

KEY PERFORMANCE INDICATORS SYSTEM

OF ZARUBEZHNEFT GROUP

The goal of the Zarubezhneft system of key performance indicators (KPI) is to motivate the Company's management and subsidiaries to fulfill the tasks set by the government as the Company's sole shareholder, national objectives, the goals of the industry strategic planning documents of the Russian Federation, the target indicators of the Company's Strategy, Long-Term Development Program, Business Plan indicators, and investment projects.

Main tasks of the KPI system

- ▶ Monitor and control the implementation of the Company's Corporate Strategy
- ▶ Evaluate the achievement of strategic objectives
- ▶ Guide employees in achieving the Group's priority objectives
- ▶ Create a tool to enhance the efficiency of managerial decisions

financial and industrial



Corporate

- ▶ The Company's key performance indicators are approved and monitored by the Board of Directors and the Audit Committee under the Board of Directors.
- ▶ They are included in the charts of the General Director, taken into account when summing up the KPIs of all deputy General Directors and department heads, and included in the KPIs of the General Directors of subsidiaries.

Internal control

Internal regulatory documents governing the KPI system at Zarubezhneft:

- ▶ Regulations on the key performance indicators of Zarubezhneft approved by a resolution of the Board of Directors in Minutes No. 131 dated November 25, 2016 (new regulations were approved by a resolution of the Board of Directors in Minutes No. 189 dated January 29, 2021)
- ▶ KPI certificates of Zarubezhneft were approved by a resolution of the Board of Directors in Minutes No. 131 dated November 25, 2016 (the integral KPI certificate of innovative activity was approved in Minutes No. 141 dated August 21, 2017; the updated certificate of the corporate KPI 'Labor productivity' was approved on February 14, 2020)

THERE ARE THREE MAIN GROUPS OF KPIS WITHIN THE COMPANY'S KPI SYSTEM:

operational indicators by area of business



Functional

- Indicators on functional areas of operations are set for deputy General Directors, department heads, and General Directors of subsidiaries in accordance with the authority and responsibility matrix.
- They are approved and monitored by the General Director.

strategic initiatives on business areas



Project

- Indicators on the fulfillment of top business initiatives and project tasks are set for deputy General Directors, department heads, and General Directors of subsidiaries.
- They are approved and monitored by the General Director.



For more,
see the Company's website

External control

The following documents govern external control over the implementation of corporate KPIs:

- Directive No. 2579p-P13 of the Russian Government dated April 25, 2014 "On the Approval of the Company's Key Performance Indicators" (taking into account the attached methodological guidelines for the application of KPIs)
- Directive No. 1388-p of the Russian Government dated June 27, 2019 "On the Approval of Methodological Recommendations on the Application of Key Performance Indicators of Business Companies in Whose Charter Capital the Russian Federation or a constituent entity of the Russian Federation owns over 50 percent, and Performance Indicators of State Unitary Enterprises in Order to Determine the Remuneration of their Senior Executives"
- Directive No. 7389p-P13 of the Russian Government dated October 31, 2014 "On Increasing Labor Productivity in Society"
- Directive No. 2303p-P13 of the Russian Government dated April 16, 2015 "On Reducing Operating Expenses (Costs) by at Least 2-3 Percent Annually"

- Directive No. 1472p-P13 of the Russian Government dated March 3, 2016 "On Innovative Development"
- Decree No. 474 of the Russian President dated July 21, 2020 "On the National Development Goals of the Russian Federation for the period until 2030"
- Directive No. 3579-p of the Russian Government dated December 28, 2020 on the approval of the methodological recommendations for the compilation and application of KPIs of joint-stock companies whose shares are owned by the Russian Federation

Indicators of the Zarubezhneft KPI system are synchronized with the KPIs of the Long-Term Development Program

Measures to improve the KPI system

In 2020, the following measures were implemented as regards the operation and improvement of the KPI system:

- ▶ In accordance with methodological instructions on the application of KPI by state-owned companies, the Board of Directors approved a report on the achievement of the target values of corporate KPIs for 2019 (Minutes of the Board of Directors No. 182 dated May 29, 2020), and the values of corporate KPIs for 2020 were updated (Minutes of the Board of Directors No. 175 dated December 26, 2019)
- ▶ The Zarubezhneft Board of Directors considered the intermediate results of KPI performance in the first quarter of 2020 (Minutes of the Board of Directors No. 183 dated June 25, 2020), a report on the achievement of corporate KPI based on the year-end forecast with the actual KPI for the first half of 2020 (Minutes No. 186 dated September 30, 2020), and a report on the achievement of corporate KPI based on the year-end forecast with the actual KPI for the first nine months of 2020 (Minutes No. 187 dated November 11, 2020)
- ▶ In order to execute Instructions No. MM-P13-15370 of the Russian Government dated November 26, 2020, Zarubezhneft conducted an analysis of the Regulation on the KPI of Zarubezhneft for compliance with the approaches to compiling and applying the KPI of organizations with state participation for companies operating on the competitive market, which were approved by the Minutes No. 1 of the Interdepartmental Working Group on the Optimization of the Organizational Structure of Development Institutions dated December 4, 2020 (hereinafter, the approaches to determining KPI). The KPI Regulation generally corresponded to the approaches to

determining KPI, updates were made to the general provisions (as regards the need to take into account the requirements of Presidential Decree No. 474 dated July 21, 2020 "On the National Development Goals of the Russian Federation until 2030" and key strategic documents of the Russian Federation), and the KPI system's objectives were clarified. The updated regulation on the key performance indicators of Zarubezhneft was approved by a resolution of the Board of Directors (Minutes No. 189 dated January 29, 2021)

- ▶ Pursuant to Directive No. 304p-P13 of the Russian Government dated January 19, 2021, the Zarubezhneft Board of Directors approved the updated scope, weight, new editions of certificates, and target values of the corporate KPIs of Zarubezhneft for 2021 (Minutes No. 189 dated January 29, 2021)
- ▶ The KPI system is sent to the level of deputy General Directors of subsidiaries and a production contract is developed (unified set of indicators for the senior executives of a subsidiary)
- ▶ In accordance with the regulations on the KPI system of Zarubezhneft, management defends the fulfillment of the KPI to the General Director on a semi-annual and annual basis.

In 2020, the Company's KPI system encompassed all the Group's key management layers:

- ▶ Corporate Center management (deputy General Directors and department heads) — 37 individuals
- ▶ General Directors of subsidiaries — 17 individuals
- ▶ Deputy General Directors of subsidiaries — 74 individuals. A total of more than 400 indicators are monitored.

Progress monitoring

KPIs are monitored regularly on a quarterly, semi-annual, and annual basis.

When summarizing the results, the target indicators are standardized taking into account changes in external macroeconomic conditions — currency exchange rates and world prices for oil and petroleum products. In addition, the target indicators for oil

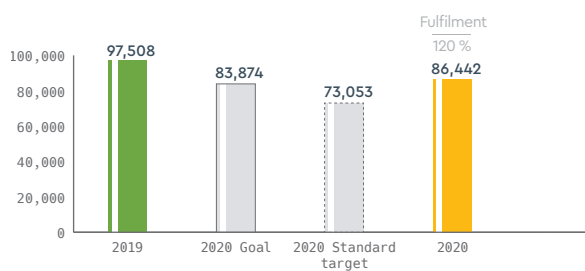
production limitations are standardized taking into account the application of oil production limitations as part of OPEC+ agreements for certain companies of ZARUBEZHNEFT GROUP. The indicators are standardized in accordance with the approved methodology for the standardization of the main operational indicators of ZARUBEZHNEFT GROUP (approved by Order No. 318 dated December 14, 2020).

Results of 2020

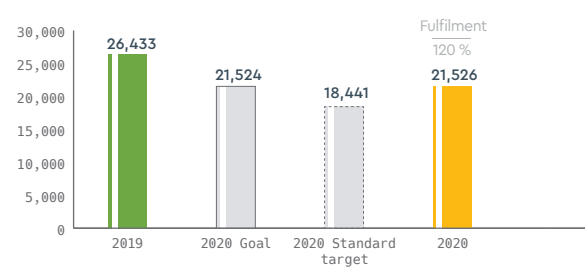
Consolidated revenue amounted to RUB 86.442 billion, meaning the KPI was fulfilled by 120%. The indicator is generated based on IFRS consolidated financial statements. It does not include income from JV Vietsovpetro recognized in the IFRS statements, but does include income from participation in JV Vietsovpetro recognized in the Company's RAS statements.

EBITDA amounted to RUB 21.526 billion, fulfilling the KPI by 120%. The higher operating efficiency relative to the standard target resulted from the successful implementation of a set of stabilizing measures that were prepared in response to the decline in oil prices.

CONSOLIDATED REVENUE, RUB mln



EBITDA, RUB mln



In accordance with the dividend policy of Zarubezhneft approved by the Board of Directors (Minutes No. 134 dated February 16, 2017), dividends should amount to at least 25% of the highest value of following two values: RAS net profit adjusted for income/expenses from the revaluation of the marketable securities of subsidiaries and related income tax, and IFRS net profit. Dividends amounted to

RUB 6.655 billion in 2020. Dividends due to the Russian Federation on the shares it owns were paid on October 20, 2020 in accordance with Directive No. 337-r of the Federal Agency for State Property Management dated August 27, 2020 "On the Decisions of the Annual General Meeting of Shareholders of Zarubezhneft Joint-Stock Company".

The return on equity indicator was 6.0%. Despite a significant drop in global oil prices, a set of stabilizing measures in all areas of operations enabled Zarubezhneft to maintain the return on equity at a high level exceeding the set target value of 5%.

Pursuant to Directive No. 12153p-P13 of the Russian Government dated December 25, 2019 (hereinafter, the Directive) the labor productivity indicator in the chart of corporate KPIs of Zarubezhneft was updated in 2020 in accordance with the methodology approved by Order No. 659 of the Russian Ministry of Economic Development dated October 15, 2019 "On Amendments to the Methodology for the Calculation of Labor Productivity Indicators of an Enterprise, Industry, or Constituent Entity of the Russian Federation Approved by Order No. 748 of the Russian Ministry of Economic Development dated December 28, 2018 "On the Approval of the Methodology for the Calculation of Labor Productivity Indicators of an Enterprise, Industry, or Constituent Entity of the Russian Federation and the Methodology for the Calculation of Individual Indicators of the 'Labor Productivity and Employment Support' National Project" (Minutes No. 177 of the Board of Directors dated February 14, 2020).

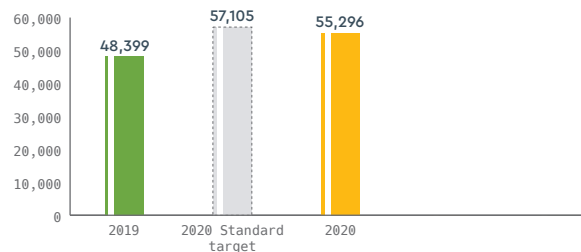
The updated indicator is calculated based on the consolidated IFRS reporting of ZARUBEZHNEFT GROUP.

The Directive set a target for growth in labor productivity of at least 5% annually excluding inflation. Actual labor productivity amounted to RUB 5.6 million per person in 2020, which is 4% higher than the target value.

The reduction in operating costs was approved with a target value of -2% (Directive No. 2303p-P13 dated April 16, 2015). The indicator is calculated in accordance with the Methodological Guidelines for the Establishment of Operating Expenses and the Determination of the Operating Cost Reduction Indicator (Minutes No. 163 of

the Board of Directors dated January 28, 2019). According to the Report on the Implementation of the Efficiency Improvement and Cost Optimization Program in 2020, operating expenses decreased by 3.17% in 2020, which exceeds the guideline value set by the Russian Government. The main factor behind this decrease (for a total of RUB 8.5 billion) was a change in the production program due to the increased volume of oil and petroleum product trading at Zarnestservice LLC compared with 2019.

DECREASE IN OPERATIONAL COSTS IN 2019, RUB mln



Gross hydrocarbon production by ZARUBEZHNEFT GROUP in 2020 amounted to 4.403 million TOE, down slightly from the target of 4.811 million TOE. The indicator was fulfilled at a level of 84% due to decreased production from new projects as a result of the delayed

commissioning of projects on account of the impact of the COVID-19 coronavirus on activities associated with searching for and evaluating new projects as well as negotiations with vendors.

As a result of effective exploration, the volume of reserves stood at 111.376 million TOE at the end of the reporting period, while the target value was 110.052 million TOE.

The integral KPI of innovation activities was estimated by setting a limit of 100% for each component of the indicator; the indicator was fulfilled at an even 100%.

Two indicators – 'Not exceeding the Net Debt/EBITDA limit' and 'Achieving revenue target' – amortized. Both indicators were met; the depreciation ratio was equal to 1. The Net Debt/EBITDA indicator was 0 at the end of the reporting year, which is due to the Group's low debt burden and efficient liquidity management.

*The cumulative final achievement
of KPI for 2020 is assessed at*

106%



ACHIEVEMENT OF KPI TARGET VALUES IN 2020

INDICATOR	UNIT	indicator weight	2020			
			target	standard target	actual	execution, %
Consolidated revenue	RUB mln	5%	83,874	73,053	86,442	120.0
EBITDA	RUB mln	5%	21,524	18,441	21,526	120.0
Dividends	RUB mln	15%	6,000	6,000	6,655	100.0
Return on equity	%	15%	5.0	5.0	6.0	120.0
Labor productivity	RUB mln/ person	10%	7.2	5.4	5.6	108.5
Reduction in operating expenses (costs)	%	10%	2.0	2.0	3.2	120.0
Gross production volume	thousand tons of oil equivalent	15%	5,000	4,811	4,403	83.8
Inventory volume	thousand TOE	15%	110,052	110,241	111,376	104.1
Integral KPI of innovative activities	%	10%	100	100	100	100.0
Corporate KPI met:						106,0
Not exceeding the limit of Net Debt/EBITDA	–	amortization indicator	2.0	2.0	0.0	Amortization indicators are met
Achieving revenue target	–	amortization indicator	70%	70%	103%	The amortization coefficient equals 1
FINAL PERFORMANCE:						106,0



6,655 bln RUB
amount of dividends paid in
2020 (the actual value was
higher than the target)