

PROCUREMENT ACTIVITIES

Zarubezhneft is committed to increasing the openness and transparency of its procurement activities. In 2020, the Company was declared the winner of the annual rating of organizers of procurement procedures working under Federal Law No. 223-FZ "On the Procurement of Goods, Work, and Services by Individual Types of Legal Entities" in the 'Customer of the Year' category.

96.6%

openness of procurement procedures in 2020

Zarubezhneft carries out its procurement activities in accordance with the requirements of Federal Law No. 223-FZ "On the Procurement of Goods, Work, and Services by Individual Types of Legal Entities" and in accordance with the Procurement Regulation.

In 2020, Zarubezhneft:

- ▶ Organized 440 procedures for the procurement of goods, works, and services for the needs of Zarubezhneft and its subsidiaries for more than RUB 38.7 billion
- ▶ Considered 605 questions within the Company's Tender Board

To improve the openness and transparency of procurement activities, the Group uses a system of electronic trading platforms as well as the publication of information on procurements in the state Unified Information System and corporate information resources, which increases the number of procurement participants and expands the Company's ability to select the most favorable offers. As a result of consistent work in this area, the transparency of procurement procedures was 96.6% in 2020, and the average number of participants in competitive procurements was 4.5.

The Company works with potential suppliers/contractors in an effort to optimize and reduce costs. Based on an analysis of technical and commercial bids by procurement participants, when an opportunity was found to reduce the cost of goods and services, participants were given the opportunity to improve their commercial offers to obtain the maximum possible discount. The Company took advantage of the rebidding procedure and conducted pre-contract negotiations. As a result of these activities, the efficiency of procurement procedures (budget economy) was 15.3% in 2020 (13% in 2019).

Results of measures to expand access of small and medium-sized businesses to procurements at Zarubezhneft in 2020

- ▶ The share of procurements by Zarubezhneft solely from small and medium-sized enterprises was 56.33%, while the target for this period was 20% (according to the methodology contained in Resolution No. 1352 of the Russian Government dated December 11, 2014 "On specific aspects of the participation of small and medium-sized enterprises in the procurements of goods, works, and services by certain types of entities")
- ▶ The share of procurements involving only small and medium-sized businesses was 22.61%, while the target was 18%
- ▶ At present, 16 companies have joined the Zarubezhneft program for partnership with small and medium-sized enterprises

Fulfillment of the Russian government's directives on procurement activities

- ▶ No. 6464p-P13 dated December 15, 2010 — Submission of reports on the Company's procurement activities
- ▶ No. 2793p-P13 dated April 19, 2016 — On the Company's regulatory acts establishing the standardization of procurements of certain types of goods, works, and services
- ▶ No. 4972p-P13 dated July 11, 2016 — On the procurement of competitive domestic software required for the joint-stock company's activities (to be performed in accordance with the set deadlines)
- ▶ No. 6558p-P13 dated September 5, 2016 — On amendments to the Company's procurement policy with regard to innovative construction materials
- ▶ No. 7704p-P13 dated October 11, 2016 — On expanding the practice of factoring in the execution of contracts for the supply of goods (work, services)
- ▶ No. 7923p-P13 dated September 26, 2018 — On annual reporting on the procurement of civilian products for fuel and energy facilities from military-industrial complex companies
- ▶ No. 1519p-P13 dated February 20, 2019 — On the development of programs to improve the quality of procurement management
- ▶ No. 4111p-P13 dated May 8, 2019 — On expanding the use of factoring in the execution of contracts for the supply of goods (work, services)
- ▶ No. 9984p-P13 dated November 1, 2019 — On the procurement of Russian products used for implementation of national projects and the comprehensive plan for the modernization and expansion of trunk infrastructure
- ▶ No. 10464p-P13 dated November 18, 2019 — On amendments to the procurement documentation of Zarubezhneft regulating competitive procedures
- ▶ No. 6781p-P13 dated July 31, 2020 — On the procurement of automotive products

During procurement procedures, we ensure the use of reliable occupational safety and environmental protection practices. When performing work at hazardous production facilities as well as work involving the construction, reconstruction, and repair of buildings, structure, and equipment, it is mandatory for the Company's requirements for occupational safety, safety regulations, and environmental protection to be included in the procurement documentation.

In order to select reliable suppliers/contractors, all procurement participants confirm compliance with the Company's anti-corruption policy and undergo a mandatory due diligence check for financial stability, trustworthiness, and business reputation. The evaluation criterion 'Positive experience from cooperation (proper execution of contractual obligations) with Zarubezhneft and/or its subsidiaries for the last five years' has been integrated into the procurement procedures, which helps to select reliable and verified contractors to ensure the proper performance of the Group's production program within the set deadlines.

Development opportunities

In its work, Zarubezhneft adheres to the Russian Government's policy regarding import substitution, which is a strategic focus for state-owned companies in the coming years. In this regard, the Company is constantly working on the planned and gradual substitution of imported products with domestic ones.

As a result, the share of procured products, work, and services of foreign origin is being systematically reduced and currently amounts to 1.03% at the Group's companies operating in the Russian Federation.