



Sergey Kudryashov
General Director of
Zarubezhneft JSC

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Statement of the General Director

Dear Colleagues!

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

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

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

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

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

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

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

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

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

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

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

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

A large set of initiatives is being implemented to provide new

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

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

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