

# RISK MANAGEMENT SYSTEM OF ZARUBEZHNEFT GROUP

Zarubezhneft Group intends to maximize its shareholder value and works to improve its activities' performance by ensuring its sustainable development and enhancing its competitiveness while meeting state interests. Zarubezhneft pursues long-term objectives; analyzes current issues, threats, and opportunities across all areas of activities; and considers potential risks when making decisions.

Zarubezhneft Group has developed and is constantly improving a unified approach to the risk management process, which, together with the unified tools and methods of risks analysis, forms a risk management system integrated with management processes.

Internal regulatory documents that govern the risks management system:

- Zarubezhneft Group Risks Management Policy dated June 27, 2016 (approved by Board of Directors Minutes of Meeting No. 125);
- Zarubezhneft Group Procedure for Risks Management Business Process dated May 24, 2019 (Order No. 147);
- Zarubezhneft Regulation on Corporate Committee for Risks (Order No. 159 dated April 26, 2016).

The Company's objectives in the risk management field are:

- To enhance performance of managerial solutions by analyzing the intrinsic risks;

- To ensure the maximum performance of risk management measures during implementation of the decisions made.

The Company's tasks in the risk management field are:

- To provide cross-functional review of information on the risks in the Group's structural units and joint development of risk management measures;
- To apply a systemic approach to identification, analysis, and evaluation of the risks specific for the Group's activities;
- To develop a risk management culture in the Group with a view for the management and employees to achieve common understanding of the basic principles and approaches to risk management;
- To provide information to support the decision-making process at all levels of the Group management.

Zarubezhneft Group's risk management system provides for a structured approach to evaluating the opportunities and risks, which allows for making well-considered managerial decisions and represents a set of processes, policies, and procedures integrated into Zarubezhneft Group's business processes, including business planning strategic processes carried out by the Board of Directors, management, and employees at all management levels, and aimed at achieving Zarubezhneft goals.

Responsibility for risk management and reporting is determined in accordance with the system of linear and functional management: an Owner is assigned for each risk, who is responsible for its management. In each Segment and in all key business processes, risks coordinators are determined among the managers, who distribute and support application of the corporate risk management principles. Terms and objectives for risks analysis take into account the features and requirements of each business process, at the level at which risk management is carried out. Responsibility for methodological support, development, and maintenance of the risk management system is reserved to the Perspective and Organizational Development Department.

This approach allows for forming areas of responsibility for risk management and monitoring at all levels of the Company's management as well as ensuring development of targeted plans to respond to significant risks both in each subsidiary and in Zarubezhneft Group as a whole.

## RISK COMMITTEE

### GROUP LEVEL RISKS

**Curators:**

Deputy Directors General for Economics and Finance, Deputy Directors General for Organization Development and Corporate Communications

**Identification method:**

"top-bottom", the management strategy is determined by the corporate center.



### MOST SIGNIFICANT SEGMENT RISKS

**Curators:**

Directors General supervising the segment (upstream, downstream, services)

**Identification method:**

"bottom-top" in business planning (risks consolidated by assets)



**Current assets risks**

**Exploration projects risks**

### BUSINESS DEVELOPMENT UNIT RISKS

**Curators:**

Deputy Directors General for Business Development

**Identification method:**

"top-bottom" and "bottom-top"



### RISK MANAGEMENT SYSTEM DEVELOPMENT

The risks management system is improved according to the applicable legal requirements, international standards, and the best risk management practices.

Zarubezhneft Group's risk management system is continually developed and improved. The Group's key risks are addressed systematically. These are used for quantitative evaluation of impact on the Company's key performance indicators, while monitoring is carried out quarterly by the Committee for Risks chaired by the General Director.

### RISK MANAGEMENT SYSTEM PERFORMANCE EVALUATION

According to the Guidelines on Internal Audit Arrangement in a JSC Partially Owned by the Russian Federation approved by Order No. 249 of the Federal Agency for State Property Management dated July 4, 2014, in 2019 the Internal Audit department evaluated the performance of Zarubezhneft Group's risk management system. As part of the audit, the risk management system was positively evaluated related to its maturity and performance (the audit was carried out according to criteria defined in Letter of the Bank of Russia on the Corporate Governance Code, No. 06-52/2463 dated April 10, 2014).

### ACCEPTABLE RISK LEVEL

Zarubezhneft JSC defines the preferred risk level as acceptable – the maximum acceptable risk level to which the Company and its subsidiaries seek or are ready to maintain (in accordance with the Risks Management Policy of Zarubezhneft Group approved by resolution of the Zarubezhneft JSC Board of Directors, Minutes of Meeting No. 125 dated May 27, 2016).

Zarubezhneft establishes and documents the acceptable risk level and the risk accountability requirements in respect to financial and operating performance indicators.

This approach is governed by the following internal regulatory documents:

- Regulation on the key performance indicators of Zarubezhneft JSC approved by the Zarubezhneft JSC Board of Directors (Minutes of Meeting No. 131 dated November 25, 2016);
- Occupational Health and Safety, Environmental Protection, Security, and Social Responsibility Policy (Minutes of Meeting No. 133 dated December 27, 2016) as part of the Regulation on the Zarubezhneft Quality Management System;
- Procedure for Zarubezhneft Risk Management Business Process БП ОБ-06 (BP OB-06) "Risk Management" of (approved on May 24, 2019).

## Description of the Most Significant Risks to the Company's Activities and Response Measures

Risk group	Risk name
<b>Production safety risks</b>	
Industrial safety risks form the most significant group due to legal requirements and presence of a large number of hazardous production facilities. These include: <ul style="list-style-type: none"> <li>• Accidents involving employees and third parties;</li> <li>• Industrial accidents and disasters;</li> <li>• Non-compliance with legal requirements for industrial safety;</li> <li>• Failure to comply with environmental security legislative requirements.</li> </ul>	Industrial safety risks (including with damage to the environment, human life and health).
<b>Subsurface uncertainties</b>	
Risks (uncertainties) associated with insufficient information about geological structure of fields, reserves volumes, etc.	Insecurity of production volume by reserves. Failure to comply with the planned production volume based on the current assets.
<b>Risks of investment projects implementation</b>	
All risks of the Company's investment projects, including lack of infrastructure ensuring year-round activities, lack of experience in implementing similar projects in similar conditions, growth of technological complexity level of projects, different vision of the project development strategy among participants, etc.	Reduction in performance of oil and gas projects (new projects and oil and gas exploration projects). Exceeding the cost of developing infrastructure facilities in major construction. Failure to complete transactions upon entering new projects. Disagreements with partners in managing joint projects, where influence is limited.
<b>License risks</b>	
Risks of claims raised by state regulatory authorities due to infringement of license terms (licenses for hydrocarbon exploration and production), up to and including license revocation.	Failure to comply with license obligations.
<b>Logistical constraints</b>	
Breaks/disruptions in oil transportation due to infrastructure constraints	Infrastructure risk. Lack of possibility to sell oil.
<b>Change in macroeconomic parameters</b>	
Likelihood of changes in cross rates of major currencies and their negative impact on financial statements indicators and/or cash flow.	Negative change in macroeconomic parameters: oil price, Ruble/USD rate.



#### Corporate fraud and corruption

Involvement of the Company or employees in corruption activities as well as non-compliance with the legislation of the Russian Federation and countries of presence entails the imposition of legal sanctions and/or other corrective actions by supervisory authorities, which will lead to significant financial losses and loss of the Company's reputation.

Corporate fraud and corruption.

#### Political risk

Likelihood of damage to assets (loss of control over them) or constraining the activities of Zarubezhneft Group's enterprises due to political, economic, and social factors in the countries of operation.  
Likelihood of damage to national interests of the Russian Federation and/or the country of current/potential presence.

Political risk.

#### IT risks

Risks associated with operation of IT systems (primarily production and settlement), with projects for their development, as well as the risk the inability to purchase and use foreign software.

Risk of loss (leakage) of confidential data when using IT services.  
Risk of failure or malfunction of information systems, software, and IT equipment.

All risks were evaluated, responsible persons were appointed at the level of the Deputy General Director, and the persons responsible for the measures and management strategy were defined. Preventive and response measures were developed and taken into account in the Group's production program.