

Adaptive processes

Increased efficiency in considering initiatives to join new projects (Fast Track project)

The 'Expansion' strategic focus requires speeding up the general corporate procedures and processes that are required to consider initiatives to join new projects. For this purpose, the Company carried out work in 2020 to optimize procedures and implemented more than 20 optimization proposals, which were reflected in amended business processes and regulatory documents.

■ KEY CHANGES:

- ▶ Long-term framework contracts on legal services for new projects were concluded
- ▶ Long-term framework contracts on due diligence were concluded

- ▶ The criteria of non-binding documents was drafted for using the accelerated approval route
- ▶ Procedures were simplified for expert reviews prior to the meeting of the Investment Committee and the approval of its minutes, and a template of RES materials was prepared
- ▶ A new collegial body for the review of new projects, the Committee on New Projects, was established

As a result, the standard time for the review of documents for priority new projects was reduced from 7 to

4.5 months

■ IMPLEMENTATION OF FOCUS INITIATIVES

Goal

Speeding up procedures and processes for joining new projects

Effects

- ▶ optimization of core and related processes to join new projects
- ▶ unification and standardization of entry processes

Results

1.5 times

Regulatory timeframes for review of documents were shortened

30%

Framework contracts on typical services for new projects (legal services, due diligence) were concluded

-15%

Accelerated approval route were applied

-15%

Procurements for small projects were centralized

Fast Track

On new projects

Establishment of the Corporate Business Service Center (BSC)

At present, Western and Russian companies constantly face new challenges related to improving the efficiency of business processes. One of the tools to increase operational efficiency is to centralize service functions

within a separate business segment, or a business service center. By creating such centers, companies enjoy the savings associated with centralization, process alignment, and process optimization and automation, which ultimately leads to a reduction in costs not related to the core business, the increased transparency of business processes, higher efficiency and manageability, and fewer risks.

ADAPTIVE PROCESSES KEY PROJECT

Centralization of service functions and rapid integration of new practices

Goals and objectives of the BSC

- ▶ Reduce operating costs
- ▶ Improve the level of service quality
- ▶ Eliminate duplicate functions
- ▶ Ability for further rapid transformation, automation, and robotics through centralization

Actual benefit

(Based on respondent survey)

~30%

Cost optimization

~20%

Headcount optimization

~50%

Increase in response control and speed

Scope



Territorially

- ▶ Russian assets of Zarubezhneft JSC
- ▶ Foreign assets of Zarubezhneft JSC in terms of operations carried out at the Management Company in Russia



Functionally

- ▶ Accounting, reporting, and payroll
- ▶ HR administration
- ▶ Treasury

First results

Stage I: Preliminary

detailed design

~20

Responsibility statements have been prepared

>100

Workshops have been held in associated companies

>55

Statuses

~40

Unique kpi formed

~400

Business process charts, regulations, and instructions developed

October 1 2020

The Business Service Center launched work for the companies of the Samara group of Zarubezhneft subsidiaries

2021

We plan to transfer all companies in the Russian segment of the Group to the Process Center

Main objectives of establishing the BSC:

- ▶ Reduce operating costs. Combining functions and processes reduces process redundancy and minimizes operating costs. Additional savings can be achieved through the price arbitration of salaries.
- ▶ Increase productivity. Transferring multiple processes into the BSC helps to optimize manpower by simultaneously unifying and standardizing a number of supporting processes.
- ▶ Enhance the flexibility and scalability of a growing business. Increased speed and the reduced cost of integrating new business units/projects into the unified BSC contributes to the Company's competitiveness.
- ▶ Improve the quality of internal services. The centralization of processes in the BSC helps to unify and improve the quality of internal customer service due to the broader application of the service approach.
- ▶ Concentrate on key business skills. The transfer of standard supporting processes to the BSC helps to focus on developing and improving key business processes that create value added.

Benchmarking results indicate that the centralization of processes will produce a cost effect of 20–30% in the first stage alone. The same effect is achieved by the further optimization and automation of the centralized process.

In 2020, a project was initiated and implemented to create a business service center for the Group's following functions: accounting and reporting, HR administration, and treasury. The Analysis and Design stages of the Center's target processes have been successfully completed, and HR migration processes have begun.

On October 1, 2020, the BSC began working for the Samara Group's production facilities of ZARUBEZHNEFT subsidiaries.

The gradual transfer of the processes of ZARUBEZHNEFT GROUP's Russian-segment companies to the Center for servicing is scheduled for 2021.

Numerical solutions

Establishment of a system of digital business processes (introduction of Business Process Management — BPM)

According to Global Adroit Market Research, the global BPM market will grow at an average annual rate of 15.2% from 2017 to 2023. The main driver is the transition to cloud computing, which promotes the integration of companies' business applications around the world. Analysts are confident that the BPM market will actively develop in coming years due to the ever-increasing need to improve the efficiency and manageability of business processes. In addition, its development will be aided by the strengthening of regulatory controls around the world and increased requirements for ROI. There will be particular demand for BPM solutions, which provide the ability to quickly adjust business processes and predict their development.

The goal of the BPM project is to create and introduce software products that implement the process management concept, based on which the high speed and quality of process execution is achieved through the modeling, execution, control, and continuous improvement of executable processes, with the entire business logic of such products flexibly adapting in the event of organizational changes.

ADAPTIVE PROCESSES KEY PROJECT

In a period of active growth, the efficiency of joining projects and the quality of decision-making processes is crucial for the company

Introduction of BPM 'Digital processes'

Objectives for introducing BPM

- ▶ Building an end-to-end process for subsidiary communication centers in a single field
- ▶ Re-engineering and revaluation of the process when automating it
- ▶ Online monitoring of process performance by indicators, flexible analytics, and dashboards for participants
- ▶ Setting automated benchmarks (logical conditions) and reducing the number of errors
- ▶ Quick changeover of the process on the fly in order to reduce FTE, the share of manual operations, supporting documents, etc.

What have we achieved with BPM?

real benefit

Actual benefit (based on a respondent survey)

-51%
(from 13.5 to 7 PTE)
reduction in labor intensity

-32%
(from 16 to 11 hours)
reduction in the examination period

-35%
(from 17 to 11)
reduction in manual operations

-50%
(from 8 to 4 hours)
reduction in expert response time

The BPM system aids in continuously improving the PDCA cycle

FOCUS 2020+

Full-scale implementation of BPM solutions for general corporate processes (digital office)

8 BPM processes – now...

3 introduced

- ▶ BP 'INVESTMENT PLANNING' (expertise of communication centers of Investment Companies)
- ▶ BP 'INVESTMENT PLANNING' (Control gear of associated companies: ZNDK, RVP, RMNTK, VNIINEFT)
- ▶ BP CORPORATE MANAGEMENT OF SUBSIDIARIES (Data reconciliation in subsidiaries)

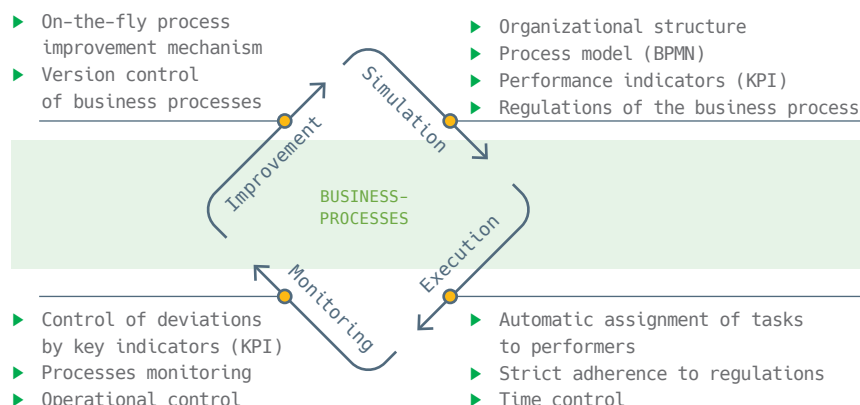
5 initiated

- ▶ BP INTERNAL REGULATIONS MANAGEMENT
- ▶ BP REVISIONS OF SUBSIDIARIES (Giprovestokneft, ZNSM)
- ▶ BP 'MANAGEMENT OF PROCUREMENTS BY SUBSIDIARIES' (RMNTK, ZNDS)
- ▶ ORGANIZATIONAL STRUCTURE INTEGRATION
- ▶ BP ACCOUNTING OF SUBSIDIARY COMMUNICATION CENTER

...6 processes – in the future

- ▶ BP 'Procurement Management' (+ZNDK, RFS, ZN) + Procurement plan, integration with comprehensive development framework (CDF)
- ▶ BP 'CONTRACT MANAGEMENT' BUSINESS UNIT Communication Center (contract coordination)
- ▶ BP 'INTERNAL REGULATIONS MANAGEMENT' SUBSIDIARIES (ZNDK, RFS, ZNDS)
- ▶ BP CORPORATE MANAGEMENT (Data reconciliation of Communication Center: circulation of SUBSIDIARIES)
- ▶ BP 'BUSINESS PLANNING', COMPILATION OF THE ANNUAL REPORT, BUSINESS PLAN BOOKS
- ▶ BP PRODUCTION SYSTEM

THE BPM SYSTEM AIDS IN CONTINUOUSLY IMPROVING THE PDCA CYCLE



Main objectives:

- ▶ Adjust and start executing the process from its start to completion in a single system based on the configured algorithm
- ▶ Track the progress and provide up-to-date statistics on all process parameters (milestones and changes in document versions)
- ▶ Identify bottlenecks and deviations and quickly redesign the process without the need to fine-tune such systems as the EDMS or reconfirm regulations
- ▶ Robotize separate standard areas of the process, which lend themselves to a clear logic of execution

The criteria for the project success are increased speed, a reduction in the labor intensity of the business process, a reduction in paperwork, sufficient information for an analysis of process efficiency, flexible changeover process, minimum complexity of the business process configuration in the system, and convenience for the process methodologist.

The Company has successfully implemented a pilot project to introduce the BPM, using the automation of the investment process as an example.

The project has shown significant potential for improving the efficiency of processes:

- ▶ Process automation took 5 months (instead of one or more years) when implementing EDMS-class systems
- ▶ The labor intensity of administering the investment process was reduced by 50%

- ▶ Flexible adaptation: the reconfiguration of simple operations in the process takes up to 1 day
- ▶ The ability to track any parameters in the performance of the process (deadlines, documents, participants' workload, and bottlenecks)

In 2020, the project was replicated throughout the Group.

In addition, the Organization of Meetings of Subsidiary Management Bodies project was successfully implemented in 2020, and projects were initiated for the following business processes:

- ▶ Management of the drafting of internal regulatory documents
- ▶ Organization of audits at subsidiaries
- ▶ Procurement management of subsidiaries (1st phase).

In the long-term, the Company plans the end-to-end automation of the following 6 processes:

- ▶ Procurement management (circulation)
- ▶ Contract management
- ▶ Replication of the drafting of internal regulations at subsidiaries
- ▶ Drafting of the annual reports of subsidiaries
- ▶ Business planning;
- ▶ Organization of the performance monitoring of the production system.

CENTRALIZATION AND DIGITALIZATION OF THE TREASURY

Goal

Development of the function using new solutions and best practices

Effects

- ▶ Increased level of automation (new technologies)
- ▶ Better data quality
- ▶ Decreased service costs of counterparty banks
- ▶ Increased profitability (dealing and dynamic discounting)

Tools

- ▶ Process mining – unification of the payment process and accelerating the process
- ▶ Dashboards – quick access to financial and economic information
- ▶ Mass request for quotations – increasing the Company's profitability through the more efficient placement of funds

~105 mln RUB

annually due to dynamic discounting

project

Treasury

The key goal of the project is to work out a long-term strategy for the development of the treasury function, including the use of new technological solutions and best industrial practices. This includes the implementation of digital tools. The digitization of the treasury will make it possible to reduce the cost of servicing counterparty banks and optimize existing capital. Another positive effect will be a reduction in labor costs for standard operational tasks.

The project has several stages and is designed for three years. Six short-term pilot initiatives have been approved for implementation in 2020 (Minutes No. 61 of the Investment Company dated December 27, 2019):

- ▶ Introduction of a dynamic discounting platform
- ▶ Robotics of the Corporate Dealing process
- ▶ Installation of a multi-bank platform to exchange payment documents
- ▶ Installation of the Eikon Refinitiv terminal for the mass request of quotations
- ▶ Display of accounts (dashboards)
- ▶ Application of Process Mining technology in the business process starting from the planning of demand all the way through payment

Unified management practices

Development and introduction of a management work standard

Given the Company's active development, unified standards are needed for managers to show their

leadership in the commitment to key strategic focuses at all levels.

A work standard for managers that uses simple and clear algorithms helps to ensure a coordinated approach in the most important aspects of their work and a high level of management at each workplace regardless of the remoteness or specifics of a department's activities.

THREE FOCUSES OF A MANAGER'S ATTENTION

Manager's working principles

Principle

GPS

Goals People Systems

Goals

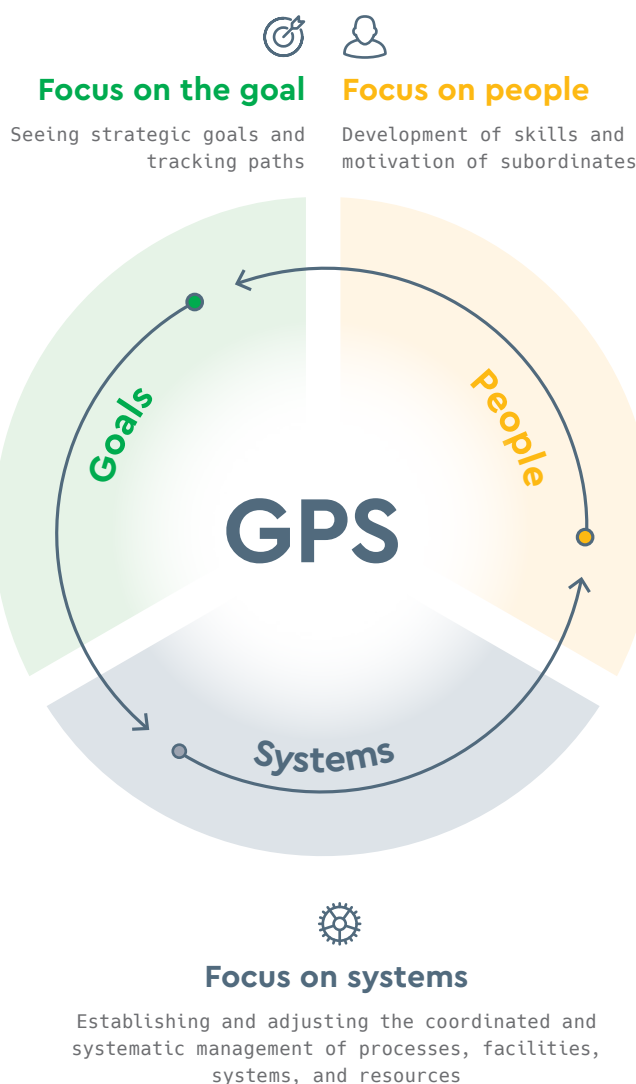
- ▶ I am on the front line of production and am aware of the Company's current problems, tasks, and challenges
- ▶ I focus on favorable opportunities for business development and search for innovative solutions
- ▶ I am constantly improving my knowledge and am open to new ideas
- ▶ I involve my employees in solving overarching problems and help them form a coherent picture of the Company's goals and prospects

People

- ▶ I communicate the Company's values to my subordinates, colleagues, and partners
- ▶ I involve my employees in searching for solutions and listen to their opinions
- ▶ I am involved in the development and motivation of my subordinates
- ▶ I set clear and understandable goals and tasks and also delegate authority
- ▶ I provide regular feedback (both negative and positive)

Systems

- ▶ I maintain and demand high standards of workmanship from others
- ▶ I demonstrate leadership and a commitment to the development of the production system and safety
- ▶ I adhere to the standards of corporate ethics and comply with agreements



The main focus in 2020 was to further promote of the Leader Performance Standard for subsidiaries at oilfields up to the level of line managers at production sites.

The following objectives were accomplished in this regard:

- ▶ A workgroup was formed to finalize the Standard for oilfields from among the heads of communication centers and subsidiaries
- ▶ A matrix for the application of practices at oilfields was developed
- ▶ The practices of the Standard were analyzed and their applicability within the Production System was assessed. Five pilot practices were selected for implementation at oilfields
- ▶ Amendments were made to the practices of 'Cascade Informing', 'Feedback', 'Visual Performance Management', 'Production System Meeting', and 'Linear Bypass' in order to adjust them to industry conditions
- ▶ A management training program was developed for all the aforementioned practices
- ▶ The format of the practices was revised and visualized as a standard operating procedure.

At present, the Company is actively working to develop a distance learning course on the work breakdown structure (WBS). The plan is to select and train leaders of change for the further introduction of the WBS at production subsidiaries and to supervise the work of subsidiary line managers in the field with the provision of developmental feedback on ways to improve skills when introducing the practices.

The communication center is also continuing work to promote the Standard. In the past year, the Communication Center has updated ten WBS practices and the Company's subsidiaries have updated 12 WBS practices. In particular, the decision was made to combine the practices 'Performance and Development Meeting' and 'Work with a Succession Pool Member' into a single practice called 'Employee Development Meeting'. In addition, the enhanced monitoring procedure 'Production Site Visit' was transformed into the WBS-enhanced monitoring procedure 'Linear Bypass' and merged with the enhanced monitoring procedures 'Visual Performance Management' and 'Production System Meeting'.

The Communication Center and associated companies annually conduct an independent survey to assess the quality of WBS application, which helps to track the indicators of how regular management practices are applied throughout the Company as well as provide managers with the opportunity to receive feedback from employees in the form of personal reports

Common information space

Global Info

The project involves developing a common information space at ZARUBEZHNEFT GROUP that provides access to different means of communication.

As part of the project, the corporate portal will be rebooted to support the development of corporate publications and new means of communication.

In addition, the establishment of a unified Competence Center for internal and external communications will help coordinate work and tools in different areas.

These modern technologies will ensure that all employees have 24-hour access to news and information materials about the Company. The Company is forming a system of structured and intelligent communications and increasing the awareness and involvement of employees in the common cause.

At present, we have already evaluated the audience coverage and available communication channels used throughout ZARUBEZHNEFT GROUP and determined the channels that will have to be created. For each of them, the type of content and the frequency of information provision have been determined in accordance with the Company's goals and objectives for the next two years.

We plan to create a centralized system to aggregate and process all information content at the Company and introduce solutions that are in line with global trends of modern corporate communications.

■ IMPLEMENTATION OF FOCUS INITIATIVES

System of internal corporate communications

Unified information space

Global Info

Goal

To create a unified information space

Effects

- An aligned communications system
- Communication support for strategic focuses and initiatives
- Support for the Company brand's and development of its reputation

Results



100%

All employees simultaneously receive information in a single format



The practice of mailing and posting the General Director's statements on infoboards has been introduced

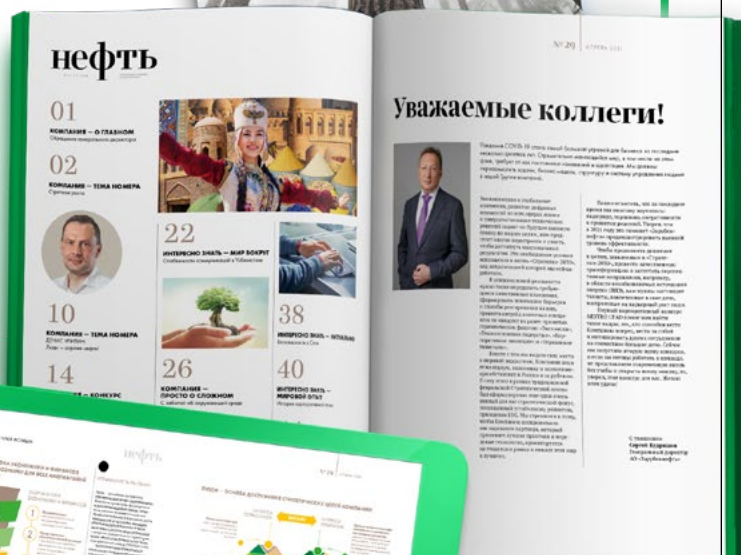


The first group-wide engagement survey was conducted



New format of Awareness Day

Rebooting of the Corporate magazine



Newsletter
corporate newsletter