

## SUPPLY CHAIN

LUKOIL Group entities procure a significant amount of goods, works and services and interact with a large number of contracting companies annually. At the same time, LUKOIL is also a supplier of goods to consumers based all around the world.

### TENDERS

The selection of suppliers of goods, works and services in Russia is performed in accordance with the Regulations on Holding Tenders to Select Suppliers and Contractors of LUKOIL Group Entities (hereinafter, the Regulations) and is based on the principles ensuring competitive, unbiased and effective supplier selection. Foreign entities of LUKOIL Group modify the enterprise-wide documents to make them compliant with local laws.

In order to minimize risks, when choosing counterparties the Company is guided by the following criteria:

- criteria for evaluating the technical part of the tender offer include determining the reliability and experience of the bidder, as well as checking the conformity of the goods with technical requirements;
- criteria for evaluating the commercial part of the tender offer include determining the competitiveness of the tender offer.

As part of the development of green procurement practices, we collaborate with a foreign company, which is the world's leading producer of energy efficient pumping equipment.

### ANTI-CORRUPTION REQUIREMENTS

Under the Regulations, potential tender participants who, directly or indirectly, offer, have given, or agree to give compensation in any form to an employee of PJSC LUKOIL or LUKOIL Group entities cannot be admitted to tenders.

If any such facts are identified, potential tender participants can be classified as bad-faith suppliers of goods, works, and services. The decision to classify a potential tender participant in this category and disqualify it from a tender is made by the Tender Committee or the Procurement Committee of PJSC LUKOIL.

### INDUSTRIAL SAFETY AND OCCUPATIONAL SAFETY REQUIREMENTS

If the subject of the tender requires the need to verify the state of the HSE system of a potential tender participant, experts from PJSC LUKOIL and LUKOIL Group entities perform a comprehensive assessment based on a corporate document<sup>1</sup>.

The assessment procedure includes<sup>2</sup>:

- checking for compliance with the international standards OHSAS 18001 and ISO 14001, Russian laws and internal regulations of PJSC LUKOIL;
- ascertaining whether potential tender participants possess necessary licenses, adequately qualified staff, personal protective equipment, and technical capability and technology.



**BASED ON THE RESULTS OF 2019, THE SHARE OF RUSSIAN SUPPLIERS OF CENTRALIZED MATERIAL AND TECHNICAL RESOURCES STOOD AT**

**94%**

**IN TERMS OF THE NUMBER OF SUPPLIERS AND ROSE SLIGHTLY TO**

**94.8%**

**IN TERMS OF THE TOTAL VALUE OF PURCHASES IN RUSSIA YEAR-ON-YEAR.**

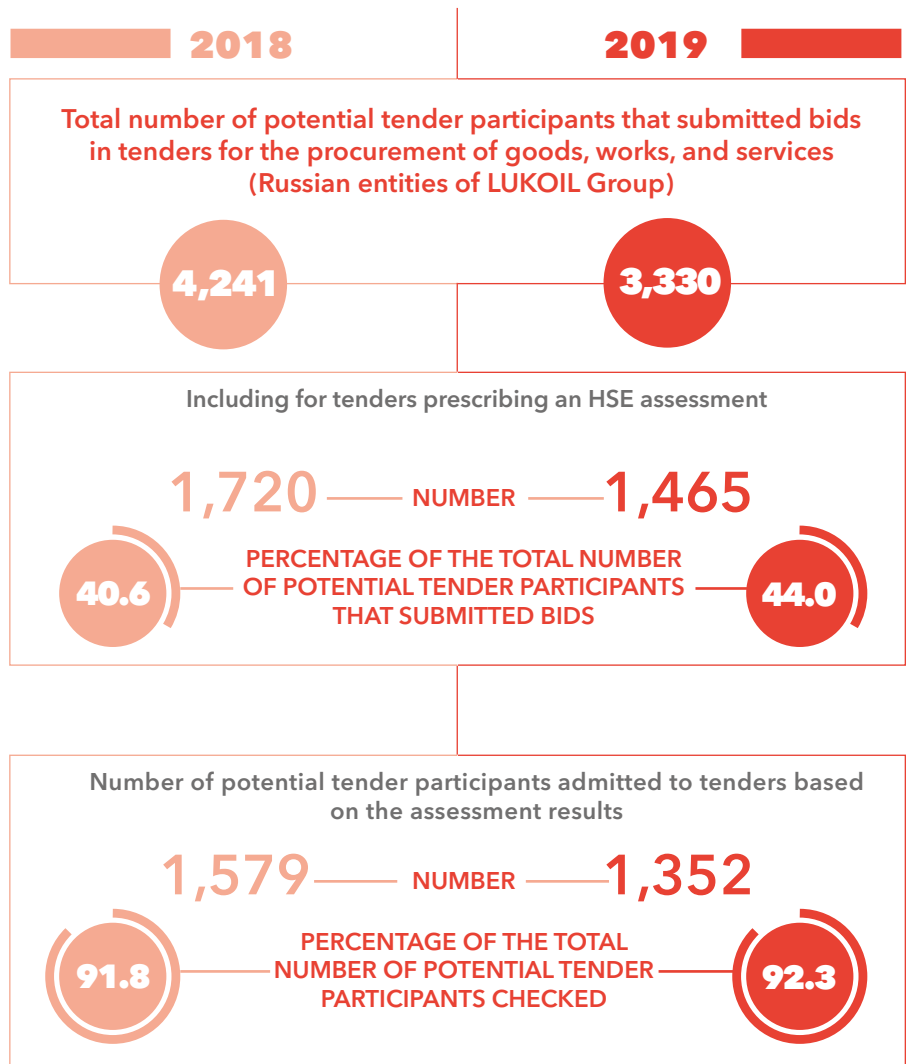
<sup>1</sup> Pursuant to the "Procedure for Assessing the Health, Safety, and Environment Level of Business Entities Intending to Participate in a Tender."

<sup>2</sup> The assessment of the candidates for contractors is performed in accordance with an internal regulatory document: Appendix 32 to the Regulations on Holding Tenders to Select Suppliers and Contractors of LUKOIL Group Entities approved by a Resolution of OJSC LUKOIL Management Committee dated 30 September 2013 (Minutes No. 19 as amended).

During the assessment, the following indicators are taken into account: the occurrence of accidents and fatal accidents; the number of breakdowns and incidents over the past three years; confirmations that trainings have been completed; knowledge testing. Potential tender participants also provide social information, in particular related to observing the working hours of their employees.

That information is included in a candidate's questionnaire evaluating their compliance with the HSE requirements. Based on the questionnaire, experts of the Company perform the assessment of the HSE level of the candidates. In the event of poor score in the assessment, the candidates are not admitted to tender.

For certain types of procurement, technical audits of potential tender participants and mandatory assessments of potential tender participants' employee compliance with corporate requirements of work at the facilities of LUKOIL Group entities are carried out.



IN 2019

92.3%

OF TENDER PARTICIPANTS FOR WHOM HSE ASSESSMENTS WERE PRESCRIBED PASSED THE COMPREHENSIVE ASSESSMENT PROCEDURE SUCCESSFULLY.

The number of tender participants who successfully passed the HSE assessment procedure rose year-on-year, indicating an improvement in the quality of bids received.

**Note.** The information for 2018 is provided taking into account the application of a unified approach to selecting reporting data for 2018 and 2019, as well as the update of the corporate database of applicants participating in tenders of PJSC LUKOIL and LUKOIL Group entities in 2019.

**Interaction during the implementation of contracts**

Under the terms and conditions of contracts to supply goods/works/services, all suppliers and contractors undertake to adhere to the requirements of current laws, as well as those of LUKOIL Group's Health, Safety and Environment Policy in the 21st Century. The following requirements are an integral part of the contracts:

- undergoing introductory / initial workplace briefings before contractors begin the performance of works / provide services at LUKOIL Group entity's facilities, the availability of personal protective equipment in accordance with the nature of the work being performed, confirming that suppliers / contractors have appropriate first-aid skills

- immediately notifying the customer of all accidents that have taken place during the performance of works
- prohibition on the unauthorized accumulation and placement of waste, the discharge of wastewater (liquid waste) and chemicals, the discharge of pollutants into the air, or the contamination of soil with chemicals while performing works at LUKOIL Group entity's facilities.