



LUKOIL

Human Capital
Management Policy
PJSC LUKOIL



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1. GENERAL PROVISIONS AND ROLE IN BUSINESS STRATEGY

- 1.1. Human Capital Management Policy of PJSC LUKOIL (hereinafter referred to as “the Policy”) is based on the mission of PJSC LUKOIL (hereinafter referred to as “the Company”) – “to make the energy of natural resources serve the interests of mankind, to efficiently and responsibly develop unique hydrocarbon fields entrusted to us by providing Company growth, the wellbeing of its employees and community at large”.
- 1.2. The entire Policy is the fundamental document of the Company, regulating human capital management. The Policy shall apply to the Company, other LUKOIL Group organizations, as well as to all employees.
- 1.3. The aim of the Policy is to:
 - ensure sustainable growth of the Company through efficient management of human capital that includes efficient management of risk of shortage of manpower;
 - facilitate long-term economic growth and social stability in countries and regions where the Company operates;
 - protect environment and contribute to rational use of natural resources.
- 1.4. The Policy is based on the Company’s business strategy and is fully consistent with its goals and global vision of its development, seeking to retain leading positions in the market, as well as to respond proactively to the modern world challenges including:
 - digital transformation of the economy;
 - demographic pressures;
 - decarbonization and environmental challenges;
 - political, social and economic instability;
 - decision-making in VUCA world;
 - rapid development of technologies.
- 1.5. Pursuing the sustainable development goals, the Company strives to mould and maintain comfortable environment open to innovations and supportive of entrepreneurial approach in decision-making in order to attract and develop talents as well as to unlock the potential of every employee.
- 1.6. Fully sharing global principles of socially responsible business, the Company operates in the interests of society, consumers, shareholders and employees and sets leadership in corporate social responsibility as one of the main priorities for development.
- 1.7. Recognizing that all achievements are done by people and for their benefit, the Company admits the key role of all employees, forming a solid team of leaders and professionals, in the successful development of LUKOIL Group.
- 1.8. Valuing contribution of every employee in building sustainable future of the Company, we attach particular importance to the development of human capital, adhering to human-centered approach.

2. GOALS, OBJECTIVES AND PRINCIPLES OF THE POLICY

- 2.1. The aim of the Policy is to facilitate the Company's sustainable growth via forward-looking development of competencies, solicitous attitude towards talent of every member of our Team and favorable working environment facilitating ensuring self-realization for each employee.
- 2.2. Human capital management in the Company is based on leadership philosophy and entrepreneurial approach to decision-making. The Company encourages proactive leadership behavior that manifests itself in:
 - continuous aspiration for self-development;
 - professional attitude to work;
 - commitment to assume extra responsibilities and achieve outstanding results;
 - being a leader suggesting initiatives on the Company's innovative development.
- 2.3. The Company's leadership philosophy establishes four reference areas:
 - Leadership in Management;
 - Leadership in Projects;
 - Leadership in Operations;
 - Leadership in Digitalization.
- 2.4. The Human Capital Management Policy is the policy of a modern vertically integrated energy providing company that has formed reliable corporate culture and a solid system of corporate values. Commitment to corporate values shall be the basis of our performance, allowing us to maintain the unity and integrity of the Company among the uncertainties of the modern world.
- 2.5. The Policy provides for the development of an efficient talent management system complying with global best practices and guaranteeing that all members of the Team have equal opportunities to unlock their potential for better performance and labor efficiency.
- 2.6. The Policy intends to ensure ultimate flexibility of the Company to social, political, economic and environmental global changes and encourage innovative thinking and mobility of employees.
- 2.7. In order to achieve the goal of the Policy the Company shall:
 - create a motivating environment that allows efficient development of skills and best performance of all employees;
 - encourage involvement of all employees in achievement of the Company's strategic goals;
 - guarantee fair appraisal of a contribution of every employee to joint achievements;
 - provide for decent reward for individual contributions;
 - ensure efficient succession by employing, developing and retaining talents.
- 2.8. The main objective of the Policy is to secure continuous leadership of the Company as of the preferred employer in the international labor market so that the Company could employ the most competent candidates.

- 2.9. The company endeavors to assure that professionalism, consistent performance and adherence to corporate values are the essential and only guarantee for career development and growth in the Company.
- 2.10. The Company adheres to uniform principles and approaches in human capital management in all countries and regions where it operates, strictly observes effective legislation and respects local customs, foundations and traditions.
- 2.11. The Company shall be guided by principles of equal rights and opportunities and shall find humiliation of human dignity and any form of discrimination unacceptable.

3. POLICY IMPLEMENTATION

- 3.1. The implementation of this Policy shall be based on the principles of Business Partnership model.
- 3.2. The Policy shall be implemented through:
 - establishment of efficient organizational environment that ensures the best possible planning of resources and best opportunities for self-realization to every employee;
 - establishing environment, favorable for unhindered, timely and efficient exchange of information, knowledge, experience and suggestions on how to improve processes, methods and approaches to work;
 - forward-looking development of skills and efficient talent and succession management;
 - proper performance management at all levels;
 - flexible and efficient motivation system.
- 3.3. The Company uses an integrated approach to the development of the above practices in human capital management process.
- 3.4. One of the basic tasks, established by the Policy, is in continuous appraisal of the efficiency of measures, taken to mitigate the risk of shortage of qualified manpower.
- 3.5. The Company shall develop required internal regulatory documents and procedures, IT systems and other necessary components for human capital management infrastructure to support the Policy.
- 3.6. Every employee of the Company shall contribute to the implementation of the Policy.

4. TALENT MANAGEMENT AND SUCCESSION MANAGEMENT

- 4.1. The Company imputes priority to Talent Management and Succession Management in sustainable growth of human capital value and related sustainable development of the Company. Therefore, the Company makes coherent effort to develop the image of a preferred employer.
- 4.2. Committing itself to their development, the Company considers the following qualities as most important for employees:
- adaptability – correct assessment of influencing changes and timely response to them for the best possible result;
 - benevolence – open, positive and responsible attitude towards colleagues, partners and clients;
 - conscientiousness – responsible and professional attitude to work and activity of the Company on the whole;
 - innovation – incessant improvement of personal efficiency and performance employing rational use of new tools and technologies;
 - teamwork – efficient collaboration with other employees for joint goals, based on the principles of mutual understanding, mutual support and mutual respect;
 - competence – sufficient knowledge, experience and skill, that allow efficient performance;
 - leadership – willingness to come out with initiatives contributing to achievement of goals by the Company and ability to involve colleagues;
 - mobility – willingness and ability to rotate horizontally and vertically including transfer between functions, subsidiaries, regions and countries in order to develop and support operations of the Company;
 - commitment to safety – conscious observation of environmental protection, health and rules and requirements regulating environmental protection, health, and protecting vital interests of people and communities, and managing and mitigating operational and occupational risks;
 - personal growth – continuous development and mastering of new competences and willingness to exchange experience and knowledge with colleagues.
- 4.3. To recruit talents, the Company shall:
- continuously monitor labor market trends in countries and regions where it operates;
 - develop cooperation with educational institutions to develop research and technical base, support students and lecturers, and be consistently active in scouting talents among graduates;
 - form competitive advantage as an employer to recruit highly qualified professionals on the labor market;
 - pay special attention to personal growth of young professionals, therefore guaranteeing sustainable future that relies on continuity in management and operations.
- 4.4. Nurturing talents in the Company shall:
- be governed by strategic needs of the business, business plans and working requirements;
 - rely on conscious and responsible attitude of employees to their career development and motivation for personal growth;
 - evolve on the concept of forward-looking development of skills and lifelong learning;
 - employ a mentoring system that guarantees the fastest possible onboarding of new employees and development of necessary skills through experience and knowledge shared by coworkers as they do their jobs;
 - use all available training tools and methods, subject to economic and methodological expediency.

- 4.5. Recognizing that the dynamic and sustainable development depend on the talent and efforts of every employee, the Company underlines the significance of favorable working environment that motivates employees and strengthens their loyalty to the Company.
- 4.6. By favorable environment that helps unlock personal potential of every employee, we mean the Company shall:
- provide comfortable and safe working conditions;
 - create opportunities for professional and personal development;
 - encourage employees for leadership in initiatives intended to contribute to the Company's competitive advantage;
 - develop and implement tools for fair and unbiased performance appraisal;
 - develop a flexible incentives system that builds upon the significance of a contribution of every employee and that guarantees fair remuneration for performance, including financial and non-financial rewards.
- 4.7. With the goal of keeping up the momentum of sustainable development, the Company underlines the importance of the management and operational continuity.
- 4.8. The Company's Succession Management System is based on the following approaches:
- With the three basic threads, that the Company identifies as crucial for its operations, career development may build upon:
 - Management career – key focus on the Company's operations and performance vs strategic development goals, guaranteed through efficient management;
 - Project management career – key focus on the Company's strategic goals, implementation of major and priority projects, international projects among them; implementation of operations excellence tools;
 - Expert career – key focus on comprehensive support of management, project and routine activities of the Company guaranteed by profound and versatile knowledge.
 - The Company ensures advantage of current employees in competitive sourcing for key and/or superior position.
 - The key criteria in review process of candidates for key and/or superior positions are:
 - sustainable performance;
 - abiding to rules and regulations with focus on environmental, operational and occupational safety;
 - systematic development of professional and personal skills that leads to improved performance and operations;
 - leadership and willingness to assume extra responsibilities and implement initiatives that facilitate achievement of the goals by the Company.
 - Decisions on appointments to key and/or superior positions shall be made with due consideration of regular performance appraisals against determinative criteria.

5. PERFORMANCE AND EMPLOYEES EFFICIENCY MANAGEMENT

- 5.1. The Company recognizes the principle importance of employees' performance and efficiency management in its sustainable development and therefore implements and commits to the development of the Personnel Efficiency Management System.
- 5.2. The Personnel Efficiency Management System is implemented to:
- ensure unbiased appraisal of a contribution of each employee in achievement of the Company goals in order to provide fair recognition in remuneration for results, including all forms of financial and non-financial incentives;
 - promote involvement of employees;
 - maintain high motivation of employees;
 - maintain best performance of employees;
 - plan career and development of employees;
 - manage efficient development of skills;
 - support Succession Management;
 - form objective and comprehensive profile for each employee based on confirmed performance results and skills.
- 5.3. Performance and employees efficiency management in the Company is based on the following principles:
- efficient goalsetting aimed at synergy of efforts of every employee, achieved through clear goals of each employee and their correlation with the Company's development goals;
 - continuous digital analytics tools-based monitoring of performance against goals;
 - efficient feedback targeted at fair appraisal of competence and contribution of each employee in achievements of a team, subsidiary or the Company;
 - complex integration with all human capital management tools and systems used across the Company.

6. MOTIVATION AND REWARD MANAGEMENT

6.1. The Company seeks to create an efficient system of incentives and remunerations to recruit, retain and motivate employees, whose qualifications and performance can ensure the successful fulfillment of the Company’s mission and the achievement of its business goals with optimum financial costs.

6.2. The total remuneration includes **financial** and **non-financial rewards** (Chart 1 below).

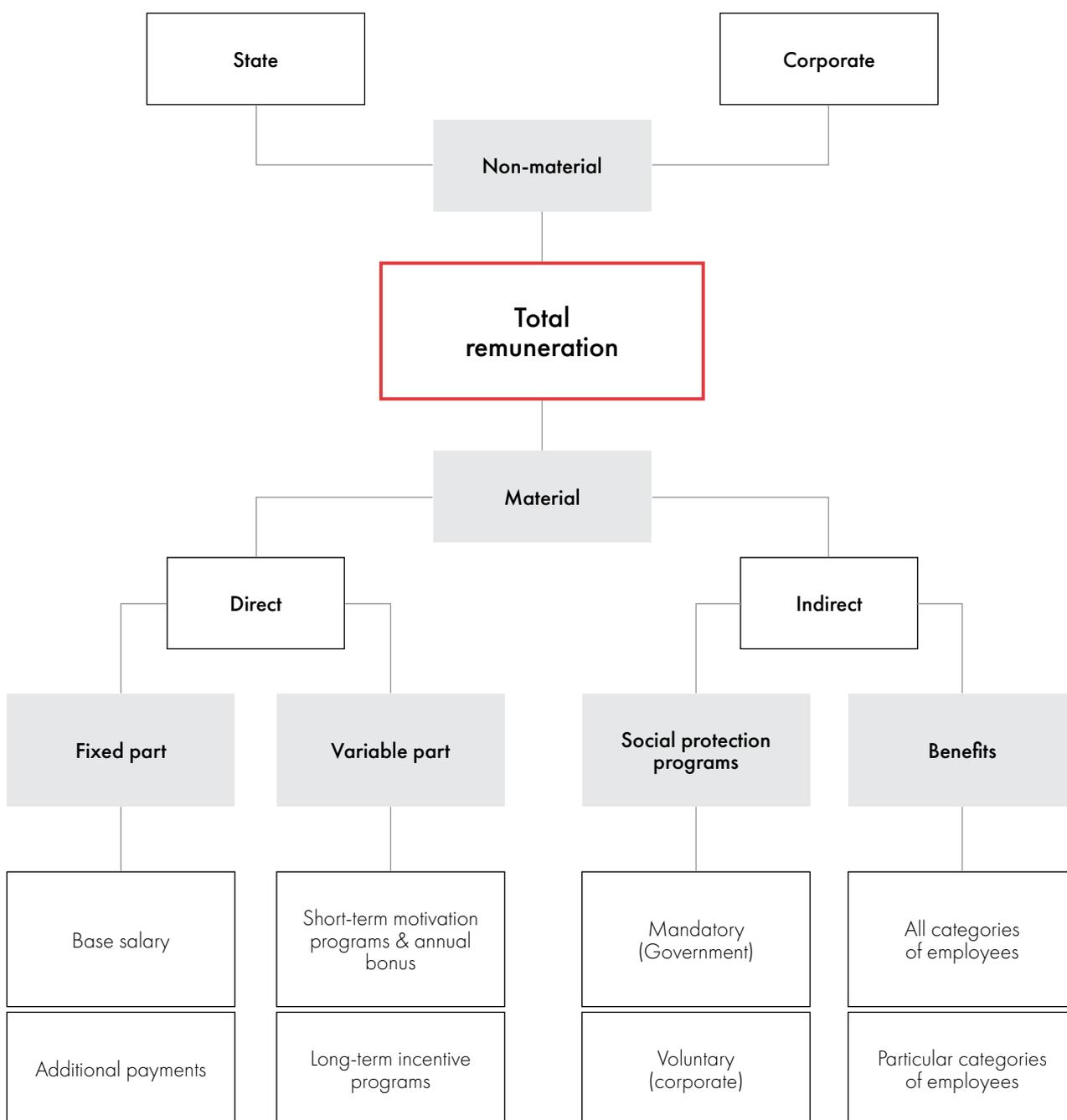


Chart 1

- 6.3. **Non-financial reward** shall mean all forms of recognition and encouragement that are not limited to their cash equivalent. Non-financial reward shall mean **both** state and **corporate** awards. The company intends to maintain and develop a system of non-financial rewards.
- 6.4. Financial reward shall mean either a **direct financial** reward or an **indirect financial** reward.
- 6.5. Direct financial reward consists of a **fixed part** (base salary and additional payments) and a **variable part** (short-term and annual bonuses payments, long-term incentive plans).
- 6.6. Indirect financial reward includes **social support programs for employees** (including mandatory and/or government programs and voluntary and/or corporate programs) and **benefits** (available to all employees and/or to particular categories of employees).
- 6.7. The amount of direct financial reward for each employee of the Company depends on:
- the relative value (significance) of the position held by an employee, related to a certain grade (category);
 - labor experience and professional qualities, reflected in salary apportionment (hour rate) in accordance with the grade (category);
 - employee's performance and results achieved over a certain period of time, reflected in a bonus relevant to the period;
 - competitive position of the Company on the labor market (pay levels for comparable positions in the labor market) and the target (expected) position of the Company in labor market for a given job level or job family.
- 6.8. Choosing a target position on the competitive labor market, the Company:
- takes into account specific properties of labor markets in certain functional areas;
 - defines a limited number of groups of employees and positions that are significant for the Company's performance against targets and goals, and that the company is willing to pay for in the amount, exceeding average market values;
 - intends to remunerate other positions against **average rates** of the market;
 - intends to revise how it defines key positions, groups of employees, as well as competitors following changes on the market, in policies, or availability of financial resources.
- 6.9. The Company analyses inflation rates on a regular basis and resolves on the fixed part of non-financial rewards depending on the market and availability of financial resources.
- 6.10. The variable part of a reward depends on the Company's performance, as well as performance of its units, organizations and subsidiaries, employees against target and goals, included in the Personnel Efficiency Management System.
- 6.11. The system of bonus payments serves to encourage the achievement of individual goals by employees as well as to incentivize responsibility for the achievement of team, project and corporate goals and targets, all ensured through a balanced combination of individual, team and corporate indicators.

- 6.12. The ratio of the fixed and variable parts of the reward, the balance of individual, team and corporate indicators shall depend on:
- the relative value (significance) of the position fixed in a grade (category);
 - the specifics of an employee's job and/or responsibilities of a structural unit an employee is employed with;
 - rates for similar positions on the market;
 - other factors.
- 6.13. The Company's motivation system includes long-term incentive programs aimed to keep employees involved and interested in the Company's sustainable growth on a long-term horizon.
- 6.14. Indirect financial reward provided to employees in the form of social support programs and benefits in addition to mandatory social security programs is an integral part of the Company's remuneration system that is included in competitiveness of the Company's remuneration system.
- 6.15. Social protection programs (medical insurance, life insurance, non-state pensions and accident insurance) intend to provide Company employees with quality medical care, guarantee protection in unforeseen circumstances and compensate the loss of earnings upon retirement. These programs reduce the Company's risks and potential costs in case of insured accidents.
- 6.16. The company intends to continue to develop and finance social support programs based on the following principles:
- **economic expediency:** the Company's social commitments shall not be substitute for the state's social guarantees; their financing should not be in contradiction to the Company's liabilities before shareholders or investors;
 - **sufficiency:** the Company will finance additional insurance in a reasonable amount compatible with the rest of the market;
 - **shared responsibility:** the Company promotes gradual transition to financing of social programs, shared between employees and the Company, especially those financed by the Company above the baseline level;
 - **transparency:** the Company intends to ensure that every employee has a full understanding of the mechanisms and benefits provided by the social support programs and is capable of making informed decisions about participating in financing of such programs.
- 6.17. Benefits provided by the Company and its subsidiaries beyond those established by the law are intended to enhance the Company remuneration package in order to recruit, motivate and retain employees. The set of benefits for each employee is determined by the value of his position, the specifics of a region where the Company operates, the job, affiliation to certain groups of employees and other parameters.
- 6.18. The Company intends to use integrated approaches to remuneration, including a unified system of grades (categories) and a basic set of benefits for LUKOIL Group companies.
- 6.19. The Company intends to actively communicate the competitive advantages of the Company's remuneration system to all employees, to the labor market and other stakeholders in line with effective rules and procedures in order for better transparency and awareness of what the Company may offer.

ANNEX

Terms and Definitions

Career planning – defining the goals of the employee’s professional development and the paths leading to their achievement.

Competencies – knowledge, skills, abilities and behavioral characteristics necessary for a given position.

Corporate culture – set of guidelines, values and beliefs that support the Company in internal integration and external adaptation processes as well as regulate and stimulate behavior of employees and that dynamically transform in response.

Corporate values – corporate culture elements perceived as particularly important by the Company’s employees and as a result regulating their public conduct.

Grade (category) – group of positions similar in relative value with the same salary range.

Human capital management system – the system that integrates all phases of interaction between employees and the Company, from the engagement to the employee’s retirement and subsequent support.

Key position – position that provides for a set of duties, authorities and responsibilities that has special influence on the Company’s operations, its subsidiaries and divisions, as compared with the current position of an employee due to the scope of impact and/or the scale of consequences and risks resulting from the actions and/or failure to perform actions by an employee holding such a key position.

Leader – an employee ready to act as a messenger of change, who sets ambitious goals for himself and the others, takes on extra responsibilities and achieves outstanding results through synergy and forms added value by the efficient management of resources (human capital in the first place).

Mission – destination of the Company that distinguishes it from other similar organizations.

Motivation – mechanism designated to influence performance and efficiency of employees, that stimulates employees and groups of employees to act in a manner that facilitates achievement of the Company’s goals.

Motivation system – combination of financial and non-financial rewards that are intended to meet the needs of employees in order to induce their internal driving forces to perform efficiently and to achieve the Company goals.

Preferred employer – position of an employer on the labor market that predetermines the advantage of the employer over peers for potential applicants.

Succession management – process of identifying candidates for key positions in the Company and persistent work to develop skills required for these positions.

Superior position – position that provides for a set of duties, powers and responsibilities that has greater influence on the Company operations, its subsidiaries and divisions, as compared with the current position of an employee due to the scope of impact and/or the scale of consequences and risks resulting from actions and/or failure to perform such actions by an employee holding such a superior position.