

SYSTEM OF KEY PERFORMANCE INDICATORS OF ZARUBEZHNEFT GROUP OF COMPANIES

THE SYSTEM OF ZARUBEZHNEFT JSC'S KEY PERFORMANCE INDICATORS (KPIs) IS INTENDED TO MOTIVATE THE MANAGEMENT OF THE COMPANY AND SUBSIDIARY COMPANIES TO FULFILL THE TASKS SET BY THE STATE (AS THE 100 PERCENT SHAREHOLDER OF THE COMPANY), ZARUBEZHNEFT STRATEGY KEY INDICATORS, THE LDP, ZARUBEZHNEFT BUSINESS PLAN INDICATORS, AND ONGOING ZARUBEZHNEFT JSC INVESTMENT PROJECTS.

Three principal KPI categories can be delineated within the Company's KPI system:

CORPORATE (financial and industrial indicators)

- Main indicators of the Company's activities are approved and supervised by the Board of Directors, Audit Committee under the Board of Directors.
- Included into the General Director's cards and are accounted for when summarizing the KPI results of all Deputies General Director, department heads, are broken down in the KPI of the subsidiaries' general directors.



FUNCTIONAL (operational indicators for business areas)

- The functional business areas indicators are established for the Deputies General Director, department heads and subsidiaries' general directors in accordance with the authorities and responsibilities matrix.
- Approved and supervised by the General Director.



PROJECT (strategic initiatives for business areas)

- Top business initiatives and project tasks performance indicators are established for the Deputies General Director, department heads and subsidiaries' general directors.
- Approved and supervised by the General Director.



MAIN OBJECTIVES OF THE KPI SYSTEM:

- Monitoring and control over the Company's Corporate strategy implementation
- Assessment of the strategic goal' achievement
- Employees' commitment to the achievement of the Group of Companies' priority goals
- Development of a tool contributing to the improvement of the managerial decisions' efficiency

Internal regulatory documents that govern the Zarubezhneft JSC KPI system:

- Regulation on Zarubezhneft KPIs approved by the Board of Directors, Minutes of Meeting No. 131 dated November 25, 2016;
- Zarubezhneft KPI registration certificates approved by the Board of Directors, Minutes of Meeting No. 131 dated November 25, 2016 (the certificate of integral KPIs for innovation activities was approved on August 21, 2017, Minutes of Meeting No. 141).

External control of corporate KPIs is carried out by the following documents:

- Directives of the Government of the Russian Federation No. 2579п-П13 (p-P13) dated April 25, 2014, "On approval of key performance indicators of the Company's activities" (taking into account the accompanying guidelines on the use of KPIs);

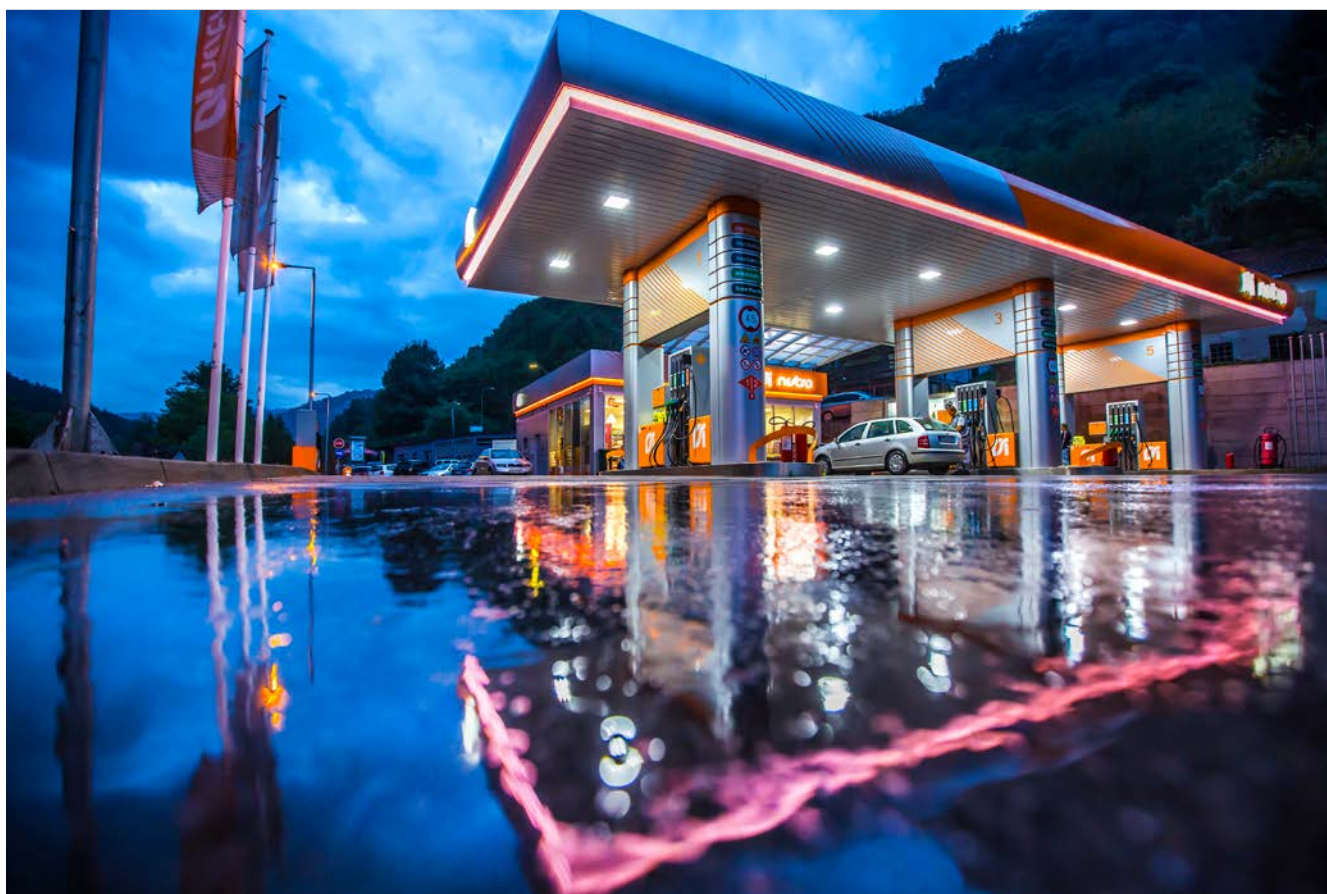
- Executive Order of the Government of the Russian Federation dated June 27, 2019, No. 1388-p(r) "On approval of guidelines for use of key performance indicators in business entities (companies) activities in authorized capitals of which the share of the Russian Federation or a constituent entity of the Russian Federation exceeds 50 percent, and performance indicators of state unitary enterprises in order to determine the amount of remuneration for their senior executives";
- Directives of the Government of the Russian Federation No. 7389п-П13 (p-P13) dated October 31, 2014, "On increasing workforce productivity in the company";
- Directives of the Government of the Russian Federation No. 2303п-П13 (p-P13) dated April 16, 2015, "On reducing operating expenses (costs) by at least 2-3 percent annually";

- Directives of the Government of the Russian Federation No. 1472п-П13 (p-P13) dated March 3, 2016, "On innovative development."

The KPI system indicators are synchronized with the LDP KPIs.

In 2019, the following measures were carried out regarding KPI operation and improvement:

- In accordance with the Guidelines for Use of Key Performance Indicators by State Companies, the Board of Directors approved the Report on Achievement of Corporate KPI Target Values for 2018 (Board of Directors Minutes of Meeting No. 168 dated May 29, 2019), and the corporate KPI values were updated for 2020 (Board of Directors Minutes of Meeting No. 175 dated December 26, 2019);



- The Zarubezhneft JSC Board of Directors reviewed the KPI performance interim results for 1st Quarter 2019 (Board of Directors Minutes of Meeting No. 169 dated June 11, 2019), the report on corporate KPI achievements as per end-of-year forecast taking into account the actual value for First half 2019 (Minutes of Meeting No. 173 dated September 30, 2019), and the report on corporate KPI achievements as per end-of-year forecast, taking into account the actual value for nine months of 2019 (Minutes of Meeting No. 174 dated November 26, 2019);
- In accordance with Directives of the Government of the Russian Federation No. 9054n-П13 (p-P13) dated October 2, 2019, Zarubezhneft JSC analyzed the internal regulatory documents related to formation of KPIs and remuneration for the Company's senior executives based on the results of their achievement for compliance with the "Guidelines on use of key performance indicators in business entities activities in authorized capitals in which the share of the Russian Federation or a constituent entity of the Russian Federation exceeds 50 percent, and performance indicators of state unitary enterprises in order to determine the amount of remuneration for their senior executives" (hereinafter referred to as the Guidelines). The Zarubezhneft JSC Board of Directors reviewed and took note of the Analytical Report. In order to comply with the Guidelines, weights were redistributed between the Zarubezhneft corporate KPIs. In addition, in 2019 the registration certificates of Zarubezhneft corporate KPIs were updated (Minutes of Meeting No. 175 dated December 26, 2019);
- The KPI system has been transferred to the level of Deputy General Directors of subsidiaries, a production contract has been developed (a single set of indicators for top managers of the subsidiary);

- In accordance with the Rules and Regulations of the Zarubezhneft KPI system, KPI implementation by Zarubezhneft management (Deputy General Directors, department heads) and general directors of subsidiaries was defended before the General Director on a semi-annual and annual basis.

Therefore, the Company's KPI system covers all key management levels of the Group of Companies in 2019:

- Corporate center management (Deputy General Directors and heads of directorates/ departments) – 38 persons;
- General Directors of subsidiaries – 16 persons;
- Deputy General Directors of subsidiaries – 71 persons.

Total amount of controlled indicators – over 400.

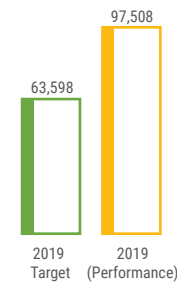
KPI performance is monitored on a quarterly, semiannual, and annual basis.

To summarize, the planned indicators were normalized taking into account changes in external macroeconomic conditions, such as exchange rates and global prices for oil and petroleum products. Normalization was carried out according to the approved procedure for normalization of the Zarubezhneft Group activities' key indicators (Order No. 402 approved on September 21, 2016).

In terms of the Consolidated Revenue indicator, the actual value amounted to 97.508 MM RUB, which corresponds to 120% achievement of the KPI. The indicator is generated based on consolidated financial statements in accordance with the IFRS, while income from JV Vietsovetro recognized in the IFRS statements is excluded, and including income from participation in JV Vietsovetro that is recognized in the Company's statements according to the RAS.

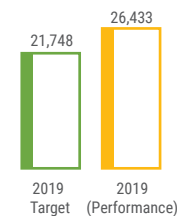
Consolidated revenue, MM RUB

120 %



EBITDA, MM RUB

120 %



In terms of the EBITDA indicator, the actual value amounted to 26.433 MM RUB, which corresponds to 120% achievement of the KPI. Zarubezhneft Group operating efficiency is traditionally ensured by positive results in the Exploration and Production segment, which is mainly due to the performance of JC RUSVIETPETRO LLC and JV Vietsovetro during the fiscal year.

As per Zarubezhneft JSC Dividend Policy approved by the Board of Directors (Minutes of Meeting No. 134 dated February 16, 2017), the amount of dividends is at least 25% of the highest of two values: net profit as per the RAS adjusted to reflect income/expenditures from revaluation of the subsidiaries' publicly traded securities and the associated income tax, and net profit as per the IFRS. In terms of the Dividends Amounts indicator, the actual indicator value was equal

to 5,918.5 MM RUB in 2019. The indicator was achieved. The dividends due to the Russian Federation on the shares owned by the Russian Federation were paid on August 9, 2019, in accordance with the Federal Agency for State Property Management's Order No. 409-p dated June 30, 2019, "On resolutions of the annual general meeting of shareholders of Zarubezhneft JSC."

The actual value of the Share Capital Profitability indicator amounted to 9.2% with the target level of 5.0%. Zarubezhneft Group's net profit increased by 16% and amounted to 13.5 bln RUB in 2019.

The Workforce Productivity indicator is estimated as Zarubezhneft's JSC revenue as per the RAS, calculated in conditions comparable to 2018 and correlated with the number of person-hours worked by the Company's employees. In 2019, the indicator value was RUB 81,800 RUB/person-hour with the established target value of 67,700 RUB/person-hour.

Operating costs reduction was approved with the target value of -2% (Directives No. 2303n-П13 (p-P13) dated April 16, 2015). As per the Cost Performance Improvement and Optimization Report for 2019, the actual value of the Operating Expenses Reduction indicator at the year-end made up 3.1%, which exceeded the value established by the Directive of the Government of the Russian Federation. The primary factor for normalization in the amount of 16.4 bln RUB was the emergence of a new type of activity, trading oil and petroleum products with Zarnestservice LLC in 2019.

Zarubezhneft Group's gross hydrocarbon production in 2019 amounted to 4.77 t.o.e. with a target value of 4.515 t.o.e. The growth in the actual value was provided by an increase in the production of JV Vietsovetro.

As a result of efficient geological exploration, the actual amount of reserves by the end of the reporting period amounted to 103,815 t.o.e. with a target value of 99,071 t.o.e. In 2019,

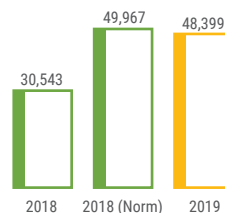
the hydrocarbon reserves were increased mainly due to geological exploration and reassessment of the existing assets in Vietnam and the Kharyaga field, as well as due to entering new projects in Vietnam, Egypt, and Uzbekistan.

For actual calculation of integral KPI for innovations, a 100% limit was established for each indicator component; the overall indicator achievement was fixed at 100%.

The bonus reduction includes two indicators: Non-Exceedance of NetDebt/ EBITDA Limit and Revenue Target Achievement. Both indicators have been achieved and the bonus reduction factor is equal to one. The NetDebt/ EBITDA indicator in the financial year is equal to zero, which is due to the decrease of the debt burden and the efficient management of the liquidity of Zarubezhneft Group.

OPEX decrease dynamics for 2019, MM RUB

-3 %



The overall final degree of the KPIs achieved for 2019 is estimated at 113.9%. Each achieved indicator of the chart exceeded the established target levels; most of the indicators reached ambitious values (six of the nine main indicators). Excluding normalization of the planned indicators, the overall achievement of all KPIs is also estimated at 113.9%.



Achievement of KPI Target Values in 2019

Indicator	Indicator weight, %	Target	Actual	Implementation, %
Consolidated revenue, mln RUB	5	63,598	97,508	120.0
EBITDA, mln RUB	5	21,748	26,433	120.0
Dividends amount, mln RUB	20	4,603	5,918.5	100.0
Return on equity (ROE), %	10	5.0	9.2	120.0
Workforce productivity, thsd RUB/manhour	10	67.7	81.8	120.0
Reduced operating expenses (costs), %	10	2.0	3.1	120.0
Gross production volume, thsd TOE	15	4,515	4,770	120.0
Reserves, thsd TOE	15	99,071	103,815	119.2
Integral KPI of innovative activity, %	10	100	100	100.0
Compliance with corporate KPIs				113.9
Non-exceedance of NetDebt/EBITDA indicator limit	Bonus reduction indicator	2.0	0.0	Bonus reduction indicators were achieved
Achieving revenue target, %	Bonus reduction indicator	70	153	Bonus reduction index equals 1
FINAL PERFORMANCE				113.9

