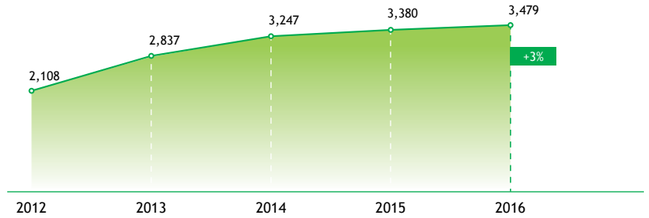
Zarubezhneft JSC	80
ZNSM LLC	20

The range of products supplied by ZNSM to JV "Vietsovpetro" has extended in 2016.

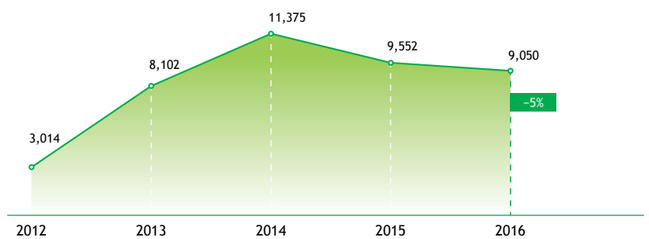
Revenue, million Rubles



Oil Marketing, thousand tons



Pipe Products Marketing, tons



3,359,440 tons of oil were marketed in 2016 under brokerage agreements, including 1,163,808 tons in the domestic market and 2,195,632 tons for export.

Contracts for the monthly marketing of oil from Russian producers that are not part of the Zarubezhneft Group of Companies on purchase and sale terms were made: OC Yangpur JSC and INTEK-West Siberia LLC – and 84,982 tons and 34,975 tons of oil were marketed in 2016, respectively.

Pipe products in the amount of 941.6 million Rubles were supplied to JC RUSVIETPETRO.

The range of products supplied to JV Vietsovpetro was extended. In total, materials and equipment worth 567.3 million Rubles were supplied (casing and line pipes, cementing units, tubing, drill pipes and technical oils).

Financial Indicators

The revenue increase in 2016 is associated with the signing of new purchase and sale agreements as well as the increase of the currency exchange rate (lease agreements for supply/tug vessels, the delivery of pipe products under a purchase and sale agreement in SRV, a commission fee for the sale of part of JC RUSVIETPETRO's oil for export are calculated and made in USD).

SUMMARY OF THE FINANCIAL RESULTS OF ZARUBEZHNEFT JSC

Zarubezhneft JSC will celebrate its 50th anniversary in 2017. During this period, Zarubezhneft JSC has transformed from a Company established for the purpose of representing Soviet / Russian interests in oil project development abroad to an efficient Company providing sustainable revenue to the State in the form of dividend payments that grow each year.

Today, Zarubezhneft JSC or the corporate center is the main entity that carries out efficient management and interaction with more than 30 subsidiaries and 2 joint ventures for the benefit of the State. Apart from the management of the subsidiaries at all lifecycle stages, the corporate center manages 3 foreign (Blocks 09-1, 09-3, 04-3) and one Russian (Kharyaga PSA) project (currently in the production stage) and 4 foreign projects in the geologic exploration stage (Blocks 04-3, 12/11, 09-3/12 and Boca de Jaruco).

The priority line of activities of the corporate center is to increase the efficiency of projects and to develop process competencies in order to ensure competitive advantage in arranging the production and development of complex fields. For this reason, Zarubezhneft JSC extensively implements scientific and research projects to increase the efficiency of operations with depleted resource bases, to determine methods for the maximum involvement of hydrocarbons reserves in development and to apply new technologies and innovative programs.

Apart from this, the corporate center ensures the transparency of procurement activities across the entire Group of Companies by arranging procedures for selecting suppliers and buyers of products.

The priority line of activities of the corporate center is increasing the efficiency of projects and developing process competencies

Since 2016, Zarubezhneft JSC has shared its management experience with subsidiaries by rendering consulting services for all lines of activities, including the distribution of integrated software and data products of both production, organizational and management nature.

The financial results of the corporate center directly depend on the performance of the Upstream segment's projects. Traditionally, more than 60% of the revenue structure of Zarubezhneft JSC from 2015-2016 belonged to JV Vietsovpetro. Upon the commencement of production under the Block 04-3 project, the share of JV Vietsovpetro in the total revenue volume will decrease to 50% in 2017 and to 40% in 2018-2021. The main results under these projects are presented in the Upstream segment section.

The corporate center has prepared an Efficiency increase and costs optimization program as a response measure to the negative development of the macro-economic environment in order to retain sustainability and ensure the performance of the key indicators of activities.

The implementation thereof, along with the investment projects ranging, have provided the conditions for maintaining constant control over operational expenses across the Zarubezhneft Group of Companies and have allowed us to mitigate the negative influence of the macro-economic environment, which has improved the planned financial and economic performance of the Group in general.

As a result, the net profit of Zarubezhneft JSC was 6,955 million Rubles. These results allowed Zarubezhneft JSC to fully perform its liabilities before the State as the main shareholder by ensuring the proceeds to the budget of the Russian Federation above the level established by the Federal law "On the federal budget for 2017 and the planned period of 2018-2019".

Zarubezhneft JSC carried out constant monitoring of the general and administrative costs (G&A) level. The G&A assessment is made in comparable conditions and is aimed at the annual decrease of costs in comparison to the previous year by not less than 2%.

The management costs dynamics are presented in comparable conditions by taking into account the consumer price index (in 2016, CPI was 105.4% http://www.gks.ru). Apart from this, in order to improve the quality of the G&A, the effect of taxes, depreciation and costs not affecting administrative personnel have been excluded.

Administrative costs in comparable conditions decreased by 3.3% in 2016 compared to 2015.

G&A costs structure	Brief description of costs group		Comments
Personnel costs	• Labor costs • Bonuses, social contributions	• Secondment costs • Personnel training costs	In accordance with the established headcount, personnel costs include 6% adjustment from July 1, 2017
Consulting, audit and legal services	• Consulting services • Software costs • IT support	• Audit services • Legal services	Consulting services for improvement projects, provision of software to the subsidiaries
Other	• Communications • HS	• Representative costs • Costs for participation in exhibitions and conferences	Communication costs in accordance with the established standards, HS costs with account of labor condition standards

LABOR EFFICIENCY

One of the critical indicators for the assessment of the efficiency of the Company's activities is the labor efficiency indicator (LEI). That is why this indicator is included in the list of key performance indicators (KPI) for the Group of Companies and the Company's management pays close attention to issues related to the development of labor efficiency improvement measures.

The indicator calculation procedure was established by the order of the Federal State Statistics Service No. 576 "On the establishment of statistic instruments for arranging federal statistic monitoring over labor efficiency at the entities of the non-financial corporations with a state participation sector by the Federal State Property Management Agency" dated September 23, 2014. In accordance with this order, the revenue used for the assessment of indicator performance is calculated on the basis of revenues accounted for under Russian accounting standards (RAS).

A labor efficiency growth rate of not less than 107% for oil producing companies was established by implementing the order No. 1250-p dated July 9, 2014.

Zarubezhneft JSC carried out monitoring of the indicator performance for two target bases in 2016:

- Comparison with target (planned) KPI indicator (calculation involving the actual result for 2014, Minutes of Meeting No. 94, dated December 24, 2014);
- Comparison with the actual indicator of the previous period (used for submitting the documents to federal executive authorities).

The target value of LEI for 2016 as part of KPI was 52.6. Therefore, revenue for 2016 was brought to comparable conditions by means of converting the prices of 2014 and adjusting for the change of the terms of the intergovernmental agreement for the main assets of the Zarubezhneft Group of Companies. The actual value of LEI in comparable conditions was 56.1. The labor efficiency rate indicator remains under control.

Apart from this, an assessment of the indicator in comparison to the adjusted actual value of 2015 (in accordance with the approved method of adjustment of the Zarubezhneft Group of Companies main performance indicators, order No. 40 dated September 21, 2016) was carried out. The actual indicator performance in comparable conditions amounts to 42.9 (+16%), which also confirms the fulfillment of the indicator.

Various projects were implemented for the purpose of increasing labor efficiency at Zarubezhneft JSC:

- Business-processes for reengineering and "long chain" optimization;
- Establishment of a personnel headcount management system.

INNOVATIVE ACTIVITIES

Zarubezhneft JSC developed an updated Innovative development program for 2016-2020 (with an outlook until 2030) (hereinafter, the "IDP") in the framework of fulfilling the instructions of the Government of the Russian Federation, which was approved by the Board of Directors approved (Minutes of Meeting No. 127) on September 14, 2016.

The IDP is integrated into the Company's strategic documents system that also includes the Zarubezhneft's Corporate development strategy and the Company's LDP.

The innovative development program of Zarubezhneft JSC is intended to boost the importance of innovations in the achievement of strategic goals of the Company, including:

- Achievement of significant positive effect from the implementation of the program regarding the Company's activities;
- Improving the efficiency of main business-processes and labor efficiency;
- Enhancing the Company's competitive ability and improving its position in the Russian and foreign markets;
- Maximum consideration of opportunities in the area of innovation in the course of the Company's development and the management's decision-making process.

The innovative development of Zarubezhneft JSC is focused on increasing the efficiency of the development of current and prospective projects in accordance with the Strategy and the The Company's LDP. The goal of innovative development is the achievement of the material improvement of priority development areas of Zarubezhneft JSC, such as:

- Increasing the efficiency of technological innovative solutions aimed at improving the efficiency of developing:
  - Carbonate reservoirs,
  - Hard-to-recover reserves,
  - Fields that are at the closing stage and have an unbalanced development system.
- Localization of residual reserves for the purpose of involving them in the development of the Company's own approaches to petroleum engineering.
- Increment and involvement of reserves into development by means of innovative geologic exploration methods.
- Enhancing the power efficiency and environmental safety of production.

21
PROJECTS
were implemented in 2016 with achievement of expected results under each of them

Zarubezhneft JSC implemented 21 innovative projects were implemented in 2016, all of which have produced the expected results and the established checkpoints were successfully passed. The projects are being implemented in full compliance with their performance schedules and the final results have been estimated to be achieved in 2016-2018.

The cumulative volume of scientific, research, pilot development and process works (R&D) implementation funding in 2016 in Zarubezhneft JSC was 132.1 million Rubles.

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

A technical design for a mobile preliminary formation water discharge unit (hereinafter, the "MPFWDU"), as well as a set of engineering documents, were developed in 2016 in the framework of the implementation of the innovative project, Development of a mobile preliminary formation water discharge unit (MPFWDU) for small fields, the MPFWDU is to be located directly at the field and can be quickly transported to other facilities by car or railroad. It has been planned to make a development prototype of the MPFWDU in 2017 and to hold pilot production tests of the mobile complex in 2018.

A diesel power station manufactured by Kolomenskiy Zavod LLC and ZVEZDA-ENERGETIKA JSC was purchased and R&D aimed at the further development of components and units intended to ensure its operation using oil of not less than the 3rd class were initiated in 2016 in the framework of the innovative project, Construction of a Russian-made power station operating using all classes of oil for fuel. Scientific research, as well as design and development works, for a follow-up development of the equipment components of the station operating using 3rd class oil as fuel, design documentation development, and a follow-up development of the station to comply with the rules and standards of the petroleum industry and pilot production tests at the subsidiary of Zarubezhneft JSC– JC RUSVIETPETRO have been scheduled for 2017.

Experimental industrial integration of unique internally developed software called NESTROWAY (which has been registered with Rospatent) commenced in 2016 for the purpose of implementing an integrated approach to asset development. Integrated models of the fields of Zarubezhneft JSC's subsidiaries – JC RUSVIETPETRO and JV Vietsovpetro – were constructed in this framework. Relevant tasks for the subsidiaries are promptly carried out using these models. Additional software system modules are being dynamically developed to extend the capabilities of the system.

The implementation of an innovative project, Setup and development of technology for the development of low-permeability reservoirs using thermal and gas treatment, continues, and a dedicated scientific and research work aimed at studying the chemical and physical processes occurring in oil and oil-containing rocks of the Vishanskoye field in the course of air injection into formations was completed in 2016. This work allowed the Company to expand its competencies in the application of thermal and gas treatment methods in field development, and will also be useful in the future with possible distribution to the other assets of the Zarubezhneft Group of Companies.

A Drilling Management Information System (DMIS) with the following goals was developed and commissioned by the Company in 2016:

- Provision of operational and strategic planning;
- Timely provision of all management levels with complete and accurate information on the ongoing works, studies and costs;
- Prompt solution of geological and technological problems.

The DMIS was integrated in Zarubezhneft JSC, JC RUSVIETPETRO, Orenburgnefteotdacha JSC, RMNTK Nefteotdacha JSC and Giprovostokneft JSC. The DMIS was also integrated in the ATOLL information system of JV Vietsovpetro, and experimental operation of the DMIS module, Remote drilling monitoring, was arranged at all operating jack-ups. The expected effects from implementation of the project include increasing the efficiency of capital investments into operational, search and exploration drilling and increasing the fields' development efficiency due to the possibility of constructing horizontal wells with a large step-out and complex profiles.

Additional oil production in the amount of 14.872 thousand tons was obtained in 2016 in course of pilot acid fracturing works at JC RUSVIETPETRO and performed under results of the completed scientific research paper "The Study of the Influence of Geological and Mechanical Processes on the Development of Visovoye Field".

In 2016, the Zarubezhneft Group of Companies carried out active work to develop a system for testing and integrating new technologies (hereinafter, "NTS") available on the market but previously not in use at the Group of Companies. As such, the pilot testing of new equipment and technologies was carried out in JC RUSVIETPETRO and ZARUBEZHNEFT-Production Samara LLC. ZARUBEZHNEFT-Production Kharyaga will join the NTS program starting 2017.

At JC RUSVIETPETRO in 2016, NTS was focused on the testing of various methods of asphalt, resin, and paraffin deposits prevention methods (the application of production tubing with silicate and enamel coating, physical tubing cleaning methods, the application of asphalt, resin, and paraffin solvents and the application of well heating units), as well as on remedial cementing works

and water shutoff works with the application of various gallant agents. Additional oil production resulting from the performance of these works in 2016 amounted to 13.415 thousand tons.

ZARUBEZHNEFT-Production Samara LLC tested technologies and equipment for the production of high-viscosity oils from the artificial lift wells stock (sucker rod pump, screw-type rod pump, stationary well heater, inhibitors and solvents), as well as new methods for enhancing the quality of monitoring the sucker rod pumping unit operating parameters (including stationary dynamographs with wireless data transmission, fluid flow meters, etc.), which allowed us to obtain around 1 thousand tons of additional oil in 2016.

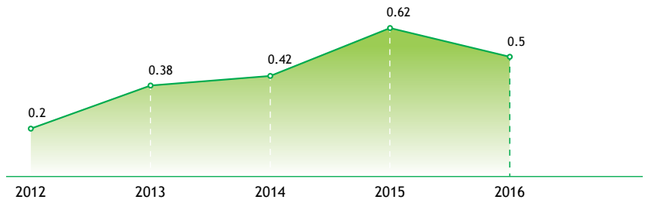
In 2016, the NTS program was implemented in accordance with the plan and the most efficient technologies of all testing areas were determined and recommended for integration under the results of the works.

The share of R&D costs in the revenue of Zarubezhneft JSC in 2016 was 0.5%, while the target KPI value included in the Innovative development program is 0.42%.

The Company annually increases the volume of its employees' publications on the results of innovative projects, scientific studies and developments in Russia and international media. 5 invention patents and 5 software certificates were obtained and 43 articles were published at the Zarubezhneft Group of Companies in 2016.

Zarubezhneft JSC continues to develop and extend events to foster an innovative environment. As such, an Open Innovations Day event where the most prospective Upstream projects developed by the Skolkovo Fund's resident companies were presented to the representatives of the Zarubezhneft Group of Companies, which took place in Skolkovo in 2016.

Dynamics of R&D Costs in Relation to Revenue for 2012-2016, %



The share of R&D costs in the revenue of Zarubezhneft JSC in 2016 was

0.5%

(+0.08% to IDP KPI)

An agreement on cooperation in the area of innovative, scientific and technological development was signed with the Skolkovo Fund, which will additionally boost mutually beneficial cooperation in the area of the development and integration of innovative technologies and equipment.

Zarubezhneft JSC carried on interaction with the "Hydrocarbon production and use technologies" dedicated technological platform in 2016. A number of meetings and negotiations regarding the implementation of joint projects on the base of the Gubkin Oil and Gas RSU for the purpose of mutually beneficial cooperation in the framework of Zarubezhneft JSC's the project implementation of the Innovative development program in 2016-2020 were held.

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

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

Expanding cooperation with innovative regional clusters that already exist or are being formed in the framework of joint development of subjects in the area of innovative development complying with the interests of Zarubezhneft JSC has also been planned.

In 2016 the Company signed an agreement on cooperation in the area of innovative, scientific and technological development with the Skolkovo Fund.

PROCUREMENT ACTIVITIES

One of the main constituents of successful work completed by any major company is the efficient organization of procurement activities, which ensures the purposeful and economically expedient spending of funds on the purchase of goods, works and services.

The procurement activities of Zarubezhneft JSC are carried out in accordance with the requirements of Federal law No. 223-FZ "On the procurement of goods, works and services by individual types of legal entities" and the Regulation on procurement.

In 2016, Zarubezhneft JSC's Tender Committee arranged and reviewed 375 procedures for the procurement of goods, works and services with the total amount of 26 billion Rubles, consisting of 315 procedures in the amount of 30.3 billion Rubles in 2015, and 290 procedures and 28.6 billion Rubles in 2014 respectively.

The application of an electronic trading platform system, as well as the publication of information about procurements in the state's Unified data system and in corporate information resources allowed us to increase the openness and transparency of procurement activities, resulting in an increased number of procurement participants, expanding the Company's possibilities in the selection of proposals with the most optimal conditions.

The centralization of the procurement activities of the subsidiaries allowed us to utilize unified procurement standards for all of the subsidiaries, as well as to arrange control over compliance with the laws in the area of procurement.

In the framework of optimizing costs and cutting expenditures, the Company is engaged in work with potential vendors / contractors. On the basis of the results of the analysis of the bidder's technical and commercial offers, when a possibility to reduce the cost of the goods and services was found, the participants were granted an opportunity to improve their commercial offers by offering the maximum possible discount. Consequently, significant funds savings in the amount of more than 1.9 billion Rubles were achieved in 2016.

375
PROCEDURES
for the procurement of goods, works and services were reviewed by the Tender Committee in 2016

As a result of actions taken to broaden the access of small and medium-sized business enterprises to Zarubezhneft JSC's procurements in 2016, the following results have been obtained:

- The public audit of the efficiency of purchases pursued was ensured by means of holding regular meetings of the collective deliberative body on the issues of ensuring the efficiency of Zarubezhneft JSC procurements.
- Share of purchases from small and medium-sized business enterprises totaled 28% (in 2015 – 26%) (The target value, which is set by the Decree of the Government of the Russian Federation No.1352 "On the features of the participation of small and medium business enterprises in the purchase of goods, works and services by individual types of legal entities", dated December 11, 2014, for that period was 18%).
- 25 companies joined the Zarubezhneft JSC Partnership Program with small and medium business enterprises.

Taking into consideration the country's present orientation towards import substitution, which is one of the strategic directions of work in state-run companies over the next few years, Zarubezhneft JSC has been constantly working on the scheduled and stage-by-stage substitution of import products with Russian ones. As a result, the share of purchased products, works and services of foreign origin has been continuously dropping, and is currently not exceeding 1.4% in projects being implemented in the territory of the Russian Federation.

PROSPECTS AND OPERATIONAL PRESENCE EXPANSION

In accordance with the development strategy, Zarubezhneft JSC will enter into a stage called New Growth in 2017. This stage concerns the significant expansion of Company's activities for entering into new projects in Russia and abroad. For this purpose, a number of preparatory measures for the Company's switch to the new stage of development were implemented in 2016. They include the formation of a Block for business development and professional team for new projects search and evaluation, the approval of Zarubezhneft JSC's Concept for improving business efficiency and the regulation of new business-processes, holding negotiations in various countries, the establishment of partnerships and the preparation of grounds to enter into projects in various countries in the Middle East, Latin America, South-East Asia and CIS countries.

A list of countries and regions for priority business development was updated, information flows were determined and standardized and operations for establishing the Company's representatives offices in the countries of strategic interest were initiated in the reporting period.

A database of considered projects in the Russian Federation and abroad was established in the Company on the basis of a geographic information system (GIS NESTROWAY) for the purpose of improving information support of business development and access was provided to the information database for petroleum projects and asset acquisition deals in the priority countries of major international dedicated companies.

As a practical matter, the priority business development regions in Russia were identified: Volga and Urals, Timano-Pechora, Western Siberia and the Yamal-Nenets Autonomous Area. The Company also conducted the monitoring of auctions/tenders for license areas of the undistributed fund.

Preperatory measures for the Company to enter the "New Growth" stage were implemented in 2016.

Zarubezhneft JSC has expanded its area of activities by entering into a project of the North-Karasevskoye Petroleum Enterprise LLC, who owns a license for the Lutseyakhskoye field in YNAA. This deal resulted in Zarubezhneft JSC increasing its resource base by 11.2 million tons (Russian category C1 + C2), of which the expected "plateau" of annual oil production is approximately 500 thousand tons.

As for the foreign assets, the search continued in the traditional regions of interest – South-East Asia, the Middle East and Latin America.

In South-East Asia in Vietnam, which is a critical country for the Company's activities, 2016 was marked by the completion of long-term work for entering into a new project. A Product Sharing Agreement for the offshore Block 16-1/15 was signed in May and the Investment Certificate for the project was obtained in June. The participants of the project are as follows: JV Vietsovpetro (51%, operator), PetroVietnam EP (29 %), BITEXCO (10 %) and SOVICO (10 %).

In September 2016, the Company took part in a partner program called Indonesian Oil and Gas – 2016, arranged by the industrial authority SKK Migas.

In 2016, the Company significantly enhanced its activities regarding entering into projects in the key oil and gas producing countries of the Middle East.

A memorandum of Understanding for the Aban and West Paydar fields was signed thanks to organizational changes in Iran and the preparation of a New Iranian Petroleum Contract. These documents were signed in Tehran on July 12, 2016 by the Managing Director of the National Iranian Oil Company, Ali Kardor, and the General Director of Zarubezhneft, S.I. Kudryashov. These fields belong to the category of brownfields, and in accordance with the provisions of the memorandum, Zarubezhneft

JSC shall conduct studies of the available field data and provide the Iranian party with a proposal on how to enhance their development efficiency.

Upon signing the documents, Zarubezhneft JSC has prepared and submitted a Master Development Plan for these fields to the National Iranian Oil Company (NIOC).

In accordance with the requirements of the Ministry of Petroleum of Iran, the Company has selected an Iranian partner company from the list approved by NIOC for the joint implementation of the contract for enhancing oil production of the Aban and West Paydar fields. Dana Energy was selected to be this partner company and the relevant documents pertaining to this partnership have already been signed.

The Company's experts took part in the operation of a Russian-Iranian work group for cooperation in the area of energy and in the meeting of the Permanent Russian-Iranian Commission on Trade-and-Economic Cooperation on December 11-13, 2016.

Work for the establishment of a research consortium with participation of Russian and Iranian universities headed by Zarubezhneft JSC for the purpose of operating in Iran was carried out. A memorandum with the Pars Petro Zagros Engineering and Services research institute was singed in the framework of selecting Iranian consultants.

A Representative office of Zarubezhneft JSC was reopened in Iran due to the intensification of activities.

In Iraq, the Company, together with LUKOIL PJSC, held negotiations with an Iraqi geologic exploration company regarding the study of geologic exploration blocks in Iraq. It was agreed to sign a relevant trilateral memorandum of understanding and obtaining data on the blocks to commence their review. Possible cooperation with the South Oil Company and the state-owned Missan Oil company for enhancing oil production in the fields under development in Southern Iraq is also being considered.

During the reporting period, the Company continued its consistent efforts in studying business development opportunities in Africa.

As such, a meeting between the General Director of Zarubezhneft JSC, S.I. Kudryashov, and the Minister of Oil and Gas of Egypt, Tarek El-Molla, took place in November 2016. The parties have agreed to sign frame agreements (memorandums of understanding and confidentiality agreements) between Zarubezhneft JSC and three Egyptian state-owned oil and gas companies – EGPC, EGAS and Ganope –and then continue with consideration of projects for joint implementation.

Yet another region of strategic interest of Zarubezhneft JSC is Latin America, where the search for new assets was promoted as well.

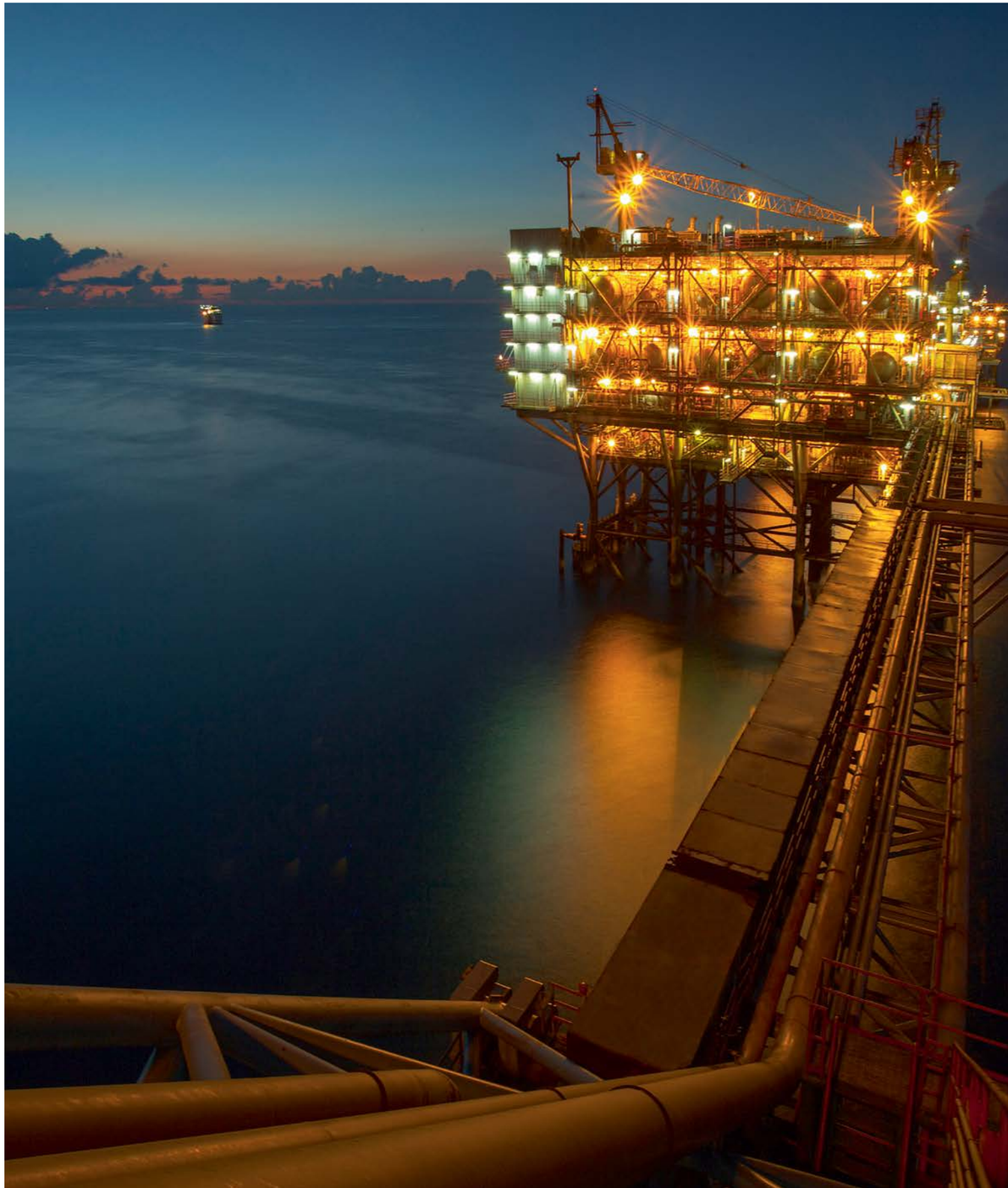
In its traditional country of presence in this region – the Republic of Cuba – Zarubezhneft JSC, together with PSJC OC Rosneft and the national Cuban petroleum company CUPET, continued consultations regarding the study of oil and gas bearing capacities of the shelf in 2016.

In 2016, business development activities covered three new countries of the region – Argentina, Colombia and Ecuador. In all of these countries, cooperation was established with both national and private oil and gas companies.

In Argentina, Zarubezhneft JSC passed pre-qualification and concluded a confidentiality agreement with the national oil and gas company YPF and its regional subsidiary YSUR. This allowed the Company to participate in a tender for 6 fields and apply for 2 of them. The bid of Zarubezhneft JSC turned out to be less attractive to the tendering authorities than those of local companies, but the participation in the tender allowed us to obtain useful experience in the activities of this country.

During the reporting period, the Company made an agreement on cooperation with a major local power company in Colombia and commenced the evaluation of assets for joint activities.

The Deputy General Director for Business Development of Zarubezhneft JSC, A.F., held a meeting with the Minister of Petroleum of the Republic of Ecuador, José Icaza Romero, and the Director of the Hydrocarbons Secretary, Rene De Mora Moncayo, in Ecuador in October 2016 in the framework of a regular meeting of the Russian-Ecuadorian Intergovernmental Commission. A confidentiality agreement with the national company of Ecuador Petroamazonas was signed in December and the evaluation of several projects commenced.



CORPORATE GOVERNANCE

04

INFORMATION ON HOLDING THE GENERAL SHAREHOLDERS MEETING

The only shareholder of Zarubezhneft JSC is the Russian Federation, represented by the Federal State Property Management Agency. In accordance with clause 3, article 47 of the Federal law No 208-ФЗ dated December 26, 1995, "On Joint-Stock Companies", at a Company where all voting shares belong to a single shareholder, all decisions regarding issues related to the competencies of the general shareholders' meeting are made solely by this shareholder and are formalized in writing.

In 2016, one regulation was issued by the Federal State Property Management Agency, "On the resolutions of the annual general meeting of the shareholders of Zarubezhneft Joint Stock Company" (dated June 30, 2016, No. 522-p), in which the following decisions were adopted:

- Zarubezhneft JSC's Annual Report for 2015 was approved;
- Zarubezhneft JSC annual accounting report for 2015, including the statement of financial results, was approved;
- Profit distribution by Zarubezhneft JSC for 2015, in the amount of 9,097,423 thousand Rubles, taking into consideration the recommendations of Zarubezhneft JSC's Board of Directors was approved, including:
  - 4,548,712 thousand Rubles (50 % of net profit for 2015) allocated for dividend payments;
  - 909,742,300 thousand Rubles (10 % of net profit for 2015) allocated for the establishment of Zarubezhneft JSC's reserve fund;
  - 4,720 thousand Rubles (0.052 % of net profit for 2015) allocated for the payment of remuneration to the members of the Board of Directors;
  - 429,479 Rubles (0.005 % of net profit for 2015) allocated for the payment of remuneration to the members of the Audit Commission;
  - 3,633,819,221 Rubles (39.943 % of net profit for 2015) allocated for the funding of Zarubezhneft JSC's Investment plan for 2016 was approved by decision of the Board of Directors (Minutes of meeting No 114 dated December 24, 2015);
- Zarubezhneft JSC's Board of Directors was elected;
- Zarubezhneft JSC's Audit Commission was elected;
- Nexia Pacioli LLC was approved to be the auditor of Zarubezhneft JSC for the year 2016;
- A new version of Zarubezhneft JSC's Articles of Incorporation was approved;
- Regulation on the sole executive authority (General Director) of Zarubezhneft JSC was approved.

THE COMPANY'S BOARD OF DIRECTORS, COMMITTEES OF THE BOARD OF DIRECTORS

BOARD OF DIRECTORS

The members of Zarubezhneft JSC's Board of Directors were elected by Regulation No. 524-p of the Federal State Property Management Agency, dated June 30, 2015, "On the decisions of the Annual General Shareholders Meeting of the Zarubezhneft Joint Stock Company."

Prior to the holding of the Annual General Shareholders Meeting, the following persons were members of the Company's Board of Directors:

Pavel Anatolyevich Kadochnikov	Pro-Rector for Research at the All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia; Independent director; Born in 1978; Not a shareholder.
Sergey Ivanovich Kudryashov	General Director of Zarubezhneft JSC; Born in 1967; Not a shareholder.
Alexei Alexandrovich Makarov	Presidium member of the Russian Academy of Sciences; Born in 1937; Not a shareholder.
Kirill Sergeyevich Molodtsov	Deputy Minister of Energy of the Russian Federation; Born in 1968; Not a shareholder.
Alexander Dmitrievich Nekipelov	Director of the Lomonosov Moscow State University School of Economics; Born in 1951; Not a shareholder.
Sergey Yurievich Nekrasov	First Vice President of Gazprombank JSC; Independent director; Born in 1964; Not a shareholder.
Mikhail Igorevich Poluboyarinov	First Deputy Chairman – Executive Board Member of the State Corporation The Bank of Development and Foreign Economic Activity (Vnesheconombank); Born in 1966; Not a shareholder.

In accordance with the decision of the Board of Directors of Zarubezhneft dated July 24, 2015 (Minutes of Meeting No. 108), Kirill Valentinovich Molodtsov was elected Chairman of the Board of Directors for Zarubezhneft JSC.

The following members of the Board of Directors were elected by the order of the Federal State Property Management Agency No. 522-p, dated June 30, 2015, "On the Decisions of the Annual General Shareholders Meeting of the Zarubezhneft Joint Stock Company":

Alexei Valentinovich Arkhipov	Assistant of Deputy Chairman of the Government of the Russian Federation; Born in in 1969; Not a shareholder.
Alexander Alexeyevich Gladkov	Director of Oil and Gas Production and Transport Department of Ministry of Energy of the Russian Federation; Born in 1969; Not a shareholder.
Pavel Anatolyevich Kadochnikov	Pro-Rector for Research at the All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia; Independent director; Born in 1978; Not a shareholder.
Sergey Ivanovich Kudryashov	General Director of Zarubezhneft JSC; Born in 1967; Not a shareholder.
Alexei Alexandrovich Makarov	Presidium member of the Russian Academy of Sciences; Born in 1937; Not a shareholder.
Evgeniy Alexeyevich Murov	Born in 1945; Not a shareholder.
Sergey Yurievich Nekrasov	First Vice President of Gazprombank JSC; Independent director; Born in 1964; Not a shareholder.

In accordance with the decision of the Board of Directors of Zarubezhneft dated August 8, 2016, (Minutes of Meeting No. 126), Evgeniy Alexeyevich Murov was elected Chairman of the Board of Directors for Zarubezhneft JSC.

Regulations on the Zarubezhneft Board of Directors were approved by the resolution of the extraordinary general meeting of Zarubezhneft JSC's shareholders (by Decree of the Federal State Property Management Agency No. 2253-p, dated October 12, 2005).

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

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

In 2016, the Zarubezhneft JSC Board of Directors held 18 meetings and considered 83 matters, including 12 matters in accordance with the directives of the Government of the Russian Federation:

Item No.	Number and Date of Directives	Number and Date of Minutes of the Meeting of the Board of Directors	Name of Issue
1	No 1471п-П13, No 1472п-П13 dated March 3, 2016	No. 119 dated March 15, 2016	On innovative development.
2	No 1659п-П13 dated March 15, 2016	No. 120 dated March 30, 2016	On the approval of a procedure for the accounting pf investment projects included in the list of investment projects.
3	No 2793п-П13 dated April 19, 2016	No. 124 dated May 31, 2016	• On the development and approval of local regulatory acts of the Company establishing regulation of the procurement of individual types of goods, works, services. • On the placement of procurement regulations on the corporate website of the Company on the Internet. • On the mandatory application of procurement regulations when planning and carrying out the commercial activities of the Company.
4	No 4750п-П13 dated July 04, 2016	No. 126 dated August 08, 2016	On the development (update) of plans (programs) for decreasing operational expenses by 10 per cent.
5	No 4863п-П13 dated July 07, 2016	No. 126 dated August 08, 2016	On the procedure for the identification and disposal of non-core assets.
6	No 4972п-П13 dated July 11, 2016	No. 126 dated August 08, 2016	On the procurement of domestic competitive software necessary for the Company's activities.
7	No 5059п-П13 dated July 13, 2016	No. 126 dated August 08, 2016	On making agreements for priority engagement of vessels constructed in Russian shipyards.
8	No 5119п-П13 dated July 14, 2016	No. 126 dated August 08, 2016	On the integration of professional standards into the Company's activities.
9	No 6558п-П13 dated September 05, 2016	No. 128 dated October 14, 2016	On making changes to the procurement policy of the Company in part of innovative construction materials.
10	No 7704п-П13 dated October 11, 2016	No. 129 dated November 11, 2016	On the expansion of factoring practice in course of goods' delivery (works' performance, services' rendering) contracts implementation.

Pursuant to the directives of the Government of the Russian Federation, the appendices to LDP of Zarubezhneft JSC were adjusted and approved by decision of the Board of Directors (Minutes of Meeting. No. 91, dated November 20, 2014) in 2016, including:

- New revision of Section 1 of Appendix No. 7, Measures for increasing the responsibility of Zarubezhneft JSC's managers and subsidiaries, including that for the achievement of target indicators values of LDP of Zarubezhneft JSC (Minutes of Meeting No. 119 dated March 15, 2016);
- New revision of Appendix No. 9 "Decrease of operational costs" (Minutes of Meeting No. 127, dated September 14, 2016);
- Appendix No 7.1 "Key performance indicators of Zarubezhneft JSC" (Minutes of Meeting No. 132 dated December 22, 2016).

Pursuant to the directives of the Government of the Russian Federation, the instructions of Rosimuschestvo and the Board of Directors, the following regulatory documents were developed and approved by the Board of Directors at Zarubezhneft JSC in 2016:

- New revision of the regulation on increasing investment and operational efficiency and decreasing the costs of Zarubezhneft JSC (Minutes of Meeting No. 117, dated January 29, 2016);
- Procedure for the accounting of high-priority investment projects of Zarubezhneft Group of Companies (Minutes of Meeting No. 122, dated May 13, 2016);
- Policy of internal control at Zarubezhneft JSC (Minutes of Meeting No. 125, dated June 27, 2016);

- New revision of the Risk management policy of Zarubezhneft JSC (Minutes of Meeting No. 125, dated June 27, 2016);
- Corporate Ethics Code of Zarubezhneft JSC (Minutes of Meeting No. 125, dated June 27, 2016);
- Anti-corruption policy of the Zarubezhneft Group of Companies (Minutes of Meeting No. 125 dated June 27, 2016);
- New revision of the Methodological guidelines for the formation of operational expenses and the determination of operational expenses decrease indicator (Minutes of Meeting No. 127, dated September 14, 2016);
- Program for the disposal of non-core assets (Minutes of Meeting No. 127, dated September 14, 2016);
- New revision of the Regulation on the internal audit in Zarubezhneft JSC (Minutes of Meeting No. 128, dated October 14, 2016);
- New revision of the Regulation on the key performance indicators of Zarubezhneft JSC (Minutes of Meeting No. 131, dated November 25, 2016);
- New revision of the Regulation on the annual remuneration of the General Director of Zarubezhneft JSC (Minutes of Meeting No. 131, dated November 25, 2016);
- Policy of interaction between the Audit Commission of the Board of Directors of Zarubezhneft JSC and an external auditor (Minutes of Meeting No. 131, dated November 25, 2016);
- Policy of Zarubezhneft JSC in the area of the provision on non-audit services by an external auditor (Minutes of Meeting No. 131, dated November 25, 2016); New revision of the Regulation on the procurement of Zarubezhneft JSC (Minutes of Meeting No. 133, dated December 27, 2016).

Detailed information on the performance of the directives of the Government of the Russian Federation and the instructions of the President and the Government of the Russian Federation by Zarubezhneft JSC given in the section "Report on the performance of the directives of the Government of the Russian Federation and the instructions of the President and the Government of the Russian Federation".

The following issues related to the implementation of the strategic goals of Zarubezhneft JSC's activities were also considered at the meetings of the Board of Directors:

- Approval of the Report on the achievement of the target values of Zarubezhneft JSC's key performance indicators for 2015;
- Preliminary approval of the Annual Report of Zarubezhneft JSC for 2015;
- Approval of the Report on the implementation of the Innovative Development Program of Zarubezhneft JSC for 2015;
- Approval of an updated Innovative Development Program of Zarubezhneft JSC for 2016-2020;
- Report on the achievement of the target values of KPIs for the 9 months of 2016;
- Update of the key performance indicators system of Zarubezhneft JSC;
- Approval of the target values of Zarubezhneft JSC's KPIs for 2017;
- Report on the ongoing implementation of the Corporate strategy of Zarubezhneft JSC for 2016;
- Approval of the Business Plan of Zarubezhneft JSC for 2017.

A full list of issues considered at the meetings of the Board of Directors of Zarubezhneft JSC can be found in the Appendix.

COMMITTEES AT THE BOARD OF DIRECTORS

Three committees were established at the Board of Directors of Zarubezhneft JSC:

Strategic Planning Committee

Members of the Strategic planning committee at the Board of Directors of Zarubezhneft JSC in 2016

Members of the Committee (before the Annual General Shareholders Meeting of Zarubezhneft JSC):
- Alexander Dmitrievich Nekipelov – Director of the Higher School of Economics of Moscow State University (Chairman of the Committee);
- Sergey Ivanovich Kudryashov – General Director of Zarubezhneft JSC;
- Sergey Yurievich Nekrasov (Independent Director) – First Vice President of Gazprombank JSC.

Members of the Committee (elected after the Annual General Shareholders Meeting of Zarubezhneft JSC):
- Alexei Alexandrovich Makarov – Presidium member of the Russian Academy of Sciences (Chairman of the Committee);
- Alexander Alexeyevich Gladkov – Director of Oil and Gas Production and the Transportation Department of the Ministry of Energy of the Russian Federation
- Sergey Ivanovich Kudryashov – General Director of Zarubezhneft JSC;
- Sergey Yurievich Nekrasov (Independent Director) – First Vice President of Gazprombank JSC.

The current revision of the Regulation on the Strategic Planning Committee approved by decision of Zarubezhneft JSC's Board of Directors on September 30, 2015, (Minutes of Meeting No. 110) was developed taking into consideration the recommendations of the Corporate Management Code, recommended by the letter from the Bank of Russia (No.06-52/2463, dated April 10, 2014, "On the Corporate Management Code") and the Methodical Recommendations of the Federal State Property Management Agency on the organization of the Board of Directors' work in a joint stock company.

In accordance with the Regulations on the Strategic Planning Committee at Zarubezhneft JSC's Board of Directors, the following matters refer to the Committee's competence:
- Determination of the priority directions, strategic goals and main principles of the Company's strategic development;
- Improvement of policy in the area of business planning and the Company's budgeting;
- The development of recommendations in relation to the Company's dividend policy;
- The evaluation of the efficiency of the Company's activity in the long-term;
- Consideration of LDPs and the reports on their implementation;
- Improvement of the Company's KPIs system;
- The development of recommendations for strategic documents in the area of innovative development.

In 2016, **10 meetings of the Strategic Planning Committee** were held, with each of them attended by all of the elected members of the Committee.

Meeting	Meeting Date	Agenda
Strategic Planning Committee meeting	January 27, 2016	• On the consideration of the new revision of the Regulation on increasing investment and operational efficiency and decreasing costs of Zarubezhneft JSC.
Strategic Planning Committee meeting	April 22, 2016	• On the consideration of the Report on the implementation of the Innovative development program of Zarubezhneft JSC for 2015. • On the consideration of an updated draft of the Innovative development program of Zarubezhneft JSC for 2016-2020.
Joint meeting of Strategic Planning Committee and the Personnel and Remuneration Committee	May 13, 2016	• Consideration of the Report on the implementation of LDP of Zarubezhneft JSC for 2015. • Consideration of the Report on the achievement of the target values of KPIs of Zarubezhneft JSC for 2015.
Strategic Planning Committee meeting	September 7, 2016	• Consideration of the Program of the disposal of non-core assets and Register of the non-core assets of Zarubezhneft JSC. • Consideration of the report on the results of Zarubezhneft JSC Business Plan implementation for the first 6 months of 2016. • Consideration of the Action Plan for decreasing operational expenses (costs) by 10% in 2016. • Consideration of the new revision of Appendix No. 9 to LDP.
Strategic Planning Committee meeting	October 5, 2016	• Consideration of the criteria for selecting banks.
Strategic Planning Committee meeting	October 28, 2016	• Consideration of the Plan of disposal of non-core assets of Zarubezhneft Group of Companies for the IV quarter of 2016 and for 2017. • Consideration of the report on the ongoing implementation of a series of measures for decreasing the operational expenses of Zarubezhneft JSC for the 9 months of 2016.
Joint meeting of the Strategic Planning Committee and the Personnel and Remuneration committee	November 22, 2016	• Consideration of the updated key performance indicators system of Zarubezhneft JSC. • Consideration of the report on the achievement of target values of KPIs for the 9 months of 2016.
Joint meeting of Strategic Planning Committee and the Personnel and Remuneration Committee	December 14, 2016	• Consideration of Appendix No 7.1 to LDP of Zarubezhneft JSC. • On the update of the target values of KPIs of Zarubezhneft JSC for 2017.
Strategic Planning Committee meeting	December 16, 2016	• Consideration of the Report on the ongoing implementation of the Corporate strategy of Zarubezhneft JSC for 2016. • Consideration of the Business Plan of Zarubezhneft JSC for 2017.
Strategic Planning Committee meeting	December 21, 2016	• Consideration of the report on results of Zarubezhneft JSC's quality management system operation for 2016

As per the results of the Committee meetings, the following items were recommended to Zarubezhneft JSC's Board of Directors for approval:

- Report on the achievement of the target values of KPIs of Zarubezhneft JSC for 2015;
- Report on the achievement of the target values of KPIs for the 9 months of 2016;
- Target values of the KPIs of Zarubezhneft JSC for 2017;
- Report on the implementation of the Innovative development program of Zarubezhneft JSC for 2015;
- Updated Innovative development program of Zarubezhneft JSC for 2016–2020;
- Program of disposal of non-core assets and Register of non-core assets of Zarubezhneft JSC;
- Report on the ongoing implementation of the Corporate strategy of Zarubezhneft JSC for 2016;
- Business Plan of Zarubezhneft JSC for 2017.

In addition to this, the Strategic planning committee decided to recommend the following internal regulatory documents developed in pursuance of the requirements of the directives of the Government of the Russian Federation and the instructions of Rosimuschestvo for approval:

- New revision of the Regulation on increasing the investment and operational efficiency and decreasing the costs of Zarubezhneft JSC;
- New revision of the Regulation on the key performance indicators of Zarubezhneft JSC;
- New revision of the Regulation on the annual remuneration of the General Director of Zarubezhneft JSC.

In the framework of the consideration of issues related to the implementation of LDP, recommendations for the approval of the following were given:

- Results of the audit inspection of implementation of Long-term development program for 2015;
- Report on the implementation of LDP of Zarubezhneft JSC as of January 1, 2016;
- Report on the achievement of the key performance indicators of LDP of Zarubezhneft JSC for 2015;
- Appendices No 9 and 7.1 to LDP of Zarubezhneft JSC.

Audit Committee

Members of the Audit Committee at the Board of Directors of Zarubezhneft JSC in 2016

Members of the Committee (before the Annual Shareholders Meeting of Zarubezhneft JSC):

- Pavel Anatolyevich Kadochnikov (independent director) – Pro-Rector for Research at the All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia (Chairman of the Committee);
- Alexei Alexandrovich Makarov – Presidium member of the Russian Academy of Sciences;
- Sergey Yurievich Nekrasov (Independent Director) – First Vice President of Gazprombank JSC.

Members of the Committee (elected after the Annual Shareholders Meeting of Zarubezhneft JSC):

- Sergey Yurievich Nekrasov (Independent Director) – First Vice President of Gazprombank JSC (Chairman of the Committee);
- Alexei Valentinovich Arkhipov – Assistant of Deputy Chairman of the Government of the Russian Federation;
- Pavel Anatol'yevich Kadochnikov (independent director) – Pro-Rector for Research at the All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia

The current revision of the Regulation on the Audit Committee approved by decision of Zarubezhneft JSC's Board of Directors on March 30, 2015, (Minutes of Meeting No. 116) was developed by taking into consideration the recommendations of Rosimuschestvo (letter No ОД-02-1574 dated January 21, 2016) and the Methodical Recommendations of the Federal State Property Management Agency on the audit of joint stock companies with the participating interest of the Russian Federation by the Board of Directors (approved by order No. 86 of Rosimuschestvo dated March 20, 2016).

In accordance with the Regulation on the Audit Committee at Zarubezhneft JSC's Board of Directors, revision of the following matters is in the Committee's competence:

- Annual report and financial statements;
- Results of the achievement of the target values of financial indicators and causes for deviation;
- Arrangement of the risk management system;
- Auditor selection procedures;
- Results of the external auditor's work;
- Plans and results of the Company's internal audit service activities.

11 meetings of the Audit Committee took place in 2016, and all of the elected members of the Committee participated in each of them.

Meeting	Meeting Date	Agenda
Audit Committee meeting	January 27, 2016	• On the consideration of the Audit Plans for the Zarubezhneft Group of Companies for 2016. • On the consideration of the new revision of the Risk management policy of Zarubezhneft JSC.
Audit Committee meeting	February 20, 2016	• On the consideration of the initial (maximum) price of audit services for the purpose of holding a tender to select an audit company to perform the mandatory audit of the accounting (financial) statements of Zarubezhneft JSC for 2016-2017.
Audit Committee meeting	March 11, 2016	• Consideration of the Plan of works and the Program of inspection by the Revision Commission of Zarubezhneft JSC in 2016.
Audit Committee meeting	March 22, 2016	• On the consideration of the new revision of Regulation of Audit Committee at the Board of Directors of Zarubezhneft JSC. • On the approval of the Plan of works of the Audit Committee at the Board of Directors of Zarubezhneft JSC for the first 6 months of 2016.
Joint meeting of the Audit Committee and the Personnel and Remuneration Committee	May 12, 2016	• Consideration of the proposals on the amounts of the remunerations of the members of the Revision Commission of Zarubezhneft JSC under results of the corporate year.
Audit Committee meeting	May 13, 2016	• Consideration of the accounting (financial) statements of Zarubezhneft JSC for 2015. • Consideration of the Annual Report of Zarubezhneft JSC for 2015. • Consideration of the report on the achievement of the target values of KPIs of Zarubezhneft JSC for 2015. • Consideration of the summary of the Revision Commission under the results of the inspection of financial and operating activities of Zarubezhneft JSC for 2015. • Consideration of the results of the external audit on the basis of Zarubezhneft JSC's accounting statements for 2015 audit. • Consideration of the results of the tender to select an audit company to perform the mandatory audit of the accounting (financial) statements of Zarubezhneft JSC for 2016-2017. • Consideration of the work results of the internal audit of Zarubezhneft JSC for 2015.
Audit Committee meeting	June 24, 2016	• Consideration of the Policy of internal control at Zarubezhneft JSC. • Consideration of the new revision of the Risk management policy of the Zarubezhneft Group of Companies. • Consideration of the Anti-corruption policy of the Zarubezhneft Group of Companies. • On the appointment of the Head of the Internal Audit Department of Zarubezhneft JSC.
Joint meeting of the Audit Committee and the Personnel and Remuneration Committee	September 16, 2016	• Consideration of the Regulation on the remunerations and compensations of the members of the Revision Commission of Zarubezhneft JSC.
Audit Committee meeting	October 5, 2016	• Consideration of the new revision of the Regulation on the internal audit of Zarubezhneft JSC. • Consideration of the Regulation on the Revision Commission of Zarubezhneft JSC.
Audit Committee meeting	November 23, 2016	• Consideration of the Policy of interaction between the Audit Committee at the Board of Directors of Zarubezhneft JSC and an external auditor. • Consideration of the Policy of Zarubezhneft JSC for provision of non-audit services by the external auditor. • Planning the holding of a mandatory audit of the accounting (financial) statements of Zarubezhneft JSC for 2016 made under IFRS. • Planning the holding of an audit of the consolidated financial statements of the Zarubezhneft Group of Companies for 2016 made under IFRS.
Audit Committee meeting	December 22, 2016	• Consideration of the Plan of audits of the Zarubezhneft Group of Companies for 2017.

The recommendation for the approval of the Annual Report of Zarubezhneft JSC for 2015 and the Report on the achievement of target KPIs of Zarubezhneft JSC for 2015 were given to the Board of Directors of Zarubezhneft JSC by the Audit Committee under the results of its meetings. The following internal regulatory documents, developed in pursuance of the requirements of the directives of the Government of the Russian Federation and the instructions of Rosimuschestvo, were also recommended for approval:

- Regulation on the internal audit of Zarubezhneft JSC;
- Regulation on the Revision Commission of Zarubezhneft JSC;
- Regulation on the remunerations and compensations of the members of the Revision Commission of Zarubezhneft JSC;
- Internal Control Policy of Zarubezhneft JSC;
- Risk management policy of Zarubezhneft JSC;
- Anti-corruption policy of the Zarubezhneft Group of Companies;
- Policy of interaction between the Audit Committee of the Board of Directors of Zarubezhneft JSC and an external auditor;
- Policy of Zarubezhneft JSC for the provision of non-audit services by the external auditor.

For the purpose of holding the tender to select an audit company to perform the mandatory audit of the accounting (financial) statements of Zarubezhneft JSC for 2016-2017, the Audit Committee gave recommendations for the establishment of an initial maximum price of the audit services.

In the framework of interaction with an external auditor with consideration of clause 2.1 of the Methodological recommendations for the arrangement and holding the mandatory audit of the financial (accounting) statements (approved by Order No. 12 of Rosimuschestvo dated January 21, 2016), clause 2.5 of the Methodological recommendations for the arrangement of the operation of the Audit Committees of the Board of Directors (approved by Order No. 86 of Rosimuschestvo dated March 20, 2014), the Audit Committee at the Board of Directors of Zarubezhneft JSC considered the results of the works of external auditors under the results of a mandatory audit of the accounting (financial) statements of Zarubezhneft JSC for 2015 and the consolidated financial statements of the Zarubezhneft Group of Companies for 2015 made under IFRS in May 2016.

The external auditors have presented the main areas and directions of audit for 2015 in accordance with the technical specifications, the applied principles of accounting and material evaluation indicators of the financial statements were identified and the assessment of the main control procedures of the Company aimed at decreasing the risk of the inaccuracy of accounting (financial) statements was provided.

The external auditors have also provided the Audit Committee with positive audit summaries on the accuracy of the accounting statements, as well as with the endorsed accounting (financial) statements of Zarubezhneft JSC for 2015.

The "Policy of the interaction between the Audit Committee at the Board of Directors of Zarubezhneft JSC and the external auditors" that determines a procedure and the main aspects of such interaction was developed by Zarubezhneft JSC in accordance with the requirements of the methodological recommendations of Rosimuschestvo for the arrangement and holding of the mandatory audit of financial (accounting) statements.

Two in-person meetings of the Audit Committee with the participation of the Chairman of the Revision Commission of Zarubezhneft JSC, N.N. Annikova, were held in 2016, where the following matters were discussed:

- Work plan and Program of inspection by the Revision Commission of Zarubezhneft JSC in 2016;
- Accounting (financial) statements of Zarubezhneft JSC for 2015;
- Annual Report of Zarubezhneft JSC for 2015;
- Report on the achievement of the target values of the KPIs of Zarubezhneft JSC for 2015;
- Summary of the Revision Commission under the results of the inspection of the financial and operating activities of Zarubezhneft JSC for 2015;
- Results of the external audit performance on the basis of audit of the accounting statements of Zarubezhneft JSC for 2015;
- Results of the tendering to select an audit company to perform the mandatory audit of the accounting (financial) statements of Zarubezhneft JSC for 2016-2017;
- Work results of the internal audit of Zarubezhneft JSC for 2015.

Personnel and remuneration committee

Members of the Personnel and remuneration committee at the Board of Directors of Zarubezhneft JSC in 2016

Members of the Committee (before the Annual General Shareholders Meeting of Zarubezhneft JSC):
- Alexander Dmitrievich Nekipelov – Director of the Lomonosov Moscow State University School of Economics (Chairman of the Committee);
- Pavel Anatolyevich Kadochnikov (independent director) – Pro-Rector for Research at the All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia;
- Alexei Alexandrovich Makarov – Presidium member of the Russian Academy of Sciences.

Members of the Committee (elected after the Annual General Shareholders Meeting Zarubezhneft JSC):
- Pavel Anatolyevich Kadochnikov (independent director) – Pro-Rector for Research at the All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia (Chairman of the Committee);
- Alexei Valentinovich Arkhipov – Assistant of Deputy Chairman of the Government of the Russian Federation;
- Sergey Yurievich Nekrasov (Independent Director) – First Vice President of Gazprombank JSC.

The current revision of the Regulation on the Personnel and Remuneration Committee approved by decision of Zarubezhneft JSC's Board of Directors on April 30, 2015, (Minutes of Meeting No. 101) was developed by taking into consideration the recommendations of the Corporate Management Code, recommended by Letter No. 06-52/2463 from the Bank of Russia (dated April 10, 2014, "On the Corporate Management Code").

In accordance with the Regulations on the Personnel and Remuneration Committee of Zarubezhneft JSC's Board of Directors, the following matters are in the Committee's competence:
- Development of recommendations for the matters of a personnel policy and the Company's motivation of personnel;
- Supervision over the integration and implementation of the Remuneration policy of Zarubezhneft JSC and various motivation programs;
- Development of recommendations regarding the amount of remuneration of the members of the Board of Directors and the management of Zarubezhneft JSC;
- Improvement of the Company's key performance indicators system;
- Consideration of reports on the achievement of the target values of the key performance indicators by the Company.

9 meetings of the Personnel and Remuneration Committee took place in 2016, and all of the elected members of the Committee participated in each of them.

Meeting	Meeting Date	Agenda
Personnel and remuneration committee meeting	March 15, 2016	• Consideration of proposals on the amounts of remunerations of the members of the Board of Directors of Zarubezhneft JSC under the results of the corporate year.
Joint meeting of the Audit Committee and the Personnel and remuneration committee	May 12, 2016	• Consideration of proposals on the amounts of remunerations of the members of the Revision Commission of Zarubezhneft JSC under the results of the corporate year.
Joint meeting of the Strategic Planning Committee and the Personnel and remuneration committee	May 13, 2016	• Consideration of the Report on performance of LDP of Zarubezhneft JSC for 2015. • 2. Consideration of Report on the achievement of the target values of the KPIs of Zarubezhneft JSC for 2015.
Personnel and remuneration committee meeting	May 18, 2016	• On payment of annual remuneration to the General Director of Zarubezhneft JSC under the results of the achievement of corporate KPIs.
Personnel and remuneration committee meeting	June 20, 2016	• Consideration of the Corporate ethics code of Zarubezhneft JSC.
Joint meeting of the Audit Committee and the Personnel and remuneration committee	September 16, 2016	• Consideration of the Regulation on remunerations and compensations of the members of the Revision Commission of Zarubezhneft JSC.
Joint meeting of the Strategic Planning Committee and the Personnel and remuneration committee	November 22, 2016	• Consideration of an updated key performance indicators system of Zarubezhneft JSC. • Consideration of the Report on the achievement of the target values of the KPIs for 9 months of 2016.
Joint meeting of the Strategic Planning Committee and the Personnel and remuneration committee	December 14, 2016	• Consideration of Appendix No 7.1 to LDP of Zarubezhneft JSC. • On update of target values of KPIs of Zarubezhneft JSC for 2017.
Personnel and the remuneration committee meeting	December 19, 2016	• Consideration of the report on the implemented measures to integrate professional standards at Zarubezhneft JSC for 2016.

On the basis of the Committee's meetings the Board of Directors it was recommended to approve the following internal regulatory documents developed, among other things, in pursuance of the requirements of the directives of the Government of the Russian Federation and the instructions of Rosimuschestvo, were given to the Board of Directors of Zarubezhneft JSC by the Personnel and Remuneration Committee as per the results of its meetings:
- New revision of the Regulation on the remunerations and compensations of the members of the Revision Commission of Zarubezhneft JSC;
- Corporate ethics code of Zarubezhneft JSC;
- New revision of the Regulation on the key performance indicators of Zarubezhneft JSC;
- New revision of the Regulation on the annual remuneration of General Director of Zarubezhneft JSC.

The Personnel and remuneration committee has also given the Board of Directors of Zarubezhneft JSC recommendations regarding the following issues related to the motivation system:
- Approval of the Report on achievement of target values of KPIs for 2015;
- Consideration of the Report on the achievement of the target values of KPIs for 9 months of 2016;
- Payment of remuneration to the General Director;
- Amount of remunerations of the members of the Board of Directors of Zarubezhneft JSC;
- Amount of remunerations of the members of the Revision Commission of Zarubezhneft JSC;
- Approval of the target values of KPIs for 2017, as well as the issues related to the changes in the KPI system of Zarubezhneft JSC.

In addition to this, the Committee considered the following issues related to LDP:
- Report on the audit of LDP of Zarubezhneft JSC for 2015;
- Report on the implementation of LDP of Zarubezhneft JSC for 2015;
- Report on the achievement of the KPIs of LDP of Zarubezhneft JSC for 2015;
- Appendix No 7.1 to LDP of Zarubezhneft JSC.

INFORMATION ON THE HOLDING OF THE BOARD OF DIRECTORS' MEETINGS

In the year 2016, 18 meetings of the Board of Directors of Zarubezhneft JSC were held.

Meeting of the Board of Directors (Date, Number of Minutes of the Meeting, Holding Form)	Considered Issues	Members of the Board of Directors who Participated in the Meeting of the Board of Directors
January 14, 2016 Minutes of meeting No. 116 Absentee meeting	• On the approval of the Regulation on the implementation of the charity and sponsorship activities of Zarubezhneft JSC. • On the budget for the charity and sponsorship activities of Zarubezhneft Group of Companies for 2016.	• P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • K.V. Molodtsov • A.D Nekipelov • S.Y. Nekrasov • M.I. Poluboyarinov
January 29, 2016 Minutes of meeting No. 117 Absentee meeting	• On the approval of the new revision of the Regulation on increasing investment and operational efficiency and decreasing the costs of Zarubezhneft JSC. • On the approval of a new revision of the Risk management policy of Zarubezhneft JSC. • On the approval of the Work Plan of the Board of Directors of Zarubezhneft JSC for the first 6 months of 2016. • On the approval of the Audit plan of the Zarubezhneft Group of Companies for 2016.	• P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • K.V. Molodtsov • A.D. Nekipelov • S.Y. Nekrasov • M.I. Poluboyarinov
February 29, .2016 Minutes of meeting No. 118 Absentee meeting	• On the approval of the initial (maximum) price of audit services for the purpose of holding tender to select an audit company to perform the mandatory audit of the accounting (financial) statements of Zarubezhneft JSC for 2016-2017. • On the approval of a related-party transaction.	• P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • K.V. Molodtsov • A.D. Nekipelov • S.Y. Nekrasov • M.I. Poluboyarinov
March 15, 2016 Minutes of meeting No. 119 Absentee meeting	• On innovative development. • On the inclusion of the integral key performance indicator for innovative activities into the KPI system. • On the determination of the target value of the key performance indicator for innovative activities. • On the approval of changes to LDP of Zarubezhneft JSC (the inclusion of key performance indicators for innovative activities into the KPI list of LDP).	• P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • K.V. Molodtsov • A.D. Nekipelov • S.Y. Nekrasov • M.I. Poluboyarinov
March 30, 2016 Minutes of the Meeting No. 120 Absentee meeting	• Report on the results of procurement activities of Zarubezhneft JSC for the IV quarter of 2015. • On the expansion of the competencies of the Board of Directors of Zarubezhneft JSC. • On the approval of a new revision of the Regulation on the procurement of Zarubezhneft JSC. • On the approval of a new revision of the Regulation on the Audit committee of the Board of Directors of Zarubezhneft JSC. • On the approval of the accounting procedure for investment projects included in the list of investment projects.	• P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • K.V. Molodtsov • A.D. Nekipelov • S.Y. Nekrasov • M.I. Poluboyarinov
April 29, 2016 Minutes of meeting No. 121 Absentee meeting	• investment development program of Zarubezhneft JSC for 2015. • On the cessation of Zarubezhneft JSC's participation in the limited liability partnership with "JV "Nestro-Nuraly". • On approval of a road map for the arrangement of risk management and internal control processes in the area of preventing and countering corruption at Zarubezhneft JSC.	• S.I. Kudryashov • A.A. Makarov • K.V. Molodtsov • A.D. Nekipelov • S.Y. Nekrasov • M.I. Poluboyarinov
May 13, 2016 Minutes of meeting No. 122 Absentee meeting	• On the approval of the Accounting procedure for the high-priority investment projects of the Zarubezhneft Group of Companies.	• P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • K.V. Molodtsov • A.D. Nekipelov • S.Y. Nekrasov • M.I. Poluboyarinov
May 30, 2016 Minutes of meeting No. 123 Attendee meeting	• Consideration of the annual accounting statements of Zarubezhneft JSC for 2015. • Preliminary approval of the Annual Report of Zarubezhneft JSC for 2015. • On the approval of the Report on the achievement of the target values of the key performance indicators of Zarubezhneft JSC for 2015. • Consideration of the summary of the Revision Commission under the results of the inspection of the financial and operating activities of Zarubezhneft JSC in 2015. • On the amount, form and procedure of the payments of annual dividends on the shares of Zarubezhneft JSC. • On the recommendations of the Board of Directors of Zarubezhneft JSC regarding the profit allocation issue. • On the payment of annual remuneration to the General Director of Zarubezhneft JSC under the results of the achievement of corporate KPIs. • On the determination of the amount of payments for services to the winner of the open tender to select an auditor to perform the mandatory annual audit of Zarubezhneft JSC.	• P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • K.V. Molodtsov • A.D. Nekipelov • S.Y. Nekrasov • M.I. Poluboyarinov
May 31, 2016 Minutes of meeting No. 124 Absentee meeting	• Report on the results of the procurement activities of Zarubezhneft JSC for the 1st quarter of 2016. • On the development and approval of local regulatory acts of the Company establishing the standardization of the procurement of individual types of goods, works and services. • On the placement of procurement regulations on the Company's official website. • On the mandatory application of a procurement regulation in course of the planning and implementing operating activities of the Company. • On the approval of the Methodological guidelines for the formation of operational expenses and the determination of decrease indicator of operational expenses.	• P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • K.V. Molodtsov • A.D. Nekipelov • S.Y. Nekrasov • M.I. Poluboyarinov
June 27, 2016 Minutes of meeting No. 125 Absentee meeting	• On the approval of a new revision of the Innovative Development Program of Zarubezhneft JSC. • On the approval of the Internal control policy of Zarubezhneft JSC. • On the approval of a new revision of the Risk management policy of the Zarubezhneft Group of Companies. • On the approval of the Corporate ethics code of Zarubezhneft JSC. • On the approval of the Anti-corruption policy of the Zarubezhneft Group of Companies. • On the performance of the instructions for expanding the access of small and medium-sized business enterprises to performed procurements. • On the appointment of the Department Head of the internal audit of Zarubezhneft JSC.	• P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • K.V. Molodtsov • A.D. Nekipelov • S.Y. Nekrasov • M.I. Poluboyarinov

Meeting of the Board of Directors (Date, Number of Minutes of the Meeting, Holding Form)	Considered Issues	Members of the Board of Directors who Participated in the Meeting of the Board of Directors
August 8, 2016 Minutes of meeting No. 126 Absentee meeting	• On the election of the Chairman of the Board of Directors of Zarubezhneft JSC. • On the election of the members of the committees of the Board of Directors of Zarubezhneft JSC. • On the participation of Zarubezhneft JSC in the ZARUBEZHNEFT-Production Kharyaga LLC. • On introducing changes to the decision of the Company's Board of Directors regarding the "Level of net foreign currency assets of Zarubezhneft JSC". • On making agreements for the priority engagement of vessels constructed in Russian shipyards. • On the development (update) of plans (programs) for decreasing operational expenses by 10%. • On the procurement of domestic competitive software necessary for the activities of the Company. • On the procedure for the identification and disposal of non-core assets. • On the integration of professional standards into the activities of the Company.	• A.V. Arkhipov • A.A. Gladkov • P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • E.A. Murov • S.Y. Nekrasov
September 14, .2016 Minutes of meeting No. 127 Attendee meeting	• Approval of the updated Program for the innovative development of Zarubezhneft JSC for 2016-2020 (with an outlook until 2030). • Report on the results of the performance of the Business Plan of Zarubezhneft JSC for the first 6 months of 2016. • Approval of the Action Plan for decreasing operational costs (expenses) by 10% in 2016. • Approval of a new revision of Appendix No 9 to LDP. • Approval of a new revision of the Methodological guidelines for the formation of operational expenses and the determination of an operational expenses decrease indicator. • Approval of the Program for the disposal of non-core assets and a Register of non-core assets of Zarubezhneft JSC.	• A.V. Arkhipov • A.A. Gladkov • P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • E.A. Murov • S.Y. Nekrasov
October 14, 2016 Minutes of meeting No. 128 Absentee meeting	• Report of the results of the procurement activities of Zarubezhneft JSC for the 2nd quarter of 2016. • Approval of a new revision of the Regulation on the internal audit of Zarubezhneft JSC. • Approval of a new revision of the Regulation on procurement at Zarubezhneft JSC. • Consideration of the Regulation on the Revision Commission of Zarubezhneft JSC in its new revision and a Regulation on the remunerations and compensations of the members of the Revision Commission of Zarubezhneft JSC in its new revision. • Approval of the Work plan of the Board of Directors of Zarubezhneft JSC for the second half of 2016. • On the determination of the criteria for selecting banks. • On introducing changes to the procurement policy of the Company as part of innovative construction materials.	• A.V. Arkhipov • A.A. Gladkov • P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • E.A. Murov • S.Y. Nekrasov
November 11, 2016 Minutes of meeting No. 129 Absentee meeting	• On expanding the practice of using factoring when performing goods delivery contracts (performance of works, provision of services). • Approval of the Plan for the disposal of the non-core assets of the Zarubezhneft Group of Companies for the 4th quarter of 2016 and for 2017. • Report on the status of the implementation of a series of measures to decrease the operational expenses of Zarubezhneft JSC for 9 months of 2016.	• A.V. Arkhipov • A.A. Gladkov • P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • E.A. Murov • S.Y. Nekrasov
November 15, 2016 Minutes of meeting No. 130 Attendee meeting	• On the current activities of Arktikmorneftegazrazvedka JSC and the prospects of using drill ships and platforms offshore the Russian Federation. • On the current activities and prospects for the development of the Downstream segment.	• A.V. Arkhipov • A.A. Gladkov • P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • E.A. Murov • S.Y. Nekrasov
November 25, 2016 Minutes of meeting No. 131 Absentee meeting	• On the update of the key performance indicators system of Zarubezhneft JSC. • Approval of the Policy for interaction between the Audit Committee of the Board of Directors of Zarubezhneft JSC and an external auditor. • Approval of the Policy of Zarubezhneft JSC for the provision of non-audit services by an external auditor. • Report on the achievement of the target values of KPIs for 9 months of 2016. • On the additional contribution of the Company into the equity capital of JC RUSVIETPETRO.	• A.V. Arkhipov • A.A. Gladkov • P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • E.A. Murov • S.Y. Nekrasov
December 22, 2016 Minutes of meeting No. 132 Attendee meeting	• Consideration of the report on the implementation status of the Corporate strategy of Zarubezhneft JSC for 2016. • Approval of the Business Plan of Zarubezhneft JSC for 2017. • Approval of Appendix No 7.1 to LDP of Zarubezhneft JSC. • Update of the key values of the KPIs of Zarubezhneft JSC for 2017.	• A.V. Arkhipov • A.A. Gladkov • P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • E.A. Murov • S.Y. Nekrasov
December 27, 2016 Minutes of meeting No. 133 Absentee meeting	• Report on the results of the procurement activities of Zarubezhneft JSC for the 3rd quarter of 2016. • Approval of the Plan of audits of the Zarubezhneft Group of Companies for 2017. • Report on the implemented measures to integrate professional standards at Zarubezhneft JSC for 2016. • Report on the results of the Quality management system's operation at Zarubezhneft JSC for 2016. • Approval of a new revision of the Regulation on the procurement of Zarubezhneft JSC. • Approval of the Work Plan of the Boards of Directors of Zarubezhneft JSC for 2017.	• A.V. Arkhipov • A.A. Gladkov • P.A. Kadochnikov • S.I. Kudryashov • A.A. Makarov • E.A. Murov • S.Y. Nekrasov

REVISION COMMISSION OF ZARUBEZHNEFT JSC

In the period from January 1, 2016 to December 31, 2016, the Company's Revision Commission carried out its activities in accordance with the Regulation on the Revision Commission of Zarubezhneft JSC, as approved by decree of Rosimuschestvo No. 524-p, dated June 30, 2015, "On the Decisions of the Annual General Meeting of the Shareholders of Zarubezhneft Joint Stock Company". A Regulation on the remunerations and compensations of the members of the Revision Commission of Zarubezhneft JSC was also approved in accordance with the said decree.

In accordance with the Decree No. 524-p of the Federal State Property Management Agency, dated June 30, 2015, "On the Decisions of the Annual General Meeting of the Shareholders of Zarubezhneft Joint Stock Company", the Revision Commission of Zarubezhneft JSC was elected, and comprises the following members:

FULL NAME	POSITION
N.N. Annikova	First Deputy General Director of "Construction Department No. 308" joint stock company
I.M. Babenkova	Deputy Head of the Department of Rosimuschestvo
A.I. Yudin	Head of Department of the Russian Ministry of Energy

The Revision Commission held an inspection of the financial and operating activities of the Company in 2015. A summary on the accuracy of the data contained in the accounting (financial) statements and Annual Report of Zarubezhneft JSC for 2015 was made under the results of this inspection.

In addition to this, the Revision Commission inspected the compliance of the Company with the decrees of the Russian President and the Russian Government regarding the following:

- Implementation of a Program for the disposal of non-core assets;
- System of key performance indicators and its connection with the management's remuneration;
- Dividend policy;
- Procurement activities;
- Establishment and operation of a Unified treasury;
- Integration of corporate governance principles.

Recommendations for the Company reflected in the act and summary of the Revision Commission on the results of 2015 were formed as a result of these inspections.

In accordance with the Decree No. 522-p of the Federal State Property Management Agency, dated June 30, 2016, "On the Decisions of the Annual General Meeting of the Shareholders of Zarubezhneft Joint Stock Company", the members of the Revision Commission were paid a remuneration in the amount of 429,479 Rubles as per results of their work in the 2015-2016 corporate year. The remuneration for the members of the Revision Commission who are not public servants is paid in accordance with the Regulation on the remunerations and compensations of the members of the Revision Commission of Zarubezhneft JSC.

In accordance with the Decree No. 522-p of the Federal State Property Management Agency, dated June 30, 2016, "On the Decisions of the Annual General Meeting of the Shareholders of Zarubezhneft Joint Stock Company", the Revision Commission of Zarubezhneft JSC was elected and comprises the following members:

FULL NAME	POSITION
N.N. Annikova	First Deputy General Director of "Construction Department No. 308" joint stock company
A.E. Bogashov	Deputy Director of the Department of corporate governance, pricing environment and control and inspection work in the fuel and energy complex sectors of Ministry of Energy
A.A. Petrova	Deputy Head of the Section of privatization of enterprises belonging to the sectors regulated by the Department of Rosimuschestvo for property relations and the privatization of major enterprises.

With consideration of the decree of Rosimuschestvo (Letter No. ОД-02-6880, dated February 24, 2016), the Revision Commission held a joint discussion of directions for the inspection of the financial and operating activities of the Company for 2015 at the attendee meeting of the Audit Committee at the Board of Directors of Zarubezhneft JSC on March 11, 2016.

During the period from January 1 to December 31, 2016, 6 meetings of the Revision Commission of Zarubezhneft JSC were held, at which the following issues, among other things, were discussed:

- Adjustment of the Inspection program of the Revision Commission for 2015 due to new recommendations from Rosimuschestvo;
- Approval of the act and conclusions of the Revision Commission under the results of the inspection of the financial and operating activities and the fulfillment of decrees by the Russian President and the Russian Government for 2015;
- Election of the chairman and the secretary to the Revision Commission for the 2016-2017 corporate year;
- Approval of the Meeting plan of Revision Commission for the 2016-2017 corporate year;
- Approval of the Work plan of Revision Commission for the 2016-2017 corporate year (in compliance with the similar standard plans of Rosimuschestvo);
- Approval of basic information and materials request for holding inspections and revision of financial and operating activities for the 2016-2017 corporate year;
- Status of the review of information received from Zarubezhneft JSC under the basic request and its sufficiency for making judgments on inspection issues;
- Approval of the additional request of information for the inspection of the fulfillment of decrees by the Russian President and the Russian Government.

The Company submitted the implementation recommendations of the Revision Commission made under the results of the inspection of the financial and operating activities of Zarubezhneft JSC for 2015 for joint consideration at the attendee meeting of the Audit Committee of the Board of Directors of Zarubezhneft JSC on February 08, 2017. The Company implemented all of the recommendations made by the Revision Commission.

PROVISION OF INTERNAL CONTROL AT ZARUBEZHNEFT GROUP OF COMPANIES

An Internal audit department comprised of 6 persons operates at Zarubezhneft JSC in the framework of the existing corporate governance system. In its activities the Department is guided by the Regulation on the internal audit of Zarubezhneft JSC and the Regulation on the Internal audit department in accordance with the main task of the internal audit of Zarubezhneft JSC, which is assessing and expressing an opinion regarding the reliability and efficiency of the systems of risk management, internal control and corporate governance at the Zarubezhneft Group of Companies.

Since September 2015, the functional accountability of the internal audit has been fixed with the Board of Directors of Zarubezhneft JSC. A Standard for planning and holding internal audit inspections was integrated for the purpose of standardizing the internal audit process.

The Department has implemented the following measures aimed at the development and improvement of the functioning of the internal audit:

- Assessment of the professional and corporate competencies of the internal audit's personnel was held, a plan for the development of the Department's employees' competencies for 2016-2017 has been formulated under its results;
- System of evaluation indicators of internal audit activities with consideration of the management's feedback results was integrated;
- System of regular reporting for the internal audit before the management of Zarubezhneft JSC was integrated;
- Consideration of the internal audit's operation plans and results at the meetings of the Audit Committee of the Board of Directors of Zarubezhneft JSC was arranged.

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

A number of key measures aimed at improving the internal control system were implemented in the Company in the reporting year:

- As part of corporate governance: the Policy of Zarubezhneft JSC for the provision of non-audit services by an external auditor, the Policy of interaction between an external auditor and the Audit Committee of the Board of Directors of Zarubezhneft JSC (Minutes of meeting No. 131 dated November 25, 2016), an updated Regulation on the Internal audit of Zarubezhneft JSC (Minutes of meeting 128 dated October 14, 2016) were developed in accordance with the requirements of the methodological guidelines of Rosimuschestvo and approved by decision of the Board of Directors of Zarubezhneft JSC.
- As part of business planning: regulatory documents that regulate the process of "Business planning and the preparation of management statements" were updated under results of the audit of the said process;
- As part of finance management: Action Plan for the improvement of the "Finance management" process and regulatory documents thereof were prepared under results of the audit of the said process;
- A plan for development, implementation and provision of measures aimed at preventing and countering corruption was developed and approved in the framework of developing a system for preventing fraud and unscrupulous practices at the Group of Companies; areas for holding an external assessment of the corporate corruption countering system were identified.

EXECUTIVE AUTHORITIES OF ZARUBEZHNEFT JSC

KUDRYASHOV
Sergey Ivanovich
General Director

Sergey Ivanovich Kudryashov has extensive experience in top management positions at companies in the fuel and energy industries.
In 1991, he graduated from the Kuibyshev Polytechnic Institute. In 2006, he received an Executive MBA degree from the Stockholm School of Economics.
He began his working career in 1991 at Nizhnevartovskneft, rising from the post of Production Operator to Deputy General Director, Head of the Unitized Oil Field.
From 2002 to 2003, he worked as Deputy Manager of Tomskneft VNK, and Head of the Strezhevoyneft Oil and Gas Production Directorate.
From 2003 to 2004, he was Manager of Yuganskneftegaz JSC, and Vice President of YUKOS-EP CJSC.
Since 2005, he has been First Vice President of OC Rosneft JSC and is in charge of the company's production sector.
From 2008 to July 11, 2012, he held the position of Deputy Minister of Energy of the Russian Federation and was in charge of issues connected with the activity of the Russian oil and gas complex.
Since July 12, 2012, he has held the position of First Deputy General Director of Zarubezhneft JSC.
Since December 28, 2012, he has been the General Director of Zarubezhneft JSC.
Mr. Kudryashov is also the Head of the Working Group of the Commission under the President of the Russian Federation for the issues of the Fuel and Energy Complex (FEC) and the development strategy for ecological safety.
He does not own any shares of Zarubezhneft JSC.

DASHEVSKIY
Alexander Vladimirovich
Deputy General Director for Production

In 1990, A.V. Dashevskiy graduated from the Grozny Oil Institute with a specialization in Mining Engineering; in 2003, he graduated from the Gubkin Oil and Gas Russian State University with the specialization of Engineer-Economist.
For approximately 10 years, he has worked for oil companies in the city of Gubkinskiy in the Yamal-Nenets Autonomous Area, rising from the post of Oil & Gas Production Operator to the Head of the Department.
Since 2000, he has worked at Tomskneft VNK.
In 2005, he moved to OC Rosneft JSC, where he held the positions of the Director of Department of Prospective Planning and the Preparation of Investment Projects, as well as the Director of Oil and Gas Production Department.
Since 2010, he has held the position of Senior Vice President for oil and gas production at OC Bashneft JSC.
From 2013 to 2014, he served as First Deputy General Director at JV Vietsovpetro.
Since July 2014, he has been Deputy General Director for Production at Zarubezhneft JSC.
He does not own any shares of Zarubezhneft JSC.

MAXIMOV
Denis Nikolayevich
Deputy General Director for Economics and Finance

In 2006, he obtained higher education with specialization in Accounting, Analysis and Auditing; in 2011, he obtained a second higher education with specialization in Law. He holds an international accounting diploma (DipIFR) from ACCA (The Association of Chartered Certified Accountants).
From 2004 to 2013, he occupied various positions in the finance and economic block of Orenburgneft PJSC.
From 2013 to 2016, he occupied the position of Deputy General Director of Economics and Finance of JC RUSVIETPETRO (a joint company of Zarubezhneft JSC and PetroVietnam OGC).
Since May 2016, he has been Deputy General Director for Economics and Finance of Zarubezhneft JSC.
He was also awarded with an Honorary Certificate of the Ministry of Trade and Industry of the Socialist Republic of Vietnam.
He does not own any shares of Zarubezhneft JSC.

ZAIKIN
Igor Petrovich
Deputy General Director for Project Development and Well Operations

In 1991, he graduated from the Kuibyshev Polytechnic Institute with the specialization of Mining Engineer. Has a certificate of completion from the Russian-Norway module MBA program at the Moscow State University of Foreign Affairs.
He began his career as an assistant driller at the state oil and gas well drilling enterprise VAN-EGAN in Nizhnevartovsk city.
Since 1996, he has worked at Lukoil Drilling LLC in Samara city and Lukoil Overseas in Kazakhstan.
Since 2003, he has been Head of the Drilling Technology Section at LUKOIL (Moscow).
From 2005 to 2012, he worked at OC Rosneft JSC as Director of the Drilling, Well Technologies and Supervising Department.
Since 2012, he has been Director of the Drilling Department at ANK Bashneft.
Since July 2013, he has been Deputy General Director for Project Development and Well Operations of Zarubezhneft JSC.
He does not own any shares of Zarubezhneft JSC.

AFANASIEV
Igor Semyonovich
Deputy General Director for Geology and Field Development

In 1994, Mr. Afanasiev graduated from Novosibirsk State University.
From 2002 to 2004, he worked at YuganskNIPIneft (Ufa).
From 2005 to 2006, he held the position of Head of the Department for the development of technologies for the Corporate Research Center at OC Rosneft JSC.
In 2006, he moved to the position of Deputy Director of the Corporate Research Center at OC Rosneft JSC.
Since 2007, he has held the position of Director of the Department of field development at OC Rosneft JSC.
Since August 2014, he has been Deputy General Director for Geology and Field Development at Zarubezhneft JSC.
He does not own any shares of Zarubezhneft JSC.

NOZHIN
Vladimir Matveyevich
Deputy General Director for Asset Development

In 1974, Mr. Nozhin graduated from the Azerbaijan Institute of Oil and Chemistry with a specialization in Geology and Oil and Gas Field Exploration. In 1996, he graduated from the Academy of the National Economy, under the Government of the Russian Federation, with a specialization in Management under Market Conditions.
After graduating, he worked as a driller's assistant and as a drilling fluids engineer in the Oil Rocks Marine Drilling Department of the Kaspmorneft Association.
In 1975, he was sent to Western Siberia to Glavtumenneftegaz where he worked in the production association of Yuganskneftegaz in various positions from geologist to the Head of the Pravdinskneft Field Office, to Chief Engineer of the Yuganskneftegaz Production Association.
Since 2000, he has been Head of Department of Oil Production Monitoring, and then the Vice President responsible for science, field engineering and monitoring at YUKOS-EP.
Since 2007, he has been the General Director of Samaraneftegaz JSC.
Since April 2013, he has been working as Deputy General Director of Zarubezhneft JSC for Asset Development.
Mr. Nozhin is an Honorary Worker of the Ministry of Fuel and Energy, YUKOS and OC Rosneft JSC.
He does not own any shares of Zarubezhneft JSC.

ULITIN
Denis Borisovich
Deputy General Director for Corporate Communications, Strategy and Development

In 2000, he graduated from the Novosibirsk State Academy of Economics and Management with a specialization in Financing and Credit. In 2009, he completed the Executive Education program for the managers of Russia's oil and gas industry named "The Oil and Gas Industry: Management of Major Projects" at the Moscow SKOLKOVO school.
From 2001 to 2005, he worked in Yuganskneftegaz at various positions.
From 2005 to 2010, he served as the Assistant to the First Vice President of OC Rosneft JSC.
From 2011 to 2012, he held the position of Deputy Director of the Oil and Gas Production and Transportation Department of the Ministry of Energy of the Russian Federation.
Since January 2013, he has been appointed Head of the Administrative Office of the General Director of Zarubezhneft.
Since February 2015, he has been Deputy General Director for corporate communications, strategics and development at Zarubezhneft JSC.
He has been honored with official awards from the Ministry of Energy of the Russian Federation.
He does not own any shares of Zarubezhneft JSC.

KLINCHEV
Valeriy Andreyevich
Deputy General Director

In 1989, Mr. Klinchev graduated from the Gubkin Moscow Institute of Petrochemical and Gas Industry, and in 1998 he graduated from the Academy of National Economy, under the Government of the Russian Federation with qualification of Top Category Manager.
In the period between 1989 and 1998, he worked at JSC Komineft, where he rose from the position of Geologist to the Director of Production.
From 1998 to 2000, he held the position of General Director of Tebukneft JSC.
In 2000, Mr. Klinchev was appointed First Deputy General Director at the Federal State Unitary Enterprise Ukhtaneftegazgeologiya.
In 2003, he worked at Zarubezhneft occupying top positions in the Project Development and Implementation Department.
From 2004 to 2008, he was First Vice President, and later General Director, of RMNTK Nefteotdacha.
Since 2008, he has been General Director of the Joint Company RUSVIETPETRO.
Since February 2010, he has held the position of Deputy General Director of Zarubezhneft JSC.
Mr. Klinchev was awarded a Diploma from the Ministry of Industry and Energy of Russia and the titles of Honorary Oilman of Russia and Honorary Worker of the Fuel and Energy Complex. He has also been honored with a governmental award by the Socialist Republic of Vietnam.
He does not own any shares of Zarubezhneft JSC.

GETINGER
Andrey Yakovlevich
Deputy General Director for Downstream Operations

In 1987, he graduated from the Tyumen Industrial institute with specialization in Chemical Process Engineering; in 1992, he completed his full-time postgraduate study.
He began his career in 1983 as laboratory worker in the West-Siberian Scientific and Research Geologic Exploration Petroleum Institute (ZapSibNIGNI).
From 1992 to 1997, he worked at various commercial enterprises.
From 1999 to 2013, he worked in the Downstream block companies of TNK Group and TNK-BP, afterwards occupying various positions.
From 1999 to 2007, he occupied the position of Head of Distribution Network enterprises (Tyumen, Nizhnevartovsk, Orenburg).
From 2007 to 2013, he was head of the oils production section of TNK Lubricants.
From 2011 to 2013, he was head of production modernization projects at the Saratov Refinery.
In 2013, he transferred to the Zarubezhneft Group of Companies to occupy the position of Director of Brod Refinery in Republika Srpska (Bosnia and Herzegovina).
In September 2016, he was appointed Deputy General Director for Downstream Operations of Zarubezhneft JSC.
He does not own any shares of Zarubezhneft JSC.

ISMAGILOV
Azamat Faritovich
Deputy General Director for Business Development

In 2000, he graduated with honors from the Ufa State Petroleum Technical University with a specialization in Economics and Management at Enterprises of the Fuel and Energy Complex. In 2003, he received an MBA degree in Plekhanov REA. Candidate of economic sciences.
He began his career in 1998 from the position of Chief Accountant at the Ufa branch of the Dortransservice Agency LLC.
In 2000, he worked in Ufa occupying various positions at the Ufa branch of YuganskNIPIneft LLC of Yukos EP CJSC.
In 2003, he continued his career in Moscow, going all the way from Chief Expert at Yukos EP CJSC, where he worked from 2003 to 2005, to the Deputy Director of the Corporate Scientific and Technical Center of OC Rosneft JSC (2005-2008).
From 2008 to 2016, he occupied the position of General Director of SamaraNIPIneft LLC (2008-2016) and General Director of Giprovostokneft JSC (2014-2016) in Samara.
Since May 2016, he has been Deputy General Director of Zarubezhneft JSC for Business Development.
He also has scientific publications and monographs.
He does not own any shares of Zarubezhneft JSC.

KOVALENKO
Alexander Pavlovich
Deputy General Director for General and Human Resources Management Issues

Mr. Kovalenko graduated from the Military Academy and the Military Institute of the Ministry of Defense of the Russian Federation. He occupied various posts in the Russian Federation's Ministry of Defense.
From 1992 to 2002, he worked as First Deputy General Director at Pronto-Moskva International Holding.
Since 2002, he has been Deputy General Director of Zarubezhneft JSC for General and HR management issues.
He has been honored with state awards by the Russian Federation.
He does not own any shares of Zarubezhneft JSC.

DIVIDEND POLICY AND INFORMATION ON THE PROFIT DISTRIBUTION OF ZARUBEZHNEFT JSC

The Regulation on Zarubezhneft JSC's Dividend policy was approved by the Board of Directors at the meeting on January 30, 2015 (Minutes of meeting No. 96). A new revision of the Dividend policy was approved by the Board of Directors at the meeting on February 16, 2017 (Minutes of meeting No 134).

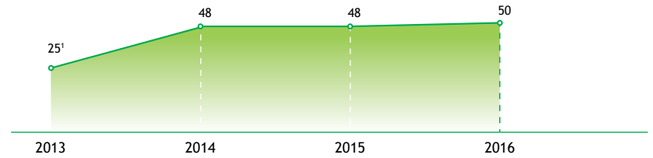
In accordance with the Dividend policy, Zarubezhneft JSC aims to ensure the growth of dividends paid for the benefit of the Russian Federation, which are subject to the growth of net profit of the Company and the successful implementation of the investment projects of Zarubezhneft JSC in accordance with the Company's Business Plan as approved by the Board of Directors.

The basic principles of Zarubezhneft JSC's Dividend policy are:

- The optimal alignment of the of interests of the Company and its shareholders;
- Respect for and strict observance of the shareholders' rights, as presumed under the current laws of the Russian Federation;
- The annual allocation of part of Zarubezhneft JSC's profit for the payment of dividends and the use of the remaining profit at the Company's disposal, both for the formation of reserve funds and to fund Zarubezhneft JSC investment activities.

For several years, Zarubezhneft JSC has remained one of Russia's top companies in terms of dividends transferred to the budget of the Russian Federation.

Ratio of net profit values of the previous year and accrued dividends in 2013-2016, %

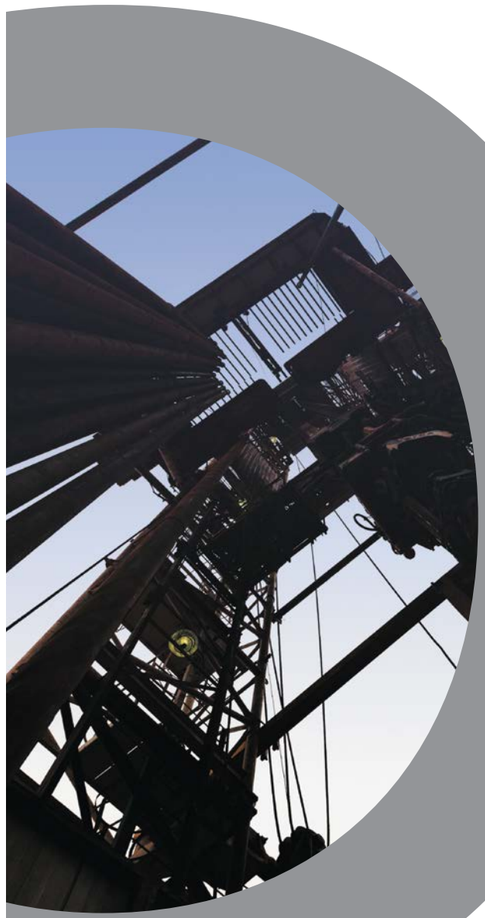


1 25% of the Company's net profit were allocated for dividends in 2013 under results of 2012, as well as 25% of revenue in accordance with the Company's participating interest in the charter capital of JV "Vietsovpetro"

In accordance with the Decree of the Federal State Property Management Agency No. 522-p. dated June 30, 2016, "On the Decisions of the Annual General Meeting of Shareholders of Zarubezhneft Joint Stock Company", the net profit formed under results of Zarubezhneft JSC operation in 2015 in the amount of 9,097,423 thousand Rubles was allocated as follows:

- For dividend payments – 4,548,712 thousand Rubles, or 50% of net annual profit (fulfilled by Payment Order No. 8080, dated August 22, 2016);
- For the formation of a reserve fund – 909,742 thousand Rubles, or 10% of net profit;
- For the payment of remunerations to the members of the Board of Directors – 4,720 thousand Rubles, or 0.052% of net profit;
- For the payment of remunerations to the members of Revision Commission - 429 thousand Rubles, or 0.005% of net profit;
- For the funding of the Investment plan of Zarubezhneft JSC as approved by decision of the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 114, dated 24.12.2015) – 3,633,820 thousand Rubles, or 39.9% of net profit.

APPENDICES



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OFFICIAL INFORMATION ABOUT ZARUBEZHNEFT JSC

Full company name	Zarubezhneft Joint Stock Company
Number and date of issue of state registration certificate	Certification Series 77, No. 003280973, dated October 22, 2004, PSRN 1047708046870
Entity of the Russian Federation	Moscow
Location	101990, Moscow, Armyansky per., 9/1/1, building 1
Telephone (fax)	+7 (495) 748-65-00
E-mail	nestro@nestro.ru
Information on inclusion in the strategic joint-stock companies list	Yes
Full name and address of the registrar	"Registrator R.O.S.T." JSC, 107996, Moscow, Ulitsa Staromynka, 18, building 13
Registered Charter Capital as of December 31, 2016, in Rubles	50,729,067,000
Total issued shares	50,729,067
Ordinary shares	50,729,067
Stocks at par, Rubles	1,000
State registration number of ordinary (preferred) share and state registration date	1-01-65072-D, dated December 9, 2004.
State registration number of the additional issue of ordinary (preferred) shares and the state registration date – in case, by the date of preliminary approval of the annual company report by the Board of Directors (supervisory authority), the registration authority had not performed the abolition of the company's ordinary (preferred) shares with an additional issue individual number (code)	1-01-65072-D, dated April 19, 2005. 1-01-65072-D, dated July 10, 2007. 1-01-65072-D, dated September 25, 2007. 1-01-65072-D-004D, dated April 24, 2012.
Preferred shares	None
Preferred shares at par, Rubles	None
Shares in possession of the Russian Federation	50,729,067
Russian Federation's interest in the charter capital	100%
Company shareholders whose interest in the charter capital is more than 2 per cent	The Russian Federation, represented by the Federal State Assets Managements Agency
Availability of special rights for the Russian Federation to take part in a joint-stock company's management ("golden share")	None
Company auditor full name and address	Nexia Pacioli LLC 115184, Moscow, Bol'shaya Tatarskaya Ul., 7, bld. 2

HISTORY OF THE COMPANY'S ESTABLISHMENT

1967 – The All-Union Association Zarubezhneft is established as a general department at the Ministry of the Oil Industry (Decree No. 2310 p by the Council of Ministers of the USSR, dated September 30, 1967).

1981 – The JV Vietsovpetro was established.

1967-1990s – Zarubezhneft becomes a key foreign agent of the USSR in the oil industry abroad. Its major markets included: Iraq, Angola, Algeria, Vietnam, India, Iran, Yemen, Libya, Syria, and Cuba (its presence covered 33 countries).

2004 – Zarubezhneft is transformed into a joint stock company. RMNTK Nefteotdacha, VNIIneft JSC and Giprovostokneft JSC become a part of Zarubezhneft JSC, transferred thereto by the state.

2006 – A decree of the government of the Russian Federation on transferring the Russian Participant's share in the JV Vietsovpetro to the equity capital of Zarubezhneft JSC is issued.

2007 – Zarubezhneft JSC commences the Downstream project in Republika Srpska (BiH).

2008 – Zarubezhneft JSC enters into a project to develop 13 fields of the Central-Khoreyver Uplift (CKU) in the Nenets Autonomous Area (NAA) and establishes JC RUSVIETPETRO.

2009 – Zarubezhneft JSC enters into a PSC with CubaPetroleo for four license blocks in the territory of the Republic of Cuba.

2010 – An agreement between the Governments of the Russian Federation and the Socialist Republic of Vietnam for further cooperation is signed.

2013 – Zarubezhneft JSC embarks on a joint project with SPIMEX to launch the trade of crude oil produced by members of the Zarubezhneft Group in the Russian Federation's domestic market.

2014 – A New Corporate development strategy isapproved in the Company.

2016 – Zarubezhneft JSC receives 20% share and operatorship in the Kharyaga field development project from the French company Total.

INFORMATION ON THE PARTICIPATION OF ZARUBEZHNEFT JSC IN OTHER ENTITIES

Item No.	Entity Name	Participating Interest of Zarubezhneft JSC	Participating Interest of the Subsidiaries of Zarubezhneft JSC
1	JV Vietsovpetro (SRV)	49%	–
2	VRJ Petroleum Co (SRV)	50%	–
3	JC RUSVIETPETRO	51%	–
4	Arktikmorneftegazrazvedka JSC (AMNGR JSC)	100%– 1 share	–
5	RMNTK Nefteotdacha JSC	100%– 1 share	–
6	Ul'yanovskneftegaz LLC	99.9 %	RMNTK Nefteotdacha JSC – 0.1%
7	Orenburgnefteotdacha JSC	100%– 1 share	RMNTK Nefteotdacha JSC – 1 share
8	Oil and Gas Innovation Corporation JSC	95%	–
9	East West Oil Limited (UK)	100%	–
10	Giprovostokneft JSC	22.09%	RMNTK Nefteotdacha JSC – 38%
11	VNIIneft JSC	32.27%	RMNTK Nefteotdacha JSC – 38%
12	VNIIneft-West Siberia JSC	–	VNIIneft JSC – 51%
13	VNIIneft-Volga Region CJSC	–	VNIIneft JSC – 51%
14	Neftyanoye Khozaystvo CSJC	–	RMNTK Nefteotdacha JSC – 15%
15	Non-State Educational Institution of Additional Education, "Intellectual and Aesthetic Development Center"	–	RMNTK Nefteotdacha JSC – 19.95%
16	ZARUBEZHNEFT-Production LLC	99.9%	Oil and Gas Innovation Corporation JSC – 0.1%
17	Zarnestservice LLC	80%	ZNSM LLC – 20%
18	Zarubezhneftestroymontazh LLC (ZNSM LLC)	80%	Zarnestservice LLC – 20%
19	ZNSM-BLK Brod LLC (Republika Srpska)	–	ZNSM LLC – 100%
20	Zarubezhneft Holding & Services AG (Switzerland)	100%	–
21	EXPLON LLC	80%	ZNSM LLC – 20%
22	ZarIT CJSC	26%	–-
23	SPIMEX CJSC	10%	–
24	TISE JSC	15%	–
25	OPTIMA Grupa d.o.o. (Republika Srpska)	–	Oil and Gas Innovation Corporation JSC – 100%
26	Brod Refinery A.D. (Republika Srpska)	–	Oil and Gas Innovation Corporation JSC – 79.99%
27	Modriča Oil Plant A.D. (Republika Srpska)	–	Oil and Gas Innovation Corporation JSC – 75.65% Nestro Petrol A.D. – 16.27%
28	Nestro Petrol A.D. (Republika Srpska)	–	Oil and Gas Innovation Corporation JSC – 80%
29	Jadran-Naftagas d.o.o. (Republika Srpska)	–	Oil and Gas Innovation Corporation JSC – 34%
30	OPTIMA-Modriča d.o.o. (Republic of Serbia)	–	Modriča Oil Plant A.D. – 100%
31	NESTRO PETROL SERBIA d.o.o. (Republic of Serbia)	–	OPTIMA Grupa d.o.o. – 100%
32	Nestro Sava d.o.o. (Republic of Croatia)	–	Brod Refinery A.D. – 50%, Nestro Petrol A.D. – 50%
33	Zarubezhneft Exploration and Production limited liability company for oil and gas projects (Republic of Croatia)	–	East West Oil Limited – 100%
34	ZARUBEZHNEFT-Production Samara LLC	–	ZARUBEZHNEFT-Production LLC – 100%
35	JV "Arctic Drilling Limited"	–	AMNGR JSC – 18%
36	ZARUBEZHNEFT-Production Kharyaga LLC	–	ZARUBEZHNEFT-Production LLC – 100%
37	North-Karasyevskoye Petroleum Enterprise LLC	–	ZARUBEZHNEFT-Production Samara LLC – 99.9% Ul'yanovskneftegaz LLC – 0.1%

The information presented above is as of December 31, 2016.

LIST OF LICENSES OF ZARUBEZHNEFT GROUP OF COMPANIES IN THE RUSSIAN FEDERATION

In 2016 Zarubezhneft Group of Companies possessed the following licenses in the Russian Federation:
- 10 licenses for production of hydrocarbons;
- 6 licenses for geologic study, exploration and production of hydrocarbons;
- 2 licenses for search and appraisal of deposits of hydrocarbons.

Licenses ОРБ 14885 НП of Orenburgnefteotdacha JSC, СМР 01999 НР of Zarubezhneft JSC and НРМ 15852 НЭ of Arctic Oil Company LLC were discarded in 2016.

No.	License No.	Project Operator	Blocks, Areas, Fields	License Term
1	ОРБ 14885 НП	Orenburgnefteotdacha JSC	Kirsanovskoye	18.03.2010 - 31.12.2016
2	ОРБ 00896 НЭ		Kirsanovskoye Abayskoye	23.09.2009 - 31.05.2033
3	ОРБ 00898 НЭ		Pashkinskoye	23.09.2009 - 31.05.2033
4	ОРБ 00897 НЭ		Chernovskoye	23.09.2009 - 31.05.2033
5	УЛН 09132 НР	Ul'yanovskneftegaz LLC	Radischevskiy	30.04.2008 - 03.08.2030
6	УЛН 09135 НЭ		Slavkinskoye	30.04.2008 - 01.06.2018
7	УЛН 14582 НЭ		Kondakovskoye	01.10.2008 - 01.07.2018
8	УЛН 09133 НЭ		Ruzhevskoye	30.04.2008 - 10.09.2026
9	УЛН 09134 НЭ		Sulakskoye	30.04.2008 - 10.09.2026
10	НРМ 15852 НЭ	Arctic Oil Company LLC	Peschanoozerskoye, Central block	09.09.2011 - 24.09.2019
11	НРМ 00688 НР	JC RUSVIETPETRO	CKU-1, North-Khosedayu	08.09.2008 - 10.06.2033
12	НРМ 00689 НР		CKU-2, Visovoye	08.09.2008 - 10.06.2033
			CKU-2, Verkhnekolvinskoye	
13	НРМ 16167 НП		CKU-2, Visovoye	08.09.2008 - 10.06.2033
			CKU-2, Verkhnekolvinskoye	
14	НРМ 00690 НР		CKU-3, West-Khosedayu	08.09.2008 - 10.06.2033
			CKU-3, Sikhoreyskoye	
			CKU-3, East-Sikhoreyskoye	
			CKU-3, North-Sikhoreyskoye	
15	НРМ 00691 НР		CKU-4, North-Oshkotynskoye	08.09.2008 - 10.06.2033
			CKU-4, Syurkharatinskoye	
			CKU-4, Pyuseyskoye	
			CKU-4, South-Syurkharatinskoye	
			CKU-4, Urernyrdskoye	
			CKU-4, East-Yanemdeyskoye	
16	НРМ 16129 НЭ	ZARUBEZHNEFT-Production Kharyaga LLC	Kharyaga	01.08.2016 - 31.12.2018
17	СЛХ 15508 НЭ	North Karasyevskoye Petroleum Enterprise LLC	Lutseyakhskoye	01.03.2013 -15.02.2033
18	СМР 01999 НР	Zarubezhneft JSC	Leschevskiy LA and Leschevskoye and Gubaryevskoye fields	25.01.2016 – 01.09.2040

REPORT ON THE PERFORMANCE OF THE ASSIGNMENTS OF THE PRESIDENT OF THE RUSSIAN FEDERATION AND THE ORDERS OF THE GOVERNMENT OF THE RUSSIAN FEDERATION

Assignments of the President of the Russian Federation and Orders of the Government of the Russian Federation	Information on the Fulfillment of Relevant Assignments and Orders by Zarubezhneft JSC
On the extension of factoring application when implementing contracts for the delivery of goods (performance of works, provision of services). In pursuance of the Order of the Government of the Russian Federation No 7704п-П13 dated 11.10.2016	Decisions in accordance with the orders were made at the meeting of the Board of Directors on 11.11.2016 (Minutes of Meeting No. 129). Action Plan for the performance of the orders was approved at the Company. In accordance with the approved Plan: • Changes to the Regulation on procurements were made, a new revision of the Regulation on the procurements of Zarubezhneft JSC was approved by decision of the Board of Directors on 27.12.2016 (Minutes of Meeting No. 133); • A new revision of the Unified regulation on the procurement of goods, works, services for the needs of the subsidiaries of Zarubezhneft JSC was approved by Order No. 485, dated 17.11.2016; • Methodology for factoring funding was approved by Order No. 501, dated 29.11.2016.
On changes to the procurement policy of the Company as part of innovative construction materials. In pursuance of the Order of the Government of the Russian Federation No 6558п-П13 dated 05.09.2016	Decisions in accordance with the orders were made at the meeting of the Board of Directors on 14.10.2016 (Minutes of Meeting No. 128). A Plan of measuring the performance of the orders was approved in the Company. In accordance with the approved Plan: • Changes to the Regulation on procurement were made, a new revision of the Regulation on the procurement of Zarubezhneft JSC was approved by decision of the Board of Directors on 27.12.2016 (Minutes of Meeting No. 133); • A new revision of the Unified regulation on the procurement of goods, works, services for the needs of the subsidiaries of Zarubezhneft JSC was approved by Order No. 485, dated 17.11.2016.
On making agreements for the priority engagements of vessels constructed in Russian shipyards. In pursuance of the Order of the Government of the Russian Federation No 5059п-П13 dated 13.07.2016	Decisions in accordance with the orders were made at the meeting of the Board of Directors on 08.08.2016 (Minutes of Meeting No. 126). Action Plan for the performance of the orders was approved at the Company. In accordance with the approved Plan: • A Standard contract term for the priority engagement of vessels constructed in Russian shipyards for the export supply of goods (cargo) using water transport was developed; • A Standard contract term for the priority engagement of vessels constructed in Russian shipyards for the export supply of goods (cargo) using water transport was approved by Order No. 354, dated 19.08.2016; • Contracts for the delivery of an oil containing standard contract term for the priority engagement of vessels constructed in Russian shipyards for the export supply of goods (cargo) using water transport were made in 4th quarter 2016.

Assignments of the President of the Russian Federation and Orders of the Government of the Russian Federation	Information on the Fulfillment of Relevant Assignments and Orders by Zarubezhneft JSC
On the integration of professional standards in the activities of the Company. In pursuance of the Order of the Government of the Russian Federation No 5119п-П13 dated 14.07.2016	Decisions in accordance with the orders were made at the meeting of the Board of Directors on 08.08.2016 (Minutes of Meeting No. 126). Action Plan for the performance of the orders was approved in the Company. A number of measures for the integration of professional standards was implemented in the Company in accordance with the approved Plan; The Report on the implementation of measures for the integration of professional standards was considered at the meeting of the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 133, dated 27.12.2016).
On the development (update) of the plans (programs) for decreasing operational expenses by 10%. In pursuance of the Order of the Government of the Russian Federation No 4750п-П13 dated 04.07.2016	Decisions in accordance with the Order No 4750п-П13 dated 04.07.2016, were made at the meeting of the Board of Directors on 08.08.2016 (Minutes of Meeting No. 126). The following were approved by decision of Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 127, dated 14.09.2016): • Action Plan for decreasing operational costs (expenses) by 10% in 2016; • A new revision of Appendix No. 9 to LDP; • A new revision of the Methodological guidelines for the formation of operational costs and the determination of the operational costs decrease indicator. A Report on the implementation of complex of measures for decreasing the operational costs of Zarubezhneft JSC for 9 months of 2016 was approved at the meeting of the Board of Directors on 11.11.2016 (Minutes of Meeting No. 129). A target value for the "Operational costs decrease" indicator for 2016 in the amount of 10% was approved by decision of the Board of Directors on 25.11.2016 (Minutes of Meeting No. 131).
On the implementation of the non-core assets disposal program. In pursuance of the Order of the Government of the Russian Federation No 4863п-П13 dated 07.07.2016	See the "Information on the non-core assets disposal program" section. • Decisions in accordance with the orders were made at the meeting of the Board of Directors on 08.08.2016 (Minutes of Meeting No. 126). • Action Plan for the performance of the orders was approved at the Company. In accordance with the approved Plan: • A Program for the disposal of non-core assets and a Register of the non-core assets, which was preliminarily concluded with Rosimuschestvo, the Ministry of Energy, the Ministry of Economic Development and the Expert council of the Government of the Russian Federation, was approved at the meeting of the Board of Directors on 14.09.2016 (Minutes of Meeting No. 127). • A Plan for the disposal of non-core assets for 4th quarter of 2016 and for 2017 was approved by decision of the Board of Directors on 11.11.2016 (Minutes of Meeting No. 129).
On the procurement of domestic competitive software necessary for the Company's activities. In pursuance of the Order of the Government of the Russian Federation No. 4 972п-П13 dated 11.07.2016	Decisions in accordance with the orders were made at the meeting of the Board of Directors on 08.08.2016 (Minutes of Meeting No. 126). Action Plan for performance of orders was approved in the Company. In accordance with the approved Plan: • Changes in the Regulation on procurement were made, a new revision of the Regulation on the procurement of Zarubezhneft JSC was approved by decision of the Board of Directors on 14.10.2016 (Minutes of Meeting No. 128); • A new revision of the Unified regulation on the procurement of goods, works, services for the needs of the subsidiaries of Zarubezhneft JSC was approved by Order No. 397, dated 20.09.2016.
On the regulatory acts of the Company establishing standards for the procurement of separate types of goods, works, services. In pursuance of the Order of the Government of the Russian Federation No 2793п-П13 dated 19.07.2016. On monitoring the results of the implementation of the procurement activities by the joint stock companies, including as part of compliance with the relevant regulations.	Decisions in accordance with the orders were made at the meeting of the Board of Directors on 31.05.2016 (Minutes of Meeting No. 124). Action Plan for thee performance of the orders was approved at the Company. In accordance with the approved Plan: • Regulations on procurements under the mandatory list of separate goods, works, services were approved by Order No. 226, dated 07.06.2016; • Approved Regulations on procurements were published on the official website of the Company on 08.06.2016; • Regulations on procurements were applied to the Company from the moment they were approved. Compliance with these regulations is being monitored at the Company in accordance with the approved Action Plan.

Assignments of the President of the Russian Federation and Orders of the Government of the Russian Federation	Information on the Fulfillment of Relevant Assignments and Orders by Zarubezhneft JSC
On the approval of a procedure for accounting investment projects. In pursuance of the Order of the Government of the Russian Federation No 1659п-П13 dated 15.03.2016	Decisions in accordance with the orders were made at the meeting of the Board of Directors on 30.03.2016 (Minutes of Meeting No. 120). Action Plan for the performance of the orders was approved in the Company. A Procedure for the consideration of the high priority investment projects of Zarubezhneft Group of Companies was approved by decision of the Board of Directors on 13.05.2016 (Minutes of Meeting No. 122).
On innovative development. In pursuance of the Order of the Government of the Russian Federation No 1471п-П13 dated 03.03.2016	Decisions in accordance with the orders were made at the meeting of the Board of Directors on 15.03.2016 (Minutes of Meeting No 119). A Report on the results of the implementation of the Innovative Development Program of Zarubezhneft JSC for 2015 was approved at the meeting of the Board of Directors on 29.04.2016 (Minutes of Meeting No. 121) and submitted to the Ministry of Energy (Ref. CK-42-2097, dated 29.04.16). An updated Innovative Development Program of Zarubezhneft JSC for 2016-2020 was preliminarily approved at the meeting of the Board of Directors on 27.06.2016 (Minutes of Meeting No. 125). An updated Innovative Development Program of Zarubezhneft JSC for 2016-2020 (with an outlook until 2030) was approved by decision of the Board of Directors on 14.09.2016 (Minutes of Meeting No. 127). An updated IDP was agreed by the Russian Ministry of Energy (Letter No. AT-6761/02, dated 27.06.2016), the Russian Ministry of Education and Science (letter dated 16.08.2016 No АП-1316/02) as well as concluded and recommended for approval by the Board of Directors of Zarubezhneft JSC under the results of the review at the meeting of the Inter-departmental commission for technological development of the Presidium of the Council at the President of the Russian Federation for the economic modernization and innovative development of Russia (Clause 3 of the Minutes of Meeting of IDC No. 21-ДО4, dated 04.08.2016).
On innovative development. In pursuance of the Order of the Government of the Russian Federation No 1472п-П13 dated 03.03.2016	Decisions in accordance with the orders were made at the meetings of the Board of Directors on 15.03.2016 (Minutes of Meeting No. 119), where: • Passport and target values of the integral KPI for innovative activities and corporate KPI values for 2016-2018 were approved once again, • Appendix No 7 to LDP was updated with consideration of the inclusion of the integral key performance indicator for innovative activities into the LDP KPI.
On the optimization and efficiency increase of charity and sponsorship costs. In pursuance of the Order of the Government of the Russian Federation No 5024п-П13 dated 31.07.2015	Decisions in accordance with the orders were made at the meetings of the Board of Directors on 04.09.2015 (Minutes of Meeting No. 109). A Regulation on the performance of the charity and sponsorship activities of Zarubezhneft JSC was approved at the meeting of the Board of Directors of Zarubezhneft JSC on 14.01.2016 (Minutes of Meeting No. 116), in addition to information on the budget for the charity and sponsorship activities of the Group of Companies for 2016 for the main lines of activities in the framework of Zarubezhneft Group of Companies' Business Plan, the limits of which were approved by the Board of Directors on 24.12.2015 (Minutes of Meeting No. 114) approved by the General Director of Zarubezhneft JSC was reviewed. The Budget for the sponsorship and charity activities of Zarubezhneft Group of Companies for 2017 was approved by the Board of Directors on 22.12.2016 (Minutes of Meeting No. 132) in the framework of the Business Plan for 2017. Information on charity and sponsorship activities was published quarterly on the Corporate Portal of Zarubezhneft JSC in 2016 upon the establishment of a relevant section.

Assignments of the President of the Russian Federation and Orders of the Government of the Russian Federation	Information on the Fulfillment of Relevant Assignments and Orders by Zarubezhneft JSC
On the procedure for payment settlement under export contracts. In pursuance of the Order of the Government of the Russian Federation No 4807n-П13 dated 23.07.2015	Decisions in accordance with the orders were made at the meetings of the Board of Directors on 04.09.2015 (Minutes of Meeting No. 109). A Plan of measures for the performance of orders was approved in the Company. In accordance with the approved Plan: • A standard contract term for export contracts regarding the possibility of payments in rubles was developed; • A minimum share of export payments for the possibility to be made in Russian rubles was determined; • A new standard form of an export oil delivery contract containing a standard contract term for the possibility of making payments in rubles was approved by Order No. 497, dated 12.10.2015; • Oil delivery contracts containing a standard contract term for the possibility of making payments in rubles were made in 2016.
On the integration of a bonus system for managers on the basis of their performance of key indicators with consideration of the necessity to reduce operational costs (expenses) by 2-3% annually. In pursuance of the Order of the Government of the Russian Federation No 2303n-П13 dated 16.04.2015	Changes to the KPI system of the Company (the inclusion of an Operational costs decrease indicator into the KPI system) were reviewed and the Operational costs decrease KPI passport, as well as its target value for 2015-2017, were approved by decision of the Board of Directors on 29.10.2015 (Minutes of Meeting No. 111). A Report on the achievement of target values of indicators, including the Operational costs decrease for 2015, was approved and the amount of the annual remuneration of the Company's management under the results of KPI achievement for 2015 was determined at the meeting of the Board of Directors on 30.05.2016 (Minutes of Meeting No. 123). A Decision on the payment of remuneration to the General Director of Zarubezhneft JSC under the results of KPI achievement for 2015 was made at the meeting of the Board of Directors on 30.05.2016 (Minutes of Meeting No. 123).
On ensuring the arrangement of unified treasuries of parent, subsidiary and affiliated entities. In pursuance of the Orders of the Government of the Russian Federation No 5110n-П13 dated 08.08.2014, No 1796n-П13 dated 26.03.2015	The Unified treasury of the Zarubezhneft Group of Companies has been operating since 01.07.2015. • The following were approved for the purpose of establishing the Unified treasury: • The Regulation on making payments at the Zarubezhneft Group of Companies (Order No. 239, dated 25.05.2015); • The Regulation on raising and allocating monetary funds at the Zarubezhneft Group of Companies (Order No. 231, dated 20.05.2015); • The Unified financial and credit policy at the Zarubezhneft Group of Companies (Order No. 22, dated 27.01.2016); • The Regulation on intra-group funding at the Zarubezhneft Group of Companies (Order No. 238, dated 25.05.2015). The Report on the Economic effects from the establishment of a Unified treasury at the Zarubezhneft Group of Companies was sent to Rosinfmonitoring and the Russian Ministry of Finance (Letters Ref. CK-24-4043 and Ref. CK-24-4044, dated 18.08.2016).
On changes to the Company's annual report structure. In pursuance of the Order of the Government of the Russian Federation No 2007n-П13 dated 06.04.2015	Decisions in accordance with the orders were made at the meeting of the Board of Directors on 15.04.2015 (Minutes of Meeting No. 100). The Annual Report, prepared with consideration of the requirements of the orders, was preliminarily approved by decision of Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 123, dated 30.05.2016) and approved at the Annual General Shareholders Meeting (by Decree of Rosimuschestvo No. 522-p, dated 30.06.2016). The Report on the performance of LDP and the achievement of KPIs for 2016 was submitted to Rosimuschestvo (Letter Ref. CK-46-2642, dated 02.06.2015).

Assignments of the President of the Russian Federation and Orders of the Government of the Russian Federation	Information on the Fulfillment of Relevant Assignments and Orders by Zarubezhneft JSC
On the Company's approval of long-term development programs and the audit of such programs. In pursuance of the Order of the Government of the Russian Federation No 4955n-П13 dated 17.07.2014	The LDP was approved by decision of the Board of Directors of Zarubezhneft JSC (Mintes of Meeting No. 91, dated 20.11.2014). The Regulation on the audit of LDP's implementation was approved by the order of Zarubezhneft JSC (Minutes of Meeting No. 507, dated 11.11.2014). The technical specification for the audit of LDP's implementation was concluded by the Board of Directors (Minutes of Meeting No. 97, dated 27.02.15). The Audit of LDP's implementation for 2015 was performed, the Report on the audit results of LDP's implementation for 2015 was reviewed at a joint meeting of the Strategic Planning Committee and the Personnel and Remuneration Committee at the Board of Directors of Zarubezhneft JSC on 13.05.2016 (Minutes of Meeting No. 13). The following were approved by the Board of Directors of Zarubezhneft JSC for the purpose of updating the LDP: • Appendices No. 5, 6, 7, 8, 9 to LDP (Minutes of Meeting No. 97, dated 27.02.2015, No. 101, dated 30.04.2015 and No. 111, dated 29.10.2015). • A new revision of Section 1 of Appendix No. 7 to LDP, Measures for increasing the responsibility of the managers of Zarubezhneft JSC and its subsidiaries, including that for the achievement of target indicators values of the Long-term development program of Zarubezhneft JSC (Minutes of Meeting No. 119, dated 15.03.2016); • A new revision of Appendix No. 9, Decreasing Operational Costs, to LDP (Minutes of Meeting No. 127, dated 14.09.2016). • Appendix No. 7.1 (Minutes of Meeting No. 132, dated 22.12.2016).
On the level of net assets. In pursuance of the Order of the Government of the Russian Federation No 8495n-П13 dated 17.12.2014	A Plan of measures for the implementation of decisions contemplated under the orders was approved at Zarubezhneft JSC. The Methodological guidelines for the calculation and monitoring of new foreign currency assets at the Zarubezhneft Group of Companies were approved by Order No. 280, dated 05.07.2016. The Decision on monthly submission of a reporting form to the Bank of Russia was made at the meeting of the Board of Directors on 08.08.2016 (Minutes of Meeting No. 126). Information on the amount of net foreign currency assets of Zarubezhneft JSC is submitted to the Bank of Russia monthly by the responsible structural department of the Company.
On the improvement of labor efficiency, and the establishment and modernization of high-efficiency working spaces. In pursuance of the Order of the Government of the Russian Federation No 7389n-П13 dated 31.10.2014	Appendix No. 6 to LDP's Program for increasing labor efficiency in 2015-2018 was developed and approved by decision of the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 97, dated 27.02.2015). Changes to the labor contract with the General Director (addendum to the labor contract dated 26.12.2014) considered under orders were made. A labor efficiency form in the personal profile of Zarubezhneft JSC on the Inter-departmental portal was filled on 29.03.2016.
On the provision of the acceptance of key performance indicators by the Company. In pursuance of the Order of the Government of the Russian Federation No 2579n-П13 dated 25.04.2014	An updated Regulation on the KPI system and passports of Zarubezhneft JSC's KPIs were developed and agreed with Rosimuschestvo (Letter No ДП-05/44755, dated 28.10.2016) in pursuance of the recommendation of the Revision Commission's recommendations under the audit of financial and economic activities of the Company for 2015. An updated revision of the Regulation on the key performance indicators of Zarubezhneft JSC, updated passports of the corporate KPIs and a new revision of the Regulation on the annual remuneration of the General Director of Zarubezhneft JSC agreed by Rosimuschestvo (Letter No ДП-05/44755, dated 28.10.2016), were approved by decision of the Board of Directors of Zarubezhneft JSC on 25.11.2016 (Minutes of Meeting No. 131).

Assignments of the President of the Russian Federation and Orders of the Government of the Russian Federation	Information on the Fulfillment of Relevant Assignments and Orders by Zarubezhneft JSC
On the expansion of small and medium-sized business entities' access to the procurements being performed. In pursuance of the Orders No 6362n-П13 dated 24.10.2013, and No 7377n-П13 dated 07.12.2013	With consideration of Letter No. 11/21577 from Rosimuschestvo, dated 30.05.2016, and in accordance with the Order No. 174-p of the Government of the Russian Federation, dated 06.02.2016, on the loss of the effect of Order No. 867-p of the Government of the Russian Federation, dated 29.05.2013, as part of the approval of an action plan (road map) for the Expansion of small and medium-sized business entities' access to the procurements of infrastructural monopolies and companies with state participation, a decision on the performance of the order and discontinuing supervision over its compliance was made at the meeting of the Board of Directors of Zarubezhneft JSC on 27.06.2016 (Minutes of Meeting No. 125).
On the performance of a technical and price audit of investment projects. In pursuance of the Order of the Government of the Russian Federation No 2988n-П13 dated 30.05.2013	A Standard for a process and price audit of the investment projects of the Zarubezhneft Group of Companies was approved by decision of the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 110, dated 30.09.2015). A Standard for a process and price audit of the investment projects of the Zarubezhneft Group of Companies in consideration of the recommendations of the Expert council at the Government of the Russian Federation, as well as in consideration of an updated regulatory base, as part of investment and project activities. Investment projects covered by the adjusted criteria for inclusion into the process and price audit (with a value over 1.5 billion rubles) were not identified in 2016 (letter of Zarubezhneft JSC No ДМ-23-6165 , dated 01.12.2016).
On the preparation of non-financial statements. In pursuance of the Order No 1710n-П13 dated 30.03.2012	A Sustainable development report of Zarubezhneft JSC for 2015 was prepared in 2016. The report was published on the official website of Zarubezhneft JSC.
On the implementation of the investment programs (assignment of the first deputy Chairman of the Government of the Russian Federation dated 18.09.2009 No ИШ-П13-5361, , and the fax message from Rosimuschestvo dated 01.04.2011 No ГН-15/8808)	Information on the status of the implementation of Zarubezhneft JSC's investment programs was quarterly updated in the personal profile of Zarubezhneft JSC on the Inter-departmental Portal of Rosimuschestvo.
On the implementation of measures intended to ensure the informational transparency of procurement activities and transfer to e-procurements, including the regulations for procurement procedures of goods, works and services. In pursuance of the Order of the Government of the Russian Federation No 6464n-П13 dated 16.12.2010, assignment of the Government of the Russian Federation No ИШ-П13-8685, dated 17.12.2010, Letter of Rosimuschestvo No ГН-13/1416, dated 25.01.2011	See the Report on the procurement activities of the Zarubezhneft Group of Companies section. A Program for a partnership between Zarubezhneft JSC and small and medium-sized business enterprises was approved by Order No. 544 of Zarubezhneft JSC, dated 01.12.2014; the Partnership program, as well as the Register of small and medium-sized business enterprises that joined the Partnership program, were published on the website of the Company in the Information disclosure section. The updated Regulations on procurement at Zarubezhneft JSC were approved at the meetings of the Board of Directors of Zarubezhneft JSC in 2016 (Minutes of meetings No. 133, dated 27.12.2016, No. 128, dated 14.10.2016 and No. 120, dated 30.03.2016). Quarterly reports on the results of procurement activities were reviewed at the meetings of the Board of Directors of Zarubezhneft JSC (Minutes of meeting No. 120, dated 30.03.2016, No. 124, dated 31.05.2016, No. 128 dated, 14.10.2016 and No. 133, dated 27.12.2016).
On joining the Anti-corruption charter of the Russian business community (Letter of Rosimuschestvo No. 11/53971, dated 20.11.2013)	Zarubezhneft JSC joined the Anti-corruption charter of the Russian business community in 2014 (Certificate of the Chamber of Trade and Industry of the Russian Federation No. 0 275, dated 19.03.2014).

Assignments of the President of the Russian Federation and Orders of the Government of the Russian Federation	Information on the Fulfillment of Relevant Assignments and Orders by Zarubezhneft JSC
Information on measures intended to design innovative development programs at the joint stock companies included in the list of entities designing innovative development programs as approved by decision of the Governmental commission for high technologies and innovations, dated 03.08.2010, Minutes of Meeting No 4. In pursuance of the Letters of Rosimuschestvo No. GN-13/32160 and No. GN-13/32156, dated 29.10.2010, On the design of the company's mid-term development strategy and Innovative development program (Minutes of Meeting No. 4 with the Chairman of the Government of the Russian Federation, dated 03.08.2010)	The Innovative development program was integrated and is an integral part of the key strategic programs of the Company that were approved by the Board of Directors and agreed with the Government of the Russian Federation: the Long-term development program of the Company and the Development strategy of Zarubezhneft JSC. The Report on the results of the implementation of the Innovative development program of Zarubezhneft JSC for 2015 was approved at the meeting of the Board of Directors on 29.04.2016 (Minutes of Meeting No. 121). The updated Innovative development program of Zarubezhneft JSC for 2016-2020 was preliminarily approved at the meeting of the Board of Directors on 27.06.2016 (Minutes of Meeting No. 125). The updated Innovative development program of Zarubezhneft JSC for 2016-2020 (with outlook until 2030) was approved by decision of the Board of Directors on 14.09.2016 (Minutes of Meeting No. 127).
On the implementation of a joint stock company's strategy for energy saving and energy efficiency in accordance with Clause 8 of the Order of the Russian Federation dated 18.06.2008 No ИШ-П9-3772, on the implementation of the Decree of the President of the Russian Federation No. 889, dated 04.06.2008, "On several measures for the enhancing energy and environmental efficiency of the Russian economy"	See the Energy efficiency section. In 2016: • Follow-up energy inspections of all enterprises of the Zarubezhneft Group of Companies of the Russian segment were held in accordance with the Federal Law dated November 23, 2009, No 261-ФЗ "On energy saving and energy efficiency improvement", including the development of energy saving programs and the creation of energy passports for facilities. (at RVP, ONO, UNG, GPVN, VNIIneft, AMNGR and the office building of Zarubezhneft JSC). • An energy inspection of the Modriča Oil Plant A.D. foreign segment enterprise was performed, including the development of an energy saving program. • A developed program for energy saving and energy efficiency improvements at the Zarubezhneft Group of Companies for 2016 (approved by Order No. 616, dated 25.12.2015) was implemented. For the first time, the program was joined by the JV Vietsovpetro foreign segment enterprise. • A program for energy saving and energy efficiency improvements at the Zarubezhneft Group of Companies for 2017 was developed and approved by Order No. 542, dated 26.12.2016. The program for 2017 was joined by ZARUBEZHNEFT-Production Kharyaga LLC.
On the proposals and recommendations aimed at stimulating the development of environmental responsibility schemes based on international standards, including such as the non-financial statements and systems of voluntary certification and subject to independent inspection and certification (Sub-clause "л" Clause 1 of the list of assignments of the President of the Russian Federation dated 06.06.2010 No Пр-1640, letter of Rosimuschestvo, dated 05.12.2011 No ГН-13/37524)	See the Environmental protection section. The Environmental program of the Zarubezhneft Group of Companies was approved at the meeting of the Board of Directors on 20.04.2012 (Minutes of Meeting No. 59). A specialized department – the Occupational Health, Industrial Safety and Environment Protection Department – was established for the purpose of supervising the implementation of the program at Zarubezhneft JSC. The Sustainable development report of Zarubezhneft JSC for 2015 was prepared in 2016. The Report was published on the official website of Zarubezhneft JSC.

Assignments of the President of the Russian Federation and Orders of the Government of the Russian Federation	Information on the Fulfillment of Relevant Assignments and Orders by Zarubezhneft JSC
Order of the Government of the Russian Federation No. 1214, "On the improvement of the procedure for managing open joint stock companies, the shares of which are in federal possession and federal state enterprises", dated 31.12.2010	The Regulation of Zarubezhneft JSC on the arrangement of interaction through an Inter-departmental internet portal for state property management in its newly revised form was approved at the meeting of the Company's Board of Directors on 10.06.2013 (Minutes of Meeting No. 72). Zarubezhneft JSC regularly posted relevant information in its personal profile on the Inter-departmental portal in accordance with the said Regulation in 2016.
On the viability of the application of recommendations for managing intellectual property rights in accordance with the Order of the Government of the Russian Federation dated 04.02.2014 No ИШ-П8-800	An issue of the Viability of the application of recommendations for managing intellectual property rights was considered at the meeting of the Board of Directors of Zarubezhneft JSC on 31.03.2014 (Minutes of Meeting No. 81, dated 31.03.2014) and it was decided to recognize the viability of the application of the recommendations of Rosimuschestvo for managing intellectual property rights at Zarubezhneft JSC, in addition to instructing the Company to develop and submit for the consideration of the Board of Directors the Main provisions for managing intellectual property rights and an action plan for integrating the Regulation on managing intellectual property rights at Zarubezhneft JSC and its subsidiaries participating in the implementation of the Innovative development program. The Main provisions for the management of intellectual property rights and an action plan for integrating the Regulation on managing intellectual property rights at Zarubezhneft JSC were approved by decision of the Board of Directors (Minutes of Meeting No. 86, dated 11.08.2014). The Regulation on managing intellectual property rights was approved by the Company's Order No. 545, dated 01.12.2014.
On the integration of the provisions of the Corporate management code into activities of joint stock companies in accordance with the order of the Government of the Russian Federation dated 31.07.2014 No ИШ-П13-5859	A draft of the Road map was developed by the Company and submitted for review to Rosimuschestvo (Ref. СК-46-1442, dated 25.03.2015) and the Ministry of Energy (Ref. СК-46-1441, dated 25.03.2015) in the framework of the integration of the provisions of the Corporate management code in accordance with the Order of the Government of the Russian Federation No 225П-П13 dated January 21, 2015. An action plan aimed at improving the corporate management was approved by the Board of Directors of Zarubezhneft JSC as part of Appendix No. 7, Measures for increasing the responsibility of the managers of Zarubezhneft JSC and its subsidiaries, including that for the achievement of target indicators values of the Long-term development program of Zarubezhneft JSC, (Minutes of Meeting No. 97, dated 27.02.2015). The following measures, among other things, were implemented in the framework of the integration of the provisions of the Corporate management code in 2016: • The issue of expanding the competencies of the Board of Directors of Zarubezhneft JSC was considered at the meeting of the Board of Directors of Zarubezhneft JSC on 30.03.2016 (Minutes of Meeting No. 120, dated 30.03.2016). A new revision of the Articles of Incorporation of Zarubezhneft JSC, with relevant changes as part of the extension of the Board of Directors' authority, was approved by decision of the Company's General Shareholders Meeting (Instruction of Rosimuschestvo No. 522-p, dated 30.06.2016). • Regulation on the sole executive authority (General Director) of Zarubezhneft JSC was approved by decision of the Company's General Shareholders Meeting (Instruction of Rosimuschestvo No. 522-p, dated 30.06.2016). • In accordance with the Methodological guidelines of Rosimuschestvo for the arrangement of risk management and internal control processes in the area of corruption prevention and elimination: • A new revision of the Regulation on the internal audit at Zarubezhneft JSC was prepared; approved by decision of the Board of Directors of Zarubezhneft JSC on 14.10.2016 (Minutes of Meeting No. 128, dated 14.10.2016).
On the development and approval of a list of internal regulatory documents regulating he activities of a joint stock company, as well as the submission of reports on performance of long-term development programs and the achievement of established key performance indicators in accordance with Clauses 2 and 3 of the assignment of the President of the Russian Federation dated 27.12.2014 No Пр-3013	• The LDP of Zarubezhneft JSC – after being preliminarily approval by the Strategic Planning committee of the Board of Directors (Minutes of Meeting No. 1, dated 19.09.2014) was agreed with the Expert Council of the Government of the Russian Federation (Letters No ЭС-2909/02, dated 29.09.2014 and No ЭС-1211/02, dated 12.11.2014) and approved by decision of the Company's Board of Directors (Minutes of Meeting No. 91, dated 20.11.2014). See the Long-Term Development Program section. • The Regulation on key performance indicators and the passports of corporate KPIs were approved by decision of the Board of Directors (Minutes of Meeting No. 94, dated 24.12.2014). • Updated revisions of the Regulation on key performance indicators and the passports of corporate KPIs were approved by decision of the Company's Board of Directors in 2016 after an agreement with Rosimuschestvo (Letter No ДП-05/44755, dated 28.10.2016). • The Regulation on increasing the investment and operational efficiency and decreasing costs was approved by decision of the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 112, dated 11.11.2015). • The Regulation on the internal audit was approved by decision of the Board of Directors (Minutes of Meeting No. 97, dated 27.02.2015). A new revision of the Regulation on the internal audit at Zarubezhneft JSC was developed (approved by decision of the Board of Directors [Minutes of Meeting No. 110, dated 30.09.2015]) in accordance with the Methodological guidelines for the preparation of the Regulation on the internal audit. The Regulation on the internal audit at Zarubezhneft JSC was updated in 2016 with consideration of the Methodological recommendations for the arrangement of risk management and internal control in the area of corruption prevention and elimination and was approved by decision of the Board of Directors of Zarubezhneft JSC on 14.10.2016 (Minutes of Meeting No. 128, dated 14.10.2016). An updated revision of the Regulation on the quality management system of Zarubezhneft JSC was approved in 2016 (Minutes of Meeting No. 133, dated 27.12.2016). • The Risk management policy of Zarubezhneft JSC was approved by decision of the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 112, dated 11.11.2015). The Risk management policy of Zarubezhneft JSC was updated in 2016 with consideration of the Methodological recommendations for arrangement of risk management and internal control in the area of corruption prevention and elimination and approved by decision of the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 125, dated 27.06.2016). • The Regulation on the procedure for the development and implementation of the LDP of Zarubezhneft JSC was approved by Order No. 541 of Zarubezhneft JSC, dated 16.11.2015.
On the inclusion of a list of measures aimed at the scheduled and gradual replacement of procurement of foreign goods (works, services) with the procurement of Russian goods (works, services) with equal specifications and user properties into the Company's LDP in accordance with the order dated 08.12.2014 No АД-П9-9176	Appendix No. 8 to the LDP of Zarubezhneft JSC, Measures aimed at the scheduled and gradual replacement of the procurement of foreign goods, works and services with the procurement of equivalent Russian goods, works and services, was approved by decision of the Board of Directors of Zarubezhneft JSC on 30.04.2015 (Minutes of Meeting No. 101) in pursuance of the Order of the Government of the Russian Federation dated March 05, 2015, No 1346П-П13. See the Procurement activities section.
Information regarding measures intended to introduce changes to the Company's regulation on procurements, including those with consideration of the Orders of the Government of the Russian Federation dated 14.06.2016 No ДМ-П9-38-пр, dated 01.03.2016 No ДМ-П13-1100, minutes of meeting of the Governmental commission for import replacement, dated 25.04.2016 No 2 ", On the status of the development and implementation of import replacement in the fuel and energy complex	An issue of the Status of development and implementation of import replacement in the fuel and energy complex was considered at the meeting of the Board of Directors of Zarubezhneft JSC, in accordance with the order dated February 06, 2017 No 830п-П13.

INFORMATION ON THE NON-CORE ASSETS DISPOSAL PROGRAM OF ZARUBEZHNEFT JSC

Measures for the disposal of the non-core assets of Zarubezhneft JSC were carried out by the Company in 2016 in pursuance of the Decree of the President of the Russian Federation No. 596, dated May 7, 2012.

Non-core assets disposal was performed in accordance with the Non-core assets disposal program for 2015-2016 (Minutes of Meeting No. 105 of the Board of Directors dated June 8, 2015).

In total, 12 non-core assets with total value of 38,855 thousand Rubles were disposed of under the results of 2016.

The Program for disposal of non-core assets and a Register of the non-core assets of Zarubezhneft JSC were approved by decision of the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 127, dated September 14, 2016), in accordance with the order of the Government of the Russian Federation dated July 7, 2016 No 4863п-П13 and on the basis of the methodological guidelines of Rosimuschestvo for the identification and disposal of non-core assets.

32 assets with total balance value (as of September 1, 2016) of 308,261 thousand Rubles were included in the Register of non-core assets, including the following:

- Subject to sale: 24 assets with balance value of 302,507 thousand Rubles;
- Subject to liquidation: 8 assets (ZarIT CSJC, Optima Modriča d.o.o., Nestro Sava d.o.o., Nestro Petrol Serbia d.o.o., ZNSM-BLK d.o.o., East West Oil Limited, Zarubezhneft Exploration and Production Ltd and the limited liability partnership "JV "Nestro Nuraly") with a balance value of 5,754 thousand Rubles.

The Plan for disposal on non-core assets of the Zarubezhneft Group of Companies for the 4th quarter of 2016 and for 2017 was approved at the meeting of the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 129, dated November 11, 2016).

Information on the Disposal of Non-Core Assets in 2016

Item No.	Asset Name	Inventory Number (if applicable)	Balance Sheet Line (where the asset was reflected at the reporting date preceding the disposal of the asset)	Bookkeeping Account (with consideration of analytics) on which the income and loss from the asset disposal are reflected (91.1xxx/91.2xxx)	Balance Value of Asset (thousand rubles)	Actual Disposal Value (thousand rubles)	Difference between the Actual Disposal Value and Balance Value of the Asset (thousand rubles)	Reasons of Difference between the Actual Disposal Value and Balance Value of the Asset
1	Apartment located at Sofyi Perovskoy street, Murmansk	62627	1150	91.01-91.02	3,910.00	4,000.00	+90.00	Actual disposal value was determined on the basis of an independent appraiser's report and a market offer.
2	Property of administration and management personnel, Murmansk	Not applicable	1150	91.01-91.02	160.46	522.36	+361.9	Actual disposal value was determined on the basis of an independent v report and a market offer.
2	Property of administration and management personnel, Murmansk	Not applicable	1150	91.01-91.02	160.46	522.36	+361.9	Actual disposal value was determined on the basis of an independent v report and a market offer.
4	Vacation retreat Donja Vrela, Brod	-	-	-	11,599.71	2,124.75	-9,474.96	Actual disposal value was determined on the basis of an independent appraiser's report and a market offer. The facility is in critical condition.
5	Apartment No. 30 in the "Maria" building, Modriča	00610009	023	570	1,423.63	1,482.44	+58.81	Actual disposal value was determined on the basis of an independent appraiser's report and a market offer.
6	Apartment No. 2 in the "Maria" building, Modriča	00610008	023	570	2,154.78	2,167.95	+13.17	Actual disposal value was determined on the basis of an independent appraiser's report and a market offer.
7	Railroad tank-wagons for the transportation of oil products	0000000227-0000000237	144100	604500	26,721.06	2,982.91	-23,738.15	Tank-wagons are unfit for operation and were disposed of as scrap metal in accordance with an expert's statement.
8	Liquidation of Zarubezhneft Adria LLC, Republic of Croatia	Not applicable	Not applicable		770.00	Not applicable	Not applicable	Non-core asset was disposed of.
9	Property of a storage facility group, Murmansk	Not applicable	1150	91.01-91.02	9,146.00	5,692.22	-3,453.78	Actual disposal value was determined on the basis of independent appraiser's report and market offer.
10	1/5 of "Garmoniya" school building, Moscow region, Voskresensk district	000000171	1150	91.01-91.02	844.00	Not applicable	Not applicable	1/5 of the "Garmoniya" school building was given to the Administration of the Voskresensk district of the Moscow region free of charge (Basis – the address from the Administration of the Voskresensk district of Moscow region regarding its readiness to accept 1/5 of "Garmoniya" school building as a gift).
11	Liquidation of limited liability partnership JV "NESTRO NURALY", Republic of Kazakhstan	Not applicable			0.00	Not applicable	Not applicable	Non-core asset was disposed of.
12	Recreational camp "Lesnaya", Samara region, Kinel'skiy district	Not applicable	1150	91.01-91.02	9,059.00	13,108.00	+4,049.00	Actual disposal value was determined on the basis of an independent appraiser's report and a market offer.

INFORMATION ON CLAIMS RELATED TO ZARUBEZHNEFT JSC'S OPERATIONS

Zarubezhneft JSC participated in the following court proceedings in 2016:

- The Arbitration Court of the Moscow region (the cassation authority) accepted the dismissal of the cassation appeal of Soyuz-Torg CJSC (the successor of KOMPOMASH-TEK CJSC under the assignment agreement) by the ruling made on March 30, 2016 at the court proceeding. As a result, the court acting under the claim of Soyuz-Torg CJSC for the recovery of 29,367,794 Rubles under the R&D contract No. 36-227/11, dated March 31, 2011 (of which 23,000,000 Rubles of actual costs and 6,367,794 Rubles of interest for the use of another's monetary assets) were made. In accordance with the court ruling of Arbitration Court of Moscow dated September 7, 2015, which was left unchanged by the ruling of the Ninth arbitration appeal court dated November 30, 2015, the claim requirements of Soyuz-Torg CJSC were satisfied only in part of the recovery of 7,488,319.42 Rubles (5,846,918.79 Rubles of actual costs and 1,641,406.64 Rubles of interest). The satisfaction of the remaining part – 21,879,474.58 Rubles – was rejected. The case was fully completed.
- The Arbitration Court of the Moscow region (the cassation authority) accepted the dismissal of the cassation appeal of KOMPOMASH-TEK CJSC by the ruling made on March 30, 2016 at the court proceeding. As a result, the court acting under the case for the disappropriation of the steam generator was left in force. The decision of the Arbitration Court of Moscow, dated September 10, 2015, that was left unchanged by the ruling of the Ninth arbitration appeal court, dated November 26, 2015, rejected the claim of KOMPOMASH-TEK CJSC in full. The case was fully completed.

As such, all disputes between Zarubezhneft JSC and KOMPOMASH-TEK CJSC were settled in 2016 as it was planned in 2015, including through the settlement of all current issues in the agreement on the settlement of mutual claims No. 19-140/16, dated March 21, 2016.

There are no other legal disputes with participation of Zarubezhneft JSC.

Legal proceedings of significant amounts, in which the enterprises of Zarubezhneft Group of Companies participated in 2016, also worth mentioning include:

- The legal case under the claim of OC Severnoye Siyanie (Northern Light) Ltd. for the recovery of losses in the amount of 509,234,408 Rubles within the framework of conducting the oil transportation system rental contract of JC RUSVIETPETRO was fully completed in 2016. A conciliation agreement between the parties under terms of which JC RUSVIETPETRO shall voluntarily satisfy the monetary claim in the amount of 51,844.077.78 Rubles only was approved by the ruling dated May 30, 2016. The other claims were waived by the suitor of OC Severnoye Siyanie (Northern Light) Ltd. under the terms of the said agreement.
- The ruling by the Ninth arbitration appeal court dated January 20, 2016 fully terminated the proceedings under the appeal claim of the Arktikexkavatsiya LLC regarding the claim for the recovery of 63,641,619.16 Rubles from Zarubezhneftestroymontazh LLC, and the decision of the Arbitration Court of Moscow, dated October 21, 2015, which rejected the satisfaction of the claim in full, was left in effect. The court acts came into legal effect and the case was fully completed.

The abovementioned legal cases are mostly related to routine operating activities and do not comprise any significant risk to the financial and operating activities of the Zarubezhneft Group of Companies.

INFORMATION ON MAJOR DEALS MADE BY ZARUBEZHNEFT JSC IN THE REPORTING YEAR

In accordance with Article 78 of the Federal Law "On Joint Stock Companies" and the data on the balance value of the assets of Zarubezhneft JSC provided by the accounting department calculated under accounting statements for 2016, a deal is deemed to be a major one if its value exceeds 33.8 billion Rubles.

No deals that could be classified as major were made in 2016.

INFORMATION ON THE INTERESTED PARTIES' TRANSACTIONS MADE BY ZARUBEZHNEFT JSC IN THE REPORTING YEAR

Transactions by interested parties – an Agreement between the holders (Zarubezhneft JSC and the State Production Association Belorusneft) of the patent for an Oil field development method and the authors of its invention (one of the authors is the General Director of Zarubezhneft JSC, S.I. Kudryashov) – was approved in 2016 at the meeting of the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 118, dated February 29, 2016).

LIST OF PROGRAMS IMPLEMENTED BY ZARUBEZHNEFT JSC IN THE FRAMEWORK OF THE LONG-TERM DEVELOPMENT PROGRAM

- The updated Innovative development program of Zarubezhneft JSC for 2016-2020 (with an outlook until 2030) was approved by the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 127, dated September 14, 2016).
- The Occupational health, industrial safety, environment protection and social responsibility policy of Zarubezhneft JSC (by decision of Board of Directors of Zarubezhneft JSC, dated 21.12.2016).
- Zarubezhneft Group of Companies' efficiency increase and costs optimization program was approved by the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 127, dated September 14, 2016, No. 134, dated February 16, 2017).
- The Labor efficiency increase program was formulated and included into the LDP of Zarubezhneft JSC on the basis of Order No 7389п – П13 dated October 31, 2014, and approved by the Board of Directors (Minutes of Meeting No. 97, dated February 27, 2015).
- A series of Measures aimed at scheduled and gradual replacement of procurement of foreign goods, works and services with procurement of equivalent Russian goods, works and services was approved as part of Appendix No. 8 to the LDP of Zarubezhneft JSC by decision of the Board of Directors of Zarubezhneft JSC (Minutes of Meeting No. 101, dated April 30, 2015).

LIST OF INTERNAL REGULATORY DOCUMENTS FOR ACTIVITIES RELATED TO PREPARING THE ANNUAL REPORT

- A passport and a scheme for the Preparation, Agreement, Approval and Publication of the Company's Annual Report business process (pursuant to Order No. 554, dated December 9, 2014, On the Arrangement of the Business Processes' Optimization Works);
- Order No.63, On the Preparation of the Annual Report of the Company for 2016, dated January 27, 2017;
- Zarubezhneft JSC's Risk management policy (approved by decision of the Board of Directors, Minutes of Meeting No. 125, dated June 27, 2016);
- Zarubezhneft JSC's Risk management business process standard (Order No. 480, dated November 14, 2016);
- Regulation on Zarubezhneft JSC's internal control (approved by decision of the Board of Directors, Minutes of Meeting No. 125, dated June 27, 2016);
- Regulation on Zarubezhneft JSC's internal audit (approved by decision of the Board of Directors, Minutes of Meeting No. 128, dated October 14, 2016);
- Regulation on the Audit committee at the Board of Directors of Zarubezhneft JSC (approved by decision of the Board of Directors, Minutes of Meeting No. 120, dated March 30, 2016).

ACCOUNTING STATEMENTS OF ZARUBEZHNEFT JSC AND AUDITOR REPORT ON THE RELIABILITY OF ACCOUNTING STATEMENTS FOR THE REPORTING YEAR

Zarubezhneft JSC annually engages external auditors for the audit of accounting (financial) statements made under Russian accounting reporting standards and consolidated financial statements made under IFRS.

The selection of an audit firm to perform mandatory audit of accounting (financial) statements of Zarubezhneft JSC for 2016 made under RAS through holding an open tender in accordance with the requirements of the Federal law dated July 21, 2005, No 94-ФЗ "On the placement of orders for the delivery of goods, performance of works and the provision of services for state and municipal needs".

Nexia Pacioli LLC won the tender in 2016 and was the auditor for the statements made under RAS. Nexia Pacioli LLC performs annual assessment reviews of the audit's quality before issuing an auditor's opinion for public interest entities and controls the quality of paperwork regarding the completed audits.

The cost of Nexia Pacioli LLC's services for the audit of accounting (financial) statements for 2016 was 790.6 thousand Rubles.

The cost of non-audit services provided by Nexia Pacioli LLC to the Company in 2016 was 1,950.0 thousand Rubles.

An audit firm to conduct the audit of consolidated financial statements of Zarubezhneft JSC for 2015-2016 was selected thorough an open invitation to tender in accordance with the requirements of the Federal Law No. 223-FZFZ, dated July 18, 2011, "On the procurement of goods, works and services by individual types of legal entities".

ZAO Deloitte & Touche CIS won the tender and was the auditor of consolidated financial statements of Zarubezhneft JSC for 2015-2016. ZAO Deloitte & Touche CIS performs annual assessment reviews of the audit's quality, as of and before the auditor's opinion issue date, as well as inspects and monitors the audit's paperwork regarding completed audits.

The cost of ZAO Deloitte & Touche CIS's services for the audit of consolidated financial statements for 2016 was 13,046 thousand Rubles.

The cost of non-audit services provided by ZAO Deloitte & Touche CIS to Zarubezhneft JSC in 2016 was 70,800 USD.

The independence of the auditors is annually confirmed by regular inspections of the Federal Treasury and self-regulating organizations, the members of which the indicated auditors are.

Indicators from the Consolidated Financial Report of the Zarubezhneft Group of Companies made under IFRS, million Rubles

	2016	2015
Revenue	**45,820**	**43,037**
Export duty	(599)	(843)
Income from joint ventures	15448	15,905
Income from investments into Kharyaga PSA	181	370
Total revenue and other operational income, net	**60,850**	**58,469**
Expenses and costs		
Operational costs, taxes, wear and amortization	(42,782)	(44,645)
Commercial, general and administrative costs	(5,818)	(4,790)
Transportation costs	(1,021)	(647)
Other costs, net	(1,159)	(1,251)
Profit from operational activities	**10,070**	**7,136**
Depreciation	(2,923)	(7,325)
Financial income	1,225	961
Financial costs	(2,128)	(1,927)
Positive exchange differences, net	387	5,947
Profit before tax	**6,631**	**4,792**
Profit tax (costs)/benefits	(207)	535
ANNUAL PROFIT	**6,424**	**5,327**

	December 31, 2016	December 31, 2015	December 31, 2014
ASSETS			
Non-current assets			
Fixed assets	37,840	26,947	26,073
Investments into joint ventures	84,891	97,140	85,511
Investments into Kharyaga PSA	-	6,315	8,704
Other non-current assets	16,730	19,140	9,245
	139,461	**149,542**	**129,533**
Current assets			
Inventories	10,315	9,692	8,569
Trade and other receivables	10,228	18,750	11,542
Cash and cash equivalents	22,034	2,777	11,604
Other current assets	2,577	18,715	8,634
	45,154	**49,934**	**40,349**
TOTAL ASSETS	**184,615**	**199,476**	**169,882**
EQUITY CAPITAL AND LIABILITIES			
Capital and reserves			
Capital	62,433	61,517	61,698
Accumulated exchange differences reserve	21,993	39,285	20,955
Undistributed profit	41,502	40,426	40,308
Parent company shareholder capital	**125,928**	**141,228**	**122,961**
Minority ownership interest	(7,906)	(9,027)	(8,014)
TOTAL CAPITAL AND RESERVES	**118,022**	**132,201**	**114,947**
Long-term liabilities			
Credit liabilities	23,309	30,171	26,020
Asset decommissioning and environment rehabilitation reserve	3,044	2,882	1,577
Deferred tax liabilities	6,636	4,080	3,154
Other long-term liabilities	1,934	3,443	3,638
	34,923	**40,576**	**34,389**
Short-term liabilities			
Credit liabilities	8,241	8,814	4,890
Trade and other payables	18,503	13,882	12,144
Other short-term liabilities	4,926	4,003	3,512
	31,670	**26,699**	**20,546**
TOTAL LIABILITIES	**66,593**	**67,275**	**54,935**
TOTAL CAPITAL AND LIABILITIES	**184,615,**	**199,476**	**169,882**

	2016	2015
OPERATIONAL ACTIVITIES		
Profit before tax	**6,631**	**4,792**
Adjustments:		
Wear, depletion and amortization	3,448	2,832
Financial income	(1,225)	(961)
Financial costs	2,128	1,927
Depreciation	2,923	7,325
Income from joint ventures	(15,448)	(15,905)
Income from investments into Kharyaga PSA	(181)	(370)
Positive exchange differences, net	(3,590)	(3,071)
Other	(652)	(246)
Cash used in operational activities before changes in current capital	**(5,966)**	**(3,677)**
Changes in current capital	9,600	(34)
Cash received from / (used in) operational activities	**3,634**	**(3,711)**
Interests paid	(1,870)	(288)
Profit tax paid	(1,342)	(2,203)
Dividends received from joint ventures	18,376	15,164
Dividends received from participation in Kharyaga PSA	2,630	4,705
Kharyaga PSA activities funding payments	(2,449)	(4,335)
CASH RECEIVED FROM OPERATIONAL ACTIVITIES, NET	**18,979**	**9,332**
INVESTMENT ACTIVITES		
Acquisition and disposal of fixed assets	(8,913)	(6,624)
Acquisition of participating interests in companies, joint operations less acquired cash	(3,435)	-
Lifted / (placed) deposits	20,469	(15,045)
Interests received	18	3,979
Turnover of loans	79	1,902
CASH RECEIVED FROM / (USED IN) INVESTMENT ACTIVITIES, NET	**8,218**	**(15,788)**
FINANCIAL ACTIVITIES		
Credits raised	26,930	17,444
Credits repayment	(27,399)	(18,334)
Dividends paid by the Company	(4,549)	(4,064)
CASH USED IN FINANCIAL ACTIVITIES, NET	**(5,018)**	**(4,954)**
Increase / (decrease) of cash and cash equivalents, net	**22,179**	**(11,410)**
Cash and cash equivalents as at the year beginning	**2,777**	**11,604**
Effect from conversion to the presentation currency, as well as influence of foreign currency exchange rates changes on the remaining cash and cash equivalent expressed in foreign currencies	**(2,922)**	**2,583**
Cash and cash equivalents as at the year-end	**22,034**	**2,777**

GLOSSARY

AGDS – Automated gas distribution station

AIR – Additional items range

AIS – Automated information system

AMNGR – Arktikmorneftegazrazvedka

AOC – Arctic Oil Company

AODMS – Automated operational and dispatch management system

APG – Associated petroleum gas

ARPD – Asphalt, resin, and paraffin deposits

Blending – Blending of oils, production of motor oils and lubes

BPS – Booster pump station

CD – Civil defense

CDU – Crude distillation unit (primary oil refining unit)

CFB – Cash-flow budget

CKU – Central Khoreyver Uplift

CPC – Caspian pipeline consortium

CPF – Central Production Facility (oil)

CS – Compressor station

DMM IS – Development management and monitoring information system

ECPU – Electrical centrifugal pump unit

EOR – Enhanced oil recovery

EP – Environmental protection

EPW – Experimental production works

ES – Emergency situations

ETP – Electronic trading platform

f/d – Field

FGS – Field geophysical survey

FPI – Formation pressure increase

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

FS – Fuel Station

FTSI – Federal tax service inspection

GC – Group of Companies

GCRMS – General corporate risk management system

GEW – Geologic exploration works

GPM IS – Geology and production monitoring information system

GTPP – Gas-turbine power plant

GTS – Geological and technological survey

GWS – Geophysical well survey

HAC – Higher Attestation Commission at the Ministry of Education and Science of the Russian Federation

HDM – Hydrodynamic model

HFF – Hydraulic formation fracturing

HPF – Hazardous production facilities

ICS – Internal control system

IDD – Innovative development department

IDP – Innovative development program

IFRS – International financial reporting standards

IRD – Internal regulatory documents

IS – Industrial safety

JC – Joint Company

JSC – Joint Stock Company

JU – Jack-up MODU

JV – Joint venture

KFU – Kazan Federal University

KhPSA – Kharyaga Product Sharing Agreement

KPI – Key performance indexes

LDP – Long-term development program

MET – Minerals extraction tax

MODU – Mobile offshore drilling unit

MPC – Maximum permissible concentrations

MPPS – Multi-phase pumping station

MSGU – Mobile steam-generating unit

MTR – Material and technical resources

NAS – National accounting standards

OH – Occupational health

Oil products spread – difference between the quotation of the oil product and the quotation of oil for the relevant period.

ONO – Orenburgnefteotdacha

ORF – Oil recovery factor

ORF – Oil refinery

PIT – Personal income tax

PMCS – Project management corporate system

PPP – Permeability and porosity properties

PSA – Production sharing agreement

PTS (School) – Production and technical section

PWDU – Preliminary water discharge unit

R&D – Research and development works

RAS – Russian accounting standards

RCW – Remedial cementing works

RDM IS – Remote drilling monitoring information system

RMNTK – Russian inter-industry scientific and technical complex

Rosimuschestvo – Federal state property management agency

Russian Development Ministry – Ministry of economic development of the Russian Federation

Russian Justice Ministry – Ministry of Justice of the Russian Federation

Russian Nature Ministry – Ministry of natural resources and ecology of the Russian Federation

RVP – RUSVIETPETRO

SAA – Surface active agents

SC – Subsidiary company

SE – Subsidiary entity

SGU – Steam-generating unit

SPA – Spare parts and accessories

SPIMEX – Saint Petersburg International Mercantile Exchange

SRE – Self-regulating organization (of auditors)

SRV – Socialist Republic of Vietnam

SSS – Standard sub-station

STC – Scientific and technical center

STC – Scientific and technical council (collective deliberative body of Zarubezhneft JSC that has been operating since 2001 and provides expertise and development of decisions and recommendations for a wide range of issues related to scientific, technical and innovative development of the Company).

STP – Scientific and technical products

STT – Steam and thermal treatment

STV – Supply/tug vessel

TEFS – Technical and economic feasibility study

TOE – Ton of oil equivalent

TP – Transfer pricing

UN – United Nations

UNG – Ul'yanovskneftegaz

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

VAT – Value-added tax

VCOGCF – Verkhnechonskoye oil and gas condensate field

VFD – Variable frequency drive

VMI – Voluntary medical insurance

VSP – Vietsovpetro

Well intake capacity – property of an injection well indicating its capacity for injecting a working agent (water, gas, steam etc.) into the formation; determined by the volume of the mix injected into the formation by unit of time.

WHP – Wellhead platform

WWO – Well workover

ZNSM – Zarubezhneftestroymontazh

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