

OPERATIONAL TRANSFORMATION

The operations management system (OMS) transformation is a key programme to improve efficiency and achieve the goals of Strategy 2030. 2019 saw the start of the programme's expansion across the company's main operating assets.

The Etalon OMS is a structured set of interconnected practices, procedures and processes used by managers and employees at each organisational level in the course of operations. The Etalon OMS is designed to maximise the company's operational

efficiency by enabling reliable and safe operation and engaging all employees in a culture of continuous improvement.

The OMS Development Code, adopted by the company in 2019, sets out common principles that must be

adhered to in order to improve operational processes across all assets. This will bring the company closer to maximum operational efficiency.

THE ETALON OMS STRUCTURE

Element 1	Leadership and culture	Ensuring that managers play a leading role in creating an engaging environment to enable the company to achieve strategic goals
Element 2	Reliability management	Achieving the target level of production asset safety and cost-effectiveness throughout its entire life cycle through targeted risk-oriented maintenance, reasonable extension of service life and the durability of technical equipment
Element 3	Process flow management	Ensuring that production processes are safe, efficient and sustainable
Element 4	Organisational development and competency management	Ensuring that organisational resources are effectively secured and allocated; assigning responsibility and developing staff competencies
Element 5	Operational risk management	Ensuring that a uniform, risk-based approach to operations management has been adopted, in order to improve operational efficiency by minimising unplanned losses from operational risk through actions to reduce their likelihood and mitigate the consequences
Element 6	Contractor and supplier management	Ensuring the efficiency and safety of work performed/services provided by contractors, and the efficiency of materials and equipment supplied
Element 7	Project management	Ensuring that project goals are achieved efficiently
Element 8	Data, information and document management	Making the best management decisions based on data, information, and documentation
Element 9	Environmental and social impact management	Preventing unacceptable impacts on people and the environment
Element 10	Change management	Ensuring that changes within the company are efficient, and maintaining operational continuity
Element 11	Stakeholder management	Identifying stakeholders in operations, communicating with them and building constructive stakeholder relationships as part of operations
Element 12	Performance management and continuous improvement	Improving operational efficiency by using continuous improvement tools

The OMS Development Programme

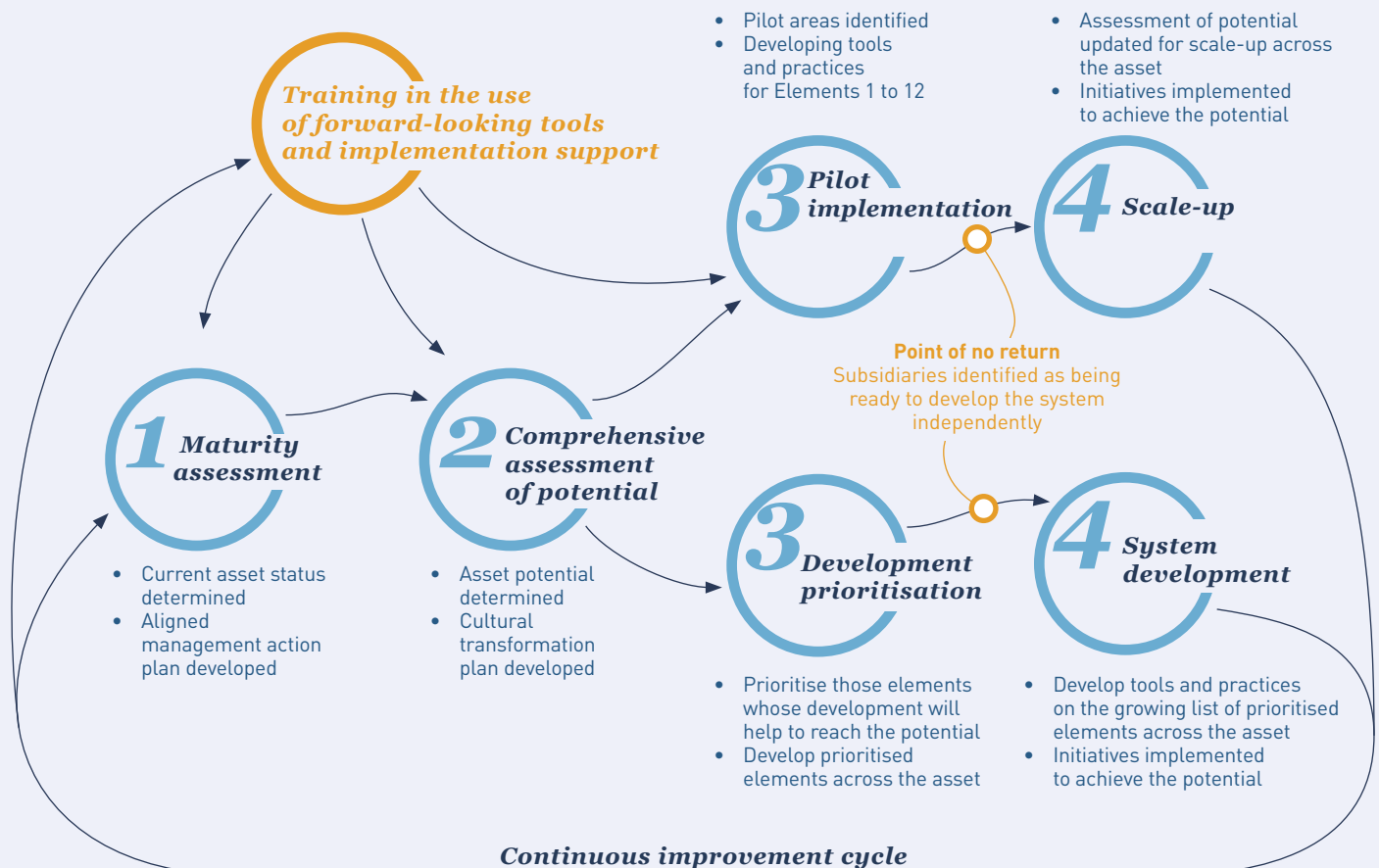
The “Etalon (Touchstone)” OMS development programme brings together the objectives of achieving full compliance with all elements of the management system, changing the approach to setting objectives in production planning, and encouraging the engagement of all employees to improve business processes. 2019 saw the Etalon OMS development programme moving to the ‘Implementation’ stage, with the company adopting a model for implementing OMS practices and tools at its assets that comprises the following four stages:

1. OMS maturity assessment and preparing for implementation at an asset
2. Comprehensive potential assessment, and planning the implementation of OMS tools and practices in a pilot process flow, area or process
3. Pilot implementation and developing prioritised OMS elements
4. Scaling up and developing the system across the asset and/

or rolling it out to other processes; this involves training in the use of forward-looking tools, and providing resources to support project teams at the asset implementing those tools.

Once Stage 4 is completed, the focus of OMS development will shift away from projects, and the objective of developing and improving the system will be integrated into day-to-day operations as part of a continuous improvement cycle.

IMPLEMENTATION STAGES FOR OMS PRACTICES AND TOOLS



2019 achievements?

In 2019, the company continued to introduce forward-looking OMS development tools such as the Operational-Reliability Management Model (ORMM), Regular Management Practices (RMPs), Value Creation Flow Mapping, and Standard Operating Procedures. By year-end, over 4,300 employees had been trained in the use of RMPs, lean production tools and the operational-reliability management model.

During the year, the company carried out a diagnostic assessment of compliance of eight production assets with the OMS Code, including the current maturity level of the management system. It then prepared an action plan for prioritised development areas. Following a comprehensive potential assessment (which serves as a tool to identify opportunities for operational efficiency improvement), it was confirmed that nine assets had an incremental achievable economic potential of over ₺21 billion. The relevant measures to achieve this level were included in medium-term business plans.

Etalon Programme implementation format

- Tools forming part of OMS element 1 (Leadership and Culture) are being implemented
- Tools forming part of prioritised OMS elements (elements 2 and 6) are being implemented
- Tools forming part of OMS element 12 (Operational Efficiency) are being implemented
- Diagnostic Assessment (maturity assessment) completed.
- Asset Potential Assessment completed / underway

2020 focus

/ 1/ Maturity assessment

/ 2/ Comprehensive potential assessment

STATUS OF OMS TOOLS ROLLOUT ACROSS KEY OPERATING ASSETS AND ENGAGEMENT OF SUBSIDIARIES IN OPERATIONAL TRANSFORMATION

	1	2.6	12	MA ¹	CPA ²
SUBSIDIARIES IN THE UPSTREAM DIVISION					
Gazprom Neft Orenburg	■	■	■	■	■
Slavneft-Megionneftegaz	■	■	■	■	■
Gazpromneft-Khantos	■	■	■		
Gazpromneft-Vostok	■	■	■		
Gazpromneft-Noyabrskneftegaz	■	■	■		
Gazpromneft-Yamal	■	■	■	■	■
Messoyakhaneftegaz	■	■	■		■
Gazprom Neft Development	■				
Gazprom Neft Science and Technology Centre	■		■		
Gazpromneft-NoyabrskNefteGazAvtomatika					
Gazpromneft-Nefteservis	■				
Noyabrskenergoneft (pilot)	■				
Gazprom Neft Shelf	■	■	■	■	■
Gazpromneft-Prirazlomnoye	■	■	■	■	■
Gazpromneft-Sakhalin	■				
Morneftegazproekt					
SUBSIDIARIES IN THE DOWNSTREAM DIVISION					
The Gazprom Neft Omsk Refinery	■	■	■	■	■
The Gazprom Neft Moscow Refinery	■	■	■	■	■
Gazprom Neft Logistics	■		■	■	■
Gazpromneft-Lubricants	■				■
Omsk Lubricants Plant (branch of Gazpromneft-Lubricants) (pilot)	■	■	■	■	■
Gazpromneft Bitumen Materials	■		■		■
The Gazprom Neft Ryazan Bitumen Binders Plant (pilot)	■	■	■	■	■
Gazpromneft-Aero	■		■	■	■
Koltsovo Fuelling Company (branch of Gazpromneft-Aero) (pilot)	■				■
Gazpromneft Marine Bunker	■				■
Subsidiaries of Gazpromneft Marine Bunker (pilot)	■				■
Customer service of the Regional Sales Directorate	■				■
Fuel and logistics operations of the Regional Sales Directorate (pilot at Gazpromneft-Terminal)	■	■	■	■	■
Gazpromneft Energoservis	■				■
Avtomatika-Servis	■				■
Gazprom Neft Trading GmbH					■
CORPORATE FUNCTIONS AND SUBSIDIARIES OUTSIDE THE SCOPE OF THE DIVISIONS					
Gazprom Neft PJSC	■				
Naftna Industrija Srbije (NIS)	■	■	■	■	■
Paradnaya Complex					
Gazprom Neft Business Service	■		■		
Gazprom Neft Procurement	■	■	■		
Information Technology Service Company (ITSK)	■		■		
Noyabrskneftegazsvyaz	■				



Operational transformation in questions and answers

Successful Practices Roadshow

>100
practices
presented

29
subsidiaries
took part

62
practices
identified new customers

In September 2019, the second Successful Practices Roadshow took place at Slavneft-Megionneftegaz. This event serves as an official platform that enables divisions to exchange expertise and successful practices in continuous improvement. A total of 164 notional 'acquisitions' of practices were made at the event. An 'acquisition' is a participant's commitment to test whether a practice can be rolled out to their operations. The roadshow helped identify new customers for 62 out of 104 practices.

Contractor engagement

Safe and efficient contractor engagement is a key focus area of operational transformation. In 2019, the company developed a Contractor Engagement Code. The Code is designed to create a new system for market engagement and establishes a special type of relationship for implementing joint projects and creating added value.

In 2019, Gazprom Neft launched the Open Book project, to create a partnership model for contracts that stipulates a procedure for cost reimbursement, remuneration and risk sharing with capital construction contractors. This will enable the company to improve project efficiency and engage financially sustainable contractors. Compared to traditional arrangements, the new model is more transparent, gives a clearer picture of pricing and efficiency drivers, and introduces a flexible approach to construction budgeting. The company also implemented the Partnerships project, which covers drilling and well-intervention services. As part of this project, operational engagement with major partners was arranged with assistance from account managers.

Competency, efficiency and safety remain the key requirements for contractors. The company's contractor engagement policy is focused on engaging contractors in continuous improvement processes and integrating them into the Safety Framework System.

Glossary

Asset (OMS)

Subsidiaries, joint ventures managed by the company, business units, business divisions, corporate centre functions or other units.

Lean production

A management concept based on continuous improvement and commitment to eliminating all types of losses, with all employees being involved in the improvement process.

OMS Code

A description of 98 requirements for 12 Operations Management System Elements which must be met in order to achieve OMS goals.

Comprehensive potential assessment

An assessment of all of an asset's strategic resources, including operational, financial, and human resources. A key OMS tool enabling the company to meet its objectives.

Regular management practices

Tools used by managers to improve operating performance and safety. They contribute to the adoption of the company values and the creation of a cultural environment that enables the company to achieve its strategic goals.

