

5 RISKS ASSOCIATED WITH IMPLEMENTING STRATEGIC GOALS

Analysing the events of recent years, it is safe to say that the world energy market in general and the oil industry in particular exist in a new reality. The market situation and the balance of power in the oil industry is constantly changing, increasing the level of competition and requiring players to take innovative approaches to meet business challenges. In the conditions of an unstable, rigid market and constantly changing environment, one of the serious challenges faced by the Company is to maintain a vector of dynamic development and implement its strategic goals. An alarming industry-wide trend has been a reduction in investments in the implementation of large projects, which casts doubt on the feasibility of large-scale strategic tasks and the preservation of the project portfolio.

RISK MANAGEMENT MEASURES

The company promptly responds to any dynamic market or volatile changes and recognises the need to continuously make improvements and take new approaches to managing its project portfolio, where the priority is to find an optimal balance of resource allocation between large resource-intensive strategic projects, such as the development of deposits in the Arctic and on the Arctic shelf, and projects that ensure a rapid return on investment and thus the current sustainability of the Company.

An additional tool for the Company is to increase the efficiency of operations at all stages of the technological process through modernisation, utilising the latest technologies in exploration and production as well as drafting and implementing an integrated technological development programme for its existing portfolio of projects.

In addition, the Company pays special attention to implementing major strategically important projects such as Prirazlomnoye, the Novoportovskoye field and Messoyakha, and recognises that the experience and competencies gained in the course of working on these projects will form a solid foundation for the Company in the future when implementing projects in complex natural and climatic conditions and will strengthen its position as a leader in the production of liquid hydrocarbons in Russia's Arctic zone.

> For more, see the 'Strategic report' section

6 RISKS OF ATTRACTING PARTNERS

Given the unstable macroeconomic and political situation, attracting partners to implement joint projects is both a critically important and difficult task. With the large-scale slashing of investment budgets, potential partners are reducing their activity, and decisions to join new projects are being postponed indefinitely.

The sanctions introduced in 2014 by the U.S., EU nations and certain other countries with respect to the Russian energy sector are an additional restriction on the development of partnership relations.

RISK MANAGEMENT MEASURES

The company conducts continuous work with potential partners and mulls the possibility of attracting partners from the Russian Federation and the Asia-Pacific region countries that did not impose sanctions on Arctic projects. Regular negotiations and meetings are held as part of this process, including with the involvement of representatives of the following government authorities: the Government of the Russian Federation, Russian Ministry of Energy, Ministry of Foreign Affairs and Ministry of Economic Development.

> For more, see the 'Strategic report' section