

for Assessing the Health, Safety, and Environment Management of Entities Wishing to Participate in a Tender". This procedure reviews the availability of required licenses, employees with the necessary qualifications, and the technical capabilities and technologies of potential contractors. For certain types of purchasing, applicants undergo technical audits.

As part of tender procedures, applicants also provide information of a social nature, specifically on compliance with

the working time standards of their employees, and on provision of housing and social services to employees.

If a comprehensive assessment determines any non-compliance with corporate requirements, suppliers are not admitted to the tender.

In 2017, reviews of the conditions of the health, safety, and environment system were performed on 2,227 tender participants (38% of the total number).

Under the terms of signed contracts, all suppliers and contractors accept an obligation to comply with the Regulations, confirming their consent with a signature, and also to abide by the legislative and corporate standards set forth in the HSE policy of PJSC LUKOIL in the 21st Century and other corporate standards.

The Company continuously monitors the activity of contracting organizations for compliance with these requirements.

Product quality assurance

LUKOIL Group subsidiaries sell an extensive range of products that are used in various industrial sectors and by vehicle owners in Russia, Europe, Asia, and America. Our priorities are oriented towards consumer expectations and to constantly improving our quality control management methods.

Certificates confirming that quality management systems comply with ISO 9001 standards are held by 10 organizations working in aircraft refueling, as well as by facilities that produce the oils and lubricants of LLK-International. In 2017,

LLK-International began preparations for recertification, taking into account the new requirements stipulated by ISO 9001:2015 and IATF 16949:2016.

PRODUCT SALES, 2017

Type of product	2015	2016	2017
Premium ECTO fuel, thousand tonnes	5,802	7,535	8,554
Bunker fuel, thousand tonnes	2,549	3,347	4,539
Aircraft refueling, thousand tonnes	2,875	2,747	3,238
Branded oils, thousand tonnes	444	515	585
Biofuel blends ¹ , million liters	4,014.4	4,246.2	4,174.0

Ensuring the quality of motor fuels

We believe it is our duty to maintain at all stages, from production to consumer, the quality of our fuels at the standards prescribed by the technical regulations and standard production documents. In addition, the subsidiaries of the LUKOIL Group that supply petroleum products are governed by respective corporate standards and guidelines².

Our goal is to ensure complete and timely monitoring of the release and acceptance of petroleum products in the Transneft and Russian Railways transport systems, and that they are properly received, stored, and sold at LUKOIL tank farms and filling stations. The main measures taken to achieve this include:

- having in place a system of safety requirements for the transportation of petroleum products and their sale at filling stations
- building and optimizing the petroleum product testing structure, and analyzing the option of using NIR-spectroscopic multifunctional analyzers for real-time monitoring

¹ Assuming an automotive gasoline density of 0.755 kg/l and diesel of 0.845 kg/l. Biofuel blends are understood to mean blends of motor gasoline and ethanol (up to 10%), or diesel fuel and the methyl ethers of fatty acids. These products are sold in European countries (Belgium, the Netherlands, Romania, Italy, Bulgaria, and Turkey).

² For example, LUKOIL technical standard 1.24.1-2016 Motor Fuels. ECTO Automotive Fuel, the Methodological Guidelines on Maintaining the Quality of Petroleum Products during Reception, Storage and Release at LUKOIL-Uralnefteprodukt.

- creating a unified data system from the refinery to the tank farm, in order to reduce the number of stationary laboratories (pilot projects are already in place at LUKOIL-Volganefteprodukt and LUKOIL-Permnefteprodukt)
- participating in the work of government and industry organizations on issues related to petroleum product quality controls (including a tracking system to prevent fraudulent transactions at

pumps) and countermeasures against the distribution of counterfeit products (including such measures as turnover-based fines and public controls)

The corporate automated management system, which covers all filling stations as well as the vast majority of tank farms in Russia (and is also installed at facilities in Serbia and Romania), features the electronic tracking of products

from refinery to end user. The system is being further developed through the use of tanker trucks equipped with an automated management system called “Guaranteed Delivery of Petroleum Products”, the more widespread application of multifunctional spectrometric analyzers, infrared-range quality indicators for petroleum products, and introducing reporting as part of the Business Intelligence approach³.

BREAKDOWN OF LUKOIL GROUP FILLING STATIONS BY COUNTRIES AS OF THE END OF 2017

Total	5,258
Russia	2,609
Europe	2,155
Countries of the former Soviet Union	247
The USA	247

Note. Data include information on stations owned by the LUKOIL Group, leased stations, and franchised stations, as well as filling stations mothballed and transferred under leases (situation as of 31 December 2017).

The main mechanisms used to engage with consumers comprise: The LICARD Unified hotline, the Secret Customer program, Event Monitoring software (CMIS), and an analytical extension for the Petronix CMIS called “Monitoring the Work of Filling Stations and Tank Farms” (at LUKOIL-Tsentrnefteprodukt). We also analyze the results of inspections by state and municipal authorities, as well as LUKOIL’s internal audit function.

The following methods are used to improve the quality of services at filling stations:

- implementing targeted programs, such as the Renovation program for filling stations on federal highways and in regional centers, 2017–2020
- the transitioning of oil supply companies to responsible maintenance of facilities

- implementation of the Service Book – a corporate approach to standardizing the activity of petroleum product supply organizations
- developing the LUKOIL-Inter-Card (LICARD) System

Ensuring the quality of oils and lubricants

A key element within the lubricant quality control system is the regular audit of LUKOIL refineries by clients which are leading automobile manufacturers (for example General Motors, Ford, Volkswagen, and Renault-Nissan), during which assessments are made of the quality of products as well as the efficiency of production processes.

All suppliers of raw materials and consumables have to undergo a precise assessment in accordance with applicable corporate standards⁴. A quality record sheet is created for each lot of finished product. Feedback on product quality is received from dealers, customer services, and the commercial unit. Data is analyzed at monthly Quality Day meetings, and is also recorded in summary analysis reports for the quality management system.

The monitoring of consumer satisfaction with oils and lubricants is performed three times a year through the distribution of a Production Satisfaction Questionnaire. In 2017 the average satisfaction level of respondents in Russia was 88%.

³ Business Intelligence approach – a concept of working with information using automated tools, which is oriented towards achieving a maximum efficiency of operations and a consistency in final processing and analysis results.

⁴ SP LLK 11-2016 Assessment Procedure For Suppliers of Materials and Services.