

CORPORATE GOVERNANCE SYSTEM

102-10

The Company's system of management bodies was established by the Russian Federation, the sole shareholder of Zarubezhneft, and includes the following bodies:

General Meeting of Shareholders

Board of Directors

Sole Executive Body

- ▶ To ensure the Board of Directors functions efficiently, the Company's sole shareholder approved the Regulation on the Board of Directors (Directive No. 2253-r of the Federal Agency for State Property Management dated October 12, 2005), which describes the purview of the Chairman of the Board of Directors, the rights, duties, and responsibilities of members of the Board of Directors, and the procedure for preparing for and holding meetings.
- ▶ The Regulation on Remuneration for Members of the Zarubezhneft Board of Directors was approved by Order No. 243-r of the Federal Agency for State Property Management dated May 18, 2017. Per the Regulation, remuneration for members of Board of Directors depends on the Company achieving target key performance indicators that are determined taking into account the guidelines of the federal executive bodies and aim to achieve the strategic goals of Zarubezhneft.
- ▶ The Regulation on the Sole Executive Body (General Director) of Zarubezhneft was approved by Order No. 522-r of the Federal Agency for State Property Management dated June 30, 2016. The Regulation on the Annual Remuneration of the Company's General Director approved by the Board of Directors (Minutes No. 155 dated May 30, 2018) ensures there is a relationship between the achievement of target key performance indicators by Zarubezhneft and the remuneration of the sole executive body.

One specific feature of Zarubezhneft's corporate governance model is the presence of the Company's sole shareholder — the Russian Federation, as represented by the Federal Agency for State Property Management. This is reflected in a special procedure for holding general meetings of the Company's shareholders with the issuance of a directive by the Federal Agency for State Property Management on the decisions of the general meeting of Zarubezhneft shareholders.

In addition, the Company's Board of Directors is formed in accordance with the procedure established by Resolution No. 738 of the Russian Government dated December 3, 2004 "On the Management of Federally Owned Shares in Joint-Stock Companies and the Exercising of the Special Right for the Russian Federation's Participation in the Management of Joint-Stock Companies ('Golden Share')". Members of the Board of Directors who represent the interests of the Russian Federation on the Company's Board of Directors perform their activities in accordance with the requirements of this resolution.

Zarubezhneft adheres to the basic generally accepted principles of corporate governance, including the key recommendations of the Corporate Governance Code. The Company's management considers compliance with the basic principles and recommendations of the Corporate Governance Code to be a prerequisite for the Company's long-term development and enhancing its investment appeal.

On Zarubezhneft's observance of the recommendations of the Corporate Governance Code (Letter No. 06-52/2463 of the Bank of Russia dated April 10, 2014)

Board of Directors

The Board of Directors performs its activities in accordance with the approved plan, which is annually approved by the Board of Directors. The plan of the Zarubezhneft Board of Directors for 2020 was approved by Minutes No. 177 of the Board of Directors dated February 14, 2020.

The form of meetings of the Board of Directors is determined taking into account the importance of the agenda items. The most important issues (approval of the Company's business plan, preliminary approval of the annual report, approval of the report on the achievement of target KPI values, review of the report on the implementation of the corporate strategy and the report on the implementation of the LDP for the reporting year, and decision-making on remuneration for the General Director) are generally considered at in-person meetings. In 2020, given the restrictions on holding in-person events that were imposed to counter COVID-19, meetings of the Board of Directors on these items were held in absentia.

The minutes of the meetings of the Board of Directors are prepared in accordance with the requirements of the Regulation on the Board of Directors taking into account the recommendations of the Corporate Governance Code (the minutes indicate information about the voting of each member of the Board of Directors, while if a written opinion is submitted for participation in an in-person meeting of the Board of Directors, the written opinion is attached to the minutes, which is indicated separately in the minutes).

Taking into account the recommendations of the Corporate Governance Code, according to the Charter, the purview of the Zarubezhneft Board of Directors includes, *inter alia*, the following issues:

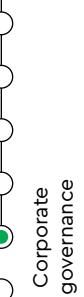
- ▶ Approval of the Company's development strategy and monitoring of its implementation
- ▶ Approval of the Company's business plans, investment programs, long-term development programs, and key performance indicators, and monitoring of their implementation
- ▶ Approval of the Company's dividend policy (Regulation on the Dividend Policy)
- ▶ Creation of committees of the Board of Directors, election of members of committees of the Board of Directors, and approval of the Regulation on the Committees of the Board of Directors

- ▶ Approval of the Company's internal regulatory documents concerning incentives and the amount and procedure for the payment of remuneration to the Company's management
- ▶ Approval of the Regulation on Procurement at the Company and consideration of the Report on the Company's Procurement Activities
- ▶ Adoption of decisions on the appointment and dismissal of the Head of the Internal Audit Service
- ▶ Recommendations to the Company's sole executive body on any issues related to the Company's activities

As part of the recommendations of the Corporate Governance Code in 2018, amendments were made to the Zarubezhneft Charter in accordance with Directive No. 499-r of the Federal Agency for State Property Management dated June 30, 2018 (included in the current version of the Charter), according to which the Board of Directors makes decisions on certain items by a qualified majority of votes (Clause 15.9 of the Charter):

- ▶ Approval of the Company's business plans, investment programs, long-term development programs, and key performance indicators, and monitoring their implementation
- ▶ Approval of the Company's Dividend Policy (Regulation on the Dividend Policy)
- ▶ Determination of the price (monetary value) of property, the placement price or the procedure for its determination, and the buyback price of equity securities in cases stipulated by the Federal Law "On Joint Stock Companies"
- ▶ Recommendations on the amount of share dividends and the procedure for their payment
- ▶ Adoption of decisions on the Company's participation and termination of participation in other organizations
- ▶ Determination of the Company's position (representatives) on agenda items of the General Meeting of Shareholders (participants) and meetings of the Board of Directors of subsidiaries as regards the liquidation or reorganization of subsidiaries
- ▶ Submission to the General Meeting of Shareholders of items on the Company's reorganization or liquidation, increasing or decreasing the Company's charter capital, and amendments to the Company's Charter.

Information about activities carried out by the Company when exercising its purview is reflected in the relevant sections of the Annual Report.



Corporate secretary

Zarubezhneft has approved a Regulation on the Company's Corporate Secretary (Order No. 126 dated March 25, 2015). The Regulation stipulates the procedure for appointing the Corporate Secretary, his/her status, powers, and purview, and the procedure for his/her activities. In accordance with the Regulation, the functions of the Corporate Secretary fall within the purview of the Corporate Relations Department.

Information about the Zarubezhneft Corporate Secretary is posted on the Company's website¹.

The Regulation describes the requirements for the candidacy of an employee of the Corporate Relations Department, the objectives of the Corporate Secretary's work, and the functions of the Corporate Secretary, which, among other things, include:

- ▶ Providing consultations to the shareholder, members of the Board of Directors, and the Company's management on corporate law and management issues
- ▶ Ensuring the efficient work of the Board of Directors
- ▶ Ensuring the efficient work of the Committees of the Board of Directors
- ▶ Organizing information exchanges between the Company and other users through the functionality of the Interdepartmental Portal of the Federal Agency for State Property Management
- ▶ Preparing for and organizing the General Meeting of Shareholders
- ▶ Ensuring the provision of documents within its purview at the request of state bodies
- ▶ Participating in the implementation of the Company's Information Disclosure Policy
- ▶ Supporting the Company's interaction with regulatory bodies, trade organizers, the registrar, and other professional securities market participants within their purview
- ▶ Ensuring the implementation of the procedures prescribed by legislation and the Company's internal regulatory documents to support the rights and legitimate interests of the shareholder, and monitoring their implementation
- ▶ Promptly informing the Board of Directors about all violations of the law that have been identified as well as the provisions of internal regulatory documents that must be observed as part of the Corporate Secretary's functions
- ▶ Participating in improvements to the Company's corporate governance system and practices

Duties of the Corporate Secretary in accordance with the Regulation:

- ▶ Strictly observe the norms and requirements of Russian law and the Company's Charter and internal documents in its activities
- ▶ Ensure the observance of the rights and property interests of the shareholder
- ▶ Execute the instructions of the Chairman of the Board of Directors;
- ▶ Inform the Board of Directors about situations that threaten to violate the norms of existing legislation or the rights of the shareholder as well as the emergence of corporate conflict
- ▶ Ensure the placement of all necessary information about the Company on the Interdepartmental Portal
- ▶ Maintain up-to-date information about the Company posted on the Interdepartmental Portal

When executing its functions, the Corporate Secretary may

- ▶ Request and receive information and documents needed to fulfill its tasks from the heads of the Company's structural units
- ▶ Involve the Company's structural units in the preparation of draft documents and implementation of corporate governance procedures within the limits of its purview
- ▶ Hire external specialists to perform its tasks based on an agreement with the General Director
- ▶ Monitor the execution of decisions made by the Board of Directors and the General Meeting of Shareholders
- ▶ Propose items to be included in the meeting agenda of the Board of Directors within the limits of its purview
- ▶ Monitor the observance of the Charter and internal regulatory documents related to its functions by the Company's officials and employees
- ▶ Interact with the Chairman of the Board of Directors and the Chairmen of the Committees of the Board of Directors
- ▶ Prepare and send answers and explanations to the shareholder and members of the Board of Directors
- ▶ Seek information from the Company's register to the extent permitted by the Board of Directors to monitor compliance with the law when administering the shareholder register.

¹ <https://www.nestro.ru/ru/raskrytie-informacii/>.

Measures to improve the corporate governance system and the results of an assessment of the corporate governance system

Zarubezhneft is implementing a set of measures to improve corporate governance and is committed to the best applicable international and Russian practices in this regard.

As it introduces best practices into the Corporate Governance Code, the Company has established and successfully operates the relevant Committees of the Board of Directors:

Strategic Planning Committee

Audit Committee

HR and Remuneration Committee

Items to be considered by the Board of Directors are preliminarily reviewed at meetings of the relevant committees.

Information about the activities of the Board of Directors and the Committees of the Board of Directors in 2020 is provided in the corresponding sections of the 2020 Annual Report.

- ▶ In 2020, as part of measures to improve corporate governance, the Company initiated amendments to the Zarubezhneft Charter on the possibility of the Company paying dividends with non-monetary assets. The new version of the Company's Charter was adopted by Directive No. 314-r of the Federal Agency for State Property Management dated August 17, 2020.
- ▶ In an effort to optimize the activities of the management bodies of the Group's business entities, principles used to classify transactions as normal business operations were drafted and introduced in the 'Corporate Governance of Subsidiaries' business process standard (Order No. 195 dated August 31, 2020).
- ▶ The Company has taken measures to maintain a high level of corporate governance by conducting an annual self-assessment of corporate governance as part of the Methodology for Corporate Governance Quality Self-Assessment at Publicly Owned Companies, which was adopted by Order No. 306 of the Federal Agency for State Property Management dated August 22, 2014, a subjective assessment of the activities of

members of the Board of Directors using the services of the Interdepartmental Porta, as well as an external assessment by members of the Board of Directors of the quality of preparations for meetings and the meetings themselves.

An external assessment of the organization of the work of the Board of Directors is conducted annually by interviewing members of the Board of Directors to obtain their views on the following indicators:

- ▶ Incorporation of comments made by members of the Board of Directors when preparing materials for meetings of the Board of Directors and Committees of the Board of Directors
- ▶ Timeliness of the provision of additional information at the request of members of the Board of Directors
- ▶ Transparency when providing information to members of the Board of Directors

The questionnaire methodology uses the following point system: 5 points – exceeds expectations; 4 points – meets expectations; 3 points – below expectations; 2 points – unsatisfactory.

Based on the assessment for 2020 (taking into account the questionnaires received from all members of the Board of Directors), the arithmetic mean of the indicators was 4.7 points, which demonstrates the Company's effective work in organizing the activities of the Board of Directors and the high quality of corporate governance at Zarubezhneft.

