



OPERATIONAL TRANSFORMATION

Rolling out Etalon OMS as the Company's operational platform

The roll-out of Gazprom Neft's Etalon Operations Management System (OMS) kicked off in 2016. The system prototype is now being pilot tested at a number of our assets and is ready to be scaled across the Company

The OMS is a structured set of interlinked practices, procedures and processes used by managers and employees at each level of the Company as part of its operations. Compliance with the OMS requirements is a must at all levels and across all units, from offices and laboratories to drilling rigs and factories.

Up to ₹ 90_{BN}
expected annual EBITDA benefit
from an industry-leading OMS level

OPERATIONAL TRANSFORMATION IN QUESTIONS AND ANSWERS

Head of the Operations Management System Development Centre, answers questions about operational transformation
Evgeny Bulgakov

WHAT IS THE RATIONALE BEHIND THE COMPANY'S OPERATIONAL TRANSFORMATION?

The need to rethink our approach to operations management has emerged following the recent economic turbulence coupled with a sharp drop in oil prices. Although we successfully navigated through the challenges, we need to stay sharp and focused on our efficiency as a key to sustainability and competitive power, whatever the market conditions.

HOW WOULD THE OMS HELP GAZPROM NEFT MAXIMISE ITS EFFICIENCY?

This will be achieved by introducing universally standardised practices and having all employees embrace the culture of continuous improvement based on:

- > uniform management processes across the Company;
- > uniform safety and reliability standards;
- > employee involvement into decision making and generating ideas;
- > clearing all sources of losses;
- > implementing regular management practices and lean production.



WHAT ARE THE ETALON OMS COMPONENTS?

The OMS comprises 12 functional elements grouped into three major blocks: (1) operational culture, (2) operational reliability and safety and (3) operational efficiency.

Facilitative leadership is at the core of the first block, i.e. operational culture. It is a style of leadership effective in creating a supportive environment for employees to work towards the Company’s strategic goals.

The second block covers operational reliability and is based on uniform asset reliability criteria and requirements, uniform safety management processes and measures to minimise the number of faults and failures.

The third block is built around operational efficiency with a focus on the operating assets’ ability to know and see their potential, leverage the tools necessary to cut all and any losses, and support a culture of continuous improvement.

Etalon OMS structure



WHAT IS THE OMS CODE?

This acts as our operational charter, setting out all operations management system requirements. In developing the code, we relied on both industry and global best practices while also factoring in the specifics of our assets.

The OMS Code bring together Company-wide requirements to equipment safety, reliability and integrity, process flow efficiency and staff expertise. It applies to all Gazprom Neft's business units and subsidiaries. This means that both the Prirazlomnaya offshore platform and our most remote filling station use one and the same management tools and safety standards, minimising the risk of failures and disruptions and maximising the existing operational potential.

WHAT WAS THE FIRST PART OF THE OMS ROLL-OUT?

During the first 18 months, we diagnosed the assets covered by all of the Company's production divisions. The exercise proved universal applicability of the OMS requirements across our portfolio of assets while also measuring the gap against the target level of the management system's maturity.

“There has been a fundamental external change since 2013, when we drafted our previous strategy. The industry, competition, and principles of project development all saw a radical transformation. Gazprom Neft delivered a robust performance in the challenging period from 2014 to 2018, demonstrating a responsible approach to growth. Now we focus on generating leading margins and solid return on capital employed. All this sets us on a journey to become a next generation company.”

Alexander Dyukov
Chairman of the Management Board
and CEO Gazprom Neft

HOW DO YOU ASSES THE MATURITY OF THE MANAGEMENT SYSTEM AT YOUR PRODUCTION ASSETS AGAINST ITS TARGET STATE?

The current state of the management system is assessed against granular OMS Code criteria underlining a nine-level maturity scale. Three negative levels are assigned to assets that lack manager and employee engagement in their systemic development, are exposed to potential data manipulations or, even worse, to an unmanageable risk of massive accidents and equipment failures. The other six levels are positive.

Despite a mature or even more advanced level of operations management shown by our assets in terms of some criteria, the overall management system has been developing unevenly and ranks within the basic to mature range.

MANAGEMENT SYSTEM MATURITY SCALE

OMS is assessed against the Code's requirements and is measured and visualised based on the OMS maturity scale.

BENCHMARK	<ul style="list-style-type: none"> > Requirements have been properly and actively implemented for at least three years > Industry-wide best practices are generated
ACTIVE	<ul style="list-style-type: none"> > Results are guaranteed and are achieved in an efficient manner > Company-wide best practices are generated
SYSTEMIC	<ul style="list-style-type: none"> > Requirements apply across all business units > Planned targets are consistently achieved > Systemic improvement is in place
MATURE	<ul style="list-style-type: none"> > Requirements apply across most business units > Results are exposed to risks > No systemic improvement is in place
BASIC	<ul style="list-style-type: none"> > Requirements are formalised and followed across several business units > Results are positive but require constant monitoring
ELEMENTARY	<ul style="list-style-type: none"> > There is an understanding that requirements need to be implemented > Requirements are not formalised but are sometimes followed in practice
PASSIVE	<ul style="list-style-type: none"> > Requirements are not communicated to employees and are not met
TOXIC	<ul style="list-style-type: none"> > Signs of data manipulation are in place with regard to requirements implementation
CRITICAL	<ul style="list-style-type: none"> > Actions and requirements interpretations are contrary to the OMS principles and goals

HOW IS THE OMS IMPLEMENTATION RUN IN PRACTICAL TERMS?

We do the pilot testing at our selected assets before roll-out across the Company.

WHAT ASSETS ARE ALREADY ROLLING OUT THE OMS?

The Downstream Division successfully completed the OMS pilot project at the Omsk Lubricants Plant (part of Gazpromneft-Lubricants). Work is in progress at the Omsk and Moscow refineries as well as across Gazpromneft-Terminal's business units.

The Upstream Division successfully identified the process potential as part of its pilot project at Gazprom Neft Orenburg and initiated the same at Slavneft-Megionneftegaz. At the same time, the division is implementing a contractor management model.

WHO IS IN CHARGE OF THE OMS DEVELOPMENT AND ROLL-OUT?

The programme is managed by the dedicated Operating Management System Committee, a new unit comprising members of the Company's Management Board and heads of key business units and functions. The committee approves the OMS roadmap, estimates the required resources and makes strategic decisions. Deputy CEOs supervise selected OMS components, handle change management within their scope of responsibility, and act as role models for employees.

The Group also relies on the OMS Development Centre, which carries out diagnostics and provides expert and organisational support. Each operational division has its own management committees and OMS implementation centres. PMOs are also set up to complete tasks directly on site.

WHAT ARE THE KEY TAKEAWAYS BASED ON THE FIRST STAGE OF THE OMS LAUNCH?

We have realised the urgent need for a cultural transformation at all levels and in all respects, be it choosing the right language to communicate the Company's strategy to employees or the executive commitment to regular management practices.

The attitude of people is a very personal and emotional component critical to the success of any changes. If employees work as a team, this brings about meaningful synergies and helps to find the right solutions to the most challenging problems.



Operating efficiency: pilot case at the Omsk Lubricants Plant



"The most difficult part is to learn to speak a shared language"

ETALON OMS MILESTONES

2018 RESULTS

- > Maturity assessment criteria developed and adopted
- > Assets diagnostics completed
- > Development targets and potential defined by priority area
- > Training in regular management practices launched across the Group
- > Pilot projects completed
- > Efforts initiated to align the Company's internal documents with the OMS Code

2019–2020 DELIVERABLES

- > Focus on priority areas:
 - leadership and culture;
 - operating efficiency management;
 - contractors and suppliers management;
 - equipment reliability and integrity management
- > Roll out regular management practices across all of the Company's assets
- > Embed an operational reliability management model based on the equipment criticality analysis for production divisions
- > Maximise the scope of the development potential assessment to cover all of the Company's assets

2020–2030 DELIVERABLES

- > Ensure the highest level of employee involvement in the transformation
- > Roll out the results of pilot projects across the Group and achieve systemic and active OMS maturity levels
- > Tighten the responsibility of the management for ensuring safe and reliable operations of the Company and its contractors and suppliers
- > Maintain and promote the culture of continuous improvement

For more details on the pilot case study, see the Oil Refining section on p. 74