A Successful Company's
Growth Dynamics

JOINT STOCK COMPANY
ZARUBEZHNEFT

2013
ANNUAL REPORT

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KEY CONSOLIDATED INDICATORS OF THE ZARUBEZHNEFT GROUP EFFICIENCY

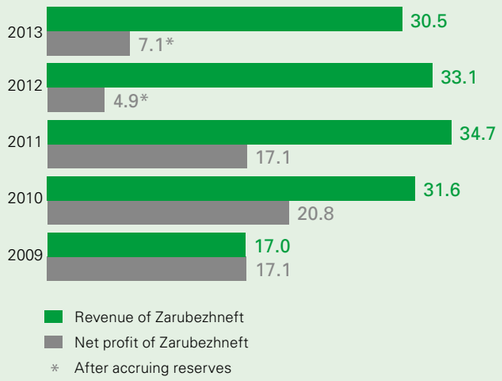
Consolidated proceeds of the Zarubezhneft Group, *billion roubles*

PROCEEDS GROWTH

5.3 + 5.8%

BILLION ROUBLES

Revenue and net profit of Zarubezhneft for 2009–2013, *billion roubles*



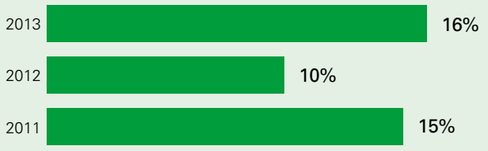
Consolidated EBITDA of the Zarubezhneft Group, *billion roubles*

EBITDA GROWTH

11.2 + 50.9%

BILLION ROUBLES

ROACE of the Zarubezhneft Group, *%*

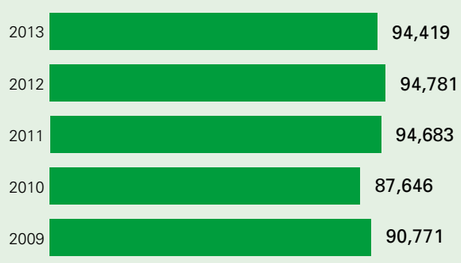


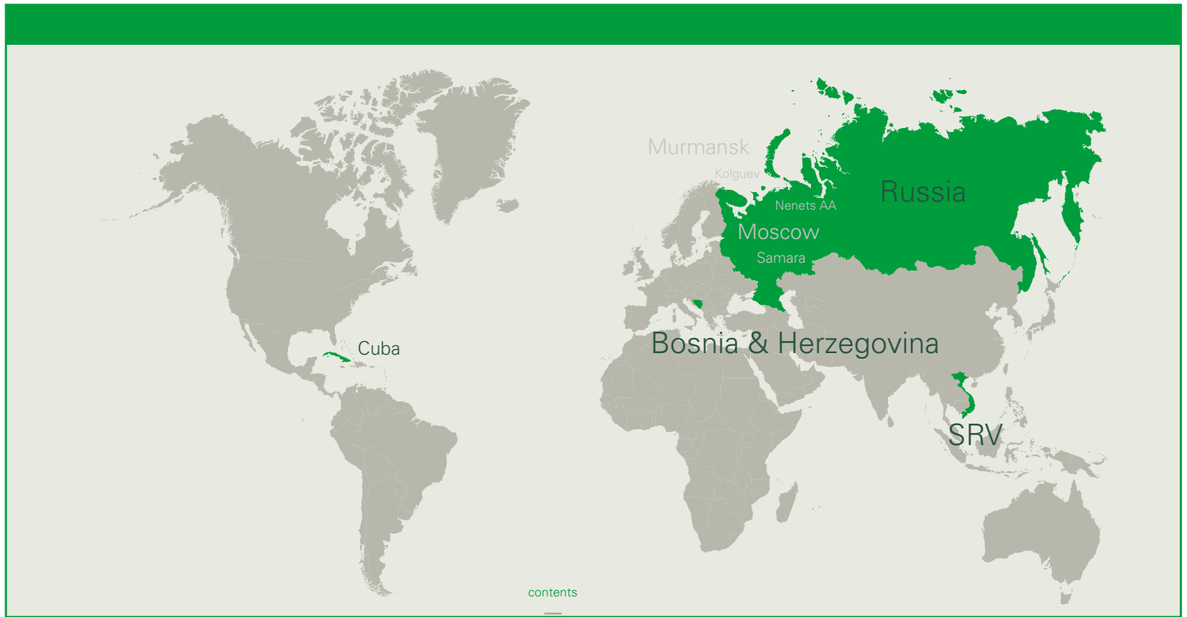
ROACE GROWTH

+6%

Gross oil production by by the Zarubezhneft Group (considering participation share), *thousand tonnes*

Dynamics of volume of the current recoverable reserves (A+B+C1) of the Zarubezhneft Group considering participation share, *thousand tonnes O.E.*





Volume of crude refining by the Zarubezhneft Group, *thousand tonnes*

Volume of oil distillate refining by the Zarubezhneft Group, *thousand tonnes*

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STATEMENT FROM THE GENERAL DIRECTOR

Dear shareholders, colleagues and partners,

For Zarubezhneft, 2013 was both a year of renovation and a leap forward. Our company managed to create and implement solutions that increased efficiency in all areas and led to the successful development of core projects.

The concentration of our efforts on the most urgent and topical areas of business resulted in positive effects across the board.

EXPLORATION AND PRODUCTION

The fact that we managed to increase the production index by 1.2% compared to 2012, reaching the level of 10,153 million tonnes of oil was undoubtedly the greatest achievement of the production sector. At the same time, the average production day rate for 2013 has been increased by 1,190 tonnes (representing growth of more than 4%).

Growth of this index has been achieved due to the gradual build-up of production by Joint Company RUSVIETPETRO, which is engaged in field development in Nenets Autonomous Area, and due to measures to stabilise the production level of JV Vietsovpetro in Vietnam.

Rapid development of the RUSVIETPETRO project has become a true success over the past year that contributed to our company strengthening its position in the oil market of the northern region of Russia. It is worth mentioning that the Joint Company RUSVIETPETRO has demonstrated the highest rates of oil production build-up among oil enterprises operating in the north of the country.

FOR ZARUBEZHNEFT, 2013 WAS BOTH A YEAR OF RENOVATION AND A LEAP FORWARD. OUR COMPANY MANAGED TO CREATE AND IMPLEMENT SOLUTIONS THAT INCREASED EFFICIENCY IN ALL AREAS AND LED TO THE SUCCESSFUL DEVELOPMENT OF CORE PROJECTS.

THE FACT THAT WE MANAGED TO INCREASE THE PRODUCTION INDEX BY 1.2% COMPARED TO 2012, REACHING THE LEVEL OF 10,153 MILLION TONNES OF OIL WAS UNDOUBTEDLY THE GREATEST ACHIEVEMENT OF THE PRODUCTION SECTOR.

Annual production growth here is approximately 40%. Starting in 2014, our company plans to produce over 3 million tonnes of oil annually.

Equally important has been the growth of recoverable reserves, which totalled more than 7 million tonnes in 2013 – 55.8% higher than the 4.5 million tonnes forecast. The growth parameter has been comparable to our production volumes, promising strong prospects for oil production stabilisation.

WE ARE ACTIVELY ENGAGED IN WORK IN THE OFFSHORE AREAS OF VIETNAM. IN 2013, ALONG WITH OUR VIETNAMESE PARTNERS, WE DRILLED 39 WELLS, WITH A CUMULATIVE DEPTH OF 143.8 THOUSAND METRES.

We are actively engaged in work in the offshore areas of Vietnam. In 2013, along with our Vietnamese partners, we drilled 39 wells, with a cumulative depth of 143.8 thousand metres.

We consistently take measures to halt the oil production rate decline at our oil-producing assets in this region and maintain optimal oil production levels. We are able to achieve this due to active new prospecting of fields and their subsequent commissioning, as well as by enhancing the efficiency of previously drilled wells.

In 2013, we launched a diverse range of geological-and-engineering operations connected with reservoir development control, optimisation of the processes for reservoir pressure maintenance and regulation of the direction of filtration flows, with implementation planned for 2014. In order to manage these tasks, we engaged our subsidiary institute was engaged – the Academician A.P. Krylov All-Russian Oil and Gas Scientific Research Institute (VNIIneft).

Positive trends are also being observed in the development of our Cuban project. In August, drilling operations began at the Boca de Jaruco field, and in December, the first experimental well drilling was completed. Recovered rocks analysis has been completed, with confirmation of the site's hydrocarbon potential. The means of stimulating the formations under assessment for the purpose of oil recovery will now be defined. The scientific and production expertise of VNIIneft is also being applied extensively in this project.

SERVICES SECTOR

JSC Zarubezhneft makes significant efforts in order to stabilize the situation in Arktikmorneftegazrazvedka (AMNGR), which was assigned to us in 2012. The primary task at present is to take all possible measures to create an efficient enterprise following the reorganisation and reconstruction of production management, by focusing on a major segment of activity – offshore drilling services rendering. Currently, the company's drilling capacities are used in Zarubezhneft projects. In November 2013, the repaired Murmanskaya jack-up rig, upon completion of the class repair, spudded wells in Bach Ho field (Vietnam) as part of our contract with JV Vietsovpetro. Class repair of the Deep Venture Drilling Ship (DS) is now also nearing completion; while the process of non-core auxiliary fleet sales is ongoing.

In 2013, we managed to practically halve the operating expenditures of AMNGR for oil production on Kolguev Island compared to 2012.

REFINING

There is currently some stagnation in the European oil products market. Consequently, there are low business margins and significant underutilization of the refineries in South-Eastern Europe (average refinery utilization level is approximately 52%).

Despite these difficulties, we are successfully completing a plan of activities to boost the efficiency of our subsidiaries' work downstream in the Republic of Srpska (BiH). In 2013, compared to 2012, production parameters at Brod Refinery and Modrica Oil Production Plant were improved. A 9% decrease in "losses and in-house needs" value at the refinery meant the refining of depth growth by more than 4%. Total sales volume was increased by 5.5% through the Nestro Petrol retail fuel stations network.

A special close attention in the past year has been focused on implementation of an environmental characteristics improvement program at Brod Refinery. Among the measures introduced there has been the launch of an automated measuring station for air quality control in the vicinity of refinery activity.

I would like to place particular emphasis on the fact that in the course of international project realisation, JSC Zarubezhneft has had the comprehensive support of the representatives of the countries in which it operates – including Vietnam, Cuba and the Republic of Srpska (part of Bosnia and Herzegovina). Frequent regular meetings between Zarubezhneft management and national leaders in the course of work carried out and the Company's contribution to the economics of the partner-country development demonstrates the true range and scope of Zarubezhneft activities.

However, we do not intend to confine our activities to these regions. As we contemplate extending our operations abroad, we consider new projects and negotiate possible options for cooperation, including the with countries in the Middle East, where we have accumulated great historical experience in production. We hope that in the near future, our investment portfolio will be filled with new international projects that have great significance for Russia.

BUSINESS INTERNAL EFFICIENCY IMPROVEMENT

We have also seen great improvement in the Company's financial situation. We managed to reduce the budget deficit, in line with our business plan for 2013, which enabled us to avoid borrowing funds and to completely fulfil our obligations to all our counteragents and to the state by transferring to it as the sole shareholder within the established period and in full dividends in the amount of 5 billion 156 million roubles as well as before. The net profit of our company (as per Russian accounting standards) in 2013 was 1.5 times greater than in 2012.

For the first time, we have prepared consolidated financial statements as per International Financial Reporting Standards (IFRS) which henceforth will be produced regularly, allowing our company to be more active in the loan market for existing and future investment project implementation.

In 2013, we also started began work on an international audit of hydrocarbon resources reserves.

2013 saw the introduction of a memorable event: the launch of a joint project between Zarubezhneft and the St Petersburg International Mercantile Exchange (SPIMEX) for the open trading of oil produced by Zarubezhneft's enterprises and the organisation of materials and equipment purchase through the exchange's electronic trading platform. We can certainly be proud that Zarubezhneft has become the first of the Russian companies to move to the stock exchange trading of crude oil, ensuring an increase in sales efficiency and transactions transparency.

The obvious positive results at our production sites would not be possible without the fundamental changes introduced by internal business processes and a revised corporate and manpower policy.

> FOR THE FIRST TIME, WE HAVE PREPARED CONSOLIDATED FINANCIAL STATEMENTS AS PER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) WHICH HENCEFORTH WILL BE PRODUCED REGULARLY, ALLOWING OUR COMPANY TO BE MORE ACTIVE IN THE LOAN MARKET FOR EXISTING AND FUTURE INVESTMENT PROJECT IMPLEMENTATION.

In 2013, we launched a program of strategic improvement projects. These are internal corporate projects aimed at increased efficiency in the activities of all structural divisions of the company. The majority of the projects have a long life cycle, but already in 2013, a real effect of their introduction was noted. Positive results include the following:

- Formation of a system of collective decision-making through the Budget, Investment and Risk Management Committees;
- Systematic approach to the company's business plan preparation;
- Increasing transparency through optimisation of the Company's procurement activities;
- Automation of all the Company's main operations, including both the production and financial blocks.

In order to increase employee motivation, both in the parent company and subsidiaries, as well as to allow for a faster and more qualitative evaluation of business plan execution within the Group, we have introduced ia monthly ratings system. For the first time "Best Zarubezhneft employee" and "Best in the occupation" contests have been held, along with a systematic basis rating of the best structural divisions. In addition, a Young Specialists Council has been established, which actively participates in the working and social life of the company, including the organisation of scientific and technical work contests for young employees of the Group.

Our task now is to see the full results of the programs launched and to set new and ambitious goals. At the beginning of the current year, the Zarubezhneft Board of Directors approved strategic guidelines for the company's development up to the year 2020, which will be the basis for our corporate development strategy.

I am convinced that due to a sensible development strategy and the further improvement of project management mechanisms, Zarubezhneft in the short term will approach the standards of business conduct established by leading international oil companies. At present, we see good prospects for our development. This period of corporate reform marks the beginning of Zarubezhneft's transformation into an oil and gas corporation with strong competency in field development and significant innovation potential which will take its rightful place in the domestic and world markets.

OUR TASK NOW IS TO SEE THE FULL RESULTS OF THE PROGRAMS LAUNCHED AND TO SET NEW AND AMBITIOUS GOALS. AT THE BEGINNING OF THE CURRENT YEAR, THE ZARUBEZHNEFT BOARD OF DIRECTORS APPROVED STRATEGIC GUIDELINES FOR THE COMPANY'S DEVELOPMENT UP TO THE YEAR 2020, WHICH WILL BE THE BASIS FOR OUR CORPORATE DEVELOPMENT STRATEGY.

S.I. Kudryashov
The General Director
JSC Zarubezhneft

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COMPANY PROFILE

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KEY EVENTS OF 2013

December

November

September

August

July

June

May

April

March

January

The Souznefteotdacha project was launched, with the participation of Zarubezhneft, National Company KazMunaiGaz and Republican Association Belorusneft. The project focused on EOR methods application and production stimulation in the fields of Russia, Kazakhstan and Belorussia.

A joint project between Zarubezhneft and the St Petersburg International Commodity Exchange was launched, facilitating open trade in the domestic market of the Russian Federation for oil produced by produced by the Zarubezhneft Group of companies and the organisation of materials and equipment purchase for Zarubezhneft's needs through electronic trading platform of the exchange.

Regulations were signed on transportation and delivery to the JSC Transneft of oil produced from the Central-Khoreyver uplift (CKU) (Nenets Autonomous Region), between Joint Company RUSVIETPETRO, LUKOIL-KOMI and the Northern trunk pipelines.

24 April
Zarubezhneft started crude oil trading in the oil section of the St Petersburg International Mercantile Exchange (SPIMEX) after the first transaction was concluded.

14 May
In the course of the official visit to the Russian Federation of the Prime Minister of the Socialist Republic of Vietnam (SRV), Nguyen Tan Dung, a memorandum of understanding was signed between Zarubezhneft and Petrovietnam National Oil and Gas Group.

30 May
In a joint venture of Zarubezhneft and NIS-Jadran Naftagas, the first oil well was spudded in the Republic of Srpska.

18 June
Joint Company RUSVIETPETRO produced its 5 millionth tone of oil since its operations commenced.

An agreement on cooperation was signed between Zarubezhneft and Sberbank of Russia aimed at further expansion of interaction in the international market and the increased efficiency of Zarubezhneft and Sberbank operating activities, as well as their subsidiaries abroad.

With the purpose of improved efficiency of activities of enterprises in the downstream segment in the Republic of Srpska (Brod Refinery, Modrica Oil Production Plant and Nestro Petrol fuel stations network) key changes have been made to Zarubezhneft's development strategy and asset management with a schedule of activities developed to optimise the functionality of these enterprises.

Zarubezhneft started drilling operations in Boca de Jaruco field (Cuba) within the framework of an oil recovery enhancement project.

4 September
VRJ Joint Russian-Vietnamese-Japanese company produced its millionth tonne of oil since the project was first implemented.

20 September
VNIIneft celebrated its 70th anniversary.

12 November
Within the context of the official visit of the President of Russia Vladimir Putin to Vietnam a memorandum on the development of cooperation with Joint Company RUSVIETPETRO was signed.

9 December
Representatives of the Russian and Vietnamese governments signed a protocol to the Russian-Vietnamese Intergovernmental Agreement of 2010 on further cooperation in the area of oil and gas exploration and production on the continental shelf of Vietnam within the framework of the Joint Venture Vietsovpetro, which provides for a possibility to operate gas and gas-condensate reservoirs of 09-1 Block offshore SRV.

10 December
An agreement was signed between Zarubezhneft and Petrovietnam for gas and gas condensate sales from Thien Ung field (04-3 Block).

10 December
In Vietnam, a ceremony was held the mark the beginning of Tam Dao-05 jack-up rig construction for JV Vietsovpetro.

14 December
Murmanskaya jack-up rig commenced drilling operations on Bach Ho field (Vietnam).

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HISTORY

Nearly half a century has passed since establishment of foreign economic association Zarubezhneft. On 30 September 1967 a corresponding Order of the Council of Ministers of USSR was issued. During this time in our country critical economic, political, and ideological changes took place, but the company and its status remained intact.

Zarubezhneft was founded under the Ministry of Oil Industry of the USSR as an all-union foreign economic association for rendering technical assistance in the creation of oil and other basic sectors of economy in countries friendly to the Soviet Union. At the time, the Ministry of Oil Industry was tasked with developing and deepening foreign economic ties and overseeing the entry of the Soviet oil sector to the international market.

At the end of the 1960s, the Soviet government decided to embark on a program of integrated economic expansion to the territories of third-world countries, including those relevant to the oil industry. The USSR then actively fostered relationships with the governments of developing countries in Asia, Africa and Latin America.

With the participation of Zarubezhneft's specialists in such countries as Algeria, Angola, Afghanistan, Bulgaria, Vietnam, Egypt, India, Iraq, Iran, Kuwait, Libya, Nigeria, and Syria, large oil and gas facilities were constructed, national oil fields were commissioned, a large scope of exploration operations and engineering-and-geological studies were carried out, and programs for the integrated development of the oil industry were prepared.

A key event in the Company's biography was the establishment in 1981 of Vietsovpetro Joint Venture, on the basis of an intergovernmental agreement between the USSR and Vietnam which has been one of the world's most economically efficient oil producers in the world for more than three decades. With the help of Soviet specialists, the war-devastated Vietnam, having started from zero, managed to create its own powerful oil industry and to become one of the three largest oil-producing countries in Southeast Asia.

Following the collapse of the Soviet Union, cooperation in a number of countries ceased, and, by the year 2000, the only one large active project remained Vietsovpetro JV. Considerable efforts had to be made in order to restore lost positions in the countries of traditional presence and to expand the geographic reach through the establishment of cooperation in new regions.

On 3 February 2004, President of the Russian Federation V.V. Putin signed Decree No137 on transformation of the State Enterprise Russian Foreign Economic Association Zarubezhneft into a joint stock company with 100% shares retained in the federal property. In accordance with this decree, the assets of RMNTK Nefteotdacha, VNIIneft and Giprovostokneft sectoral institutes were transferred to Zarubezhneft, enabling the Company to have its own project base and innovative assets. On August 4 of the same year, by the Decree of the President of the Russian Federation V.V. Putin No1009, Zarubezhneft was included in the list of strategic enterprises of the Russian Federation.

In 2006, the presidents of Russia and Vietnam signed a joint declaration on further cooperation in the area of oil and gas exploration production, which defined the prospects of joint activities of the two countries in the oil and gas sphere after the year 2010. In an elaboration of the covenants specified in the declaration, the period of JV Vietsovpetro activity has been extended for another 20 years – up to the year 2030 (under the terms of a new intergovernmental agreement from 2010) and a second Joint Venture with the state corporation Petrovietnam was established in the territory of Russia which was similar to JV Vietsovpetro – Joint Company RUSVIETPETRO (2008).

Starting in 2007, the company began to implement a number of new oil producing and refining projects in the Balkan region, Latin America, and the North of Russia and is currently strengthening its position in Vietnam.

ЗАРУБЕЖНЕФТЬ
ZARUBEZHNEFT

MAJOR AREAS OF ACTIVITY

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

UPSTREAM

Exploration, development and operation of onshore and offshore oil and gas fields in Russia and abroad.

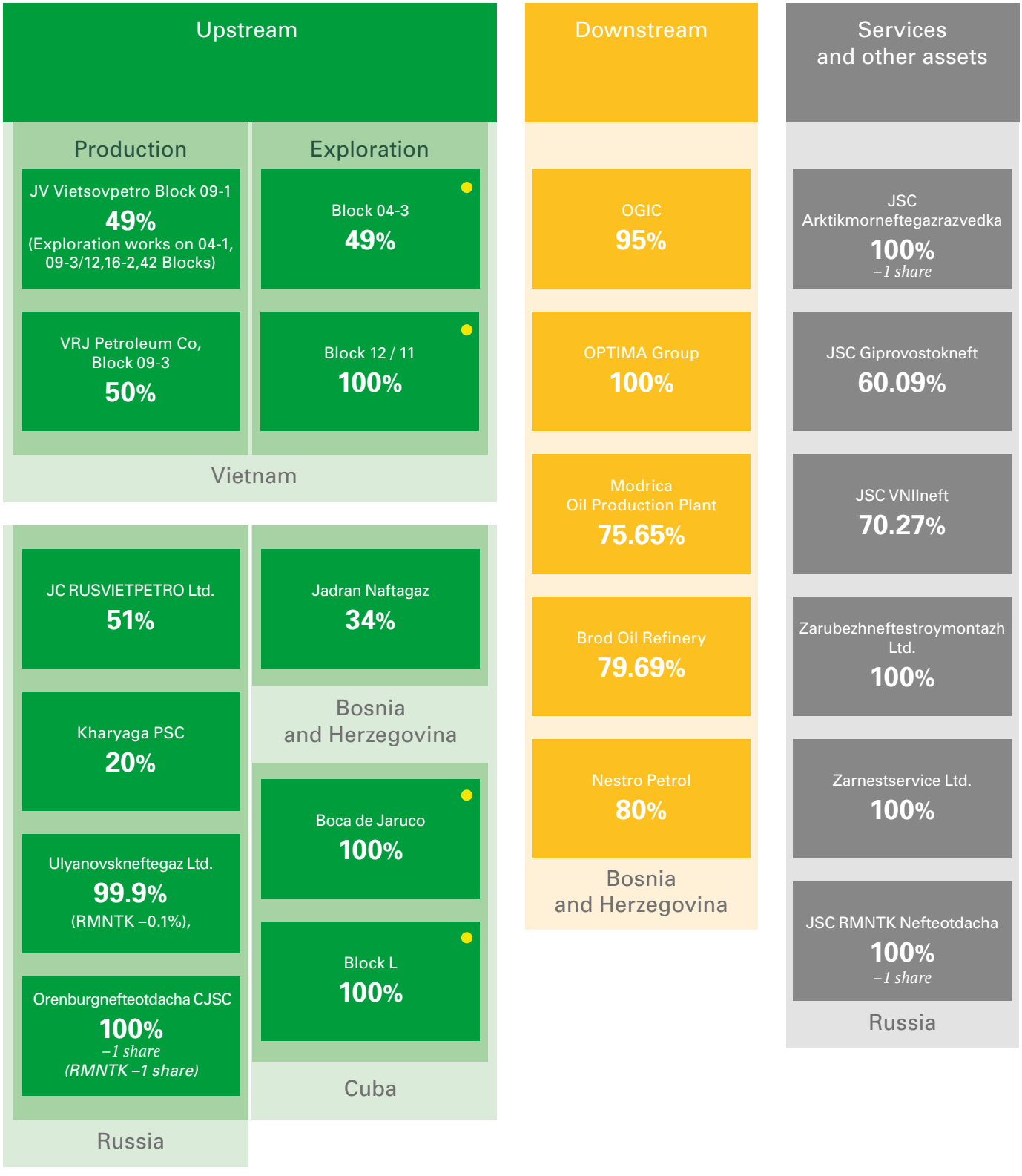
DOWNSTREAM

Design, construction and operation of refining facilities, tank farms and pipeline systems.

SERVICES AND OTHER ASSETS

- Application of the leading domestic technologies for the development of oil and gas fields.
- Development of modern methods for oil recovery rate enhancement in order to expand exports of high-tech services.
- Export/import operations for technological equipment supplies.

CONSOLIDATED CORPORATE AND PROJECT STRUCTURE OF THE ZARUBEZHNEFT GROUP



● The projects are implemented on a PSCs/Petroleum Contract basis without establishing a separate legal person

MAP OF ACTIVITIES FOR THE ZARUBEZHNEFT GROUP'S MAIN PROJECTS

- Upstream
- Refining
- Oil products sales
- Services rendering
- Scientific engineering centeres

UPSTREAM

PRODUCTION

• JV Vietsovpetro Block 09-1 (Exploration works on 04-1, 09-3/12, 16-2,42 Blocks)	49%
• VRJ Petroleum Co, Block 09-3	50%
• JC RUSVIETPETRO Ltd.	51%
• Kharyaga PSC	20%
• Ulyanovskneftegaz Ltd.	99.9% (RMNTK –0.1%)
• Orenburgnefteotdacha	100% – 1 share (RMNTK – 1 share)

EXPLORATION

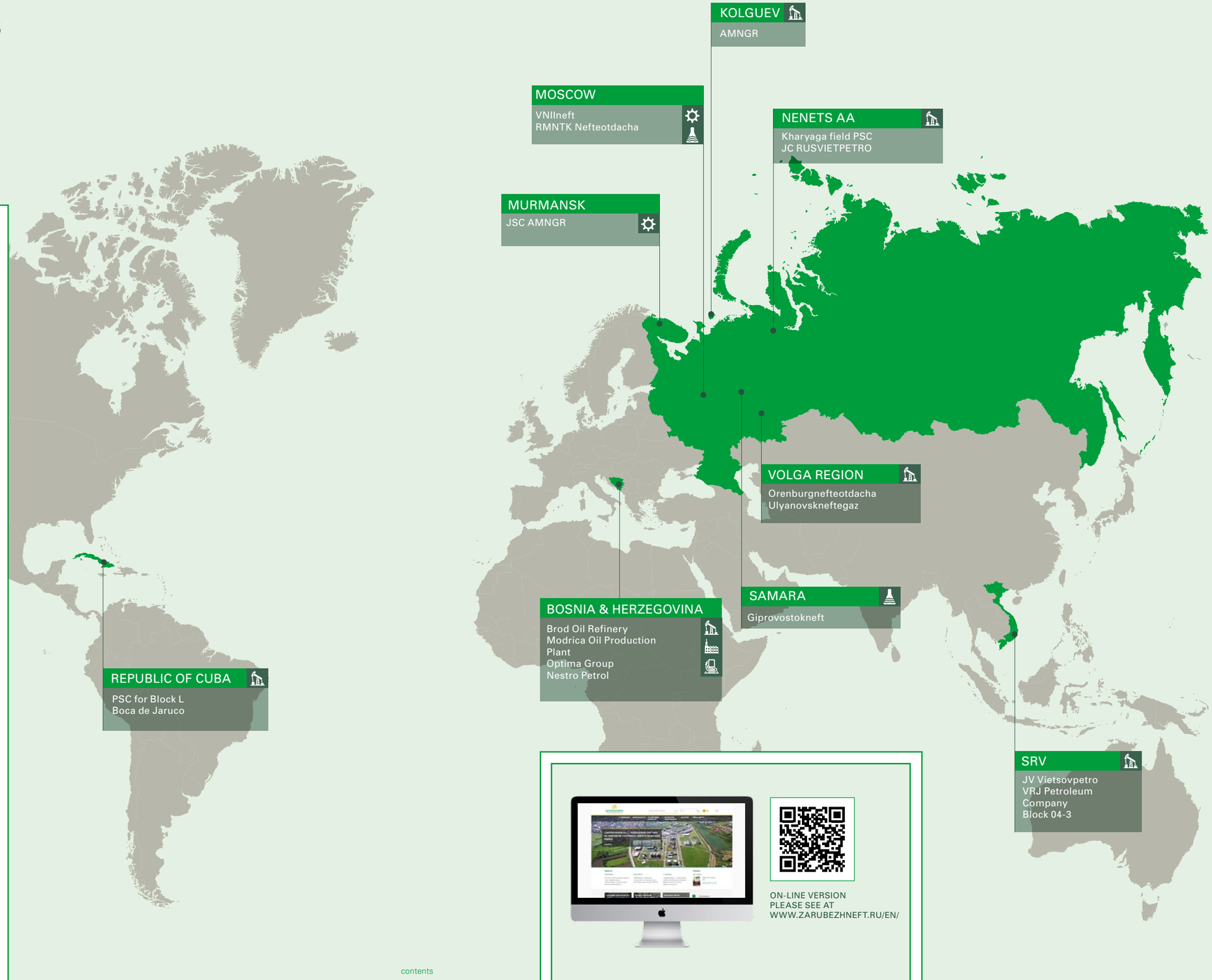
• Block 04-3	49%
• Block 12/11	100%
• Jadran Naftagaz	34%
• Boca de Jaruco	100%
• Block L	100%

DOWNSTREAM

• OGIC	95%
• OPTIMA Group	100%
• Modrica Oil Production Plant	75.65%
• Brod Oil Refinery	79.69%
• Nestro Petrol	80%

SERVICES AND OTHER ASSETS

• Zarubezhneftestroymontazh Ltd.	100%
• JSC Arktikmorneftegazrazvedka	100% – 1 share
• Zarnestservice Ltd.	100%
• JSC RMNTK Nefteotdacha	100% – 1 share
• JSC VNIIneft	70.27%, (RMNTK – 38%)
• JSC Giprovostokneft	60.09% (RMNTK – 38%)



ON-LINE VERSION
PLEASE SEE AT
WWW.ZARUBEZHNEFT.RU/EN/

STRATEGIC GUIDELINES

In December 2013, after reviewing the company's business plan and forecast indicators for the year 2014, the Zarubezhneft Board of Directors submitted the following issues for consideration:

In the 1st quarter of 2014

Strategic guidelines of Zarubezhneft's development up to the year 2020 by segment (March 2014)

In the 2nd quarter of 2014

Approval of corporate strategy for Zarubezhneft's development and key performance indicators (KPIs)

WITH THE PURPOSE OF EFFECTING THE BOARD'S ASSIGNMENTS, WORK WAS ORGANISED ON THE PREPARATION OF DEVELOPMENT STRATEGIC GUIDELINES, WHICH WILL THEN BE INCLUDED IN THE CORPORATE STRATEGY FOR ZARUBEZHNEFT'S DEVELOPMENT UP TO THE YEAR 2030, TO BE DEVELOPED IN THE FIRST HALF OF 2014.

In working out the strategic guidelines for Zarubezhneft's development, management accepts as a basis the use of the Company's unique advantages in its subsequent scaling and growth (successful experience in managing mutual relations with JV partners; work experience with specific reservoirs and fields with out-of-balance development systems, including those at a late stage of development).

In addition, the strategic guidelines for the company's development will be founded on the main areas of activity defined for Zarubezhneft by the Decree of the President of the Russian Federation dated 3 February 2004 No137.

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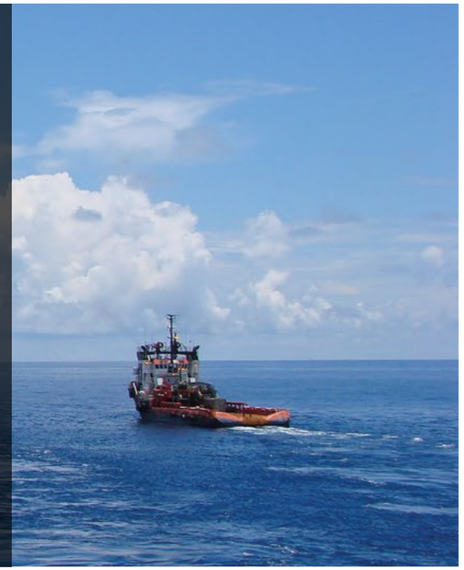
THE RESULTS OF THE ZARUBEZHNEFT GROUP ACTIVITIES IN 2013



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UPSTREAM

CURRENT ASSETS AND PROJECTS PORTFOLIO IN THE SEGMENT

Prospecting operations | Exploration | Production | EOR methods application

Operator	Projects	Life-cycle phase
	Socialist Republic of Vietnam	
JV Vietsovpetro (09-1 Block)	09-1 Block, oil fields - Bach Ho, Rong, Tho Trang, Gau Trang, Meo Trang	Exploration, Production
	04-1 Block	Prospecting operations
	04-3 Block, Thien Ung-Mang Cau oil-and-gas-condensate field	Exploration, Production
	09-3/12 Block	Prospecting operations
	12/11 Block	Prospecting operations
General company for oil and gas exploration and production (PVEP)	42 Block	Prospecting operations
09-3 Block VRJ	Unit area of 09-3 and 09-1 Blocks Nam Rong – Doi Moi	Exploration, Production
	Republic of Cuba	
Branch of Zarubezhneft	Block L	Prospecting operations
	Boca de Jaruco oil field	EOR methods application
	Bosnia and Herzegovina, the Republic of Srpska	
Jadran Naftagas JV	Posavina Block	Prospecting operations
	Semberija Block	Prospecting operations
	Russian Federation	
JC RUSVIETPETRO	Block of CKU 1, North Khosedayu oil field	Production
	Block of CKU 2, oil fields: Visovoye, Upper Kolva	Exploration, Production
	Block of CKU 3, oil fields: Western Khosedayu, Sikhoreyskoye, East-Sikhoreyskoye, North Sikhoreyskoye	Exploration, Production
	Block of CKU 4, oil fields: Surkharatinskoye, North Oshkotynskoye, Puseyskoye, South Surkharatinskoye, Urernyrdskoye, East Yanemdeyskoye	Exploration, Production
Kharyaga PSC	Kharyaga oil field	Production
Orenburgnefteotdacha	Pashkinskoye oil field	Exploration, Production
	Kirsanovskoye oil field	Exploration, Production
	Chernovskoye oil field	Exploration, Production
Ulyanovskneftegaz	Ruzhevskoye oil field	Production
	Slavkinskoye oil field	Exploration, Production
	Kondakovskoye oil field	Exploration, Production
	Sulakskoye oil field	Exploration, Production
	Radischevskyi area	Prospecting operations
Arktikmorneftegazrazvedka (Kolguev Oil and Gas Production Department)	Peschanoozerskoye oil and gas condensate field	Exploration, Production

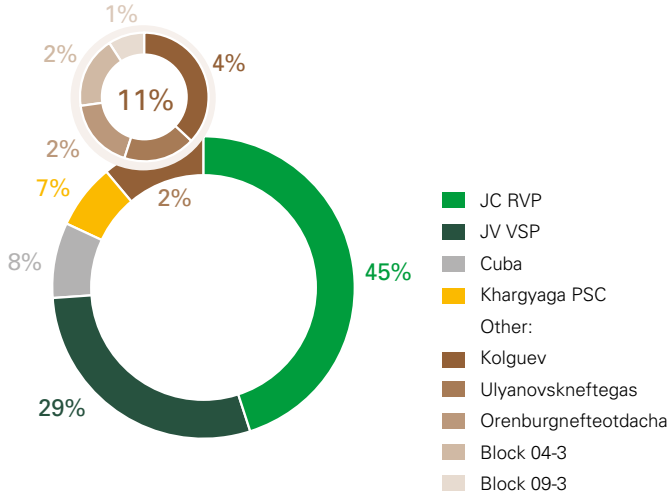
RESOURCE AND RAW MATERIALS BASE STATUS

The Zarubezhneft Group of companies conducts oil prospecting, exploration and development abroad within the framework of intergovernmental agreements, PSCs, oil and gas contracts and concessions in the Socialist Republic of Vietnam, the Republic of Cuba, and Bosnia and Herzegovina.

The Group owns 16 licences for hydrocarbon prospecting, exploration and production on 24 fields within 14 subsoil blocks in the territory of the Russian Federation (a list of the licences is provided in the attached Appendix).

Dynamics of volume of the current recoverable reserves (A+B+C1) of the Zarubezhneft Group considering participation share, *thousand tonnes O.E.*

Structure of reserves as at 31.12.2013



The total initial geological hydrocarbon reserves of the Group of companies in Russia and abroad considering participation share under A+B+C1+C2 categories as of 01.01.2014 represent 561.5 million tonnes of o.e., with 10.185 million tonnes of geological reserves growth achieved for the year 2013.

The total current recoverable hydrocarbon reserves of the Group of companies considering participation share under A+B+C1+C2 category as of 01.01.2014 are estimated at 124.273 million tonnes of fuel oil equivalent. The amount of the total recoverable reserves considering participation share of the company under A+B+C1 as of 2014 is 94.419 million tonnes of o.e.

The Zarubezhneft Group therefore has a balanced assets portfolio from exploration acreages and fields that allows it to steadily invest funds in exploration activities and to put new fields into development; retaining the financial stability of the company.

IN THE STRUCTURE OF RESERVES, CONSIDERING PARTICIPATION SHARE AS AT 31.12.2013, 45% ACCOUNT FOR THE JOINT COMPANY RUSVIETPETRO. NORTHERN-KHOSEDAYU AND WESTERN-KHOSEDAYU FIELDS CONTAIN THE MAIN RECOVERABLE RESERVES. THE SHARE OF JV VSP IS 29%, WHILE THE MAIN RECOVERABLE RESERVES ARE CONCENTRATED IN THE BACH HO AND RONG FIELDS.

EXPLORATION OPERATIONS

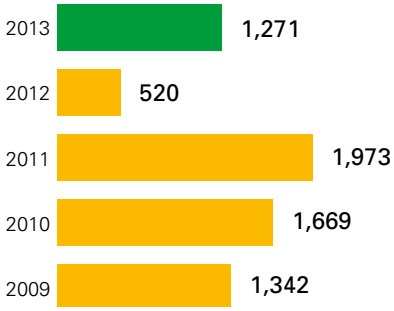
With the purpose of expanding our resource base in order to ensure further sustainable growth of production in the mid- and long term, undertaking exploration operations and expanding the hydrocarbons resource base is a strategic goal for our company.

In 2013, the Zarubezhneft Group was primarily focused on the determination of methods to maximise the involvement of hydrocarbon reserves in development, increasing the efficiency of work with a depleted resource base; the application of new technologies, and leveraging the effects of innovation programs.

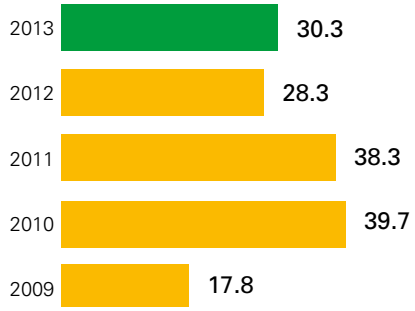
Project, Operator	Area	Legal form and participation share	Results of the Project in 2013
		Socialist Republic of Vietnam	
09-1 Block JV Vietsovpetro	Offshore	Intergovernmental agreement between Petrovietnam (51%) and Zarubezhneft (49%).	Exploration wells are drilled at the fields: Bach Ho, Tho Trang, Rong. Oil reserves growth obtained at Bach Ho, Rong fields.
09-3/12 Block JV Vietsovpetro	Offshore	Petroleum Contract of JV Vietsovpetro (55%) PVEP (30%) Bitexco (15%)	3D seismic surveys processing and interpretation completed; preparing for drilling operations.
04-1 Block JV Vietsovpetro	Offshore	Petroleum Contract of JV Vietsovpetro (100%) At prospecting and exploration stage	3D seismic survey materials processing and interpretation undertaken.
04-3 Block JV Vietsovpetro	Offshore	Petroleum Contract between Petrovietnam (51%) and Zarubezhneft (49%)	Exploration well drilled in Bocau structure. Commercial oil and gas deposits not discovered.
12-11 Block JV Vietsovpetro	Offshore	Petroleum Contract of Zarubezhneft (100%) at exploration stage	3D Seismic survey completed under BroadSeis technology in full (1 271 km^2).
42 Block JV Vietsovpetro	Offshore	Petroleum Contract between PVEP (51%) and JV Vietsovpetro (49%)	3D Seismic survey completed in full (513 km^2)
		Republic of Cuba	
Block L, Branch of Zarubezhneft	Offshore	PSC between Zarubezhneft (100% at exploration stage) and CUPET	Drilling of the exploration well in Almedina structure. The well has been temporarily abandoned.
Boca de Jaruco, Branch of Zarubezhneft	Onshore	PSC between JSC Zarubezhneft and CUPET	Producing wells drilling was started to reach E formation. Core analyses (from M formation). were carried out.
		Bosnia and Herzegovina, the Republic of Srpska	
Posavina and Semberija Blocks. Przhdol sub-basin. Concession of Jadran-Naftagas d.o.o.	Offshore	Subsidiary of Zarubezhneft – NeftegazInKor JSC – 34%, NIS a.d. Novi Sad, – 66%	Two exploration wells drilled. Start of well tests. 2D seismic survey completed in full (400 line kms).
		Russian Federation	
Block CKU No3 JC RUSVIETPETRO	Offshore	License of Zarubezhneft (51%) and Petrovietnam (49%)	Two exploration wells drilled in the West Khosedayu field. Oil reserves growth obtained.

As of 1 January 2014, the oil, gas and condensate reserves of 19 fields under development are on the books of Zarubezhneft: Bach Ho, Rong, Nam Rong-Doi Moi, Gau Trang, Tho Trang, Boca de Jaruco, North Khosedayu, Visovoye, West Khosedayu, Urernyrdskoye, Pashkinskoye, Kirsanovskoye, Chernovskoye, Kondakovskoye, Ruzhevskoye, Slavkinskoye, Sulakskoye, Peschanoozerskoye, Kharyaga and 11 fields being explored: Meo Trang, Thien Ung-Mang Cau, Upper Kolva, Sikhoreyskoye, East Sikhoreyskoye, North Sikhoreyskoye, North Oshkotynskoye, Surkharatinskoye, Puseyskoye, South Surkharatinskoye, and East Yanemdeyskoye.

3D seismic surveys, *km²*



Meterage of exploration drilling for the companies and projects of the companies group, *thousand m*

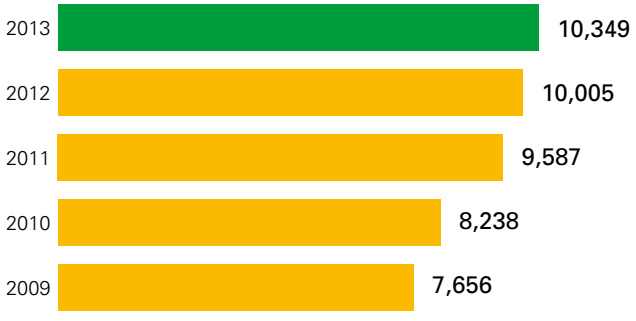


OIL PRODUCTION

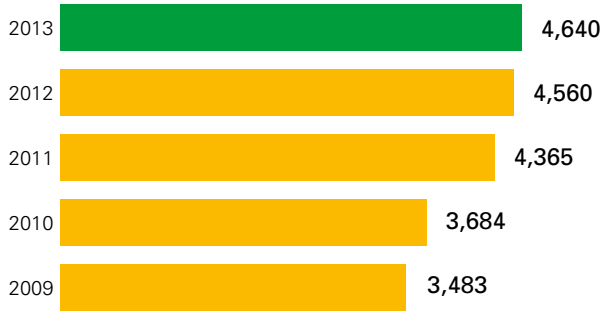
In 2013, the Company continued active development of its Oil and Gas Production Segment, focusing its efforts both on maintaining a sustainable level of hydrocarbon production from the main fields of the Joint Venture Vietsovpetro, which are at the late stage of their development (Bach Ho, Rong) and enhancement of production from fields recently brought into development by the Joint Company RUSVIETPETRO (West-Khosedayu, Visovoye fields).

Due to geological and technological and organisational and technical activities carried out within the framework of investment project implementation for new oil well commissioning, well workover operations and the optimisation of well equipment operation, gross oil production has grown by 344 thousand tonnes of o.e. (+3.4%) compared to 2012.

Gross hydrocarbon production by the Zarubezhneft Group, *thousand tonnes of O.E.*

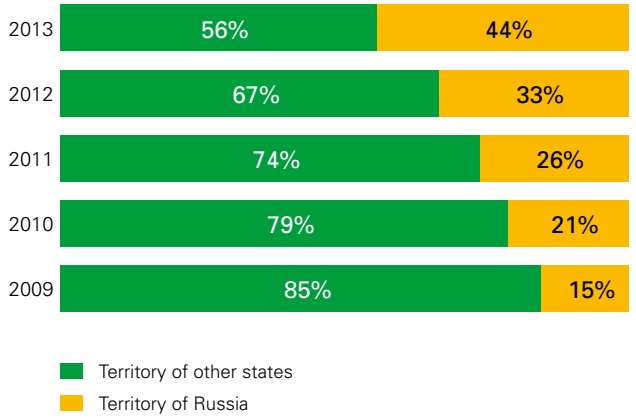


Gross oil production by the Zarubezhneft Group (considering their shares), *thousand tonnes*



Production considering ZN's share, thousand tonnes	Actual 2012	Actual 2013
JV VSP	2,994	2,727
JC RVP	1,066	1,426
Kharyaga PSC	307	311
VRJ	75	60
Orenburgnefteotdacha	73	74
Ulyanovskneftegaz	23	23
Peschanoozerskoye field	22	19
TOTAL	**4,560**	**4,640**

Dynamics of production share by companies of the segment



THE MAJOR PRODUCING ASSET IN BOTH THE SEGMENT'S STRUCTURE AND THE COMPANY IS JV VIETSOVPETRO. PRODUCTION GROWTH IN JC RUSVIETPETRO GREW FROM 23% IN 2012 TO 28% IN 2013 THANKS TO AN ACTIVE DEVELOPMENT AT THE WEST KHOSEDAYU FIELD (THE LARGEST FIELD BY RESERVES).

THE SOCIALIST REPUBLIC OF VIETNAM

09-1 BLOCK – JV VIETSOVPETRO

Development of 09-1 Block is carried out in accordance with the new intergovernmental agreement dated 27 December 2010 (its validity was extended for 20 years, to 31 December 2030, inclusive).

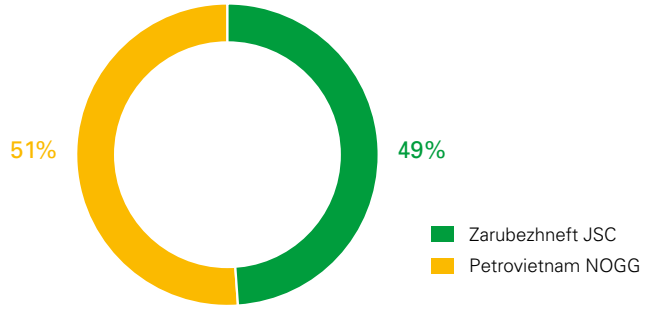
The unique Bach Ho and Rong fields being developed by JV Vietsovpetro are 150 km from the shore on the shelf of the south of Vietnam. 13 fixed offshore platforms, 22 well-head platforms (WHPs), 2 process platforms, 3 compressor stations and reservoir pressure maintenance (RPM) platforms have been built in them.

A united LP gas gathering system ensures successful execution of the entire process for gas gathering and transportation to the shore, gaslift gas treatment and its use for artificial oil lift method in the fields of JV Vietsovpetro, and also allows up to 97% of the gas produced to be utilised.

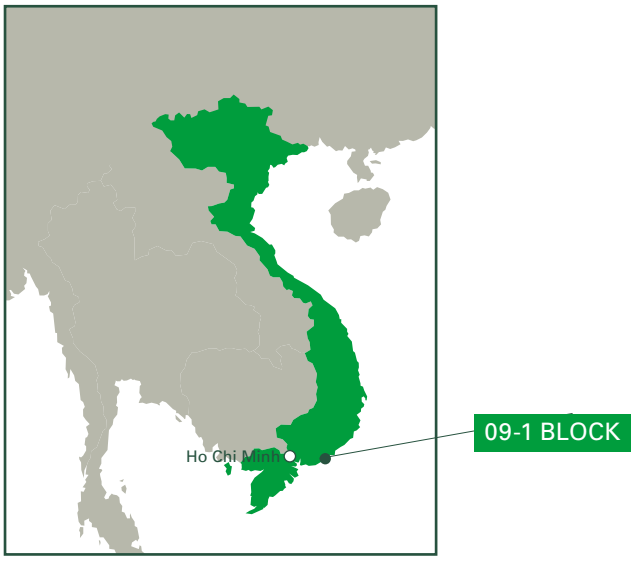
In the JV, one of the best shore bases in Southeast Asia has been created for construction and installation offshore of the process and satellite platforms for wells drilling and oil & gas production. The JV has 4 jack-up rigs, a fleet of more than 20 units, including derrick barges, fire-fighting, diving and supply vessels, and four floating storage and offloading units (FSOs).

JV Vietsovpetro is an operator of the realised projects with the direct participation of Zarubezhneft, and is carrying out numerous service operations. Gas gathering, treatment, transportation to the shore as well as gaslift gas treatment for artificial oil lift methods are all carried out in the fields of the block.

Ownership structure

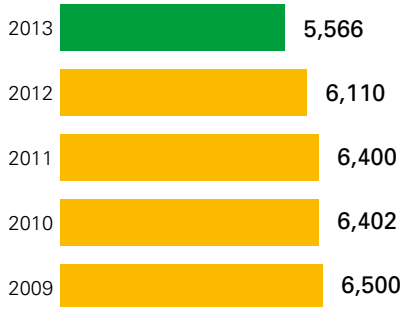


Location

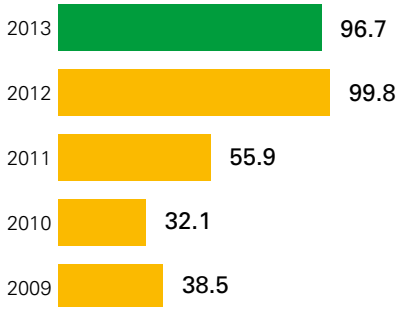


ACTUAL OIL PRODUCTION FROM THE BLOCK AMOUNTED TO 5,566 THOUSAND TONNES.
BY LIFTING METHODS THE PERCENTAGE OF THE TOTAL OIL PRODUCED IS AS FOLLOWS:
BY FREE-FLOW PRODUCTION METHOD – 34.8%,
BY ARTIFICIAL LIFT METHOD – 65.2%.

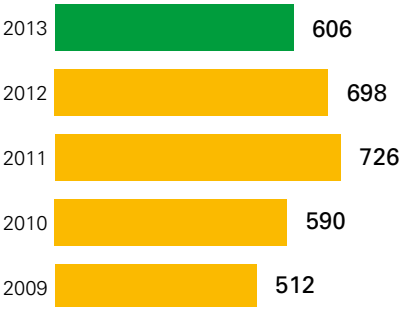
Production volume, *thousand tonnes*



Production drilling meterage, *thousand m*



Capital investments, *million USD*



09-3 BLOCK – VRJ PETROLEUM COMPANY

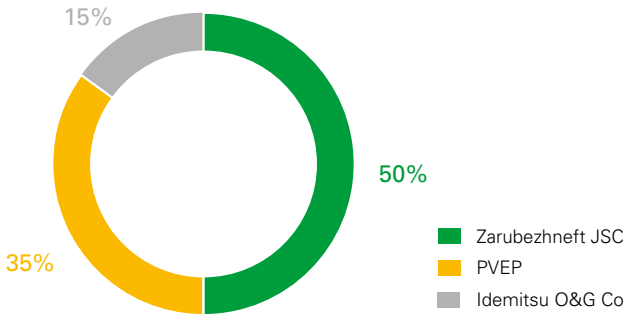
The works in 09-3 Block are carried out in accordance with the Petroleum Contract for 09-3 Block Oil Reserves Development Offshore SRV, dated 19.01.2002, and the Nam Rong-Doi Moi field Joint Development Agreement on (JDA) dated 26.06.2009. In accordance with JDA conditions, participation share and production allocation from the 09-1 and 09-3 blocks in development of the Unit Area of NR-DM is 50% and 50%, accordingly.

In 2010, the Unit Area of 09-3 and 09-1 Blocks of Nam-Rong–Doi Moi field was commissioned.

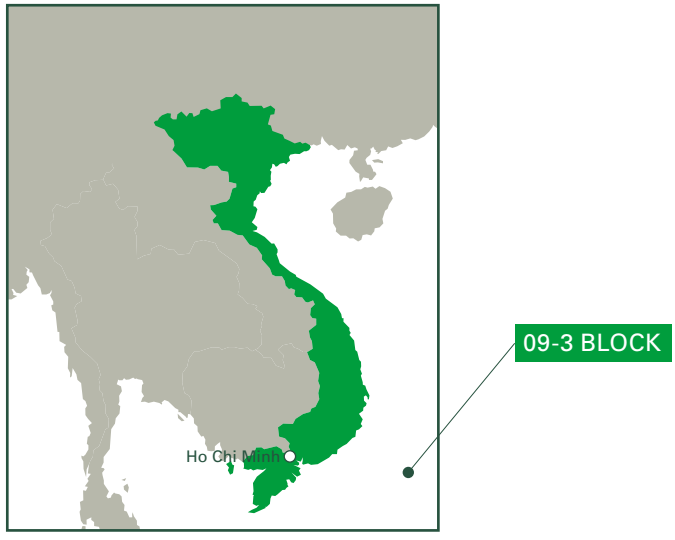
Total production since the operation commencement totalled 536,3 thousand tonnes.

IN 2014, IN NR-DM FIELD, THERE ARE PLANS TO DRILL TWO WELLS AND TWO SIDE-TRACKS. THESE OPERATIONS WILL ALLOW A 15% INCREASE IN OIL PRODUCTION VOLUMES COMPARED TO 2013.

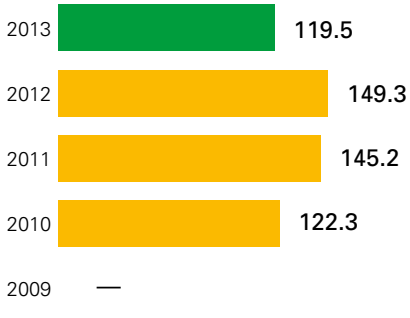
Ownership structure



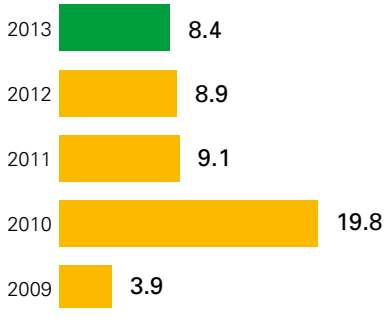
Location



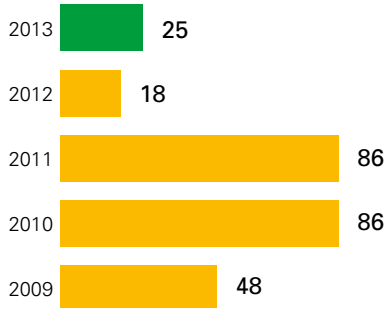
Production volume, *thousand tonnes*



Production drilling meterage, *thousand m*



Capital investments, *million USD*



04-3 BLOCK

04-3 Block within the bounds of which Thien Ung-Mang Cau is located is situated in the northern part of Southern NamConSon, deep in the southern shelf of SRV, 280 km S-E of Vungtau.

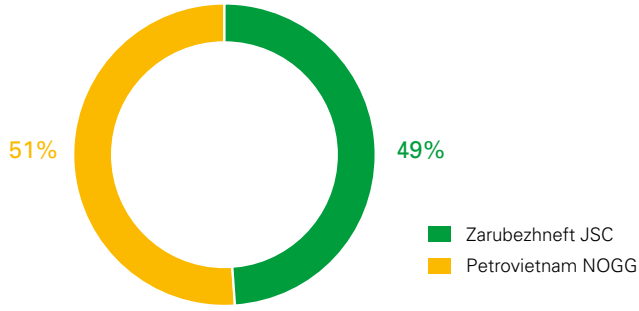
On June 26, 2009 based on commercial discovery, Petroleum Contract No20-290/09 was signed between Petrovietnam and Contractor – Petrovietnam and Zarubezhneft in relation to 04-3 Block, off the shore of the Socialist Republic of Vietnam.

In August 2013, drilling of the second obligatory well in Bo Cau was completed, and minimal work obligations for Phase 1 and 2 of prospecting and exploration period were fulfilled.

In October 2013, Zarubezhneft approved the report "Revised additional options of Thien Ung-Mang Cau field development considering a NCS-2 gas pipeline hook-up to the Bach Ho field process structure".

IN DECEMBER 2013, A SALES AGREEMENT WAS SIGNED FOR THIEN UNG FIELD GAS BETWEEN PETROVIETNAM AND CONTRACTOR – PETROVIETNAM AND ZARUBEZHNEFT. AN MCM WORK PROGRAMME AND BUDGET FOR 2014 WERE APPROVED AS PER THE EARLY PRODUCTION PROGRAM (EPP) FROM THIEN UNG FIELD 2013, AND APPROVED IN THE MINISTRY FOR INDUSTRY AND TRADE OF SRV, BASED ON WHICH FURTHER BLOCK DEVELOPMENT IS CONTINUED.

Ownership structure



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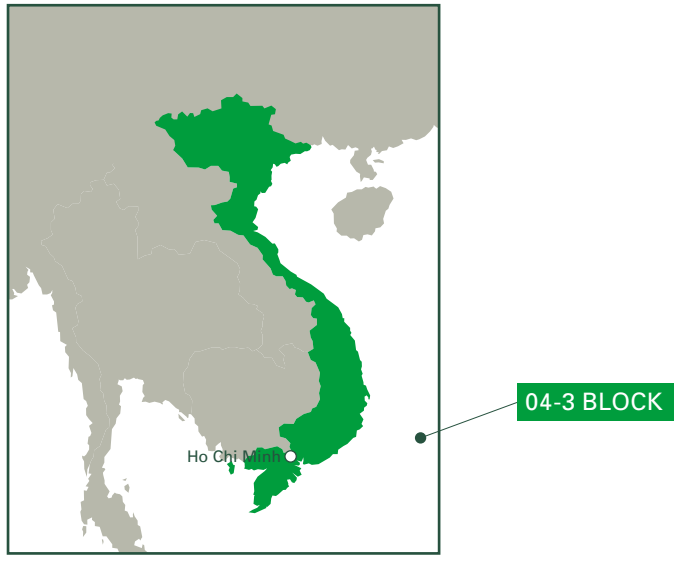


REPUBLIC OF CUBA

BLOCK L

Zarubezhneft is conducting its activities in the Block L of the continental shelf in the Republic of Cuba in accordance with the Agreement of International Economic Association No696, dated 3 November 2009. The duration of the agreement is 25 years. Return on investments of Zarubezhneft was provided for by PSC terms.

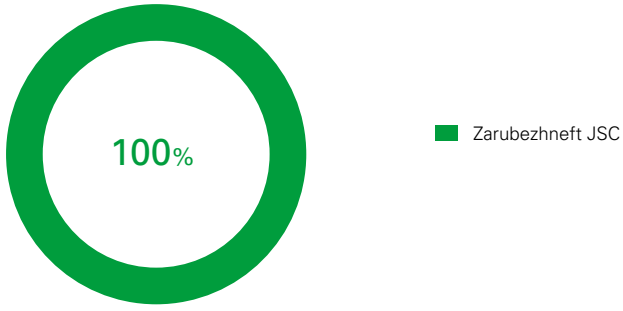
In 2011, 2D seismic operations were carried in the volume of 300 line km and 3D seismic operations – 1,973 km^2.

THE PETROLEUM POTENTIAL OF THE BLOCK IS CONNECTED WITH CARBONATE JURASSIC AND CRETACEOUS DEPOSITS.

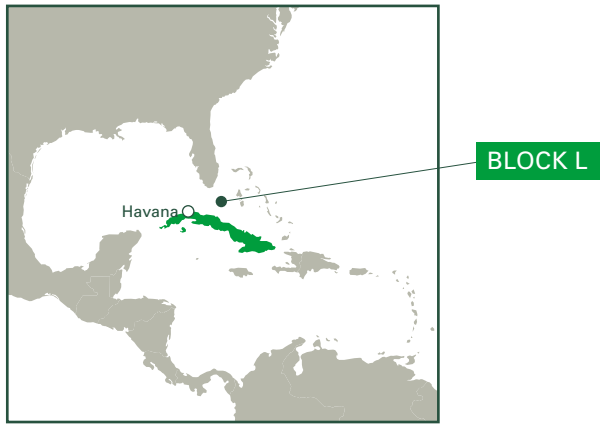
In 2013, in Almedina structure located within Block L, the L-01X vertical exploratory well was drilled, and Eocene-Miocene deposits and Upper Cretaceous rocks were penetrated. As a result of exploration operations, a large scope of geological data was obtained, however the drilling process itself was accompanied by complications of a geological and technical nature connected with a full drilling mud loss. Therefore, upon agreement with Cuban State Oil Company Cubapetroleo, drilling was suspended at a depth of 1,804 m.

WITH THE PURPOSE OF STUDYING AND WORKING OUT PROPOSALS ON FUTURE OPERATIONS IN BLOCK L, A JOINT WORKING GROUP WITH CUBAPETROLEO WAS ESTABLISHED AT THE START OF 2014.

Ownership structure



Location



Exlploration drilling meterage, *thousand m*

BOCA DE JARUCO

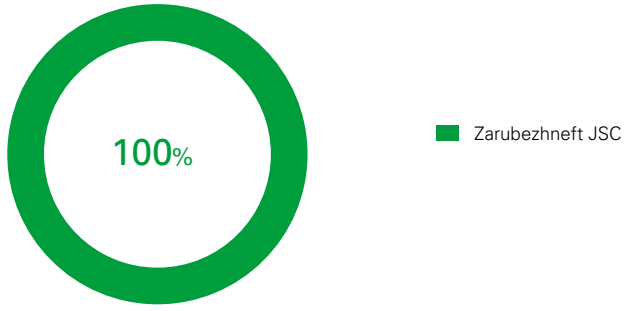
As per the Agreement of International Economic Association №228 dated 24 June 2011, JSC Zarubezhneft is conducting activities on applying EOR methods at Boca de Jaruco field. The duration of the agreement is 25 years. Return on investment of Zarubezhneft was provided for by PSC terms.

In accordance with the approved programme to conduct pilot works for testing thermal methods of E1 Formation stimulation in Boca de Jaruco field, drilling of three producing steam injection wells is being carried out (BJ-2001, BJ-2002, BJ-2003) in E1 Formation.

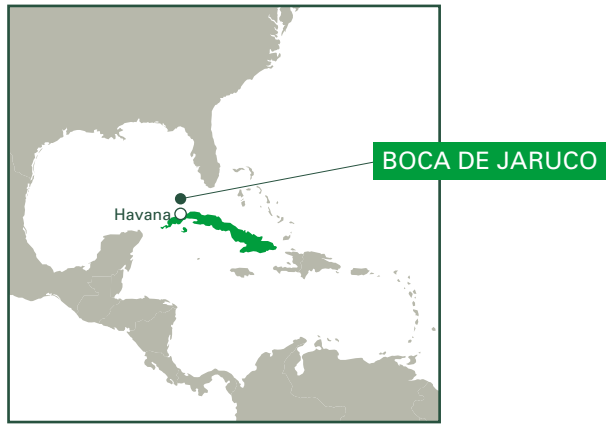
In 2013, the Pilot Area Development Project was expanded, with the BJ-2001 Well Drilling Programme and design and estimate documentation for general contractor agreement was signed with ERIELL Oilfield Services B.V. for the drilling and completion of six producing steam injection wells More than 20 associated auxiliary agreements were also concluded.

IN THE PERIOD FROM AUGUST TO DECEMBER 2013, THE BJ-2001 FIRST WELL WAS DRILLED (OF 1950M DEPTH ALONG THE WELL HOLE) AND BJ-2002 SECOND WELL DRILLING STARTED, WITH A VIEW TO COMPLETION IN MARCH 2014. SPUDDING AT BJ-2003 WELL WAS PLANNED FOR APRIL 2014.

Ownership structure



Location



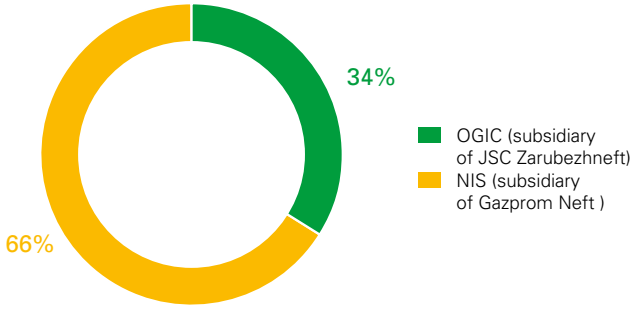
Exlploration drilling meterage, *thousand m*

BOSNIA AND HERZEGOVINA

JADRAN NAFTAGAZ

JADRAN NAFTAGAZ D.O.O. WAS ESTABLISHED ON 14.12.2010 IN THE REPUBLIC OF SRPSKA BY NIS A.D. NOVI SAD (66%) AND OGIC (34%) WITH THE PURPOSE OF OIL AND GAS EXPLORATION AND PRODUCTION IN REPUBLIC OF SRPSKA.

Ownership structure



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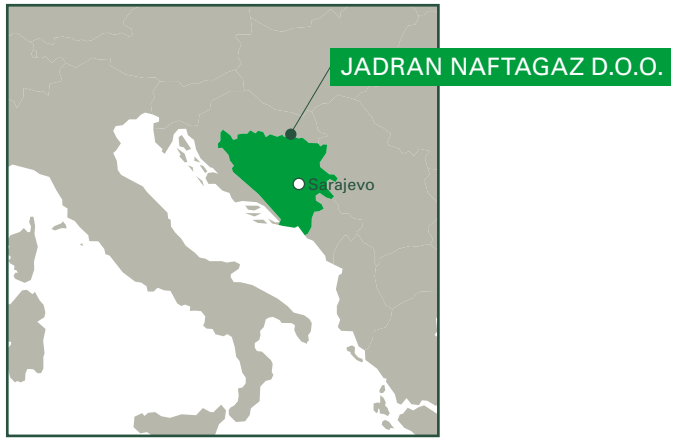


License obligations under concession	Scope of works	Actual status
Reprocessing of seismic survey data and project works	2,000 line km	Completed
2D seismic operations	2,100 line km	Completed
3D seismic operations	200 km^2	
Exploration wells drilling to the depth of up to 3500 m	5	2
Deactivation of old abandoned exploration wells	2	2

Concession Agreement for hydrocarbons exploration and operation in the territory of the Republic of Srpska №05.01/31-1114/11 dated 26.09.2011.

In accordance with obligations under the concession of Jadran Naftagas d.o.o., the following works have been carried out:

- Reprocessing of seismic data (2,000 line km);
- Exploration wells engineering;
- 2D seismic operations (2,100 line km);
- Deactivation of 2 old abandoned exploration wells;
- Drilling of 2 exploration wells.

RUSSIAN FEDERATION

JOINT COMPANY RUSVIETPETRO

The major Russian asset of the company – the production of hydrocarbons – is effected within 4 blocks of the Central Khoreyver Uplift in the Nenets Autonomous Area.

IN 2013, RUSVIETPETRO INCREASED ITS PRODUCTION INDEX BY 34% COMPARED TO THE YEAR 2012. OIL PRODUCTION GROWTH RESULTED FROM ACTIVE DRILLING IN THE MOST PROLIFIC FIELD, WEST KHOSEDAYU.

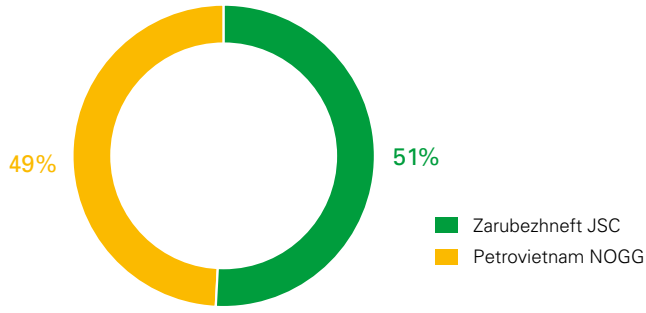
All of the project solutions of the Joint Company RUSVIETPETRO have been aimed at the maximum use of the associated petroleum gas for electricity generation for in-house needs. The trial run of Energy Centre No 2, based on two gas turbine units, allowed the Company to increase the level of associated petroleum gas use by up to 30%.

RECOVERABLE RESERVES GROWTH FOR THE YEAR 2013 AMOUNTED TO

2,078

THOUSAND TONNES

Ownership structure



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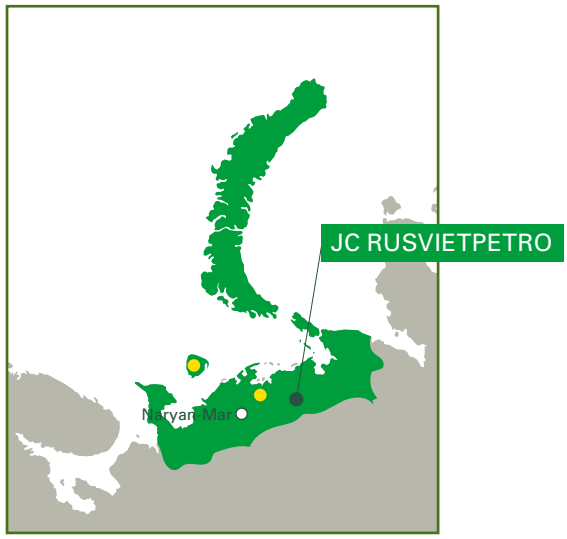
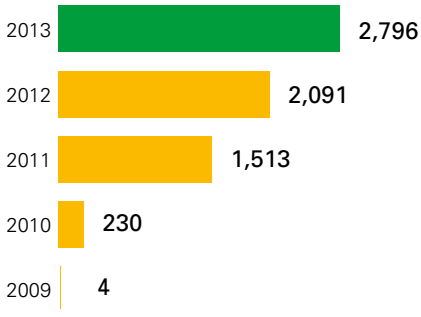
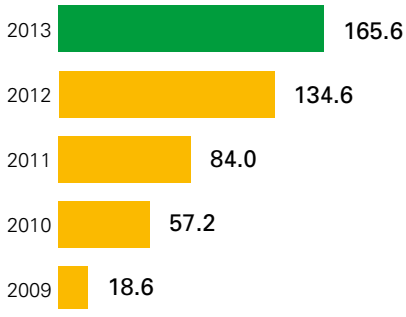


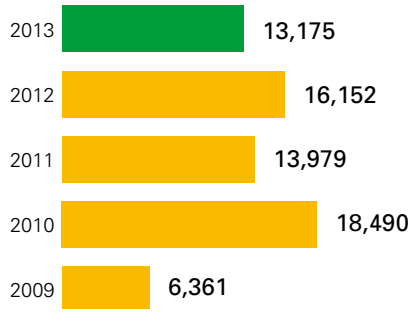
Production volume, *thousand tonnes*



Production drilling meterage, *thousand m*



Capital investments, *million roubles*



KHARYAGA PSC

ZARUBEZHNEFT ENTERED THE PROJECT OF KHARYAGA PSC ON 01.01.2010, WITH A 20% PARTICIPATION SHARE. THE PROJECT'S OPERATOR IS TOTAL E&P RUSSIE (40%). PARTICIPANTS IN KHARYAGA PSC ARE STATOIL SVERIGE A.B. (30%) AND NENETS PETROLEUM COMPANY JSC (10%).

In 2013, work began on strengthening the position of the Russian participants within the framework of Kharyaga PSC project implementation. The consolidation of shares with Nenets Petroleum Company (by means of a commission agreement concluded between Zarubezhneft and Nenets Petroleum Company) enabled Zarubezhneft to enter the Joint Committee of Kharyaga PSC in one of the seats belonging to the operator for a joint representation of the interests of the Russian participants.

Production volumes in 2013 for Kharyaga PSC totalled 1,555.9 thousand tonnes. There are 21 active wells, the depletion of recoverable reserves is 25%, and current production water-cut is 45%.

In accordance with the Annual Programme and Budget for 2013, works on oil and associated gas, production well drilling, workover jobs, and the construction of infrastructure, field facilities and other activities were implemented. During 2013, three wells (i.e. P-2086, P-2088, I-2072) were drilled.

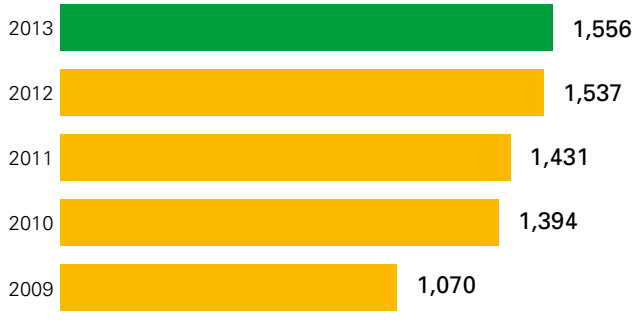
In December 2013, the Joint Committee of Kharyaga PSC approved Addendum No2 to the plan of development of the target formations of the Contract Area dated 2005. In that, the document current status of the development and the scheme of comprehensive (integrated) development of production formations, as well as the main areas of investor activity in the long-term period up to the expiry of the PSC have been determined.

One of the most important tasks in 2013 was to solve the issue of associated petroleum gas flaring in accordance with the Decree of the Government of RF, for which it is required to upgrade CPF that will allow for the increase of associated gas utilisation in the future (from 26% to 95%).

The result of the work done was a signing of documents in accordance with conditions of which the date of completion of construction and installation jobs in relation to all process and engineering systems at CPF required for a full processing, utilization and export of the natural gas produced and cessation of gas flaring is 18.12.2014.

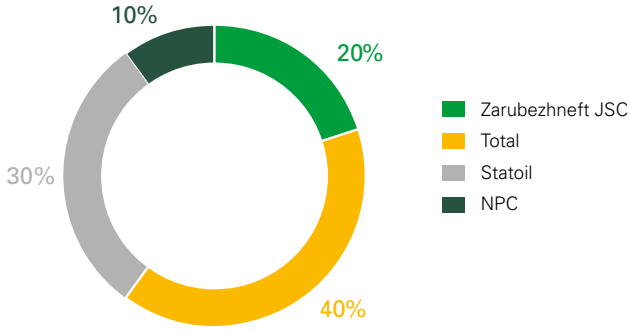
WITHIN THE REPORTING PERIOD AT KHARYAGA FIELD HSE MANAGEMENT OPERATIONS, OIL AND GAS BLOWOUTS, FIRE AND INDUSTRIAL INJURIES PREVENTION AT THE FACILITIES AND EMPLOYEE LABOUR CONDITIONS IMPROVEMENT WORKS IN ACCORDANCE WITH THE STANDARDS ADOPTED IN THE OIL INDUSTRY OF THE RUSSIAN FEDERATION (RF) HAVE BEEN CARRIED OUT.

Production drilling meterage, *thousand m*

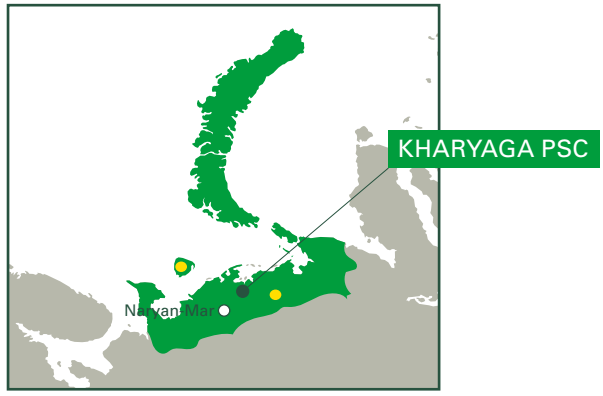


KHARYAGA PSC PROJECT HAS GOOD DEVELOPMENT AND FORMATION PROSPECTS FOR THE NEXT TWO DECADES.

Ownership structure



Location

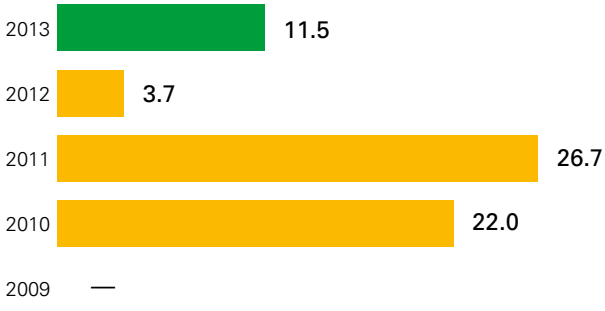


EXTENT OF PRODUCTION GROWTH

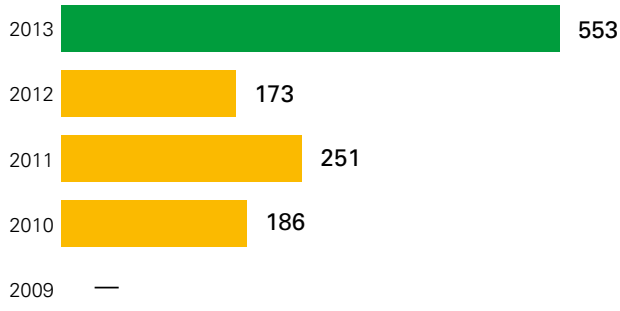
19.0 ▲

THOUSAND TONNES

Production drilling meterage, *thousand m*



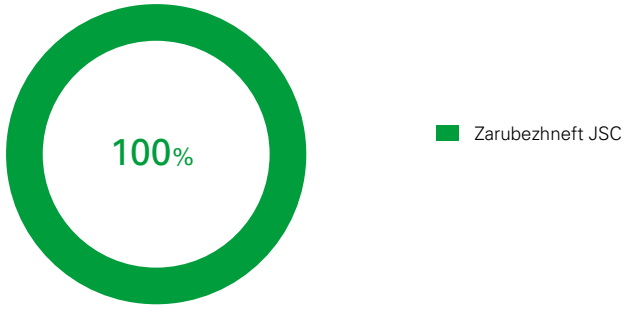
Capital investments, *million roubles*



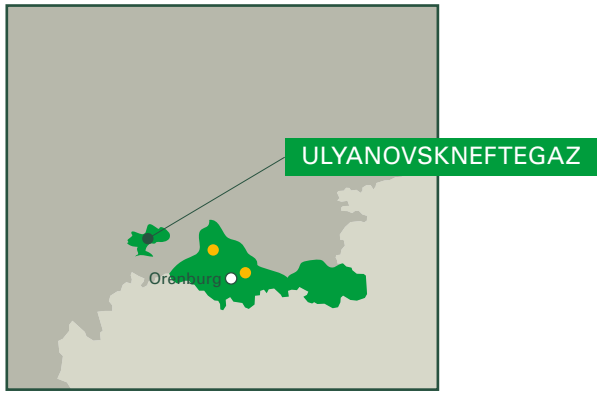
ULYANOVSKNEFTEGAZ (UNG)

Oil-producing asset located in the Near Volga Upland of the Central Russia. The depletion of formations to be developed for UNG Ltd. is between 1% and 4% in Kondakovskoye and Sulakskoye fields and between 27% and 71% in Slavkinskoye and Ruzhevskoye fields, with an average oil water-cut of up to 40%.

Ownership structure

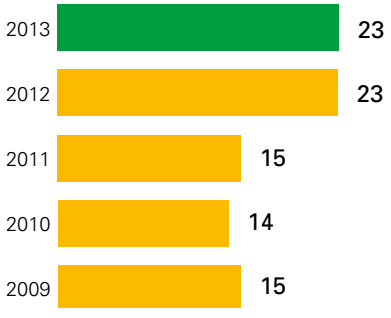


Location

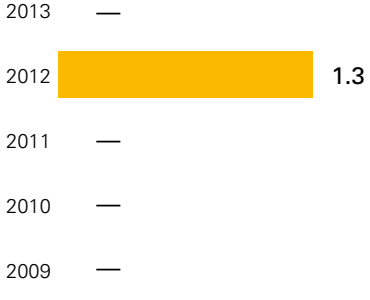


STABLE OIL PRODUCTION IN GENERAL IN UNG IS CONNECTED WITH OIL LOSS REDUCTION AS A RESULT OF POWER LINE COMMISSIONING AND THE EXECUTION OF OPTIMISATION ACTIVITIES IN KONDAKOVSKOYE AND SULAKSKOYE FIELDS.

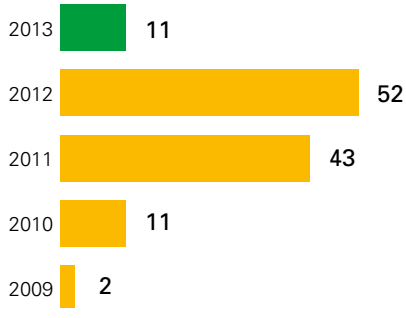
Production volume, *thousand tonnes*



Production drilling meterage, *thousand m*



Capital investments, *million roubles*



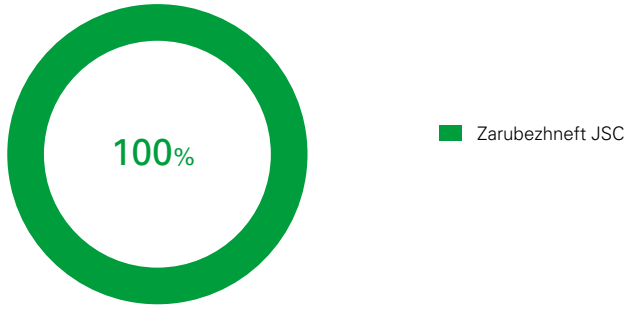
ORENBURGNEFTEOTDACHA

Orenburgnefteotdacha was established by a resolution of the founders based on the agreement of the company's establishment dated 10.3.1999. It is an oil-producing asset located in the Near Volga Upland of Central Russia.

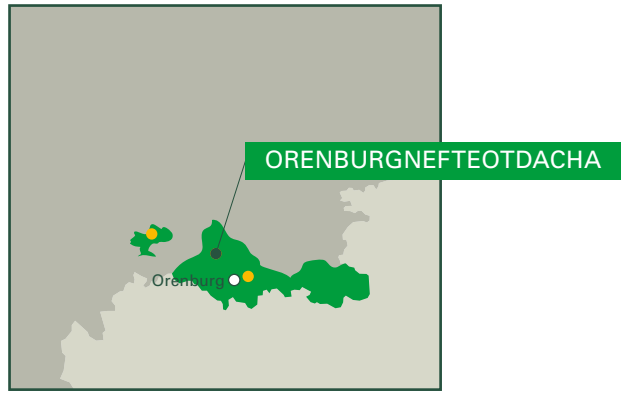
The purpose of the company's foundation was to carry out works for rational field development, oil production and sales in accordance with the licence terms for subsoil use at the Kirsanovskoye, Pashkinskoye and Chernovskoye fields, conducting industrial tests and the introduction of new oil production stimulation and EOR technologies. Licences are valid up to 31 May 2033.

ONE OF THE MOST IMPORTANT TASKS OF THE COMPANY IN 2013 WAS THE CONTINUATION OF WORK TO IMPROVE THE OPERATION EFFICIENCY OF THE CURRENT DECLINING WELL STOCK. THERE AS A POSITIVE OUTCOME FROM THE GEOLOGICAL AND TECHNICAL ACTIONS HELD IN PASHKINSKOYE FIELD (THE INTRODUCTION OF EQUIPMENT FOR SIMULTANEOUS AND SEPARATE FORMATIONS OPERATIONS). INCREMENTAL OIL PRODUCTION BASED ON THIS EQUIPMENT TOTALED 1,781 TONNES.

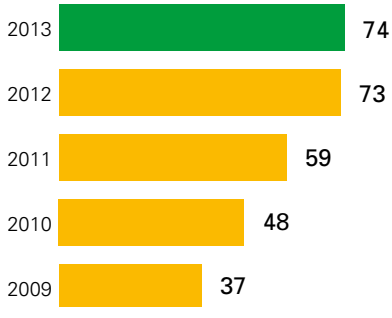
Ownership structure



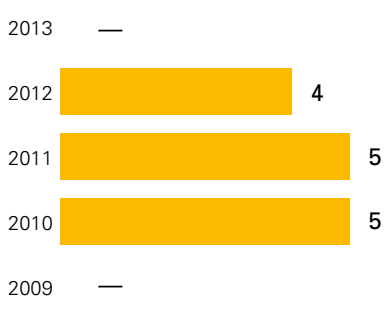
Location



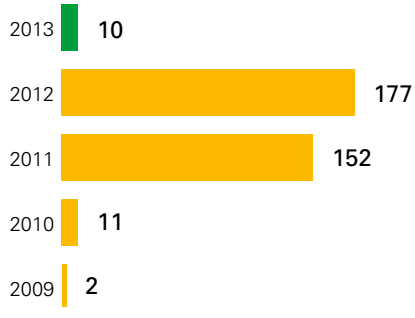
Production volume, *thousand tonnes*



Production drilling meterage, *thousand m*



Capital investments, *million roubles.*



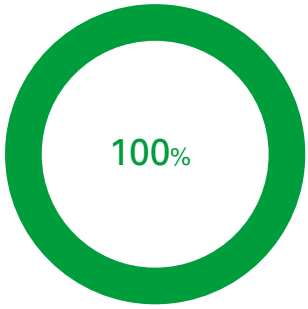
KOLGUEV OIL AND GAS PRODUCTION DEPARTMENT

This asset is located in the northwest part of Timan-Pechora province in Kolguev Island, in the territory of the Nenets Autonomous Area of the Arkhangelsk region, 200 km from Naryan-Mar.

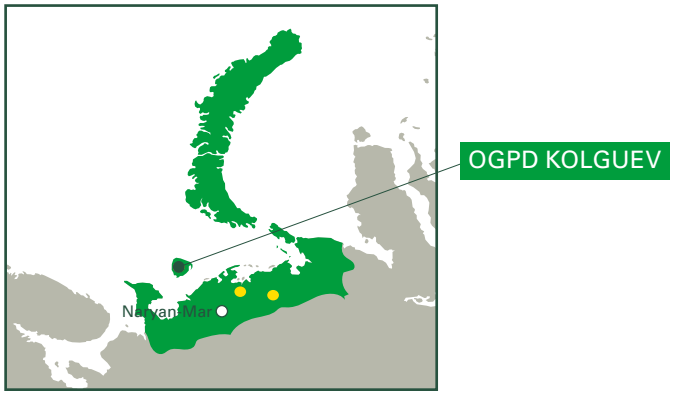
The company is producing oil from the central block and the eastern part of the western block of Peschanoozerskoye field. As of 01.01.2014, 36% of approved recoverable reserves are recovered; the average oil well rate is 1.7 tonnes per day, and there are 33 active producing wells, with 90% of the active well stock operated in periodic mode.

AS OF 01.01.2014, 36% OF APPROVED RECOVERABLE RESERVES ARE RECOVERED; THE AVERAGE OIL WELL RATE IS 1.7 TONNES PER DAY, AND THERE ARE 33 ACTIVE PRODUCING WELLS, WITH 90% OF THE ACTIVE WELL STOCK OPERATED IN PERIODIC MODE.

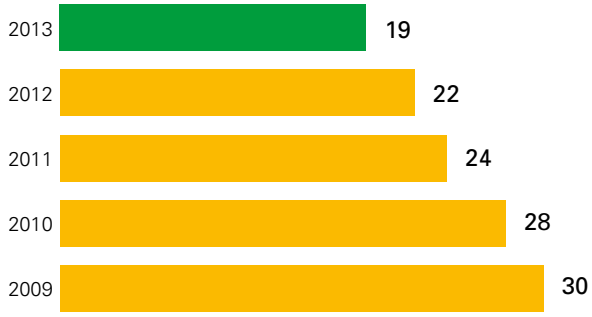
Ownership structure



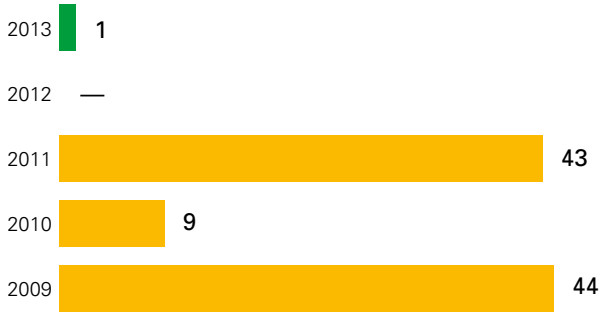
Location



Production volume, *thousand tonnes*



Capital investments, *million roubles*



DOWNSTREAM

Zarubezhneft's project for the reconstruction and upgrading of enterprises of its Downstream segment in Bosnia and Herzegovina was started on February 2, 2007 after the signing of an agreement with the Government of the Republic of Srpska (Bosnia and Herzegovina [BiH] State) on the purchase of the Brod Oil Refinery, Modrica Oil Production Plant and retail network of Nestro Petrol that comprised 79 fuel stations at the time of purchase.

The following enterprises are included in the segment:

Company's name	Year of establishment	Year of entering the project	Location	Major lines of activity	Ownership share
OPTIMA Group Ltd.	2008	2008	BiH, Banja Luka	Oil purchases, wholesale and small wholesale trade of oil products in domestic and export markets	100.00%
Brod Refinery	1968	2007	BiH, Brod	Refining, oil products production	79.69%
Modrica Oil Production Plant	1957	2007	BiH, Modrica	Base oils and paraffin production, motor oils and lubes production and sales	75.65%
Nestro Petrol	1945	2007	BiH, Banja Luka (head office)	Wholesale trade of oil products and associated goods	80.00%
OGIC	2002	2007	Russian Federation, Moscow	Major loan debtor for the Project's implementation, controlling shareholder of BiH enterprises	95.00%

BROD OIL REFINERY

REFINING THROUGHPUT IN 2013 CORRESPONDS TO THE LEVEL OF THE PREVIOUS YEAR.

REFINERY YIELD COMPARED TO THE PREVIOUS PERIOD HAS BEEN INCREASED IN REAL TERMS BY 3.4%, WHILE FUEL AND LOSSES VALUE HAS BEEN DECREASED BY 1.1%.

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

Products produced by the Refinery include the following types of oil products:

- Motor gasoline
- Diesel fuel
- Bitumen
- Fuel oil
- Heating oil
- Liquefied gas
- Raw materials for base oils and paraffin production.

In 2013, the company was actively engaged in activities aimed at business improvement.

Within the framework of investment programme implementation in the reporting period, the following projects of improvement have been realised and the following facilities have been commissioned:

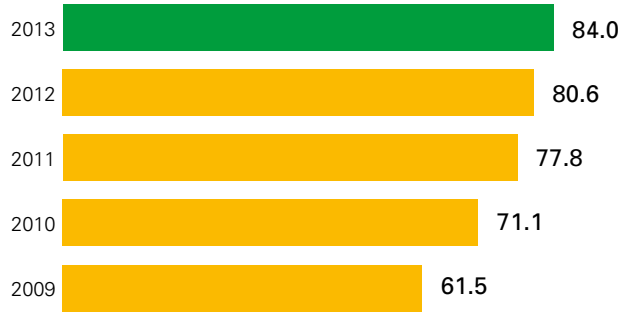
- Bitumen cooling and packaging unit (expanding bitumen sales market due to cooling and packing in big bags);
- Reformate splitter unit that allowed to produce Euro-5 gasoline;
- Oil quality measurement unit (record of oil supplies at refinery);
- Additional equipping of sulphur production unit with pastillisation unit (enabling sulphur shipment over long distances);
- Reconstruction of MTBE, diesel fuel, oil discharge berth (speeding up of initial product and oil-products shipment);
- Upgrading of condensate return from tank farm system (steam and water saving);
- Upgrading of tracing steam system of 31, 32, 35 sections (water steam saving);
- Meteorological station (fulfilling of ecological requirements);
- Upgrading of the network water heating system (heat and steam saving).

A programme of the Brod Refinery further development provides for realisation of the following activities:

- Construction of a new boiler house with the purpose of satisfying the requirements of the units and off-site utilities with MP and LP steam, reducing the costs of fuel, electrical energy, harmful substance emissions into the atmosphere;
- Reconstruction of the vacuum creating system of CDU in order to decrease steam consumption, prevent hydrocarbons entering into the atmosphere and industrial sewage system;
- Upgrading of Switchgear-6kV and Switchgear-0,4kV of P-20 substation in order to ensure reliability of refinery power supply and replace worn-out and obsolete equipment;
- Transferring trunk pipeline heating to electrical heating in order to decrease steam consumption and routine repair costs, with automation of the heating process;
- Gasification of Brod Refinery in order to improve environmental situation and fulfill EU environmental standards requirements regarding sulphur oxides emissions.

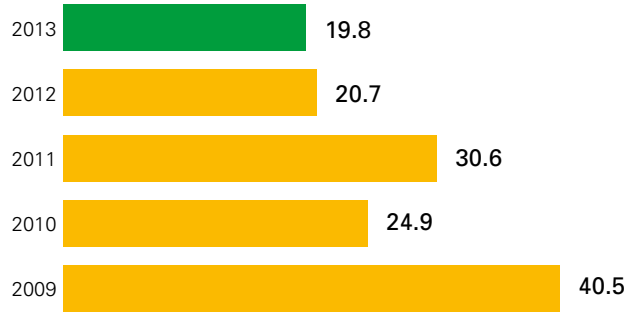
Refining throughput, *thousand tonnes*

Refinery yield, *%*



Losses and in-house needs, *%*

Investments, *Million Euro*



MODRICA OIL PRODUCTION PLANT

MODRICA OIL PRODUCTION PLANT IS THE ONLY PLANT FOR OIL AND LUBRICANT PRODUCTION IN BIH'S TERRITORY. IT OCCUPIES THE THIRD PLACE IN EUROPE IN TERMS OF CAPACITY AMONG PLANTS FOR THIRD OIL GROUP PRODUCTION.

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

- Base oils;
- Paraffin;
- Lubricants and liquids for motor vehicle equipment;
- Lubricants and liquids for industrial units;
- Motor oils for gasoline and diesel engines;
- Industrial oils and liquids for metal working;
- Lubricant greases.

Modrica Oil Production Plant's products are certified by major motor vehicle and industrial machinery producers (Audi, Volkswagen, BMW, Daimler-Chrysler, Opel, Scania, Volvo, MAN, Caterpillar, John Deere etc.), and also by Hyundai and KIA Motors, South Korean companies actively working in the European market who essentially increase its product competitiveness.

The change in production volume and motor oil and lubricant sales in 2013 in relation to the previous period is caused by a change in the structure of production in connection with the centralisation of the oils sales function in tanks in Optima Grupa.

The dynamics of the structure of motor oil and lubricant sales show preservation of the general selling policy of these products within the period concerned – 60% of the total volume the plant sells in BiH's market and 40% of the products are sold in foreign countries (Serbia, Kosovo, Montenegro, Macedonia, Croatia, Slovenia).

In 2013, the company implemented an investment programme aimed at supporting the working capacity of existing production and increasing production activity efficiency by upgrading and automating production, leading to a cost reduction for motor oil and lubricant production.

A major investment project is the construction of a new oil mixing complex with a design capacity of 40,000 tonnes per year. Commissioning of the facility is scheduled for 2014.

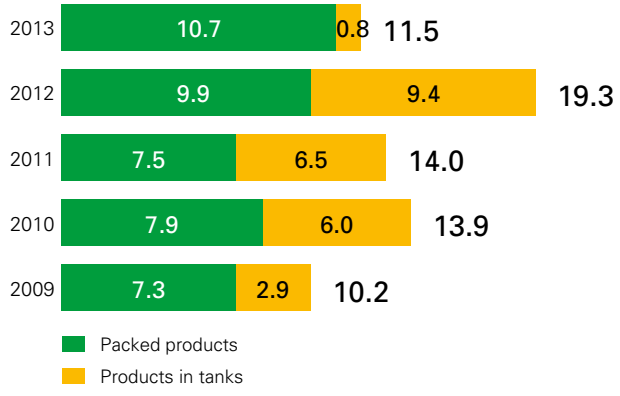
Implementation of technical and organisational measures at the refinery resulted in a reduction of the specific parameters of resources consumption, including: fuel oil by 53%, electric power by 33.6%, and water, by 64.5%.

The direction of Modrica Oil Production Plants' development in the near future includes further optimisation of production operation and the implementation of marketing activities aimed at promoting the refinery's products in the markets of the former republics of Yugoslavia. The synergistic effect from sales centralisation in the Optima Group will also be leveraged.

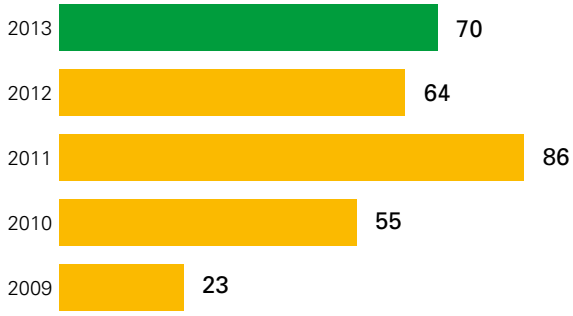
IN 2013, LUBE DISTILLATE THROUGHPUT EXCEEDED LAST YEAR'S LEVEL BY 9.4%.

IN BIH'S OIL AND LUBRICANT MARKET, MODRICA OIL PRODUCTION PLANT'S PRODUCTS HAVE A 35% SHARE.

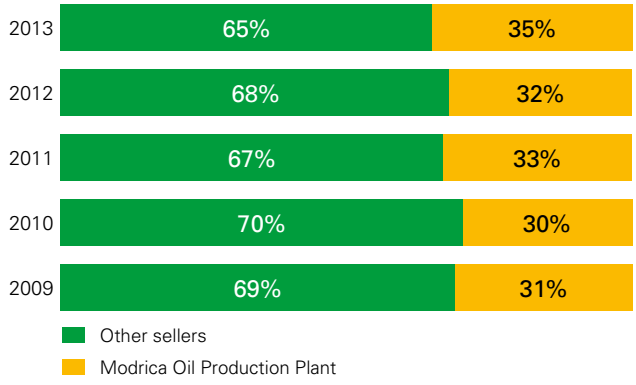
Motor oils and lubricants sales, *thousand tonnes*



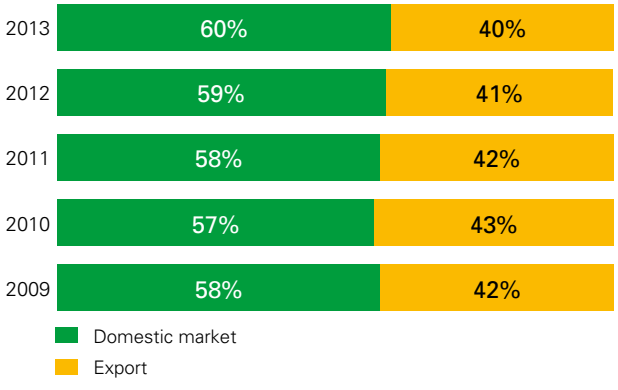
Oil distillate refining, *thousand tonnes*



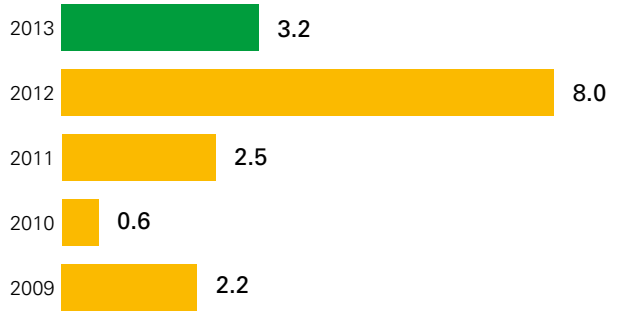
Share of sales of motor oils in domestic market, *%*



Structure of motor oils sales by markets, *%*

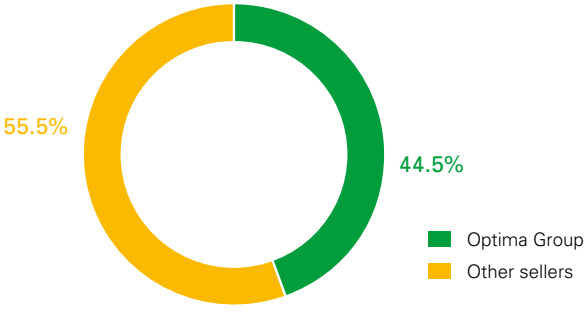


Investments, *million Euro*



OPTIMA GROUP

Share of oil products sales in domestic market as of 31.12.2013



Optima Group is engaged in the wholesale distribution of Brod Refinery's oil products and Modrica Oil Production Plant's base oils and paraffin.

In 2013, the company continued with the realisation of its selling policy for oil products aimed at increasing the share of small and medium buyers, thereby increasing the sales margin of Optima Group thanks to the profits of large distributors.

The structure of oil product realisation in sales markets in 2013 shows a small increase in sales share in the domestic market (74%) against the previous period (73%).

Based on the results of commercial activity in 2013, the share of refinery products realised by Optima Group in the Bosnia and Herzegovina market amounted to 44.5%.

The Company's key short-term goals are the following:

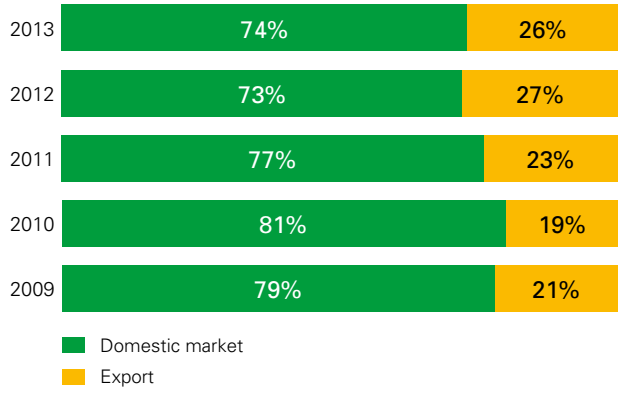
- Increasing sales volumes on the most marginal domestic markets,
- Increasing sales share to end buyers
- Developing new sales channels for dark oil products (reduction of distributors' share, entering new regional markets, exploring the potential of the packed bitumen and vacuum gasoil),
- Developing the logistics for and creation of loading stations in the Federation of Bosnia and Herzegovina, with evaluation of the terminal's potential in Croatia,
- Developing the domestic market with an increase in sales through a retail network of independent operators, with the opening of a sales office in Sarajevo,
- Development of the external market through establishing long-term relationships with partners in Croatia, Serbia, Austria, Italy, Slovenia and Montenegro,
- Increasing the packaged oils sales on the domestic market, with expansion of the oil refinery's new products strategy, optimisation of the product mix, and the development of new products.

THE STRUCTURE OF OIL PRODUCT REALISATION IN SALES MARKETS IN 2013 SHOWS A SMALL INCREASE IN SALES SHARE IN THE DOMESTIC MARKET (74%) AGAINST THE PREVIOUS PERIOD (73%).

BASED ON THE RESULTS OF COMMERCIAL ACTIVITY IN 2013, THE SHARE OF REFINERY PRODUCTS REALISED BY OPTIMA GROUP IN THE BOSNIA AND HERZEGOVINA MARKET AMOUNTED TO 44.5%.

Oil products wholesale trade, *thousand tonnes*

Structure of oil products sales at the markets, *%*



NESTRO PETROL

THE RETAIL SALES OF OIL PRODUCTS, AS WELL AS ADDITIONAL ITEMS FROM THE PRODUCT RANGE, ARE EFFECTED THROUGH THE RETAIL SALES NETWORK, WHICH INCLUDES 83 EXISTING FUEL STATIONS, WITH 72 FUEL STATIONS BEING LOCATED IN REPUBLIC OF SRPSKA AND 11 FUEL STATIONS IN THE FEDERATION OF BOSNIA AND HERZEGOVINA.

The retail trade volume of oil products at the company's fuel stations is increasing annually. In 2013, fuel retail trade growth grew by 5.5% against the previous year's level.

In the reporting period, the company completed fuel station rebranding and strengthened its position on the local market. Implementation of the fuel station rebranding programme has ensured consistent growth of the average daily fuel sales volume per fuel station.

In 2013, within the framework of realisation of the investment programme, the following activities were accomplished:

- implementation of the programme for gas equipment installation at fuel stations started (the programme is intended for 15 fuel stations),
- works on 3 fuel stations rebranding and 1 fuel station reconstruction completed,
- main scope of works for construction of manufacture's store for Modrica Oil Production Plant's products sale completed.

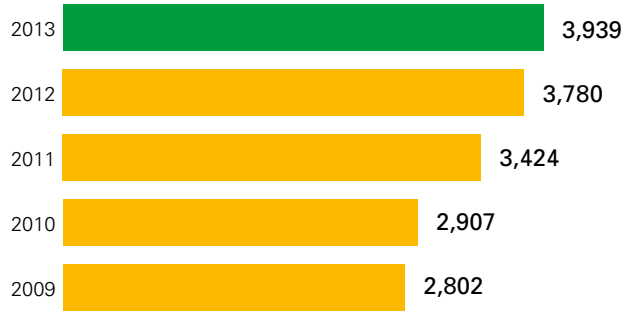
In future, the Company is planning to continue realising actions aimed at increasing operational efficiency and the profitability of fuel and other product sales.

Major areas of activities for the company include:

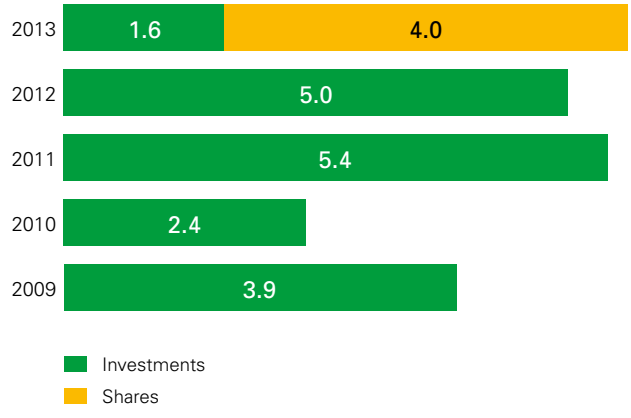
- Increasing service quality by introducting a dedicated customer service line; opening a training centre for fuel station managing personnel, and introducing a "mystery consumer" programme;
- New project implementation: a "social card" discount programme for multi-child families; the "Nestro Agrarian card" discount programme for agricultural producers; and the introduction of a new automated night-time service at fuel stations with self-service terminals;
- Developing domestic market sales in domestic through the purchase or rental of fuel stations, thereby increasing marketing opportunities within the network, including in new regions.

THE RETAIL TRADE VOLUME OF OIL PRODUCTS AT THE COMPANY'S FUEL STATIONS IS INCREASING ANNUALLY. IN 2013, FUEL RETAIL TRADE GROWTH GREW BY 5.5% AGAINST THE PREVIOUS YEAR'S LEVEL.

Average sales volume per 1 fuel station per day, *L/d*



Investments, *million Euro*



SERVICE AND OTHER ASSETS

The service assets segment of the Zarubezhneft Group of companies is represented by the enterprises engaged in building the oil and gas facilities infrastructure, carrying out exploration, drilling operations and field surface facilities construction, oilfield equipment supply, scientific research and planning and surveying works performance, and the provision of high-tech services.

In total, 6 enterprises are included under this segment:

Affiliate name	Company profile
AMNGR JSC	Company renders services in the oil and gas sphere under the following areas of activity: • Drilling: by Murmanskaya jack-up rig – construction of exploration wells off the shore of Vietnam; by Deep Venture DV – construction of exploration wells off the shores of India and Indonesia); • Marine transport services by A. Akhmatova PV – servicing of Offshore Ice-Resistant Fixed Platform Prirazlomnaya, by supply vessel Neftegaz – 51 and supply vessel Neftegaz – 57; servicing of Arkticheskaya jack-up, by supply vessel Neftegaz – 55 and supply vessel Pasvik; servicing of Sakhalin Island's platforms); • Cargo-handling port servicing (as part of process berths No10, 11, 12 and cargo berths No3, 4, 5); • Auxiliary production: maintenance engineering station, operation base Prityka and Prichalnoye professional technical training school.
VNIIneft JSC	Scientific research institute for solving problems in oil field development and oil recovery enhancement. Major areas of activity: • Scientific and research works: working out and application of EOR methods, petrophysical core analysis, formation fluids property analysis, well hydrodynamic research, analysis of investment potential of oil and gas projects, expert and patent research; • Design and survey work: engineering and analysis of oil and gas fields development, geological simulation, reserves calculation, drilling support and monitoring of the raw materials base status, ecology, economics of oil fields development.
Giprovostokneft JSC	Operating scientific organisation rendering engineering services and design and implementing survey works (independent verification and validation of design documentation, carrying out of studies in the area of drilling and issue of well construction projects, planning stage of design, engineering surveys for construction, the integrated design of field development and oil and gas industry facilities and installation, construction and reconstruction projects) and scientific research works for oil and gas complex enterprises.
Zarubezhneftestroymontazh	An enterprise which carries out works for the organisation of construction, reconstruction, workover, construction control, and design documentation preparation by the engaged developer or customer based on agreement with a legal representative (general contractor) for Joint Company RUSVIETPETRO, Brod Refinery and Modrica Oil Production Plant.
RMNTK Nefteotdacha JSC	An enterprise which carries out works on technical and staff provision of service works at CKU fields, acts as operator of the Boca de Jaruco project in terms of conducting pilot works for the testing and introduction of steam-thermal EOR methods, and rendering oil services by an oil-producing subsidiary of Zarubezhneft.
Zarnestservis LLC	An enterprise for trading oil produced by the Zarubezhneft Group of companies in domestic and foreign markets, supplying equipment, materials and service rendering for JV Vietsovpetro needs.

The Zarubezhneft Group strategic development plans provide for a stage-by-stage transformation of the main subsidiaries of the Services Segment.

AT PRESENT	TRANSITION PERIOD	TARGET STATE
Carrying out of studies for the company's projects VNIINeft JSC *In-house orders* • Field development engineering and analysis • EOR methods	Reserves and reservoir production methods study under 2 key competences of the company: • Development of fractured hydrophobic reservoirs • Development of terrigenous reservoirs of block structure of minor thickness	**Corporate scientific center of technological competences** *In-house orders* • Engineering • Development control
General design contractor Giprovostokneft JSC *In-house and third party orders* • Basic design • Working out of RD for a project	• Design quality improvement • Commitment to cost reduction under the project through the instrument of cost minimisation at engineering stage	**Center of field facilities construction engineering** *In-house orders* • Conceptual Engineering. Costs optimisation under a project at all design stages • In interconnection with large partner
General contractor Zarubezhneftestroymontazh JSC *In-house orders* • Performance of construction and assembly operations • Performance of commissioning operations	• General contractor for RVP • Formation of a competent team for project implementation in any part of the world (in any region or zone of the company's interest)	**Organisation of surface infrastructure construction** *In-house orders*
Services rendering at CKU and Cuba RMNTK "Nefteotdacha" (Oil Recovery Complex) *In-house orders* • Hydrodynamic and hydro-physical studies • Engineering supervision and control	• Formation of supervising competence • Providing services for RVP • Formation of internal team providing 80% of the company's requirements in service • Skills practice in the rapid replacement of specialists withdrawn by the company for special projects	**Well construction organiser** *In-house orders* • Organisation of well construction and drilling supervising

ARKTIKMORNEFTEGAZRAZVEDKA

On 31 May 2012, Zarubezhneft became a majority shareholder of Arktikmorneftegazrazvedka (AMNGR) with a participation share of 100% – 1 share.
The company was established in 1979 for petroleum prospecting, exploration and development on the Arctic shelf of Russia.

AMNGR possesses over 30 years of experience in operating offshore. The company has discovered 15 oil, gas and gas-condensate fields, including unique reserves of Shtokman, Ledovoye (in Barents Sea), Rusanovskoye, and Leningradskoye (in Kara Sea) fields.

AMNGR owns the production facilities required for offshore works: the Murmanskaya jack-up drilling rig, the Deep Venture (former Valentin Shashin) drilling vessel, an auxiliary fleet, and on-shore infrastructure.

Murmanskaya jack-up rig

Jack-up rig, capable of drilling wells to a depth of up to 6,000 metres with maximum sea depth of 100 metres

Production:	1991
Upgrading year:	2014
Dimensions:	109 × 68 m
Living space, persons:	84
Total weight:	14,465 tonnes

Deep Venture DV
(former Valentin Shashin)

Vessel, capable of drilling wells to a depth of up to 6,500 metres with maximum sea depth of 1,740 metres

Production:	1982
Upgrading year:	2014
Dimensions:	149 × 28 m
Living space, persons:	116

On-shore infrastructure of AMNGR
includes:

1. Cargo-handling port-station – vessel mooring, loading, offloading.
   Lavna (Murmansk, 20th km of Pechengskoye highway), 20 berths (Murmansk, Lower Rostinskoye highway).
2. Maintenance Engineering Station (MES) – (Kola, Kildinskoye highway 2).
   Transportation group (berthing, repair, vehicle maintenance),
   Operation and energy group – repair and maintenance of power systems of AMNGR,
   Professional and technical training school.
3. Operation base Prityka Cape (Murmansk, Pechengsokoye highway, 23) – in conservation.

Auxiliary fleet of Arktikmorneftegazrazvedka

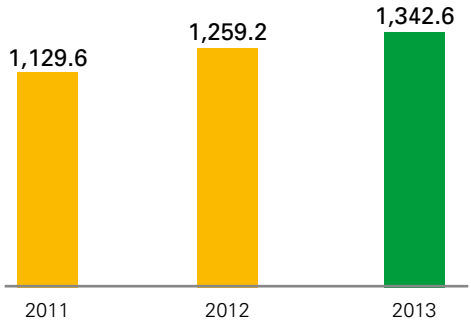
In 2013, the company completed class repair of the Murmanskaya jack-up rig. The rig re-entered service in December 2013.
Most of the works for Deep Venture DV class repair were completed in 2013. Rehabilitation of the Subsea Blowout Prevention system is ongoing.

The prospective direction of the Service Assets Segment is connected with the provision of services for scientific research and planning and surveying works performance in terms of scientific support for prospecting, exploration and the development of fields, calculation of the reserves, and works on field development design, as well as the implementation of scientific research projects. This direction is represented by 2 institutes: Giprovostokneft (Samara) and VNIIneft (Moscow).

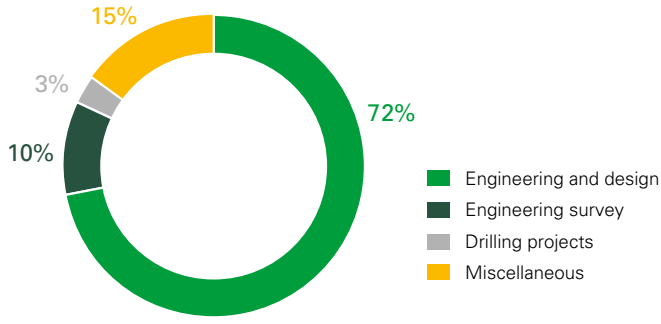
GIPROVOSTOKNEFT

In 2013, the company completed work on a project for expanding CPC pipeline system in the Russian Federation, for field surface facilities, treatment and external transportation from CKU, Suzunskoye fields, ROSPAN INTERNATIONAL, Orenburgneft, Buguruslanneft, and the well drilling projects of Orenburgneft. A conceptual design for full-scale field surface facilities construction at Kuyumbinskoye field for Slavneft-Krasnoyarskneftegaz was also developed.

Income, *million rubles*



Structure of income, GPVN, *%*

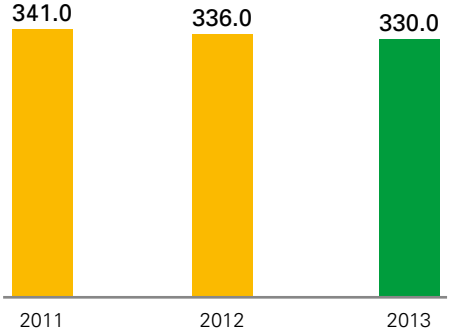


VNIINEFT

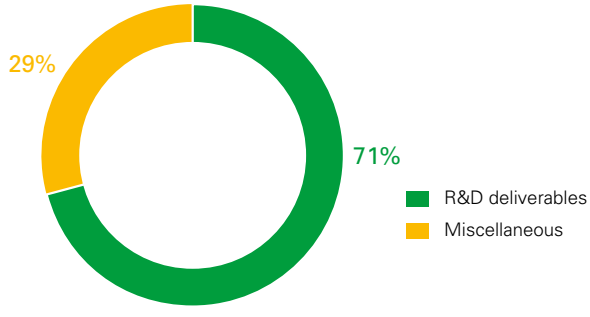
In 2013, the Company completed 63 scientific research, design and other works totaling more than 230 million roubles. Most part in the total volume of orders by number of agreement commands field development projects as well as works on EOR methods.

The main customers for engineering and design works in 2013 were: the Ministry of Energy of the Russian Federation, Zarubezhneft, JC RUSVIETPETRO, and SN-MNG, Orenburgneft. In the structure of income received from the implementation of all types of activities, the largest percentage is accounted for income from R&D deliverables.

Income, *million rubles*



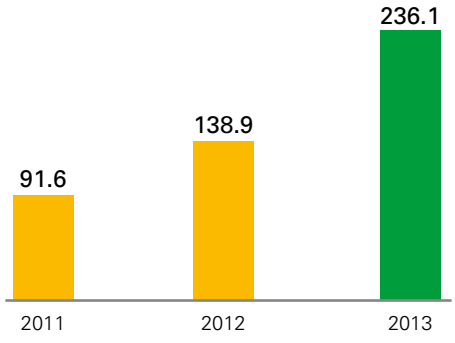
Structure of income VNIIneft, *%*



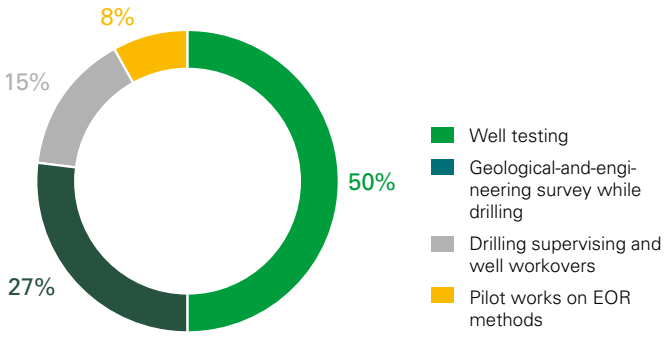
RMNTK NEFTEOTDACHA

In 2013, the company conducted pilot production area operations in Boca de Jaruco field and completed a raft of scientific research work and testing of EOR methods within the framework of the operating agreement for Boca de Jaruco field. In addition, high-tech services were rendered, including a geological and engineering survey drilling supervision.

Income, *million rubles*



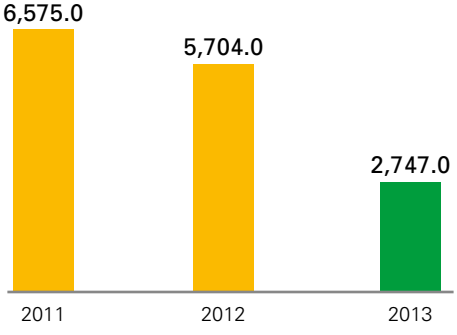
Structure of income, RMNTK Nefteotdacha, *%*



ZARUBEZHNEFTESTROYMONTAZH

In 2013, the company completed works connected with the construction of facilities for JC RUSVIETPETRO. This generated the largest part of the Company's income (87.42%, or (2,401.2 million roubles). The income dynamics for projects in Bosnia and Herzegovina are connected with a change in the scope of works by the Customer, as well as with a change in the contracting scheme.

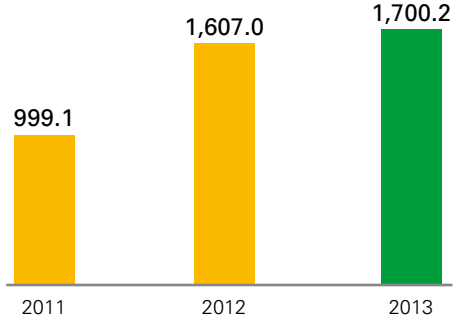
Income, *million rubles*



ZARNESTSERVICE

This company was established in order to give Zarnestservice the opportunity to supply Russian equipment, materials and services to SRV to meet JV Vietsovpetro requirements. The order portfolio for Zarnestservice is focused on the Zarubezhneft Group of companies.

Income, *million rubles*



MATERIALS AND EQUIPMENT SUPPLY GEOGRAPHY AND STRUCTURE OF THE ZARUBEZHNEFT GROUP IN 2013

In 2013, Zarubezhneft organised materials and equipment supply totalling 308.65 million USD, mostly for Russian vendors - 278.33 million USD (90.2%).

The structure and volume of materials and equipment supply is in accordance with the relevant location:

- Equipment, materials and services supply to the Socialist Republic of Vietnam (SRV)

The total amount of supplies and services rendered in SRV amounted to 70.66 million USD, including those of the Russian vendors at 65.25 million USD (92%).

In the structure of agreement for supplies there are tubular products, supply vessel rentals, the conducting of scientific research studies for JV Vietsovpetro, equipment supply and logistic services provision for the Murmanskaya jack-up rig.

- Supply of equipment, materials and services to the Republic of Srpska (for Modrica Oil Production Plant and Brod refinery reconstruction and upgrading)

In total in 2013, materials and equipment supply totalled 21.33 million USD, including those provided by Russian vendors, adding up to 10.1 million USD (47.4%). Among the most significant components of materials and equipment is a supply of drum vacuum filters for oil refineries (lube plants); a supply of ventilation and conditioning systems for oil refineries, a supply of polyethylene containers for oil refineries, a supply of equipment for boiler-room and heat tracing for refineries, the execution of engineering works on engineering, control instrumentation and construction and assembly operations for oil refineries (lube plants) and refineries.

- Supplies for the Cuban projects (L-01 well construction, Boca de Jaruco field)

The total amount of supplies to Cuba amounted to 8,38 million USD, including those sold by Russian vendors at 0.38 million USD (4.6%).

Equipment and materials supply are in the structure of supplies under Cuban projects, as well as consultancy services rendering.

- Supplies for the Russian projects (JC RUSVIETPETRO, Kharyaga PSD, Arktikmorneftegazrazvedka, Ulyanovskneftegaz, Orenburgnefteotdacha)

The largest customer (68%) is Joint Company RUSVIETPETRO, for which supplies in the amount of 141. 47 million USD were provided, including 98% sold by Russian vendors (at 139.31 million USD).

> THE TOTAL AMOUNT OF MATERIALS AND EQUIPMENT SUPPLY IS 208.27 MILLION USD, INCLUDING 202.6 MILLION USD (97%) EFFECTED BY RUSSIAN VENDORS.

In the structure of supplies there is a supply of equipment and materials for exploration and drilling operations, field surface facilities construction, tubular products, chemicals, cable products, and diesel fuel.

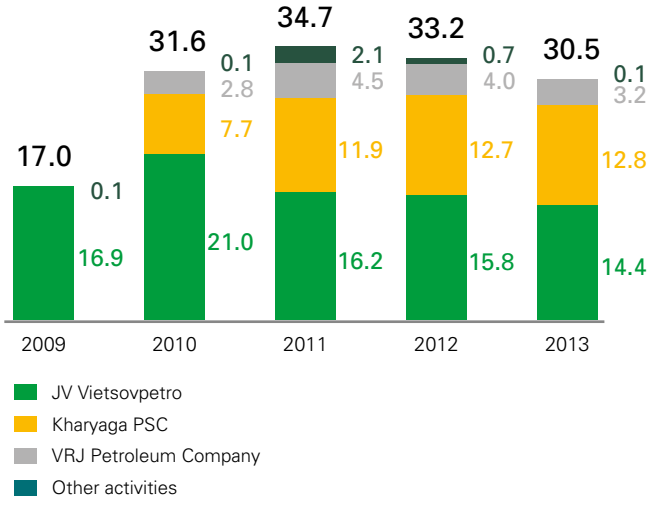
In addition, services offering research engineering, design and survey works and exploration operations, and maintenance of the vessels of Arktikmorneftegazrazvedka were provided.

INVESTMENT ACTIVITIES AND BASIC FINANCIAL RESULTS FOR ZARUBEZHNEFT IN 2013

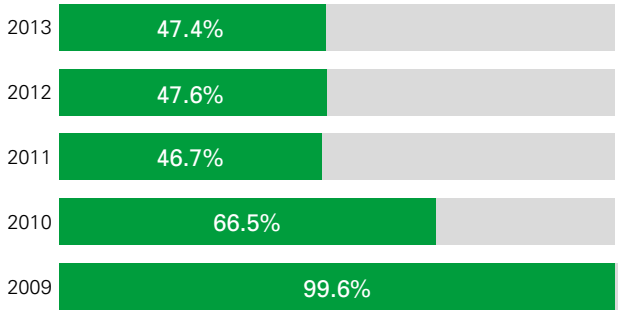
The total revenue of Zarubezhneft in 2013 exceeded 30.5 billion roubles. 47.4% (14.45 billion roubles) is traditionally the revenue from the joint operation with Joint Venture Vietsovpetro, with 10.4% (3.17 billion roubles) from implementation of the 09-3 Block (SRV) project, and 42% (12.81 billion roubles) from the Russian project of Kharyaga PSC. As part of the revenue from other activities (0.08 billion roubles), there are agreements for goods sales, production services realisation, and the rental of administrative building premises.

INVESTMENT ACTIVITY OF ZARUBEZHNEFT IN 2013 WAS CHARACTERISED BY THE CONTINUED REALISATION OF PREVIOUSLY STARTED INVESTMENT PROJECTS (THE EXPLORATION AND DEVELOPMENT OF FIELDS IN SRV AND IN CUBA, AS WELL AS THE UPGRADING OF ASSETS IN BOSNIA AND HERZEGOVINA AND IN RUSSIA).

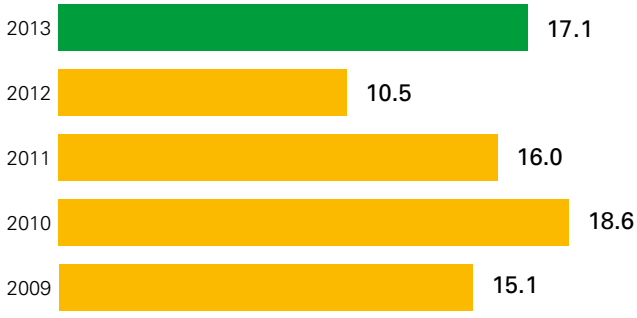
Revenue structure of Zarubezhneft for 2009–2013, *billion roubles*



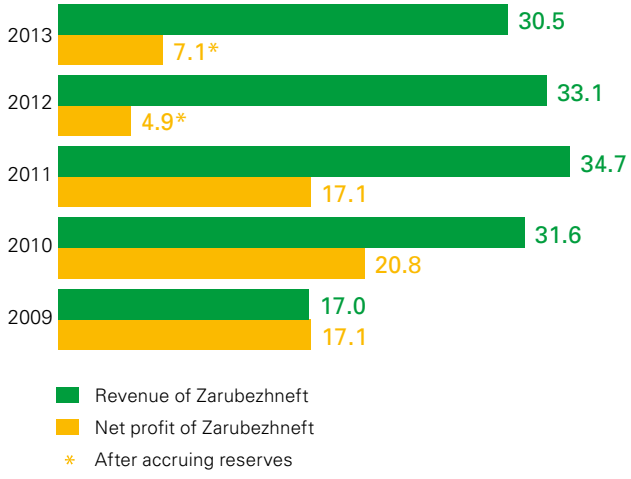
Share of Vietsovpetro revenue in total revenue



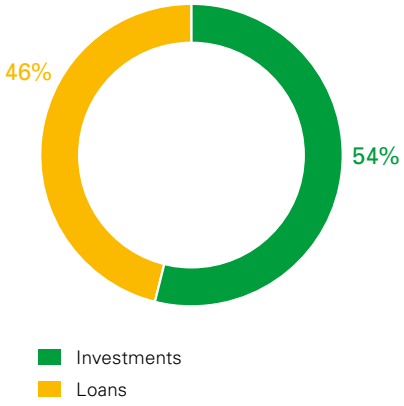
Scope of investment programme of Zarubezhneft in 2009–2013, *billion roubles*



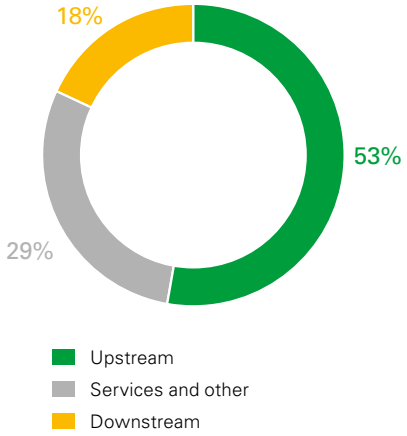
Revenue and net profit of Zarubezhneft for 2009–2013, *billion roubles*



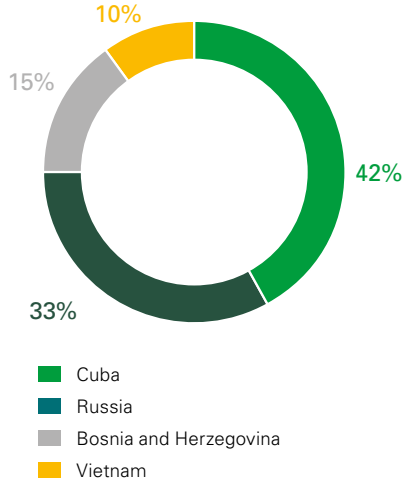
Structure of investments in 2013



Structure of investments in 2013 by segment



Structure of investments in 2013 by country



INNOVATION ACTIVITY

As a representative of state interest at the global level, and following the priorities of state policy, Zarubezhneft pays special attention to the development of a competitive scientific and technical policy, the formation of a strategic innovation approach to the development and operation of hydrocarbon fields and to the transfer of business processes to new levels of innovation.

In April 2013, the Zarubezhneft Board of Directors approved an updated version of the Programme of Innovation Development, with an adjusted projects portfolio.

In 2013, the projects portfolio included seven innovation projects aimed at solving the following key industrial goals of the company:

- Reducing the current water-cut level and increasing the oil recovery factor on CKU fields;
- Raising the effectiveness of exploration and production drilling, as well as engaging in development of the fields' residual reserves in the basement of SRV's south shelf;
- Increasing the resource base of the Group with the creation of technology for reservoir prospecting and exploration in the basement in the territory of the Russian Federation and abroad;
- Engaging in field development of petroleum reserves in the low-permeable carbonate reservoirs.

LIST OF INNOVATION PROJECTS

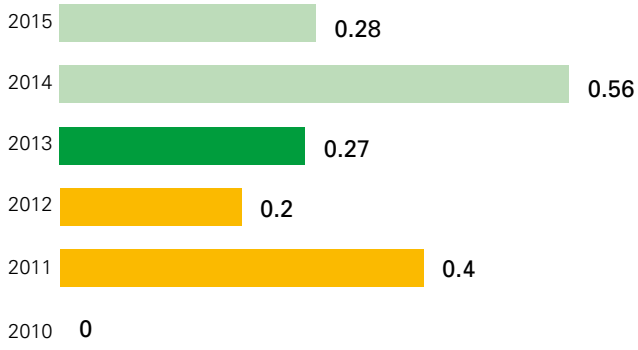
- Creation of technology for the development of low-permeable carbonate reservoirs via thermal gas stimulation;
- Creation of integrated technology for the development of hydrocarbon reservoirs in the basement;
- Working out and introduction of technology for reducing reservoir rocks' hydrophobic properties in CKU fields;
  - Experimental determination of efficiency of ion-modified water (smart water) in CKU fields;
  - Experimental justification of the technology for reducing hydrophobic properties and increasing oil displacement factor in CKU fields;
  - Holding of bench-tests for evaluation of the effect of vibroseis impact on oil recovery from the fields containing hydrophobic carbonate reservoirs of CKU;
- Working out and introduction of the technology and compositions for isolation of behind-the-casing and in-situ cross flows for carbonate reservoirs of CKU fields;
- Studies assessing the impact of geo-mechanic processes on Visovoye field development;
- Completion of the project "Application of technology of thermal-and-hydrodynamic control over fractured granitoids development";
- Completion of the project "Creation of automated system of the centralised collection and processing of geological-and-field data".

NEW PROJECTS FOR 2014

- Project "Determination of relative phase permeability values in fractured granitoids for increasing the reliability of the thermal-hydrodynamic model of basement reservoir of Bach Ho (White Tiger) field" (development of the project paragraph 6).
- Project "System of field development monitoring and control of Zarubezhneft's Group of companies" (development of the project paragraph 7).

THE TOTAL BUDGET FOR THE IMPLEMENTATION OF INNOVATION PROGRAMME PROJECTS IN 2013 WAS 156 MILLION ROUBLES.

Share of costs for R&D works in the revenue of Zarubezhneft, *% (2010–2013 actual, 2014–2015 planned)*



By the end of the year, the physical scope of works under the projects had been completed in full. At the same time, the planned funds economy amounted to 50%. The cost values for scientific research and development activities correspond to the values recommended by Federal Property Management Agency (Rosimuschestvo).

The leading scientific and production organisations (including the engineering, scientific-research and service entities of the Zarubezhneft Group of companies) have been attracted for the programme's projects realisation. The Group has also been working with the University of Stavanger (Norway) on the development and introduction of technology for reducing hydrophobic properties.

In 2013, all the projects of the programme at each stage of realisation, in accordance with the rules adopted by the Company, have undergone mandatory procedures of consideration and approval by the collegial bodies of Zarubezhneft.

IN ORDER TO REACH A SYNERGISTIC EFFECT FROM INNOVATION ACTIVITY DEVELOPMENT IN 2013, ZARUBEZHNEFT HAS STRENGTHENED ITS FOCUS ON THE DEVELOPMENT OF PROJECTS THAT OPTIMISE ITS BUSINESS PROCESSES.

By the end of 2013, two projects had been completed successfully. The results obtained underscored the need for expediently conducting further studies and future considerations under the given topic.

Thus, for example, for the first time within the project "Application of technology of thermal-and-hydrodynamic control over fractured granitoids development" the tensorial nature of fractured permeability was taken into consideration; the correct adaptation of tensorial hydrodynamic model was organised, and evaluation of the reliability of the remaining reserves distribution was completed. 12 prospective points of layer intersection in Bach Ho field's basement were suggested, while drilling at 2 side-tracks was agreed in 2014 in the zones with the most prospective value of remaining oil reserves.

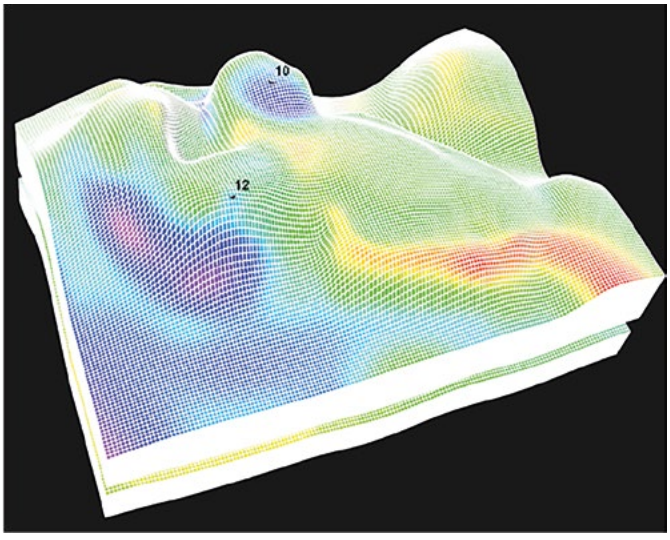
So, for example, for the project "Creation of automated system of the centralised collection and processing of geological-and-field data", an IT-solution was introduced for the whole vertical organisational structure of Zarubezhneft aimed at informational support of optimised business processes covering field development and operation. The system was installed at the working stations of 150 users, and the relevant training was carried out.

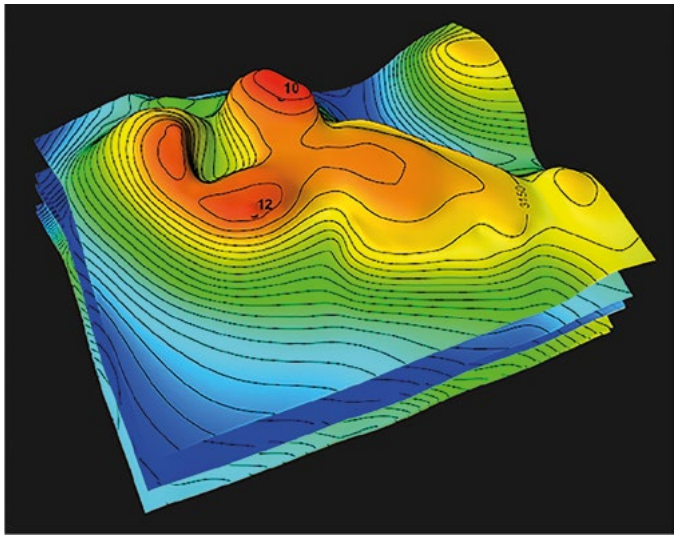
In 2014, there are plans to further develop this direction. The Company's collegial bodies have already approved realisation of the project "System of field development monitoring and control of Zarubezhneft Group of companies".

As to the other five projects of the programme, the expected results have been reached, and the milestones set have been successfully achieved. The projects were realised in full compliance with execution schedules.

With regard to the justification of possible technologies to enhance the efficiency of CKU field development in 2013, the following works and studies were performed:

- Non-steady waterflooding and change of filtration flows;
- Development of the formula and determination of concentration of mixtures for surfactants-polymer alkaline treatment;
- Justification of the possibility to use micro-biological stimulation;
- Reconstruction of a geological and hydrodynamic model of North Khosedayu field based on the integrated use of seismic attributes, FMI, lithofacies and cyclostratigraphic analysis, hydrodynamic surveys, and field geophysical tests;
- Carrying out of acid formation fracturing with the purpose of oil production stimulation from low productive wells and intervals;
- Optimisation of the design producing well stock pattern;
- Working out of actions to develop formation pressure maintenance system and redistribution of the injected water volumes vertically and along the horizontal of the fields.
- Working out of activities for additional perforation of non-perforated productive intervals, with the deepening of pump setting depths.





In order to create geologic and hydrodynamic models (GHMs) specific targets of development are described, and methods and techniques are used based on new principles which enable researchers with the most reliability to simulate a fractured-porous type of reservoir, its hydrophobic behavior, considerable heterogeneity of reservoir vertically and along the horizontal of the fields. The main principles of GHMs' building are:

- DFN (Discrete Fractures Network) construction to describe distribution and characteristics of the fractured medium based on interpretation FMI, hydrodynamic, field geophysical surveys and core tomographic studies.
- Creation of a method to reduce the capillary pressure curve (obtained based on laboratory core analysis) to Eclipse coordinates.
- Use of seismic attributes for allocation of fractured medium characteristics in the inter-well space.

In 2013, the internal regulatory documents that regulate the work of Zarubezhneft's Scientific and Technical Council were updated. The council has been operating since 2001, overseeing the scientific and technical aspects of projects designed to enhance the efficiency of oil and gas resource development activities and establish the Company's main scientific and technological development priorities.

As part of its Innovation Development Programme, Zarubezhneft is actively developing partnerships with higher education institutes and scientific organisations for the joint implementation of innovation projects, scientific and technical forecasting, and the training of personnel.

Currently, our partners include Gubkin Russian State Oil and Gas University, Lomonosov Moscow State University, Ukhta State Technical University, and the Moscow State Institute of International Relations.

Zarubezhneft is planning to extend its list of strategic partners from educational institutions, scientific organisations and innovative small and medium-sized business enterprises. In 2014, with a view to expanding the key themes of the Programme of Innovation Development in 2013, discussions on cooperation were initiated with the French Oil Institute, Russian State Oil and Gas University, and Moscow Institute of Physics and Technology.

Also in 2013, work began on the formation of a "single window" system, along with the development of internal regulatory documents to ensure efficient interaction with representatives of small and medium-sized businesses to introduce innovation products and results of scientific research, design and experimental and technological works in the Company's activity.

In 2013, our company held an open meeting on with participants of the Technological Platform in order to discuss how we could best interact in order to match innovative solutions and projects with genuine industry needs.

In 2013, 2 centres of competence were established in VNIIneft:

- Fractured hydrophobic reservoirs.
- Engineering and development of local isolated reservoirs.

The centre of competence for fractured hydrophobic reservoirs brings together a creative team to detemine the best standard methodology for defining volume and the sequence of studies to ensure the efficient process of oil recovery and field development management.

The centre's work programme starts with key problems in fractured reservoir development and their connection with physical and chemical properties, and finishes at the end of 2014 with the development of methods for hydrophobic reservoir development management.

The centre of competency for the engineering and development of local isolated reservoirs is a division of the institute established to develop the best methodology for local reservoir geological research and the geological and technical justification for the identification of development targets; ensuring the technical and economic efficiency of reserve development with increased levels of oil and gas production.

In 2013, the process for the geological analysis of local reservoirs was expanded. For example, at the Upper Oligocene of Bach Ho field, a new geological basis was created, with reserve density differentiated in order to facilitate technical and economical estimations of development system options.

ZARUBEZHNEFT IS A PARTICIPANT IN THE PETROLEUM PRODUCTION AND USE TECHNOLOGIES TECHNOLOGICAL PLATFORM. IN ACCORDANCE WITH THE PLATFORM AND ALONGSIDE THE NATIONAL OIL AND GAS INSTITUTE, WE INTEND TO SEARCH FOR POTENTIAL PARTNERS FOR SCIENTIFIC RESEARCH AND PLANNING AND SURVEYING WORKS IN GEOLOGICAL AND TECHNICAL ACTIVITY, DRILLING AND FIELD SURFACE FACILITY CONSTRUCTION, PETROLEUM PRODUCTION, PRODUCTION STIMULATION, EOR METHODS, OFFSHORE FIELD DEVELOPMENT TECHNOLOGIES, SCIENTIFIC AND TECHNOLOGICAL FORECASTING AND AND INFORMATION EXCHANGE IN THE AREA OF INNOVATION DEVELOPMENT.

3

SUSTAINABLE DEVELOPMENT

FOR DETAILS REFER
WWW.ZARUBEZHNEFT.RU/EN/

ENVIRONMENTAL PROTECTION

At Zarubezhneft, we understand that corporate social responsibility plays an important role in the economic development of the country. By creating prosperity for individuals and in the areas in which we operate, we conduct our activities in a strict compliance with the principles of environmental protection.

The Company's ecological policy defines ecological well-being as the basis for economic prosperity. In its daily activities our company realises its principles in practice, with constant improvement of nature conservation activities, the rational use of natural resources, reduction the number of contaminants and decreasing the toxicity of both contaminants and waste emissions. In solving these tasks, our company is introducing into production both ecological activities and advance science achievements.

We believe that the prevention of environmental contamination is vital, and we work to decrease negative impacts on the environment and ensure ecological safety across all of our production facilities.

Our environmental protection measures include:

- Construction of new and reconstruction of existing environmental facilities;
- Prevention of air pollution and safeguarding water and land resources;
- Monitoring of environmental condition and production facilities impacts;
- Prevention and liquidation of pipeline break consequences;
- Production waste neutralisation;
- Ecological training of personnel.

Implementation of the program of environmental actions and construction of environmental facilities shall be continued in presence regions of the Zarubezhneft Group.

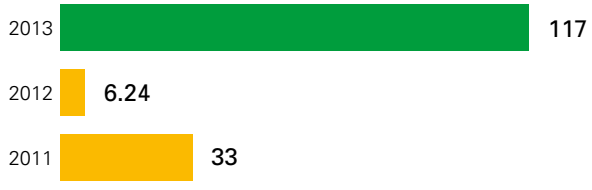
In 2013, funding for environmental activities for subsidiaries located within the Russian Federation increased by 20% compared to 2012.

The most important nature conservation task in order to minimise the negative impact of drilling wastes is the reclamation of the drilling cuttings pits designed for drilling waste placement.

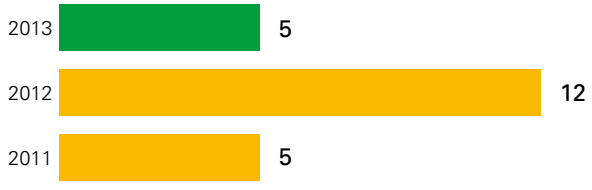
During the reporting period, JV RUSVIETPETRO rehabilitated over 117 hectares of land (including 0.7 ha of oil contaminated lands), and 5 waste pits. As of the beginning of 2014, the Company had no oil-contaminated land.

Dynamics are represented in diagrams and tables.

Land restoration, *ha*



Waste pits reclamation, *nos.*



Regular monitoring of air and soil environment, surface water and bottom sediments is carried out across all Zarubezhneft Group territories. Observations data is compared with previously measured parameters. For the reporting period, the results of samples analysis do not exceed the maximum permissible concentrations (MPC).

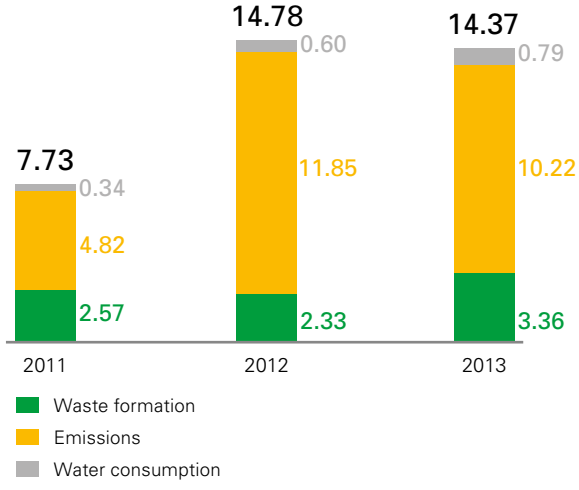
The primary purpose of this environmental monitoring is to prevent the deterioration of the natural environment condition as a result of our production activities.

In 2013, our company worked consistently towards atmospheric emissions control. At the same time, gross parameters increased for the whole company in connection with production volume growth.

Gross atmospheric emissions in the Group's Production segment, *thousand tonnes*

	2011	2012	2013
Gross atmospheric emission:	4.136	5.153	9.757
Solid substances	0.014	0.015	0.030
Sulphur dioxide	0.088	0.058	0.346
Carbonic oxide	1.831	1.984	2.806
Nitrogen oxides	0.440	0.58	0.725
hydrocarbon (without volatile organic compounds)	1.551	2.365	4.110
Volatile organic compounds	0.212	0.151	1.7399
Benzopyrene	0.000	0.000	0.000

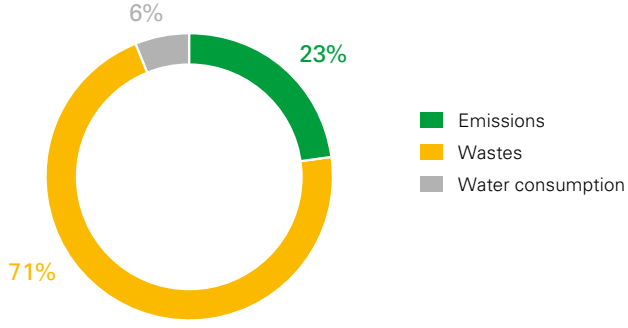
Specific indicators on environment protection in the Zarubezhneft Group, *tonnes/thousand tonnes of oil*



Production and use of Associated Petroleum Gas (APG) in the Zarubezhneft Group, *mln. m³*

Name of the company of Zarubezhneft Group of companies	APG production	APG use for in-house needs	% of APG use
JC RUSVIETPETRO	106.764	27.760	26.160
Orenburgnefteotdacha	1.195	–	–
Ulyanovskneftegaz	0.061	–	–
AMNGR	31.412	0.762	2.400
TOTAL:	139.432	28.500	20.44

Distribution of specific indicators on environment protection in the Zarubezhneft Group in 2013, *%*



DECREASE IN GREENHOUSE GAS (GHG) EMISSIONS

Zarubezhneft began evaluating data on the volume of GHG emissions from the production activities of its subsidiaries using a method developed based on IPIECA (International Petroleum Industry Environmental Conservation Association) and API (American Petroleum Institute) recommendations for environmental conservation. Zarubezhneft considers the Kyoto Protocol mechanism as 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 realisation of APG utilisation projects and other projects aimed at the reduction of GHG atmospheric emissions. In 2014, a report on monitoring of activities implementation for the year 2013 shall be issued.

In the implementation of our production activities, we strive for continuous improvement of our HSE management system and intend to increase the efficiency of ecological control and internal auditing in accordance with environmental legislation and OHSAS 18001 and ISO 14001 international standards. At Modrica Oil Production Plant, for example, a certificate guaranteeing ISO 14001:2004 standard was renewed.

Zarubezhneft's policy is the basis for building an efficient environmental programme that minimises impacts and corresponds to global practices, as laid out in the standards of the Environmental Management System (EMS).

Following EMS standards, Zarubezhneft intends to keep on improving the environmental parameters of its activities, systematically decreasing production impacts on the environment.

ENERGY EFFICIENCY

The strategic purpose of the development and introduction of the Zarubezhneft Group Energy Saving and Energy Efficiency Increase Programme is a cost reduction for finished products in the Group's production business segments, with a resulting growth in competitiveness at the local and world level.

The programme is running between 2013-2015 on the basis of the Decree of the President of the Russian Federation dated 4 June 2008 No889, "On certain measures to increase the energy and ecology efficiency of the Russian Economy", and the federal law dated 23 November 2009 No261-ФЗ, "On energy saving and increasing the energy efficiency and amending certain legislative acts of the Russian Federation".

The programme was approved by the Zarubezhneft Board of Directors on 14 December 2012 following a mandatory energy inspection. The programme comprises:

- The main goals and reference points for reducing the energy costs in the Group's production divisions, by increasing rational use of fuel and energy through the widespread introduction of energy-saving technologies and equipment;
- The basic principles for the management of energy cost reduction programmes in subsidiary and affiliated companies included the Zarubezhneft Group of companies
- Increasing the energy efficiency of technological and auxiliary industrial processes based on the implementation of economically sound innovation solutions and energy saving measures, thereby decreasing the energy intensity of production;
- Planned works to faciliate energy saving taking into account the activities provided for in programmes for the reconstruction and development of oil production, transportation and treatment;
- Reduction (stabilisation) of specific energy resources consumption for in-house technological needs;
- Energy consumption monitoring and determing the best mechanisms to stimulate the efficient use of fuel and energy resources;
- Specific activities for each subsidiary and affiliated company aimed at energy saving and increased energy efficiency.

The first stage (for the year 2013) of energy-saving programmes involved the introduction of new activities (on a par with those introduced in 2011–2012) considering each the segmental division according to its areas of activity, organisation charts and the activities of the Zarubezhneft Group of companies in general.

Within the activities prepared in all enterprises of the Zarubezhneft Group of companies, working groups were established for introducing energy efficiency targets, and responsible persons were appointed. These targets will be monitored monthly, will annual reviews and revisions to the programme as needed.

The work implemented on energy resources saving in all the company's subsidiaries in 2013 allowed for the reduction of specific energy consumption against set target energy efficiency indicators and to accordingly increase energy efficiency parameters for each company separately and the Group of companies in general.

THE PRIMARY ECONOMY FOR THE YEAR 2013 FOR THE ZARUBEZHNEFT GROUP IS CONNECTED WITH SAVINGS IN DIESEL FUEL CONSUMED FOR THE GENERATION OF IN-HOUSE ELECTRICAL ENERGY (98.9%) AND IN PURCHASED ELECTRICAL ENERGY (1.1%).

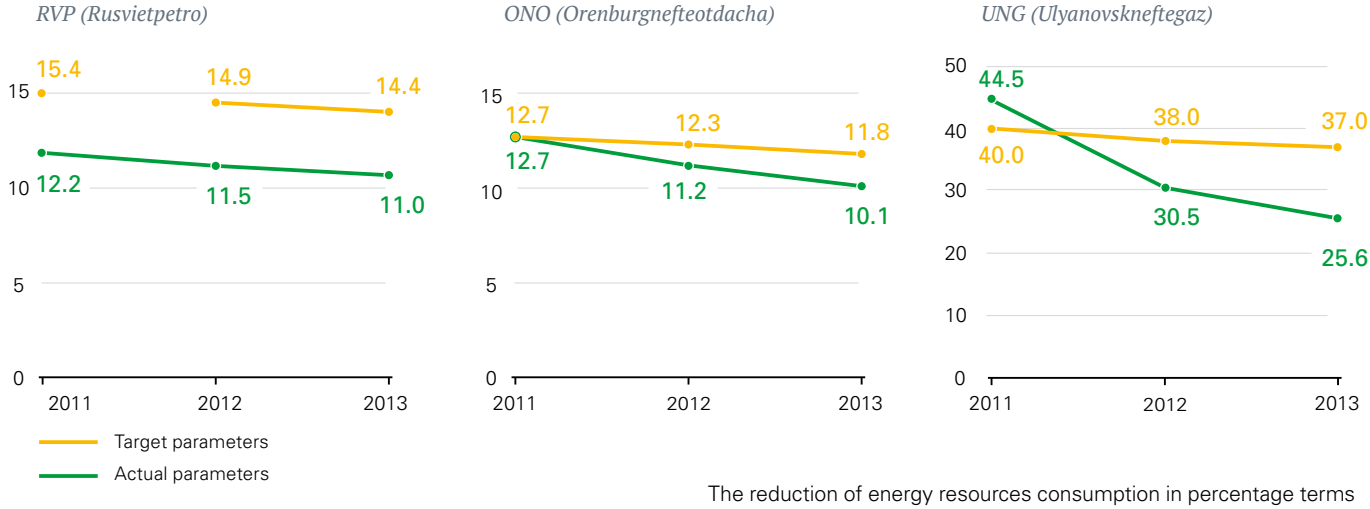
Achieved results of energy efficiency programme implementation in 2013

Costs
2,607
MLN. ROUBLES

Saved amount
347
MLN. ROUBLES

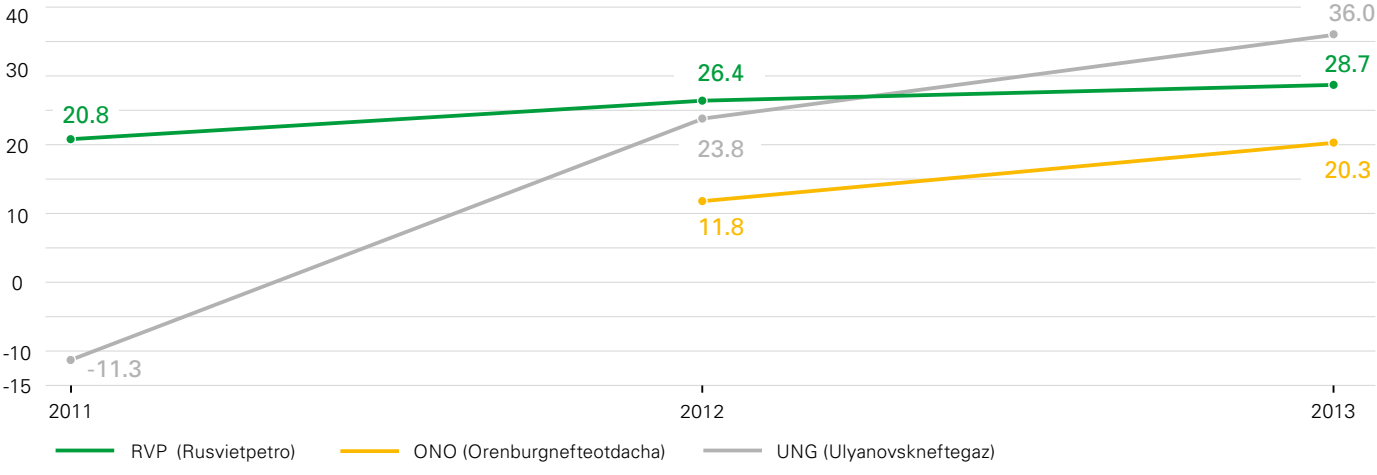
Economy, tonnes of fuel oil
15,415

Target and actual parameters of energy efficiency of Zarubezhneft in Upstream Segment for 2011–2013, *tonnes of fuel oil equivalent/thousand tonnes*



The reduction of energy resources consumption in percentage terms against target parameters of energy efficiency (indicators) for three reporting years is presented below, from which we can see a steady growth of the parameter for all subsidiaries of this segment.

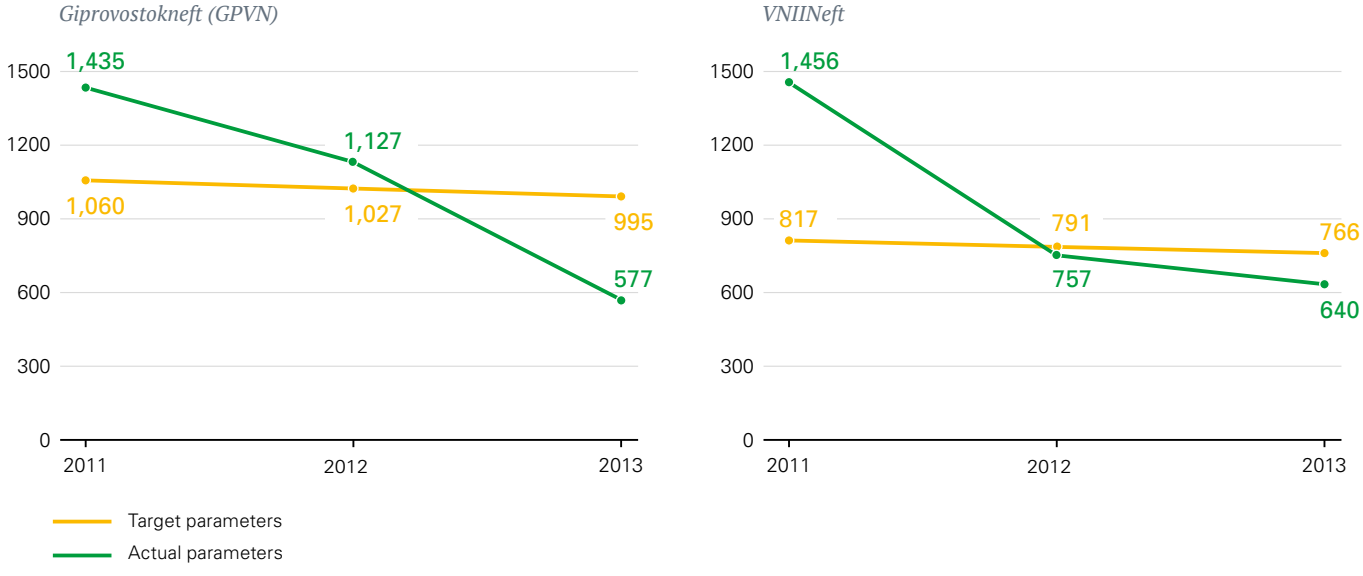
Reduction of energy resources consumption in Upstream Segment vs. basic value (2010), *%*



Main activities for energy efficiency in JC RUSVIETPETRO

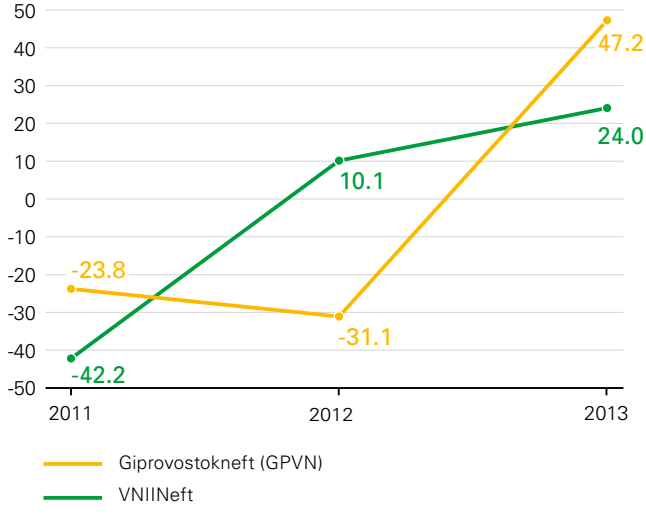
END OF JULY 2013 COMMISSIONING OF A POWER SUPPLY SYSTEM CONSISTING OF TWO SUBSTATIONS AND A OHPL 110 KV THAT ALLOWED INCREASED POWER SUPPLY RELIABILITY FOR THE FIELD.
25 SEPTEMBER 2013 TRIAL COMMISSIONING OF ENERGY CENTRE No 2 BASED ON 2 GTUS WITH A UNIT CAPACITY OF 12 MW/H THAT ALLOWED USING APG FOR POWER GENERATION FROM THE NORTH KHOSEDAYU AND VISOVOYE FIELDS.

Planned and actual parameters of energy efficiency in "Services and other assets" segment for 2011–2013,
tonnes of fuel oil equivalent



In 2013, a reduction in energy resources consumption is observed in percentage terms against planned parameters of energy efficiency (indicators) for the whole business segment.

Reduction in energy resources consumption percent in "Services and other assets" vs. basic value (2010)



INDUSTRIAL AND OCCUPATIONAL SAFETY

Our company's HSE strategic guidelines are fixed in Zarubezhneft's standards:

- Absence of industrial accidents
- Absence of occupational accidents
- Careful attitude to environment

Zarubezhneft establishes goals for HSE system improvement corresponding to the scale and nature of its activities:

- Compliance of the company's activities with legislation and international standards for industrial safety;
- Conduct of HSE activities based on production risk management
- Constant advancement of the company's personnel competences in HSE.

In order to achieve the goals set in 2013, our company carried out restructuring of the HSE function, forming a dedicated HSE department. Zarubezhneft's HSE policy has been worked out and introduced, along with an HSE management system standard.

Since 2013, the production control system (except for detection of violations) has been aimed at the identification of possible risks at Company facilities; allowing for the timely disclosure of risks and preventive measures for incidents of non-admission.

Working with contractor organisations which carry out activities at Company facilities is an integral part of Zarubezhneft's HSE management system. Adhering to international standards of safety is paramount. The Group has worked out and introduced regulatory documents that govern the order of work of and interaction with contractor organisations in production activities, with established requirements included in all agreements. Technological control and HSE control processes are also being carried out.

Emergency preparedness is another Company focus, and Zarubezhneft has in place agreements with specialised professional rescue units. Drills for emergency response skill training are carried out on a permanent basis.

Drills at Mordica Oil Production Plant carried out in November 2013, jointly with public services, received high accolades from regional rescue services.

Our company conducts its activities in full correspondence with the appropriate legislation. In 2013, following the adoption of amendments to federal law of RF №116, the companies undertook full identification of the hazardous production facilities of the Russian assets, with hazards rating and subsequent re-registration.

The results of the measures aimed at increasing the level of occupational safety are the following::

- The number of incidents in the companies compared to the year 2012 has been reduced by 29%;
- The number of injured in the companies has been decreased by 40%, with no fatal accidents;
- The number of incidents in contractor organisations compared to the year 2012 has dropped by 27%;
- The number of those injured in contractor organisations has been decreased by 25.5%, while fatal accidents have been reduced to zero;
- There were no emergency situations at the companies' facilities.

CORPORATE AND SOCIAL RESPONSIBILITY

Our company's success depends completely on the people working in it. Therefore, Zarubezhneft does its best to attract and retain a team of professionals able to solve all ambitious tasks set before the Company. Zarubezhneft relies on the experience, knowledge and enthusiasm of its employees in all areas of activity, both in Russia and abroad.

Zarubezhneft's human resources management system (HRMS) of is based on the corporate values of the company. The values of Zarubezhneft are the following:

- *Professionalism* – a profound knowledge of the Company's specialty, with a responsible and fair attitude to its obligations, timely fulfillment of tasks set and constant striving for complete professionalism;
- *Initiative* – activity and self-dependence of personnel in the optimisation of the industrial process and development of the company's competitiveness;
- *Mutual respect* – constructive mutual respect and support, team spirit in work, and benevolence in the process of solving the tasks set;
- *Cooperation* – open and sincere information exchange, readiness to mutually determine optimal decisions;
- *Succession* – solicitous attitude to the company's traditions, respect for the labour and experience of the older generation, professional training and tutorship.

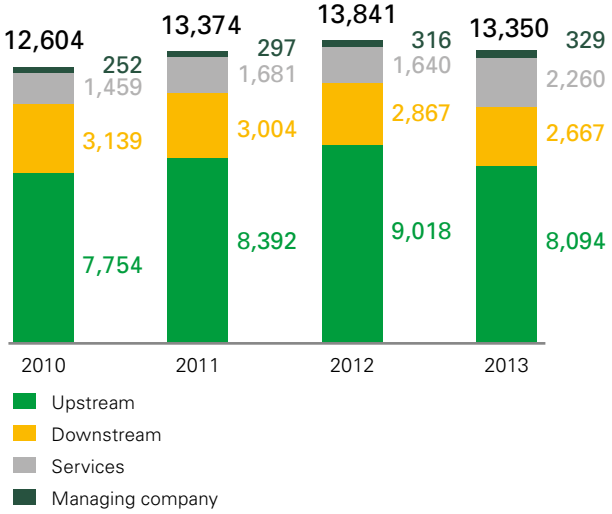
Personnel number and structure

In 2013, the average number of Zarubezhneft staff amounted to 329 persons. The total average number of personnel for the Zarubezhneft Group amounted to 13,350 persons.

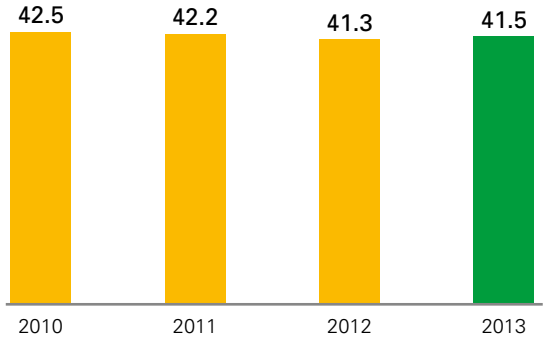
Line of activity	2010	2011	2012	2013
Managing companies	252	297	316	329
Upstream	7,754	8,392	9,018	8,094
Downstream	3,139	3,004	2,867	2,667
Services	1,459	1,681	1,640	2,260
Total	12,604	13,374	13,841	13,350

THE AVERAGE AGE OF PERSONNEL IN 2013 AMOUNTED TO 41.5 YEARS FOR THE GROUP OF COMPANIES DUE TO SUCCESSION, PERSONNEL RESERVE, AND THE REALISATION OF YOUNG SPECIALIST INVOLVEMENT PROGRAMMES.

Average number of the Zarubeczhneft Group staff by segment, *persons*



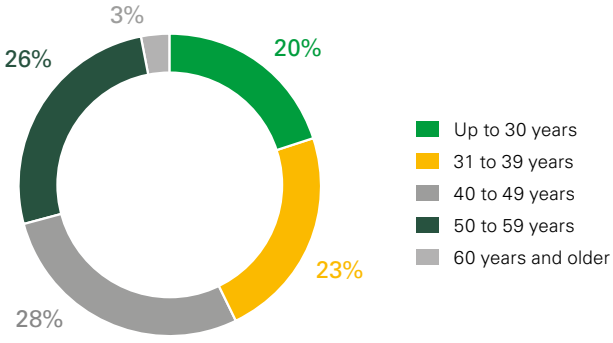
Average age of the Zarubezhneft Group staff, *years*



AGE STRUCTURE OF PERSONNEL

The age structure of personnel is formed traditionally so that half of personnel fall within the 30-50 age category to ensure the best proportion of work experience and physical capabilities.

Age structure of personnel of the Zarubezhneft Group in 2013, %



PERSONNEL'S MOTIVATION

Zarubezhneft works consistently works to improving its labour payment system and the motivation of personnel. In 2013, our company implemented a project of improvements for the single labour system, which includes a system of official grade levels, bonus payments based on key performance indicators and individual assessment of personnel. The grading system allows us to build all positions and professions of the company in a strict hierarchy following the same criteria and in accordance with the extent of significance each role has for the business.

With a view to stimulating personnel to reach the company's goals, in 2013, system of objectives was developed which includes key performance indicators and individual objectives. The system of objectives simplifies control over the company, its structural divisions and employee activities, allowing management to detect deviations from the goals set in a timely fashion and to make the required corrections.

Non-financial motivation occupies an important place in our personnel motivation system. With the purpose of developing staff commitment and loyalty to our corporate values, the Zarubezhneft Group of companies last year introduced the "Best Zarubezhneft's employee" and "Best in occupation" contests. The contest winners are awarded with diplomas, they are paid a lump sum fee and their photographs are posted at corporate stands.

INCOME STRUCTURE

Salary and social package form the main part of employee income. Salaries are made up of both permanent and variable parts. The permanent part of the remuneration includes an official salary payment, which is set depending on the grade assigned to the position and the professional status assigned to the employee. The professional status of an employee depends on the level of his/her professional competence development and individual effectiveness.

The variable, or bonus part of the salary includes monthly, lump sum bonuses, bonuses for participation in project work and annual remuneration based upon the achievement of key performance indicators.

SOCIAL PROGRAMMES

An efficient social protection system helps to attract highly qualified specialists to the company, reduce personnel fluctuation, and strengthen the corporate spirit, and is the basis for successful industrial activity.

In 2013, our company adopted a the new social package, whose features include:

- The creation of conditions for personnel health improvement, including maintenance of the corporate sports and fitness complex
- Health protection, including voluntary medical insurance for workers and their family members and non-working retirees;
- Material support of veterans and non-working retirees;
- Personnel welfare;
- A one-time premium in connection with the presentation of governmental and branch awards and a premium in connection with the celebration of Oil & Gas Workers Day.

In order to solve staff housing problems, our company offers interest-free, special-purpose loans.

To increase social protection for employees upon their retirement, a private pension programme was launched in 2013.

AWARDS

To reward workers and work collectives for their significant contribution to the Company's development, achieving high industrial, financial and economic indicators, and to improve the corporate culture in the company, the following awards and ranks have been established: "Honorary worker of Zarubezhneft, "Veteran of Zarubezhneft", Diploma of Zarubezhneft, and Appreciation from Zarubezhneft.

Over the past year, 185 employees of the Group have been honoured with state and corporate awards.

PERSONNEL SELECTION AND ROTATION

The selection of personnel is of primary importance. When hiring new personnel, the company uses transparent selection criteria. A competitive selection system is based on the single principles of candidate evaluation by professional and managerial skills and general development potential.

In 2013, a personnel selection system was introduced based on interview by competences and testing of verbal and numerical abilities.

PERSONNEL TRAINING

Our company pays special attention to staff qualifications, and operates a system of personnel training and development aimed at gaining the required knowledge and professional skills. Our company employs a wide range of personnel training techniques – including post-graduate courses, business practicums, travelling training seminars, special training programmes, and courses offered in partnership with leading Russian educational institutions.

In the reporting year, a project of improvement for personnel training system introduction was implemented. The Zarubezhneft personnel training and development system has the following goals:

- To ensure the level of professional and technical competence of personnel complies with current and prospective business requirements;
- To strengthen managerial competences, including inner staff reserve development;
- To provide strategic projects for trained personnel;
- To fulfill mandatory state requirements for training levels of fuel and energy complex personnel, aimed at the provision of occupational quality and safety;
- To ensure the required level of competence of all employees engaged in the occupational safety management system.

EDUCATIONAL PROGRAMMES

The priority direction of the company's activity is training young qualified specialists for the Russian oil industry.

Zarubezhneft offers assistance in training the students/children of the Russian specialists of JV Vietsovpetro in the higher education institutes of the Russian Federation. 44 young people were sent for training in 2013.

Zarubezhneft continues to implement its young Serbian specialist training programme for the Group of companies situated in Bosnia and Herzegovina at Gubkin Oil and Gas Russian State University.

PERSONNEL RESERVE

Production capacity development dynamics and the need for effective recruiting of highly qualified personnel have determined the necessity for maintaining at a proper level a reserve of candidates to fill vacant jobs and working professions.

In 2013, Zarubezhneft continued its work on personnel reserve training. Within the framework of developing the company's personnel reserve, a management competences evaluation of the managerial staff has been conducted, and training activities have been organised and carried out.

Our company developed and introduced an annual integrated personnel evaluation procedure, which contains an analysis of the development level of corporate, professional-and-technical competences, key performance indicator fulfillment and individual objectives. Evaluation results will be used for the planning and organisation of training, the formation of personnel reserves, preparation of suggestions regarding salaries revision and other managerial solutions.

WORK WITH YOUNG SPECIALISTS

Our company pays special attention to its work with young specialists. A council of young specialists is operating successfully in the Company. Its objective is to create special work conditions for successful integration into the corporate culture of the company, to generate loyalty among young employees, and to develop corporate competences.

In 2013, a contest was introduced for scientific and technical papers by young specialists from the Group. Corporate activities within the framework of the council of young specialists are implemented regularly.

SOCIAL ACTIVITY IN THE OUR AREAS OF OPERATION

To a great extent, a company's success and its status are defined not just by production and financial parameters, but also by the level of its social responsibility. For the Zarubezhneft Group of companies, the support of social and charity programmes in the our areas of operation is one of the most important components of our corporate strategy, and helps promote constructive dialogue with both the state and the local community.

The Zarubezhneft Group social policy comprises the following:

- Social activities
- Sport development, support for healthy living, educational programmes
- Conservation of cultural and historical heritage.

SOCIAL ACTIVITIES

One of the most important aspects of charity activities for Zarubezhneft is supporting social activities in its areas of operation, as well as close interaction with the relevant local authorities.

Our company offers assistance in strengthening a family; in emphasising the value of parenthood, in placing orphans and in help for orphaned children under the age of 16.

SPORTS DEVELOPMENT, SUPPORT FOR HEALTHY LIVING, EDUCATIONAL PROGRAMMES

Zarubezhneft sponsors sports development and supports healthy lifestyles by working in partnership with institutes of higher education.

CONSERVATION OF CULTURAL AND HISTORICAL HERITAGE

Zarubezhneft has a rich history of cooperation with various countries around the world, and sets a high value on the development of culture and conservation of the heritage of cities and settlements not only in our large country, but also in the regions in which it operates.

The total amount of funds assigned by Zarubezhneft in 2013 for charity and sponsorship was 32 million roubles (inclusive of St Petersburg forum participation).

Beneficiary	Charity/sponsorship activity type
Support of poor and financially disadvantaged layers of society, orphaned children and invalids	
Orphan house at the sanctifier Phillip's church, metropolitan of Moscow	Rendering of charity help by request
Educational and scientific and upgrading of professional skills programmes development	
Gubkin State Oil & Gas University	Rendering of charity help under agreement
NCP O&GNI	Rendering of charity help under agreement
Support for healthy way of living, culture and sport; programmes for the construction and repair of educational and medical facilities; sports complexes	
Chess Federations Association, International Association of Public Associations	Rendering of charity help by request
Conservation of cultural and historical heritage, patriotic events	
Zarubezhneft office in Vungtau	Financial help to Consulate-General for holding state reception
Zarubezhneft office in Hanoi	Financial help to RF Embassy for holding protocol events
Without target use plan	
Khabarovsk region, Amur region, Jewish Autonomous Region	Voluntary aid to the people of these regions who suffered as a result of the 2013 summer flood

In the realisation of its foreign projects our company follows the standards of social responsibility in accordance with Russian Federation external policy priorities and takes an active part in social and public activities in the regions where it is present:

- Bosnia and Herzegovina
- Socialist Republic of Vietnam
- Republic of Cuba
- Russian Federation

A total of 113 million roubles and their equivalent was spent by the Zarubezhneft Group of companies in 2013 for social and charity programmes support, including:

- Zarubezneft (32 million roubles).
- JC RUSVIETPETRO (over 72 million roubles).
- Giprovostokneft and VNIIneft (1.2 million roubles).
- Orenburgnefteotdacha and Ulyanovskneftegaz (4.3 million roubles).
- BiH Group of companies – over 100 thousand euro.

4

CORPORATE MANAGEMENT

FOR DETAILS REFER
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BOARD OF DIRECTORS AND COMMITTEES UNDER THE BOARD OF DIRECTORS

THE MEMBERS OF ZARUBEZHNEFT'S BOARD OF DIRECTORS WERE ELECTED BY THE REGULATION OF THE FEDERAL PROPERTY MANAGEMENT AGENCY DATED 29 JUNE 2012 No1018-P, "ON RESOLUTIONS OF THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF THE ZARUBEZHNEFT JOINT STOCK COMPANY."

Prior to holding the annual general shareholders meeting, the following persons were the members of the Board of Directors of the Company:

Alexander Bazhenov	Director of the Centre of Public-Private Partnership of Vnesheconombank Born 1964 Not a shareholder
Nikolay Brunich	General Director of Zarubezhneft Born 1955 Not a shareholder
Pavel Kadochnikov	Pro-rector for Research, All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia Independent director Born 1978 Not a shareholder
Alexander Nekipelov	Vice-President of the Russian Academy of Sciences Independent director Born 1951 Not a shareholder
Ivan Glasenberg	President of Glencore Independent director Born 1957 Not a shareholder
Vladimir Stolyarenko	Chairman of the Supervisory Board of JSC CJSB EVROFINANCE MOSNARBANK Born 1961 Not a shareholder
Nikolay Tokarev	President of Transneft Born 1950 Not a shareholder

Pursuant to the resolution of Zarubezhneft's Board of Directors dated 23 July 2012 (Minutes of Meeting No63), the Chairman of Zarubezhneft's Board of Directors was Nikolay Tokarev.

The following members of the Board of Directors were elected by the Order of the Federal Agency for State Property Management dated 12 September 2013 № 1145-p, "On resolutions of the annual general meeting of the shareholders of the Zarubezhneft Joint Stock Company":

Alexander Bazhenov	Director of the Centre of Public-Private Partnership of Vnesheconombank Born 1964 Not a shareholder
Pavel Kadochnikov	Pro-rector for Research, All-Russia Academy of Foreign Trade of the Ministry of Economic Development of Russia Independent director Born 1978 Not a shareholder
Sergey Kudryashov	General Director of Zarubezhneft Born 1967 Not a shareholder
Victor Martynov	Rector of Gubkin's Russian State Oil and Gas University Independent director Born 1953 Not a shareholder
Kirill Molodtsov	Deputy Minister of Energy of the Russian Federation Born 1968 Not a shareholder
Alexander Nekipelov	Director of Moscow School of Economics of the Federal State Budget Educational institution of higher professional education M.V. Lomonosov Moscow State University, Doctor of Economics, professor Born 1951 Not a shareholder
Mikhail Poluboyarinov	First Deputy Chairman – Executive Board Member of the State Corporation "Bank of development and foreign economic activity (Vnesheconombank)" Born 1966 Not a shareholder

In accordance with the resolution of the Board of Directors of Zarubezhneft dated 25 November 2013 (Minutes of Meeting №74), Mikhail Poluboyarinov was elected Chairman of the Board of Directors of Zarubezhneft JSC.

Regulations on the Zarubezhneft Board of Directors were approved by the resolution of the extraordinary general meeting of Zarubezhneft shareholders (Decree of the Federal Property Management Agency dated 12 October 12, 2005 No2253-p).

IN 2013, THE TOTAL AMOUNT OF REMUNERATION PAYMENTS TO 7 MEMBERS OF THE ZARUBEZHNEFT BOARD OF DIRECTORS BASED UPON THE RESULTS OF THEIR WORK IN 2012–2013 WAS 6,970 THOUSAND ROUBLES.

Three committees were established under the Board of Directors:

Strategic Planning Committee

Regulations on the Committee were approved by the resolution of the Zarubezhneft Board of Directors on 28 October 2011 (Minutes of Meeting No53). At the meeting of Zarubezhneft's Board of Directors on 25 November 2013 (Minutes of Meeting No74), a new version of the Regulations on the Strategic Planning Committee under the Zarubezhneft Board of Directors was approved.

The Committee members were Mr. A. Bazhenov, Mr. N. Brunich, and Mr. A. Nekipelov.

After the election of the new members of the Board of Directors, the following members of the Committee were elected: Mr. A. Nekipelov, Mr. S. Kudryashov, Mr. V. Martynov, and Mr. K Molodtsov.

Audit Committee

Regulations on the Committee were approved by resolution of the Zarubezhneft Board of Directors on 28 October 2011 (Minutes of Meeting No53). At a meeting of the Zarubezhneft Board of Directors on 25 November 2013 (Minutes of Meeting No74), a new version of Regulations on the Audit Committee was approved.

The members of the Committee were Mr. A. Bazhenov, Mr. P. Kadochnikov and Mr. A. Nekipelov.

Staff and Remuneration Committee

Regulations on the Committee were approved by resolution of the Zarubezhneft Board of Directors on 28 October 2011 (Minutes of Meeting No53). At a meeting of the Zarubezhneft Board of Directors on 25 November 2013 (Minutes of Meeting No74), a new version of the Regulations on Staff and Remuneration Committee was approved.

The members of the Committee were Mr. P. Kadochnikov, Mr. I. Glasenberg, and Mr. V. Stolyarenko. After the election of the new members of the Board of Directors, the following members of the Committee were elected: Mr. A. Bazhenov, Mr. P. Kadochnikov, and Mr. V. Martynov.

AUDIT COMMISSION

List of members of the Audit Commission

By Decree of the Federal Property Management Agency dated 29 June 2012 No1018-p "On resolutions of the annual general meeting of the shareholders of Zarubezhneft Joint Stock Company", the Audit Commission of Zarubezhneft was elected, comprised of the following members:

L. Kalyada	Head of Management Department of Federal Property Management Agency
D. Ter-Stepanov	Deputy Director of the Department of the Ministry of Economic Development of Russia
G. Upatova	Deputy Director of Department – Chief Accountant of the Ministry of Energy of Russia

By Decree of the Federal Property Management Agency dated 12 September 2013 No1145-p, "On resolutions of the annual general meeting of the shareholders of Zarubezhneft Joint Stock Company", the Audit Commission of Zarubezhneft was elected, comprised of the following members:

A. Voronkova	Head of Management Department of Federal Property Management Agency
L. Kalyada	Deputy Director of the Department of the Ministry of Economic Development of Russia
M. Tikhonova	Deputy Director of Department – Chief Accountant of the Ministry of Energy of Russia

The Audit Commission has examined the annual accounting reports. Based on the results of the examination conclusions were prepared about the reliability of the data contained in the accounting statements and the annual report of Zarubezhneft for the year 2013.

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

COMPANY MANAGEMENT

General Director
Sergey I. Kudryashov

Sergey Ivanovich Kudryashov has extensive experience in top management positions in companies in the fuel and energy industries.

In 1991, he graduated from Kuibyshev Polytechnic Institute. In 2006, he took an Executive MBA degree at the Stockholm School of Economics.

He started his working career in 1991 at Nizhnevartovskneft, rising from the post of Production Operator to Deputy General Director – Head of a Unitised Oil Field.

From 2002 to 2003: Deputy Manager of Tomskneft VNK – Head of Strezhevoyneft Oil and Gas Production Directorate;

From 2003 to 2005: Manager of Yuganskneftegaz JSC – Vice-President of YUKOS-EP CJSC;

Since 2005: First Vice-President of Rosneft, in charge of the producing sector of the company;

From 2008 to 11 July 2012: Deputy Minister of Energy of the Russian Federation, in charge of issues connected with Russian oil and gas complex activity;

Since July 12, 2012: First Deputy General Director of Zarubezhneft;

Since December 28, 2012: General Director of Zarubezhneft.

Mr Kudryashov is also Head of the Working Group of the Commission under the President of the Russian Federation for the issues of the Fuel and Energy Complex (FEC) and ecological safety development strategy.

Not a shareholder.

First Deputy General Director
Sergey I. Yerke

In 1985, Mr Yerke graduated from the Tyumen Industrial Institute as a hydrogeologist, with a specialisation in Mining Engineering, and in 2002, he graduated from the Moscow State University of Economics, Statistics and Informatics. In 2006, he additionally gained an MBA degree from the Stockholm School of Economics in Russia.

He began his working career at Nizhnevartovsk hydrogeological party in Megion.

Over 10 years, he held senior positions in the oil and gas enterprises of the Tyumen Region.

From 2007 to 2009: Deputy Director for Development of Production at Yuganskneftegaz LLC.

In 2009, he was appointed Director of Department of Oil and Gas Production and Transportation in the Ministry of Energy of the Russian Federation.

In 2011, he became Head of Department of Advanced Development and Capital Construction at Gazprom Neft.

Since January 2013, he has been First Deputy General Director of Zarubezhneft.

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

Not a shareholder.

Deputy General Director for Economics And Finance
Sergey V. Kravchenko

In 1992, Mr Kravchenko graduated from the Siberian Automobile and Road Institute with a specialisation as an engineer-economist, and in 1999, he graduated from the MIRBIS Moscow International Higher Business School with a PhD in Technical Sciences.

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

From 1995 to 1997: Deputy Director for Economics of the petroleum services enterprise of the company (Central service base).

From 1997 to 2003: Held senior positions in the Strezhevoyneft Oil and Gas Production Directorate, Tomskneft JSC and Nefteyugansk CCR.

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

In 2008: General Director of TNK-Nyagan JSC.

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

In February 2013: Deputy General Director of Zarubezhneft.

Not a shareholder.

Deputy General Director for Project Development and Well Operations
Igor P. Zaikin

In 1991, Mr Zaikin graduated from Kuibyshev Polytechnic Institute named after V.V. Kuibyshev with a specialty in Mining Engineering. He has a certificate of completion of the Russian-Norway module MBA programme at Moscow State University of Foreign Affairs.

He began his working career as a driller's assistant in a State Oil and Gas Wells Drilling Company VAN-EGAN in Nizhnevartovsk.

Since 1996: worked at LLC Lukoil-Bureniye in Samara city and LUKOIL Overseas in Kazakhstan.

Since 2003: Head of Drilling Technology Section at LUKOIL.

From 2005 to 2012: Director of Drilling, Well Technologies and Supervising Department for Rosneft.

Since 2012: Director of Drilling Department at Bashneft.

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

Not a shareholder.

Deputy General Director for Field Development
Vladimir M. Nozhin

In 1974, Mr Nozhin graduated from the Azerbaijan Institute of Oil and Chemistry with a specialisation in Geology and Oil and Gas Field Exploration. In 1996, he graduated from the Academy of the National Economy under the Government of the Russian Federation with a specialisation in Management under Market Conditions.

After graduation, he worked as a driller's assistant and drilling fluids engineer in the Oil Rocks Marine Drilling Department of Kaspmorneft Association.

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

Since 2000: Head of Department, Oil Production Monitoring, and then Vice-President responsible for science, field engineering and monitoring at YUKOS-EP.

Since 2007: General Director of Samaraneftegaz JSC.

Since April 2013: Deputy General Director of Zarubezhneft.

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

Not a shareholder.

Deputy General Director for Petroleum Production
Valery A. Klinchev

In 1989, Mr Klinchev graduated from Gubkin Moscow Institute of Petrochemical and Gas Industry, and in 1998, he graduated from the Academy of the National Economy under the Government of the Russian Federation with the qualification of top category manager.

In the period between 1989 and 1998, he worked at JSC Komineft, where he rose from the position of geologist to Director of Production.

From 1998 to 2000: General Director of JSC Tebukneft.

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

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

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

Since 2008: General Director of Joint Company RUSVIETPETRO.

Since February 2010: Deputy General Director of Zarubezhneft.

Mr Klinchev was awarded a Diploma of the Ministry of Industry and Energy of Russia and the titles of "Honorary Oilman of Russia" and "Honorary Worker of the Fuel and Energy Complex". He has also been honoured with a governmental award by the Socialist Republic of Vietnam.

Not a shareholder.

Deputy General Director for Downstream Sector
Andrey V. Ozerov

In 1985, Mr Ozerov graduated from the Engineering faculty of Ulyanovsk Military Engineers' Academy and until 1998, was on military duty, occupying different command and engineering capacities. In 2000, he graduated from the G.V. Plekhanov Russian Academy of Economics with a specialisation in Financing and Credit, with a PhD in Economic Sciences. He also holds an MBA degree from the Stockholm School of Economics.

Since 2001, Mr Ozerov has been working in executive positions for YUKOS-RM companies.

Since 2012: Advisor to the Director General of Lider Managing Company (Gazprom) and then Major Projects Director for CJSC Ryazan refining company (Rosneft).

Since October 2013: Deputy General Director for Downstream Sector at Zarubezhneft

Not a shareholder.

Deputy General Director For External Affairs
Alexander Y. Voronin

In 1983, Mr Voronin graduated from the Faculty of Computing Mathematics and Cybernetics at Kazan State University (KSU), named after V.I. Ulyanov-Lenin, with a specialisation as an economist-mathematician. In 1987, he completed postgraduate studies at KSU.

He is a PhD in Economic Sciences (1988), Grand PhD (2005), Associate Professor (1992), and Professor of the Economics Department of Kazan State Technical University (2010).

Mr Voronin had practical training at the University of G ttingen, Germany (1991) and the Academy of the State Service at the President of the Russian Federation (2005).

From 2000 to 2002: Head of the Department of Foreign Economic Activities at Slavneft Oil and Gas Company.

From 2002 to 2004: Deputy Minister of Energy of the Russian Federation, responsible for foreign economic activity.

Since April 2004: Deputy General Director of Zarubezhneft.

By the Decree of the President of the Russian Federation, in 2003 Mr Voronin was given the rank of Full State Advisor 2nd Class of the Russian Federation.

He was also awarded the title of "Honorary Power Engineer of the Russian Federation".

Not a shareholder.

Deputy General Director For General and Human Resources Management Issues
Alexander P. Kovalenko

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

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

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

He has been honoured with state awards by the Russian Federation.

Not a shareholder.

DIVIDEND POLICY

The dividend policy of Zarubezhneft was approved in 2011 at the meeting of the Board of Directors on the 28 October 2011 (Minutes of Meeting No53).

In accordance with the dividend policy, Zarubezhneft will ensure that the annual growth of the dividends paid in favour of the Russian Federation, provided that the net profit of the Company increases and all investment projects of Zarubezhneft, and carried out in accordance with the Company's business plan approved by the Board of Directors, are successfully realised.

The basic principles of the Zarubezhneft dividend policy are:

- Optimum configuration of interests of the company and its shareholders;
- Respect for, and strict observance of, shareholders rights as presumed under Russian Federation law;
- Annual allocation of part of the Company's profit for the payment of dividends and use of the profit remaining at the Company's disposal both for formation of reserve funds and for funding the investment activities of the Company.

OVER A PERIOD OF SEVERAL YEARS, ZARUBEZHNEFT REMAINS ONE OF THE TOP RUSSIAN COMPANIES IN TERMS OF DIVIDEND AMOUNT TRANSFERRED TO THE BUDGET OF THE RUSSIAN FEDERATION.

KEY RISK FACTORS FOR THE ZARUBEZHNEFT GROUP

RISK MANAGEMENT SYSTEM

Zarubezhneft has established a system of risk management in order to ensure the stable continuous functioning and development of the Company by means of the timely identification, prevention and minimisation of risks posing a threat to the business and reputation of the Company or personnel health, as well as the property interests of shareholders in the Company.

In early 2013, the Company worked out and the General Director of Zarubezhneft approved an integrated risk management system (IRMS). During 2013, a standard IRMS was developed and introduced, which defines a single approach to risk management process in the Group.

The company's risk management system establishes a single order: risk identification, planning of actions to reduce risks, risk monitoring and control over actions with realisation for risk reduction, efficiency analysis of actions taken and analysis of lessons drawn for the company.

The elaborated risk management system is based on principle of integrated approach to risk management. The key tasks are as follows:

- Protection of the company's strategy realisation from negative risk impact;
- Justified financial and investment decision-making considering risk information;
- Preservation and increasing the volume of invested financial means.

In order to conform to the best international practices, the company formed and operates on a regular basis a Working Committee for Risk Management (hereinafter known as the Risk Committee). The Risk Committee considers in a consistent manner the essential corporate level risks (corporate risk portfolio), including strategic risks and possibilities, operating risks, risks in reporting preparation and compliance with legislative regulations and the requirements of the Russian Federation and countries where the company carries out its activities.

The internal audit department has developed an audit plan based on a risk-oriented approach, and conducts analysis of the process efficiency of risk management.

The company will continue to improve its approach to IRMS basic processes, with a special emphasis placed on improving the approach to risk assessment in decision-taking, the integration of risk management process into business-planning processes, project management, and M&A.

MAJOR RISK FACTORS

The activities of the Zarubezhneft Group of companies are affected by a broad spectrum of normative, legal, financial, economic, social, market, production, ecological, country and competitive nature risks. These risks separately, in combination with others or in aggregate may impact on the activities, results and goals of the company and may influence these in the short-term, medium-term and long-term periods.

The Zarubezhneft Group identifies risks and uncertainties that it considers essential. However, these risks maybe not the only ones the Group faces.

The emergence of additional risks and uncertainties, including risks and uncertainties the Group is unaware of at the moment or which the Group considers to be not essential, may also influence the achievement of the Group's goals, resulting in a change in financial indices and, as a consequence, a reduction of the value of Group enterprises.

INTERNAL CORPORATE IMPROVEMENT PROJECTS

In 2013, as part of the implementation of Zarubezhneft's development strategy, the General Director initiated a number of improvement projects aimed at the optimisation of Zarubezhneft Group activities, including the financial management, activities management, IT strategy, and personnel and corporate management of the company.

Each project has a Charter of improvements which has been approved by the General Director and which contains data on the administrator and manager in charge, the terms of the project implementation, milestones (Gant diagram), and main expected results.

In 2013, 19 improvement projects were launched. In addition, in the course of implementation, several projects have been incorporated in a upper level programme for increased managerial and financial accounting efficiency

A progress report on the improvement projects is prepared and submitted to the General Director on a monthly basis.

Despite the fact that many projects will only be completed in 2014, we have already observed a very positive effect from a number of them in particular business segments:

- An audit conclusion was obtained under IFRS for the year 2012;
- A new e-document management system was devised and adapted;
- Stable risk management process functioning was organised at Zarubezhneft;
- Purchase procedures at our corporate headquarters and affiliated companies were optimised and comply with RF legislation;
- Audit regulations were approved;
- The imbalance in labour remuneration was eliminated, and a schedule of personnel training was approved for the year 2014.

KEY EXPECTED RESULTS FOR IMPROVEMENT PROJECT IMPLEMENTATION IN 2014

- Fair value of oil and gas facilities and areas of Zarubezhneft determined under IFRS and SEC;
- Specific energy cost reduced by 3-5% in general for the Zarubezhneft Group of companies;
- Consolidated statements formed in accordance with IFRS, audit conclusion for the year 2013 obtained;
- Zarubezhneft rated for corporate management as having not lower than National Rating of Corporate Management (NRCM) 7 class;
- Zarubezhneft credit rated (S&P, Moody's and/or Fitch);
- A single methodology of planning and budgeting in the company was formed and is functioning;
- A single IT-architecture was created and is operated;
- AAS (Automated Accounting System) models by segments were elaborated and commissioned;
- Number of the company's personnel corresponds to real load;
- Project, programmes and a portfolio management system was introduced;
- Business-processes management system was commissioned;
- The company's IT strategy was approved;
- KPI system was upgraded;
- Unified subsidiaries management system was created.

A major objective of the improvement projects is the company's activity reduction to industrial standards of oil and gas companies in Russia and abroad.

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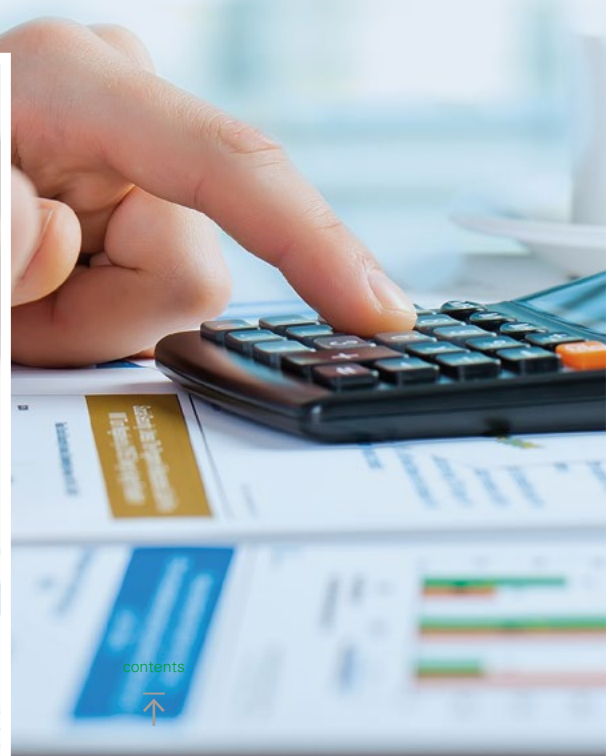
APPENDICES



OFFICIAL COMPANY INFORMATION

Full company name	Zarubezhneft Joint Stock Company
Number and date of state registration certificate issue	Certification series 77 No 003280973 dated 22 October 2004, PSRN 1047708046870
Russian Federation subject	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 the inclusion in the strategic joint-stock companies list	Yes
Full name and address of the registrar	Zarubezhneft JSC, 101990, Moscow, Armyansky pereulok, 9/1/1, building 1
Registered Charter Capital as on 31.12.13, roubles	50,729,067,000
Total issued shares	50,729,067
Ordinary shares	50,729,067,
Stocks at par, roubles	1,000
State registration number of ordinary (preferred) share and state registration date	1-01-65072-D dated December 09, 2004
State registration number of additional issue of ordinary (preferred) shares and state registration date (in case, by the date of preliminary approval of annual company report by Board of directors (supervisory authority)) the registration authority had not performed the abolition of company ordinary (preferred) shares with an additional issue individual number (code)	1-01-65072-D dated 19 April 2005 1-01-65072-D dated 10 July 2007 1-01-65072-D dated 25 September 2007 1-01-65072-D-004D dated 24 of April 2012
Preferred shares	No
Preferred shares at par, roubles	No
Shares in possession of Russian Federation	50,729,067
Russian Federation interest in the charter capital	100%
Company shareholders whose interest in the charter capital is more than 2 per cent	Russian Federation represented by Federal State Assets Managements Agency
Availability of special right for Russian Federation to take part in joint-stock company management (“golden share”)	No
Company auditor full name and address	LLC Rosexpertiza, 127055, Moscow. Tikhvinsky pereulok, 7, building 3

LIST OF THE COMPANY'S SUBSIDIARIES AND AFFILIATES

Sr.№	Company name	Single Executive Body as of 31.12.2013	Zarubezhneft JSC share in charter capitals of th e companies
1.	Scientific and Technological Company Russian Inter-industrial Scientific and Technical Complex Nefteotdacha JSC	General Director – N.I. Syromyatnikov	100% – 1 share
2.	Orenburgneftotdacha CJSC	General Director – M.V. Lyapin	100% – 1 share
3.	Arktikmorneftegazrazvedka JSC	General Director – V.I. Urmancheev	100% – 1 share
4.	NESTRO Kaspiy LLC	General Director – A.V. Mogilev	99.90%
5.	Ulyanovskneftegaz LLC	General Director – Karyakin S.N.	99.90%
6.	Oil and Gas Innovation Corporation JSC	President – V.V. Zhludov	95.00%
7.	Zarnestservis LLC	General Director – K.S. Akatnov	80.00%
8.	Zarubezhneftestroymontazh LLC	General Director – A.N. Padalka	80.00%
9.	EXPLON LLC	General Director – V.A. Ponomarev	80.00%
10.	JC RUSVIETPETRO LLC	General Director – V.Y. Vsevolozhsky	51.00%
11.	ZarIT CJSC	General Director – S.V. Gorbachev	26.00%
12.	Academician A.P. Krylov All-Russian Oil and Gas Scientific Research Institute JSC	General Director – A.V. Fomkin	32.27%
13.	Institute for Design and Research in Oil Industry Giprovostokneft JSC	General Director – S.I. Agrafenin	22.09%
14.	Vietsovpetro JV (SRV)	General Director – Tu Thanh Nghia	49.00%
15.	VRJ Petroleum Company (SRV)	General Director – Nguyen Quang Vinh	50.00%
16.	JV Nestro Nuraly LLP (Republic of Kazakhstan)	General Director	55.00%
17.	East West Oil Limited (Great Britain)	Collective Executive Body	100.00%
18.	Zarubezhneft Holdings & Services (Switzerland)	Collective Executive Body	100.00%

LIST OF LICENCES HELD BY THE ZARUBEZHNEFT GROUP IN THE RUSSIAN FEDERATION

In the Russian Federation the Zarubezhneft Group possesses:

- 8 licences for hydrocarbon production;
- 5 licences for hydrocarbon prospecting, exploration and production and 2 licenses for exploration and evaluation of hydrocarbon reservoirs;
- 1 licence for hydrocarbon prospecting, exploration and production is held by Kharyaga PSC Operator (Total).

№	License №	Enterprises, shares of ZN	Blocks, areas, fields	License validity
1	ОРБ 14885 НП	Orenburgnefteotdacha, 100%	Kirsanovskoye (D), EXP.	18.03.2010 – 01.03.2015
2	ОРБ 00896 НЭ		Kirsanovskoye, Oil	23.09.2009 – 31.05.2033
3	ОРБ 00898 НЭ		Pashkinskoye, Oil	23.09.2009 – 31.05.2033
4	ОРБ 00897 НЭ		Chernovskoye, Oil	23.09.2009 – 31.05.2033
5	УЛН 09132 НР	Ulyanovskneftegaz, 100%	Radischevskyi, EXP.	30.04.2008 – 03.08.2030
6	УЛН 09135 НЭ		Slavkinskoye, Oil	30.04.2008 – 01.06.2018
7	УЛН 14582 НЭ		Kondakovskoye, Oil	01.10.2008 – 01.07.2018
8	УЛН 09133 НЭ		Ruzhevskoye, Oil	30.04.2008 – 10.09.2026
9	УЛН 09134 НЭ		Sulakskoye, Oil	30.04.2008 – 10.09.2026
10	НРМ 15344 НП	AMNGR, 100%	Peschanoozerskoye (P-C), EXP.	27.03.2012 – 30.03.2017
11	НРМ 15200 НЭ		Peschanoozerskoye, OGC	09.09.2011 – 24.09.2019
12	НРМ 00688 НР	JC RUSVIETPETRO, 51%	CKU -1, North-Khoseadayu, Oil	08.09.2008 – 10.06.2033
13	НРМ 00689 НР		CKU -2, Visovoye, Oil CKU -2, Upper Kolva, Oil	08.09.2008 – 10.06.2033
14	НРМ 00690 НР		CKU -3, West-Khosedayu, Oil CKU -3, Sikhoreyskoye, Oil CKU -3, East-Sikhoreyskoye,Oil CKU -3, North-Sikhoreyskoye, Oil	08.09.2008 – 10.06.2033
15	НРМ 00691 НР		CKU -4, North-Oshkotynskoye, Oil CKU -4, Surkharatinskoye, Oil CKU -4, Puseyskoye, Oil CKU -4, South-Surkharatinskoye, Oil CKU -4, Urernyrdskoye, Oil CKU -4, East-Yamdeyskoye, Oil	08.09.2008 – 10.06.2033
16	НРМ 10422 НЭ	PSC Kharyaga, 20%	Kharyaga, Oil	16.07.1996 – 27.07.2016

INFORMATION ABOUT HOLDING THE SHAREHOLDERS' GENERAL MEETING

In accordance with paragraph 3 of the Article 47 of the federal law dated 26 December 1995 No208 FZ "On Joint Stock Companies" in the Company, all voting shares of which belong to one shareholder, the resolutions on issues related to the competence of the general meeting of the shareholders, are to be taken by this shareholder individually and to be drawn up in written form.

In 2013, one regulation was issued by the Federal Property Management Agency, dated 12 September 2013, No1145-p, "On resolutions of the annual general meeting of the shareholders of Zarubezhneft Joint Stock Company", at which the following resolutions were adopted:

- The Zarubezhneft annual report for 2012 was approved.
- Zarubezhneft's annual accounting reports including profit and loss statements were approved (profits and loss account) for 2012.
- Profit distribution by Zarubezhneft for 2012 in the amount of 4,864,678 thousand roubles, taking into consideration the recommendations of the Zarubezhneft Board of Directors regarding the payment of dividends in the amount of 4,371,240,2 thousand roubles was approved. A decision was also taken to remit the remainder of undistributed Zarubezhneft profit for the year 2011 in the amount of 784,776,8 thousand roubles for dividend payment.
- Zarubezhneft's Board of Directors was elected.
- Zarubezhneft's Audit Commission was elected.
- Rosexpertiza Ltd. was approved to be auditor of Zarubezhneft for the year 2013.

INFORMATION ON HOLDING THE MEETINGS OF THE BOARD OF DIRECTORS AND THE COMMITTEES TO THE BOARD OF DIRECTORS

In the year 2013, 8 meetings of the company's Board of Directors were held.

Meeting of the Board of Directors	Discussed issues
12 April 2013, Minutes of Meeting No 69	1. Consideration of a "road map" for privatisation of Zarubezhneft's shares, being a federal property. 2. Approval of target KPI values for the year 2013. 3. Actualisation of the Zarubezhneft Innovation Development Programme.
25 April 2013, Minutes of Meeting No70	1. Report on the results of Zarubezhneft procurement activity in 2012. 2. Report on the results of lowering the costs for goods (works, services) purchase in 2012.
24 May 2013, Minutes of Meeting No 71	1. Consideration of conclusion of the Audit Commission based on results of the revision of the financial and economic activities of Zarubezhneft in 2012. 2. Preliminary approval of the Zarubezhneft Annual Report for 2012. 3. Consideration of the annual accounting reports of Zarubezhneft for the year 2012, including profit and loss statements. 4. Recommendations of the Zarubezhneft Board of Directors regarding profit distribution. 5. Determination of the amount of the service fee for the winner of the open tender to select an auditor for the mandatory annual audit of Zarubezhneft. 6. Approval of report on achievement of the company's KPI target values for 2012. 7. Amount of annual bonus payment to the top management of the company based on the achievement of individual key indicators for the year 2012.
10 June 2013, Minutes of Meeting No 72	1. Report on the results of Zarubezhneft procurement activity for the 1st Quarter, 2013. 2. Report on the results of lowering the costs for goods (works, services) purchase in the 1st Quarter, 2013. 3. Approval of the regulation on the organisation of the informational interaction through the Interagency Portal for public property management in a new internet version.
25 June 2013, Minutes of Meeting No 73	1. Carrying out of the public engineering and price audit of investment projects of the Company.
25 November 2013, Minutes of Meeting No 74	1. Election of the Chairman of the Zarubezhneft Board of Directors. 2. Approval of new regulations on Committees of the Zarubezhneft Board of Directors. 3. Election of the members of the Committees of the Zarubezhneft Board of Directors. 4. Approval of the new regulations on Zarubezhneft procurement activities. 5. Report on the results of Zarubezhneft procurement activity in the 2nd Quarter, 2013. 6. Report on the results of cutting the costs for goods (works, services) purchase in the 1st Half Year, 2013
16 December 2013, Minutes of Meeting No 75	1. Report on the results of Zarubezhneft procurement activity in the 3rd Quarter, 2013. 2. Report on the results of cutting the costs for goods (works, services) purchase per unit in the 3rd Quarter, 2013. 3. Approval of the initial (maximal) price for audit services, with the purpose of holding a tender for audit company selection to conduct a mandatory audit of accounting (financial) reports of Zarubezhneft for 2014 . 4. Approval of a corporate audit standard for investment projects.
17 December 2013, Minutes of Meeting No 76	1. Approval of the Zarubezhneft business plan for 2014. 2. Determination of the value of the transaction under Surety Agreement № 110100/1396-ДП between state corporation "Bank of development and foreign economic activity (Vnesheconombank)" and Zarubezhneft.

In 2013, 4 meetings of the Committees under the Board of Directors of Zarubezhneft JSC were held.

Meeting of the Committee under the Board of Directors	Issues Discussed
5 April 2013, Minutes of meeting No1 of the joint meeting of the Strategic Planning Committee and Audit Committee	1. Preliminary consideration of the draft road map for the privatisation of Zarubezhneft's shares, currently federal property. 2. Preliminary consideration of the target KPI values for 2013.
11 April 2013, Minutes of Meeting No2 of the Staff and Remuneration Committee	1. Consideration of the proposals regarding the amount of remunerations to the members of the Zarubezhneft Board of Directors based on the results of the corporate year. 2. Preliminary consideration of the target KPI values for 2013.
16 May 2013, Minutes of Meeting No1 of the Audit Committee	1. Consideration of the Auditor's conclusion on the accounting reports of Zarubezhneft for 2012. 2. Consideration of the results of the tender to select an auditor for the mandatory audit of Zarubezhneft for 2013.
17 May 2013, Minutes of Meeting No1 of the joint meeting of the Strategic Planning Committee and Staff and Remuneration Committee	1. Consideration of the Zarubezhneft Annual Report for 2012. 2. Consideration of the report on achieving the company's target KPI values for 2012. 3. Amount of the annual bonus payment to the company's top management based on the achievement of individual KPIs for 2012.

INFORMATION ABOUT CLAIMS AGAINST THE COMPANY

In 2013, Zarubezhneft participated in the following proceedings:

- Kompomash-TEK CJSC sent to Moscow Arbitrage a statement of claim to oblige Zarubezhneft to deliver a test model of steam-generator manufactured under agreement for performing scientific-research and development works. By decision of the Moscow Arbitrage dated 06.05.2013, the claim was dismissed by reason that property was paid by Zarubezhneft in accordance with the terms and conditions of the agreement. The judgement has been retained in force by the Courts of Appeal and Cassation.

- A statement of claim of Kompomash-TEK CJSC on recovering 25,017,068 roubles from Zarubezhneft in connection with early termination of an agreement for performing scientific research and development works concluded on 31.05.2011 was pending in 2013 in Moscow Arbitrage and is pending at present.

- A statement of claim of Kompomash-TEK CJSC on recovering 19,000,000 roubles from Zarubezhneft under an agreement for performing scientific research and development works signed by the parties on 12.05.2011 was pending in Moscow Arbitrage in 2013 and is pending at present.

In 2013 there were no other court proceedings in which Zarubezhneft participated.

In addition, in 2013 the following proceedings for large amounts in which the enterprises of Zarubezhneft's Group of companies participated should be noted:

- A statement of claim of OC Severnoye Siyanie (Northern Light) Ltd. on recovering from JC RUSVIETPETRO of losses in the amount of 402,956,779 roubles within the framework of performing oil transportation system rent was pending in Moscow Arbitrage in 2013 and is pending at present.
- A statement of claim from JC RUSVIETPETRO to OC Severnoye Siyanie (Northern Light) Ltd. for invalidation of a notice of early termination of agreements of oil transportation system rent was pending in Moscow Arbitrage in 2013 and is pending at present.
- In 2013, a statement of claim of Arktikmorneftegazrazvedka on invalidation of the decision of Interdistrict Inspectorate of the Federal Tax Service for large tax payers in Murmansk region on recovering from this company of additionally charged taxes, fines and penalty fees for a total amount of 1.34 billion roubles was examined by the Arbitrage of the Murmansk region. Under the decision of the Murmansk region Arbitrage dated 25.11.2013, the claim of Arktikmorneftegazrazvedka was partially satisfied. Consequently, the tax authority's claims for the amount of 1.25 billion roubles were declined. The decision has not become effective in law, and a proceeding is expected in the Court of Appeal.

The above proceedings are connected in general with normal business operations and do not constitute any risks for the financial and economic activities of the Zarubezhneft Group of companies.

INFORMATION ON TRANSACTIONS WITH INTERESTED PARTIES

The company did not conduct any interested party transactions in 2013.

REPORT ON EXECUTION OF THE INSTRUCTIONS OF THE PRESIDENT AND THE GOVERNMENT OF THE RUSSIAN FEDERATION

Instructions of the President of the RF and Directives of the Government of RF	Information about execution by the company of respective instructions and directives
Establishment of specialised committees under the Board of Directors (supervisory board) of the company, approval of the KPI system, development and adoption of the regulations on remuneration to the management (based on KPI system) and the members of the Board of Directors (supervisory board) of the Company (a directive of the government of the Russian Federation dated 23 July 2009 NoВЗ-П13-6284, the letter of the Federal Property Management Agency dated 18 August 2009 NoГН-13/20732.	At the meeting of the Zarubezhneft Board of Directors 25.11.2013 (Minutes of Meeting No74) the Strategic Planning Committee, Audit Committee, and Staff and Remuneration Committee under the Zarubezhneft Board of Directors were formed. See section "Board of Directors of the Company, Committees under the Board of Directors". At the meeting of the Zarubezhneft Board of Directors dated 27.12.2011 (Minutes of Meeting No56), regulations on remuneration of the top executives of Zarubezhneft were approved which regulate the procedure of assessing the amount of the annual awarding of bonuses for the top executives of the company, and also determine the criteria (including a set of individual KPIs) used in the calculation of the amount of the awarding bonuses for the company's top executives. Regulations on Zarubezhneft's activities relating to its KPI system were also approved. At the meeting of Zarubezhneft's Board of Directors dated 12 April 2013 (Minutes of Meeting No69) the target KPI values were approved for 2013. At the meeting of Zarubezhneft's Board of Directors dated 24 May 2013 (Minutes of Meeting No71), a report on target indicator achievement by the Company for the year 2012 and the amount of annual bonus payment to the top executives was determined based on the achievement of individual key indicators for 2012.
On payments (remunerations) to the top executives (individual executive body/chairman of the collective executive body, deputies of the individual executive body/members of the collective executive body, the heads of the structural subdivisions, members of the Board of Directors (advisory board), entitled to receive the remuneration) (the directive of the government of the Russian Federation dated 8 April 2010 NoИШ-П13-2232, the letter of the Federal Property Management Agency dated 27 April 2010 NoЮМ-13/10638, fax messages of the Federal Property Management Agency dated 5 July 2010 No81, as well as 4 August 2010 No93).	See section "Board of Directors of the Company, the Committees under the Board of Directors". At a meeting of the Zarubezhneft Board of Directors of dated 27 December 2011 (Minutes of Meeting №56) regulations on remuneration for the top executives of Zarubezhneft were approved which regulate the procedure of assessing the amount of the annual awarding bonuses of the top executives of the company, and also determine the criteria (including a set of individual KPIs) used in the calculation of the amount of the awarding bonuses for the company's top executives. Regulations for the KPI system of Zarubezhneft's activity were also approved at that meeting. At the meeting of Zarubezhneft's Board of Directors dated 12 April 2013 (Minutes of Meeting No69), the target KPI values were approved for 2013. At the meeting of Zarubezhneft's Board of Directors dated 24 May 2013 (Minutes of Meeting No71), a report on target indicator achievement by the company for the year 2012 and the amount of annual bonus payment to the top executives was determined based the achievement of individual key indicators for 2012.
On implementation of the investment programmes (an instruction of the First Deputy of the Chairman of the Government of the RF dated 18 September 2009 NoИШ-П13-5361, fax message of the Federal Property Management Agency dated 1 April 2011 NoГН-15/8808).	Information about investment programme progress has been sent to the Ministry of Energy of Russia (letter dated 26.04.2013, ref. NoКС-23-2158 and dated 08.11.2013, ref. NoКС-24-5626) and quarterly updated on the personal account of Zarubezhneft in the Interagency Portal.
On implementation of the strategy of the joint stock company in the area of energy saving and energy efficiency (paragraph 8 of the directive of the government of the RF dated 18 June 2008 NoИШ-П9-3772 on implementation of the decree of the president of the Russian Federation dated 4 June 2008 No889, "On certain measures to increase the energy and ecology efficiency of the Russian Economy", the letter of the Federal Property Management Agency dated 27 November 2008 NoГН-13/28934).	At the meeting of the Board of Directors held on 14 December 2012 (Minutes of Meeting No68), a report on the results of the Zarubezhneft Group of companies' energy audit was taken into consideration and the programme of energy saving and increasing the energy efficiency of the Zarubezhneft Group of companies was approved. In 2013, with the purpose of the said programme implementation at the meetings of the Board of Directors of Zarubezhneft's subsidiaries (VNIIneft JSC, Orenburgnefteotdacha CJSC, Giprovostokneft JSC, Ulyanovskneft) reports on completion of the programme of energy saving and increasing energy efficiency in 2013 and the schedules of activities for 2014 were approved.
On purchase of the products produced in Russia (the letter of the Federal Property Management Agency dated 3 April 2009 NoГН-13/7796).	Procurement under the Russian and international projects of Zarubezhneft (Cuba, India, Bosnia and Herzegovina, Vietnam) is effected with a maximum involvement of the enterprises of Russian industry. See section "Schedule of activities to ensure efficiency of purchase activities of the customer's system and also in relation to purchases from small and medium-sized business legal entities".
On working out the medium-term strategy of the development of the entity and the programme of innovation development (Minutes of Meeting with the Chairman of the Government of the Russian Federation dated 3 August, 2010 No4).	At the meeting of the Board of Directors of the Company held on 12.04.2013 (Minutes of Meeting No69) the actualised programme of the innovation development of Zarubezhneft was approved.

Instructions of the President of the RF and Directives of the Government of RF	Information about execution by the company of respective instructions and directives
On measures aimed at restructuring of the assets owned by joint stock companies with state share participation provided for by the paragraph 8 of the Minutes of the Meeting with the Chairman of the Government of the Russian Federation dated 20 October 2010, NoВП-Ш3-56пр (the letter of the Federal Property Management Agency dated 24 January 2011, NoГН-13/1359) including consideration at the meetings of the Boards of Directors (supervisory boards) of the public companies of the issues on alienation of the non-core assets of both of the head organisations and of its subsidiaries and affiliated companies, and on approval of the programmes of asset disposal.	At the meeting of the Board of Directors of Zarubezhneft on 7 August 2012 (Minutes of Meeting No64) the programme of non-core assets disposal for 2012-2013 was approved. Within the frame of non-core assets disposal, a sale of shares in charter capital in Nestro Dunav Ltd. was realised.
On the implementation of measures aimed at the provision of informational openness for procurement operations and the transfer to e-procurements, including the provisions regulating procurement procedures for goods, works and services. It is required to specify the results of holding the meeting of the Board of Directors (supervisory board) in the joint stock company, at which the said issues were considered (directive of the Government of the Russian Federation dated 17 December 2010, NoИШ-П13-8685, the letter of the Federal Property Management Agency dated 25 January 2011 №ГН-13/1416).	• At the meeting of the Board of directors held on 25 November 2013 (Minutes of Meeting No74), a new edition of the Regulations for Zarubezhneft Procurement was approved. • At the meetings of the Board of Directors held on 25.04.2013 (Minutes of Meeting No70), 10.06.2013 (Minutes of Meeting No72), 25.11.2013 (Minutes of the Meeting No74), 16.12.2013 (Minutes of Meeting No75), reports on results of procurement activities for 2012 and for 1, 2 and 3 Quarters of 2013 were taken into consideration.
Information about resolutions aimed at improvement of labour remuneration of JSC's employees (directive of the Government of the Russian Federation dated 4 December 2010 NoКА-П13-8297).	• At the meeting of the Zarubezhneft Board of Directors held on 27 December 2011 (Minutes of Meeting No56), a regulation on the remuneration of the top executives of Zarubezhneft was approved which regulates the procedure for determination of the amount of the annual bonus payment for the top executives of the company, and also defines the criteria (including a set of individual KPIs) used in the calculation of the sum of the bonus payment for the company's top executives. • At the meeting of the Zarubezhneft Board of Directors dated 12 April 2013 (Minutes of Meeting No69) the target KPI values for 2013 were approved.
Information in relation to measures aimed at the development of the programmes of innovation development in joint stock companies included in the list of organisations developing innovation development programmes, approved by the resolution of the governmental commission for high technologies and innovations dated 3 August 2010, Minutes of Meeting No4 (letters of the Federal Property Management Agency dated 29 October 2010 NoГН-13/32160, dated 29 October 2010 NoГН-13/32156)	At the meeting of the Board of Directors of Zarubezhneft held on 12 April 2013 (Minutes of Meeting No69), the updated programme of innovation development for Zarubezhneft was approved.
Subparagraph "e", paragraph 1 of the list of instructions of the president of the Russian Federation on the implementation of the top priority measures aimed at improvement of the investment climate conditions in the Russian Federation dated 2 April 2011 NoПр-846, in accordance with which it is required to provide in the companies controlled by the state (joint stock companies with the RF share of participation in the chartered capitals of over 50% (hereinafter – JSCs) taking of decisions on reducing the costs for purchase of the goods (works, services) counting on per unit of product by not less than 10% annually during three years in real terms (letters of the Federal Property Management Agency dated 14 September 2011 NoГН-15/27795, dated 16 September 2011 NoГН-15/28326 dated 14 September 2011 NoГН-15/27797, dated 16 September 2011 NoГН-15/28327, and dated 14 July 2011 ДП-15/20610).	At the meeting of the Board of Directors held on 7 June 2012 (Minutes of Meeting No61) the amended method of calculation of the costs decrease indicator for goods (works, services) purchase per unit of product was approved. A report on the results of costs reduction per unit of product was taken into consideration at the meetings of the Board of Directors of Zarubezhneft on 25.04.2013 (Minutes of Meeting No70), 10.06.2013 (Minutes of Meeting No72), 25.11.2013 (Minutes of Meeting No74), 16.12.2013 (Minutes of Meeting No75).
On liability insurance of the independent directors – the representatives of the state's interests with JSCs management bodies (instruction of the president dated 3 August 2011, NoПр-2206, letter of the Federal Property Management Agency dated 29 November 2011 NoГН-15/36784).	Draft liability insurance for the Zarubezhneft Board of Director's members' contract was outlined, and consultations were held with the Ministry of Finance of Russia regarding tax consequences arising from the members of the Board of Directors signing this contract.
On proposals and recommendations aimed at stimulation for developing the mechanisms of environmental responsibility based on international standards, including non-financial reports and systems of voluntary certification and marking, subject to independent examination and attestation (subparagraph "л" paragraph 1 of the List of instructions of the President of the Russian Federation dated 6 June 2010 NoПр-1640, letter of the Federal Property Management Agency dated 5 December 2011 NoГН-13/37524).	At the meeting of the Board of Directors on 20 April 2012 (Minutes of Meeting No59) the Ecological programme for the Zarubezhneft Group of companies was approved. In order to control programme implementation, a specialised division was created – the HSE Department. For information about activities completed within the frame of the programme implementation, see section "Environmental Protection". In 2013, Zarubezhneft issued a report on sustainable development for the year 2012, which was certified for compliance with GRI requirements and public attestation with the Russian Union of Industrialists and Entrepreneurs.

Instructions of the President of the RF and Directives of the Government of RF	Information about execution by the company of respective instructions and directives
Decree of the government of the Russian Federation dated 31 December 2010 No1214, "On improvement of management of JSCs, the shares of which are in federal ownership, and federal public unitary enterprises".	At the meeting of the Board of Directors held on 10 September 2013 (Minutes of Meeting No72), an amended regulation for Zarubezhneft on the organisation of the informational interaction through the Interagency Portal for public property management on the internet was approved, and in accordance with the said regulation, the Company in 2013 has regularly placed the corresponding information on its personal account in the Interagency Portal.
On introduction into practice of the co-investing principles in the Russian and international venture funds, in accordance with the instruction of the President of the Russian Federation dated 03.11.2011 No Пр-3291 (letter of the Federal Property Management Agency dated 12.05.2012 No ГН-5/14430 and dated 23.08.2012 No15/34351).	Zarubezhneft's Programme of Innovation Development provides for the development of technological solutions that are of strategic importance and critical for ensuring the competitiveness of the Group. Funding for the projects included in the programme is undertaken solely for the Company's own and subsidiaries' account. Engaging third-party investors in innovation projects would result in a loss of the exclusive rights for the created results of intellectual activity and in disclosure of the company's know-how. Therefore, co-investing in venture funds at present is acknowledged to be inexpedient.
On the expediency of alienation of the core assets in the economic sectors with a sufficient competitiveness level in accordance with subparagraph "в", paragraph 1 of the list of instructions of the President of the Russian Federation dated 27.04.2012 No Пр-1092 (letter of the Federal Property Management Agency dated July 12, 2012 No ДП-15/26414).	At the meeting of the Board of Directors held on 27 September 2012 (Minutes of Meeting №66) considering the formed company's assets portfolio, a resolution was taken to acknowledge it was inexpedient to work out Zarubezhneft's programme of core asset sales.
On holding the engineering and price audit of investment projects. In pursuance of Directives of the government of the Russian Federation dated 30 May 2013 No2988п-П13.	At a meeting of the Board of Directors held on 25 September 2013 (Minutes of Meeting No73) the issue of holding a public engineering and price audit of the company's investment projects was considered and a decision was taken as per the directives of the Government of the RF dated 30.05.2013 No2988п-П13. At the meeting of the Board of Directors held on 16 September 2013 (Minutes of Meeting No75), a decision was taken to finalise the draft corporate standard for the engineering and price audits of investment projects and based on results of getting a reference corporate standard of holding public engineering and price audit from the Expert Council under the government of RF to update the standard of the company and to submit for approval of the Board of Directors the final version of the standard and annual plan of holding engineering and price audits of investment projects. A report on results of the engineering and price audit will be sent to the Ministry of Economic Development and the Government of the RF (letter dated 30.12.2013, ref. NoКС-23-6975 and NoКС-23-6974).
On joining the Anti-corruption Charter for Russian Business (letter of the Federal Property Management Agency dated 20 November 2013, No11/53971).	In December 2013, a range of activities was initiated by Zarubezhneft aimed at the Company joining the Anti-corruption Charter for Russian Business.

PLAN TO ENSURE THE EFFICIENCY OF PROCUREMENT ACTIVITIES, INCLUDING PURCHASES FROM SMALL AND AVERAGE BUSINESS ENTITIES

In 2013, a tender commission organised and considered 176 procedures for goods, works and services purchases by Zarubezhneft for the total amount of 28.1 billion roubles.

During the year 2013, the execution of an instruction of the president of the Russian Federation dated 2 April 2011, NoПр-846 (paragraph 1e), was continued regarding the reduction by the companies having state participation of the goods (works, services) purchase costs by not less than 10% per year in real terms.

In accordance with the method of calculation of the costs decrease indicator for goods (works, services) purchase per unit of product approved by a decision of the Board of Directors of Zarubezhneft on 07.06.2012, the cost reduction indicator for 2013 was 12.56%.

In order to optimise purchase activities and ensure system functioning under single standards, an analysis of existing internal regulatory documents was carried out to regulate the purchase activities.

Based on results of the analysis carried out:

- Regulations on Zarubezhneft's purchases (a new revision was approved by the Board of Directors on 25.11.2013) were revised;
- Agreements with subsidiaries for rendering services for purchase organisation were revised (Zarubezhneft organises centralised purchase of the major goods, works and services for twelve subsidiary companies);
- Regulations for Zarubezhneft purchase activities organisation outlined (and put in force by the order dated 26.04.2013 №122);
- A single form of regulations on goods, works and services purchase was devised for the needs of the subsidiary companies (approved by the order dated 24.12.2013 №528)..

In pursuance of the instruction of the Zarubezhneft Board of Directors a plan of activities for 2014 was issued (approved by the General Director on 17 December 2013) in order to implement the plan of activities ("road map"). The expansion of access of small and average business entities to purchases of infrastructure monopolies and companies having state participation was approved by a decree of the government of the Russian Federation dated 29 May 2013 No867-p.

Zarubezhneft's plan of activities of provides for:

- Creation of an advisory body responsible for a public audit of the efficiency of all purchases.
- Amending the regulations on purchases and other administrative documents of the customer in which purchase participants are not only small and average business entities.
- Working out and entering for the management of the company a mandatory criteria of performance indicators – with the share of purchases from small and average business entities including innovative goods purchase.

AUDITED ACCOUNTING REPORTS OF THE COMPANY

Organisation	Organisation: Zarubezhneft Joint Stock Company
Identification number of taxpayer	7701350084
Type of economic activity	Provision of other services
Legal organisation form / property form	Joint Stock Company / Federal property
Units of measurement:	Thousand Roubles
Location (address)	101000, Moscow, Armyansky pereulok, 9/1/1. Bld. 1

	Codes
Form under NIAD[1]	0710001
Date (day, month, year)	31 12 2013
As per ARCEO[2]	00148458
INT[3]	7701350084
As per ARCEEA[4]	74.84
As per ARCLOF[5] / ARCPF[6]	47 12
As per ARCUM[7]	384

BALANCE SHEET AS OF 31 DECEMBER 2013

Notes	Name of parameter	Code	As of 31 December 2013	As of 31 December 2012	As of 31 December 2011
	ASSETS				
	I. FIXED ASSETS				
	Intangible assets	1110	31,749	32,841	915
	including unfinished operations on the acquisition of intangible assets	1111	2,372	1,035	800
	Research and engineering results	1120	219,353	167,635	153,478
	including unfinished and unexecuted R&D works	1121	219,353	167,635	153,478
	Intangible development assets	1130	–	–	–
	including:	1131	–	–	–
	Tangible development assets	1140	–	–	–
	including:	1141	–	–	–
Par. 1	Capital assets	1150	3,547,653	3,358,430	3,391,060
	including unfinished capital investments	1151	2,083,573	1,812,492	1,754,016
	Income yielding investments into tangible assets	1160	–	–	–
Par. 2	Financial investments	1170	71,068,486	74,265,289	71,103,705
	Deferred tax assets	1180	77,144	74,816	24,857
Par. 3	Other non-current assets	1190	21,507,003	14,549,192	11,398,059
	Total for the section I	1100	96,451,388	92,448,203	86,072,074
	II. CURRENT ASSETS				
	Reserves	1210	555,551	8,168	121,778
	Input VAT	1220	–	5	–
Par. 5	Receivables	1230	13,462,518	13,339,999	15,195,141
	including long-term receivables	1231	8,333,004	3,187,689	1,709,078
Par. 4	Financial investments (excluding cash equivalents)	1240	4,478,169	4,299,516	4,166,121
	Cash and cash equivalents	1250	3,324,855	6,320,723	5,979,527
	Other current assets	1260	4,921	4,349	18,052
	Total for section II	1200	21,826,014	23,972,760	25,480,619
	BALANCE	**1600**	**118,277,402**	**116,420,963**	**111,552,693**

[1] NIAD (National Index of Administrative Documents).
[2] ARCEO (All-Russian Classifier of Enterprises and Organisations).
[3] INT (Identification Number of Taxpayer).
[4] ARCEEA (All-Russian Classifier of External Economic Activities).
[5] ARCLOF (National Index of Legal Organisation Forms).
[6] ARCPF (All-Russian Classifier of Property Forms).
[7] ARCUM (All-Russian Classifier of Units of Measurement).

Notes	Name of parameter	Code	As of 31 December 2013	As of 31 December 2012	As of 31 December 2011
	LIABILITIES				
	III. EQUITIES				
	Registered capital (share capital, authorided fund, partners contributions)	1310	50,729,067	41,139,067	41,139,067
	Shares repurchased	1320	–	–	–
	Revaluation of the fixed assets	1340	1,007,631	1,007,631	1,007,631
Par. 7	Added capital (without revaluation)	1350	178,809	7,816	43,176
	Reserve capital	1360	9,171,439	8,684,971	6,974,976
Par. 8	Retained profits (unrecovered losses)	1370	55,598,214	54,109,910	59,375,860
	Total for section III	1300	116,685,160	104,949,395	108,540,710
	IV. LONG-TERM LIABILITIES				
	Borrowed funds	1410	–	–	–
	Deferred tax liabilities	1420	2,049	4,125	1,866
	Estimated liabilities	1430	–	–	–
	Other liabilities	1450	–	73,689	73,689
	Total for section IV	1400	2,049	77,814	75,555
	V. SHORT-TERM LIABILITIES				
	Borrowed funds	1510	274,675	–	–
Par. 5	Payables	1520	1,037,988	11,095,537	2,848,895
	Deferred revenues	1530	–	–	–
	Estimated liabilities	1540	277,530	298,217	87,533
	Other liabilities	1550	–	–	–
	Total for section V	1500	1,590,193	11,393,754	2,936,428
	BALANCE	**1700**	**118,277,402**	**116,420,963**	**111,552,693**

Organisation	Organisation: Zarubezhneft Joint Stock Company
Identification number of taxpayer	7701350084
Type of economic activity	Provision of other services
Legal organisation form / property form	Joint Stock Company / Federal property
Units of measurement:	Thousand Roubles
Location (address)	101000, Moscow, Armyansky pereulok, 9/1/1. Bld. 1

	Codes		
Form under NIAD	0710002		
Date (day, month, year)	31	12	2013
As per ARCEO	00148458		
INT	7701350084		
As per ARCEEA	74.84		
As per ARCLOF / ARCPF	47		12
As per ARCUM	384		

PROFIT AND LOSS ACCOUNT FOR JANUARY – DECEMBER 2013

Notes	Name of parameter	Code	For January – December 2013	For January – December 2012
Sec. IV	Income	2110	30,513,386	33,138,009
Sec. IV	Cost of sales	2120	(14,317,357)	(14,511,374)
		2100	16,196,029	18,626,635
Sec. IV	Selling expenses	2210	(39,860)	(53,741)
Sec. IV	Management expenses	2220	(1,895,202)	(1,736,670)
		2200	14,260,967	16,836,224
Sec. IV	Participation capital	2310	430,722	248,224
Sec. IV	Interest receivable	2320	2,524,436	2,095,380
Sec. IV	Interest payable	2330	(5,769)	(13,500)
Sec. IV	Other revenues	2340	17,163,997	16,464,602
Sec. IV	Other losses	2350	(25 540 965)	(29,347,965)
	Profits (losses) before tax	2300	8,833,388	6,282,965
	Current profits tax	2410	(992,148)	(405,101)
	including permanent tax liabilities (assets)	2421	2,467,217	2,743,154
	Variance of deferre d tax liabilities	2430	2,076	(2,258)
	Variance of deferred tax assets	2450	2,328	49,959
Sec. IV	Other	2460	(707,885)	(1,060,887)
	Net profits (losses)	2400	7,137,759	4,864,678

Notes	Name of parameter	Code	For January – December 2013	For January – December 2012
	For reference			
	Outcome from re-evaluation of capital assets, not included in net profits (losses) for the period	2510	–	–
	Outcome from other operations, not included in net profits (losses) for the period	2520	–	–
	Aggregate financial outcome for the period	2500	7,137,759	4,864,678
	Basic earnings (losses) per share	2900	–	–
	Diluted profit (losses) per share	2910	–	–

Organisation	Organisation: Zarubezhneft Joint Stock Company
Identification number of taxpayer	7701350084
Type of economic activity	Provision of other services
Legal organisation form / property form	Joint Stock Company / Federal property
Units of measurement:	Thousand Roubles
Location (address)	101000, Moscow, Armyansky pereulok, 9/1/1. Bld. 1

	Codes
Form under NIAD	0710004
Date (day, month, year)	31 12 2013
As per ARCEO	00148458
INT	7701350084
As per ARCEEA	74.84
As per ARCLOF / ARCPF	47 12
As per ARCUM	384

CASH FLOW STATEMENT FOR JANUARY – DECEMBER 2013

Name of parameter	Code	For January – December 2013	For January – December 2012
Cash flows from current operations			
Total - proceeds	4110	25,870,370	35,706,485
including: From products, goods, works and services sale/provision	4111	24,551,293	27,219,928
Rentals, licence payments, royalty, commissions and other similar payments	4112	5,362	2,942
From financial investments re-sale	4113	–	–
Dividend tax repayment	4114	–	840,000
Short-term loan repayment	4115	211,413	6,577,564
	4116	–	–
Other proceeds	4119	1,102,302	1,066,051
Total amount of payments	4120	(15,581,729)	(20,670,009)
including: To vendors (contractors) for raw materials, works and services	4121	(765,867)	(5,799,929)
In connection with employees' labour payment	4122	(1,392,227)	(937,934)
Interest under debt obligations	4123	(1,085)	–
Profit tax	4124	(483,084)	(690,716)
Other taxes	4125	(660,002)	(1,087,864)
Short-term loans	4126	(4,303,176)	(6,798,914)
Settlement of accounts under PSC	4127	(6,788,953)	(3,381,185)
Other payments	4129	(1,187,335)	(1,973,467)
Cash flow balance from current operations	4100	10,288,641	15,036,476
Cash flows from investment operations			
Total amount of proceeds	4210	3,199,933	853,189
including: From fixed assets sale (except for financial investments)	4211	471	4,969
From shares sale (participation interests) in other interests	4212	–	10,818
From granted loans repayment, from debt securities sale (rights to demand funds from the other persons)	4213	2,063,646	589,178
Dividends, interest on debt financial investments and similar proceeds from share participation in other organisations	4214	1,135,816	248,224
	4215	–	–
Other proceeds	4219	–	–

Name of parameter	Code	For January – December 2013	For January – December 2012
Total payments	4220	(11,690,934)	(6,895,488)
including: In connection with purchase, creation, upgrading, reconstruction and preparation for the use of fixed assets	4221	(79,994)	(122,256)
In connection with share acquisition (participation interests) in other organisations	4222	–	–
In connection with debt securities acquisition (rights to demand funds from other persons), granting of loans to other persons	4223	(3,472,613)	(4,283,583)
Interests under debt liabilities to be included into the investment assets cost	4224	–	–
	4225	–	–
Other payments	4229	(8,138,327)	(2,489,649)
Cash flows from investment operations balance	4200	(8,491,001)	(6,042,299)
Cash flows from financial operations			
Total amount of proceeds	4310	570,000	–
including: Credits and loans received	4311	570,000	–
Owners (participants) cash deposits	4312	–	–
From shares issue, increasing the participation interests	4313	–	–
From bonds, bills and other debt securities issue and others .	4314	–	–
	4315	–	–
Other proceeds	4319	–	–
Total payments	4320	(5,456,017)	(8,330,133)
including: To owners (participants) in connection with redemption of the company's stocks (participation shares) from them or with cessation of membership	4321	–	–
For dividends payment and other payments for profit allocation in favour of owners (participants)	4322	(5,156,017)	(8,330,133)
In connection with payment (repayment) of bills and other debt securities, credits and loans repayment	4323	(300,000)	–
	4324	–	–
Other payments	4329	–	–
Cash flows from financial operations balance	4300	(4,886,017)	(8,330,133)
Cash flows balance for the reporting period	**4400**	**(3,088,377)**	**664,044**
Funds and fund equivalents balance as of the beginning of the reporting period	**4450**	**6,320,723**	**5,979,527**
Funds and fund equivalents balance as of the end of the reporting period	**4500**	**3,324,855**	**6,320,723**
Effect of foreign exchange rate changes against the rouble	4490	92,509	(322,848)

AUDIT REPORT

BY INDEPENDENT AUDITING COMPANY ROSEXPERTIZA LLC ON THE ACCOUNTING RECORDS OF ZARUBEZHNEFT JOINT STOCK COMPANY FOR 2013.

Rosexpertiza

For the company's shareholders

Audited entity:

- Name: Zarubezhneft Joint Stock Company
- State registration number: 1047708046870
- Legal address: 101990, Moscow, Armyansky per., 9/1/1, Bld.1.
- Postal address: 101990, Moscow, Armyansky per., 9/1/1, Bld.1.

Auditor:

- Name: Limited Liability Company Rosexpertiza
- Certificate of state registration of LLC Rosexpertiza No183142, issued by Moscow registration chamber on 23 September 1993.
- Certificate of 27 September 2002, of Entry in the Unified State Register of Legal Entities of the legal entity, registered before 1 July 2002, under the primary state registration number 1027739273946.
- Legal address: Masha Porivaeva Str., 11, Moscow, 107078, Russian Federation.
- Postal address: Tihvinskiy per., 7, Bld.3, Moscow, 127055, Russian Federation.
- Member of SROA NP Russian Panel of Auditors in accordance with the decision of RPA Board of April, 23d, 2007, certificate No362-Y.
- Primary registration number in the Register of Auditors and Auditing Organisations 10205006556.

We have conducted an audit of the enclosed accounting records of Zarubezhneft Joint Stock Company, consisting of a balance sheet as of 31 December 2013, a profit and loss report, statement of changes in equity and cash flow for 2013, and other supplements to balance the sheet the and profit and loss report.

The above records were prepared by the executive body of Zarubezhneft Joint Stock Company on the basis of Federal Law dtd. 06.12.2011 No402-ФЗ "On Accounting Records", "Regulations on Accounting Procedures and Accounting Records in Russian Federation", approved by the order of the Ministry of Finance of Russian Federation No34-N dtd. 29.07.1998, "Regulations on Accounting Procedures "Accounting Records of the Company" PBU 4/99", approved by the order of the Ministry of Finance of Russian Federation No43-N dtd. 06.07.1999, the order of the Ministry of Finance of Russian Federation No66-N dtd. 02.07.2010 "On the Format of Accounting Records of the Company".

LIABILITY OF THE AUDITED ENTITY FOR ACCOUNTING RECORDS

Management of the audited entity is liable for the preparation and authenticity of the above accounting records in accordance with established regulations for accounting records preparation and for internal control system, necessary for the preparation of accounting records without material errors and omissions due to fraud or mistakes.

AUDITOR'S LIABILITY

Our liability consists of the declaration of our opinion on the authenticity of the accounting records on the basis of the audit, performed by us.

We have conducted this audit in accordance with:

- Federal Law "On Auditing Activities" No307-Ф3 dtd. 30.12.2008.
- Federal Rules (standards) on auditing activities (decree of the government of the Russian Federation No696 dtd. 23.09.2002 as revised in the decrees of the government of the Russian Federation No405 dtd. 04.07.2003, No532 dtd. 07.10.2004, No228 dtd. 16.04.2005, No523 dtd. 25.08.2006, No557 dtd. 22.07.2008, No863 dtd. 19.11.2008, No586 dtd. 02.08.2010, No30 dtd. 27.01.2011).
- Federal standards for auditing activities (FSAA) (Orders of the Ministry of Finance of the Russian Federation No16-N dtd. 24.02.2010, No46-N dtd. 20.05.2010, No90-N dtd. 17.08.2010, No99-N dtd. 16.08.2011).
- Code of Ethics of Auditors in Russia (approved by Auditing Activities Counsel on 22.03.2012, protocol No4 (as amended on 27.06.2013. protocol No9).

The given standards require adherence to the applicable ethical norms, and, also, planning and performance of the audit in such a way as to get adequate assuredness that the accounting records do not contain significant errors and omissions.

This audit has included auditing procedures targeted at obtaining audit evidences, proving numerical indicators in the accounting records and the disclosure of information therein. The selection of auditing procedures is subject to our judgment, which is based on the evaluation of risk of significant errors and omissions made due to fraud or mistakes. In the process of such risk evaluation, we have considered the internal control system, providing preparation and authenticity of accounting records, with the purpose of selecting the respective auditing procedures, but not with the purpose of declaring opinion on its efficiency.

The audit has also included evaluation of the propriety of the accounting policy applied and the validity of the estimated figures received by the management of the audited entity, as well as evaluation of the accounting records in general.

We consider that audit evidence obtained in the course of auditing gives sufficient basis to declare opinion on the authenticity of accounting records.

OPINION

In our opinion, the accounting records authentically reflect in all material matters the financial position of Zarubezhneft Joint Stock Company as of 31 December 2013, and the results of its financial and operational activities and cash flow for 2013 in accordance with the established rules for the preparation of accounting records.

Auditor

Director for Audit of Audit Services Department
LLC Rosexpertiza

L.S. Sapronova

Auditor Qualification Certificate No05-000184 of 03.10.12. issued for an indefinite period. Primary registration number in the register of auditors and auditing organisations No20105020800. Member of SROA NP Russian Panel of Auditors in accordance with the decision of RPA Board of 14.08.2009. Certificate No3018.

On behalf of Rosexpertiza management:

Deputy General Director

N.E. Suslova

27 March 2014

CONTACTS

Russian Federation	
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Regional office in Havana	Calle 5 ta Avenida y 248, Casa 4021, Marina Hemingway, Santa Fe, Ciudad de La Habana, Cuba
Branch in Havana	Avenida 3ra e/ calles 78 y 80, Miramar Centro de Negocios, Edificio Habana, Piso No5, Municipio Playa Ciudad de La Habana, Cuba tel. (537) 204 -01-33 /36/38 E-mail: habana@nestro.ru
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Representation in Hanoi	Room 1204, DAEHA Business Center 360, Kim Ma st., Ba Dinh Distr., Hanoi, Vietnam Tel. (84-43) 771-9990 Fax (84-43) 771-9993 E-mail: nestrohn@viettel.vn