

INTERNAL IMPROVEMENTS PROJECTS

Zarubezhneft has compiled a portfolio of change projects since 2013 and annually expanded its perimeter.

THE PORTFOLIO CONSISTS OF FOUR TYPES OF PROJECTS:



Improvement projects



IT projects



R&D projects



Technological development projects

In 2020, the Company began implementing a fifth type of project — digital projects, which aim to develop new or introduce existing digital initiatives created on the basis of end-to-end digital technologies.

Since Zarubezhneft actively explores new regions, joins foreign projects, and develops additional business focuses, starting in 2019, the project portfolio is compiled within four strategic

priorities defined at a strategic session of the Group's executives — 'EXPANSION', 'TECHNOLOGICAL LEADERSHIP', 'CORPORATE EVOLUTION', and 'TALENT MANAGEMENT'.

Key goals and tasks are defined for each strategic priority, with long-term project programs prepared and updated annually to achieve the priorities. These programs involve the introduction of innovative technologies, cost reduction, process optimization, infrastructure development, and more.

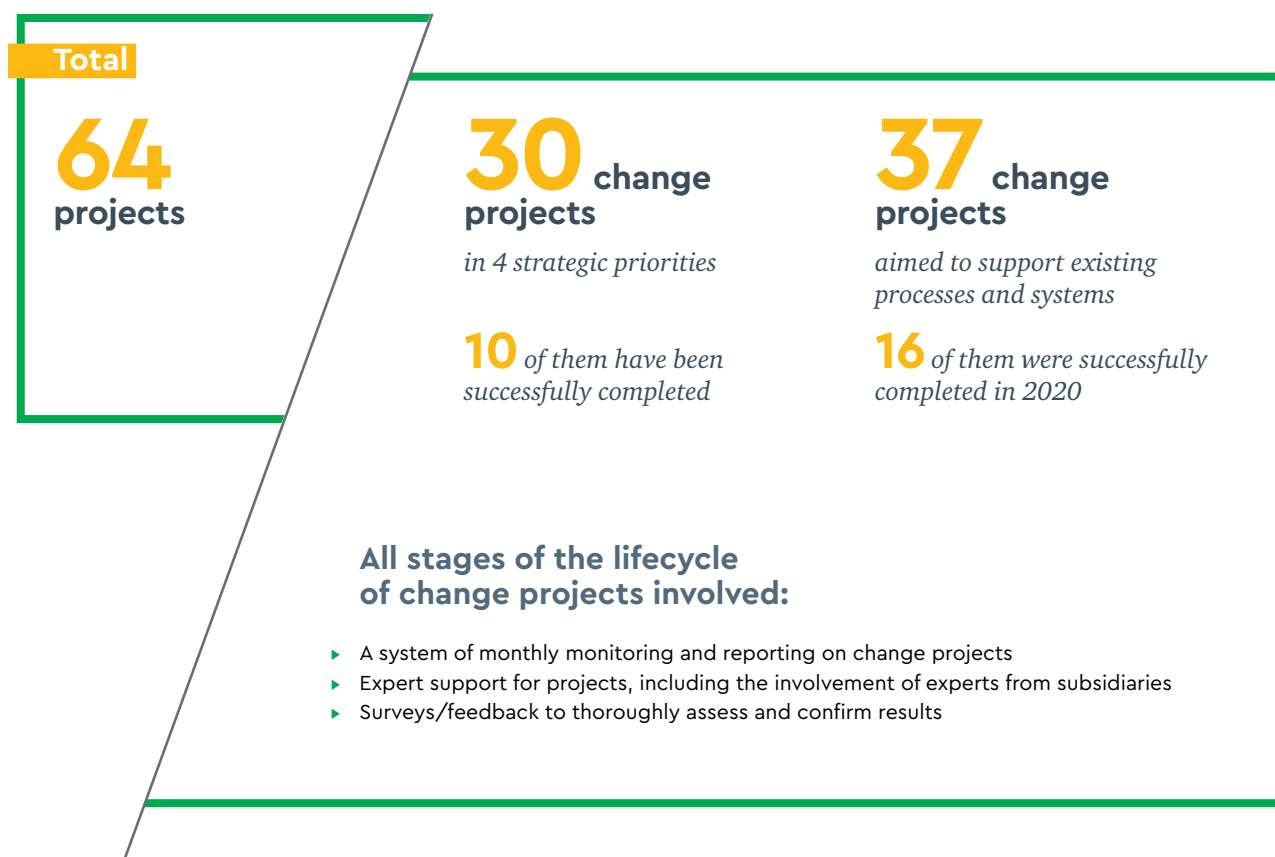
The number of change projects in all focus areas of Zarubezhneft's Corporate Strategy increases each year. This is due to the fact that the Company continuously looks for new opportunities, conducts benchmarking, actively participates in experience exchange meetings with industry leaders, and analyzes lessons it has learned. This systematic work helps to identify new areas for improvement and development, which become the basis for new change projects.

In addition, in order to increase management's awareness of the implementation of strategic tasks and develop new change projects, the project initiation mechanism was revised in 2020, and unified principles for identifying and classifying projects as ones with a strategic focus were developed, including a thorough analysis and defense of projects under the Company's management.

The Company also carried out work in 2020 to optimize the system for the selection, monitoring, and evaluation of the effective implementation of improvements and also developed tools to work with organizational and management changes.

In 2020, Zarubezhneft established a new collective advisory body — the Committee for Improvements — for this purpose, among others. The Committee's main purpose is to create a unified platform to support systematic work to identify, select, and monitor the effective introduction of organizational and management improvements and also to draft and assess the implementation of comprehensive programs to introduce changes to fulfill the Company's strategic objectives and increase the level of maturity of business processes. Committee meetings are held monthly and chaired by the Company's General Director.

PROJECTS PORTFOLIO IN 2020



Main results of the change projects within the 4 strategic priorities

Expansion

Projects in the 'Expansion' focus aim for the Company to join new foreign projects by creating effective tools for to search for and evaluate projects as well as mechanisms for effective work in new countries and regions.

Upstream project management based on the cluster principle using the example of the gas cluster in Vietnam:

- ▶ A pool of oil and gas assets was formed based on existing projects as well as those that have been acquired and restructured in the same geographical location and are suitable for consolidation into the cluster
- ▶ Arrangements were made for Zarubezhneft Group to acquire stakes in new gas blocks in the territorial 'zone' of the future cluster

Development of negotiation skills at the company:

- ▶ A negotiation strategy for the General Director was developed
- ▶ A methodology was drafted to prepare for negotiations at the level of the Company's senior management who regularly negotiate with high-level partners
- ▶ A procedure was determined for recording the results of negotiations

Creation of opportunities to finance new projects:

- ▶ A sovereign credit rating of ruAAA (the highest) was obtained from Expert RA

Technological leadership

Initiatives in the 'Technology Leadership' focus aim to create and develop new advanced technological skills to provide the necessary competitive advantages to increase the efficiency of current assets and expand globally.

Opening

- ▶ High-tech seismic operations at Block 09-1 in Vietnam resulted in a reserve increment of more than 1.9 million tons
- ▶ The construction of a multilateral exploration well at Block 12/11 was completed, adding more than 4 million TOE to reserves
- ▶ A new method of seismic processing – full-wave inversion – was successfully introduced, making it possible to significantly detail geological models
- ▶ A joint venture was set up with Gazprom Neft for the oil and gas exploration of low-permeability and unconventional formations in Western Siberia

Entalpy

- ▶ Three new horizontal wells were drilled into the main bituminous M formation at a depth of 600 meters
- ▶ An additional fourth well was drilled to test the new reservoir at a depth of 250 meters; a gushing flow of bitumen was obtained following the steam treatment of the reservoir

Smartflooding

- ▶ The base production decline rate has been reduced by 33% since 2017 due to efficient work with water cut without additional drilling
- ▶ Incremental production of around 250,000 tons was achieved due to the successful application of innovative flow-deflecting technologies at JC RUSVIETPETRO fields
- ▶ ORI increased by 5–10%

Tight Oil

- ▶ Two horizontal wells were successfully drilled in 2020 at JC RUSVIETPETRO and ZARUBEZHNEFT-Dobycha Kharyaga, 1 multilateral well at ZARUBEZHNEFT-Dobycha Kharyaga, and 1 horizontal well with multistage hydraulic fracturing at ZARUBEZHNEFT-Dobycha Kharyaga
- ▶ Testing was conducted with hydraulic fracturing of deep Oligocene formations at block 09-1 with HF over 4,000 meters in exploratory wells BT-54 and BT-57
- ▶ Two inclined-vertical wells were drilled in the pilot project area of the Lutseyakhskeye field, and drilling started on a horizontal well
- ▶ Specialized projects were implemented to expand the Company's expertise in drilling horizontal wells, core studies of unconfined reservoirs, and HF

Talent management

Projects in the 'Talent Management' focus aim to perform systematic work to identify, develop, and utilize human potential to solve the Company's strategic objectives.

Creation of a united experts institute:

- ▶ An internal expert evaluation of competence coverage was conducted and a campaign was organized for the selection of candidate experts for Zarubezhneft Group: 117 of 319 applications from candidates for inclusion as experts were selected and the candidates were approved; a work plan for the Expert candidates was prepared
- ▶ A knowledge management system (KMS) was identified as a single platform for expert work and the KMS was thoroughly restructured: additional areas of knowledge were allocated, communities were introduced, and an expert's personal account was created
- ▶ A provisional regulation was drafted and approved on the creation and functioning of a unified system of experts

Nestro Lead

- ▶ The winners of the contest were trained in the 'Energy Business Management' Executive Master of Business Administration program
- ▶ Lessons from the past contest and proposals for its further format and periodicity were prepared
- ▶ Instructions were drafted and approved on the procedure for preparing, holding, and announcing the results of the contest to identify and develop the most promising employees (Nestro Lead).

Talent management

- ▶ An incentive system for project teams when joining new assets was prepared and approved
- ▶ Job profiles were developed and approved, and the Company completed the first stage of an employee information database that was developed to match employees to a specific job profile when selecting candidates, moving them to positions, appointing them to target positions, and selecting them to the talent pool
- ▶ An electronic course on mentoring was developed, and a contest of the best mentors was held

CORPORATE EVOLUTION

The key goal of projects in the 'Corporate Evolution' focus is to create an effective process and system management model to ensure the necessary competitive advantages to increase the efficiency of current assets and international expansion.

BSC formation:

- ▶ Target patterns of business processes, user instructions, and documents securing responsibility were established
- ▶ The main accounting units were prepared: accounting and tax accounting, treasury, HR administration, and settlements with personnel
- ▶ A front office and call center was set up
- ▶ The Business Service Center started working on October 1, 2020 for the companies of the Samara group of Zarubezhneft's subsidiaries

Automation of business processes using BPM class it systems:

- ▶ Based on the results of the introduction of BPM:
 - The share of manual operations was reduced by 35% (from 17 to 11)
 - Labor intensity was reduced by 51% (from 13.5 to 7 FTE)
 - The time of expertise was reduced by 32% (from 16 to 11 hours)
- ▶ At present, seven processes are being automated in the BPM: three have been completed (investment planning, investment planning at subsidiaries, and corporate governance) and four are being implemented (internal regulations management, audits at subsidiaries, procurement management at subsidiaries, and R&D management)
- ▶ Zarubezhneft was the only oil and gas company in 2020 to be among the finalists of the 'BPM Project of the Year' contest (top 15)

Centralization and digitalization of the treasury:

- ▶ The following pilot initiatives were successfully implemented: dynamic discounting, process mining, setup of dashboard prototypes, payment system, robotics pilot project, and the Eikon Refinitiv terminal
- ▶ A significant economic effect was achieved following the implementation of pilot transactions on early payment with the receipt of premiums, including the use of the Dynamic Discounting Platform. The premium received by DP amounted to RUB 24.82 million and exceeded the costs under the contract for the implementation of short-term pilot initiatives by RUB 18.72 million

Global info:

- ▶ A system of internal communications was established
- ▶ Continuous communication support was organized for strategic focuses and key initiatives
- ▶ The first Group-wide engagement survey was conducted
- ▶ The corporate magazine was also completely updated, its circulation was increased, the corporate newsletter was introduced, and screen savers were installed