

## MANAGEMENT APPROACH

Having a responsible and effective supply chain in place is important within our business. Hence we place a special emphasis on ensuring that our procurement practices are in line with all applicable laws and our ethical principles.

The EVRAZ Supply Directorate participates in the implementation of the Group's strategic objectives and provides commodities – machinery, materials, and services – for production and equipment upgrade programmes. The Supply Directorate, together with production facilities, identify the optimum technologies and products to purchase for production needs in order to facilitate a continuous reduction in production costs and to boost efficiency.

Since 2013 the Policy on the Basic Principles of Procurement Activities has been the main regulatory document governing procurement performance. The Policy sets out the general procurement approach and main principles and applies to all segments of the Group.

⇒ *The document is in the public domain and can be accessed by stakeholders on our official website (<http://www.evraz.com/ru/about/suppliers/policy-of-procurement/>), available only in Russian).*

In addition to a high-level Policy, the Group has in place a system of specific regulatory documents governing supply chain management, depending on the type of process and whether procurement is planned and conducted at the Management Company level or at EVRAZ segments.

### KEY EVENTS

- Redesigning the management structure under the Transformation of the Supply Chain project
- Category strategies development at segment level
- The successful implementation of Supply Chain Roadmap 2018–2020 projects

Supply chain issues are organised using a vertically integrated structure, with reporting lines in place between the Management Company and the segments. In 2018, as part of the Transformation of the Supply Chain Project, the organisational structure was reviewed and redesigned. The front, middle, and back offices were allocated at Management Company and segment level. Responsibility for strategic planning and ensuring that an effective supply chain is in place was assigned to efficiency managers at the Management Company level. All technical issues and specifications fall under the supervision of segments. A specific Project supply chain management function was set up in the reporting year, to plan and control procurement for investment projects and capital repairs.

The Urals and Siberia regions of Steel segment are fully integrated into the supply chain system, which is led by the Management Company. The Vanadium operations and Coal segment reflect the overall approach of the Group in their procurement activities. In addition, all significant issues and decisions are negotiated with the Management Company. EVRAZ has plans to integrate all segments into the Group's supply chain system.

The Group seeks to extract the maximum from existing IT systems so as to ensure a high level of transparency and efficiency when it comes to supply chain management. The main supply chain management system comprises the Electronic Trading Platform (ETP), which is based on the SAP SRM (Supplier Relationship Management). The system works as a platform for holding electronic procurement procedures for suppliers of materials and commodities, equipment, and other inventory items for production needs.

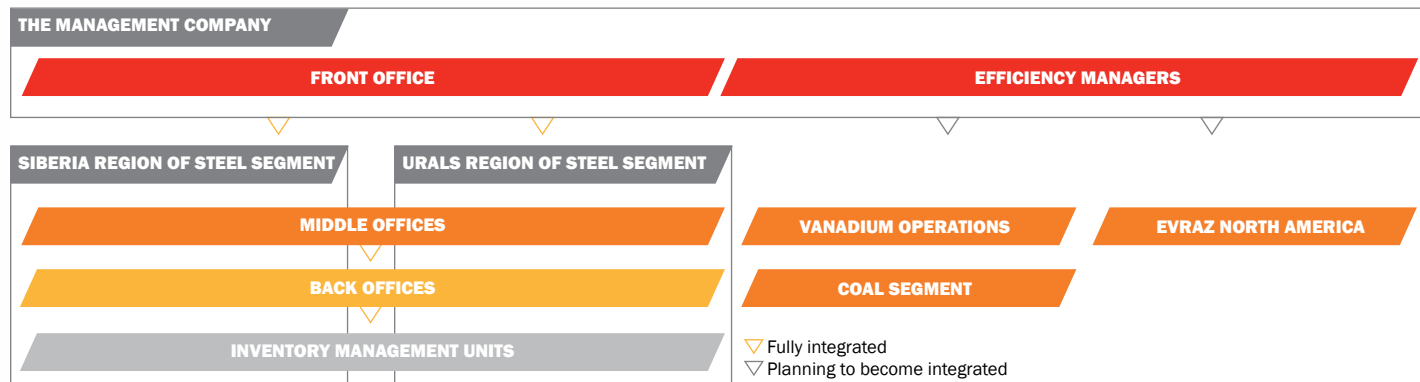
### EVRAZ PROCUREMENT PRINCIPLES

- Integrity and Partnership**
  - We act with integrity by enhancing confidence, mutual trust, and benefits among our suppliers
  - We seek to support the collaborative development and implementation of progressive technologies
- Efficiency**
  - The Group is committed to carrying out procurements in the most effective way and at the lowest possible cost, without suffering any loss in quality
- Transparency and Equality**
  - Any Russian or foreign company can become our supplier under the terms of free competition and provided that they respect all our requirements related to safety, reliability, and applicable legislation
- Maintaining Low Inventory Levels**
  - Through the optimal organisation of production and procurement processes we seek to minimise inventories while at the same placing the highest priority on safety and the continuity of the production process

### EXAMPLES OF THE MAIN REGULATORY DOCUMENTS ON PROCUREMENT ISSUES

| Document  | Scope  |
|---|--|
| Regulation on the main process of supply chain management: planning, inventory management, inventory movement, procurement management, and category management. | Management Company, Urals and Siberia regions of Steel segment               |
| Regulation on the procurement of services for Management Company needs (non-production services)  | Management Company   |
| Regulation on the process of organising and conducting the procurement of works and services  | Urals and Siberia regions of Steel segment                                   |
| Regulation on the process of organising and conducting tender procedures for major investment projects and repairs  | Management Company, Urals and Siberia regions of Steel segment, Coal segment |

## SUPPLY CHAIN ORGANISATIONAL STRUCTURE



### Supplier screening and assessment

The EVRAZ approach to assessing suppliers is based on two main types of procurement: a) category strategies, which include types of products that are expensive and critical for ensuring production stability; b) inventories outside of category strategies. In 2018 there were six category strategies at Management Company level and 20 at segment I level.

With regard to category management, the procedure for checking potential suppliers for admission to procurement procedures is performed as part of developing a category strategies in accordance with respective regulatory and administrative documents. The scope of prequalification work for a supplier is determined when developing a category strategies and consists of the following:

- Testing a supplier's competencies in terms of delivering a particular product or service
- Field inspections or supplier audits
- Checking a supplier's financial standing
- Monitoring feedback on or negative information about a supplier

Requirements related to potential suppliers during the prequalification procedure are determined by the regulatory and administrative documents of the Management Company and segments, including in relation to labour protection, industrial safety, and environmental protection.

Based on the results of the evaluation, a list of prequalified suppliers is drawn up, which is used as a basis for sending invitations to take part in a respective procurement procedure (open, closed, etc.) The list of prequalified suppliers is approved as an integral part of the corresponding category strategy.

Regarding inventory that is outside category strategies, a list of prequalified suppliers is drawn up based on a decision of the Tendering Committee. The level of procurement importance and criticality forms the basis of the decision. The list of prequalified suppliers is created as part of the category management map.

In 2018 the Urals region of Steel segment conducted 11 supplier audit checks, and the Siberia region of Steel segment – 12 audit checks.

### Responsible supply chain practices

As a major consumer of goods and services, EVRAZ can create a positive impact in terms of reducing social and environmental risks in the supply chain. The Group strives to work with suppliers that are committed to the principles of sustainable development.

Therefore, in order to facilitate responsible business practices in all supplier agreements, we include clauses expounding the Group's attitude towards human rights, including our policy of having zero tolerance towards child labour, all forms of slavery, and other issues, which are set forth in detail in the EVRAZ Code of Conduct. Under a typical contract, adherence to the EVRAZ Code of Conduct forms an integral part of contractual relationships with suppliers. Anti-corruption clauses are also included in contracts.

*For more information about our anti-corruption efforts, see p. 16-17 of the section Ethics and business conduct.*

In order to confirm that suppliers adhere to all applicable environmental legislation, we regularly conduct environmental audits of suppliers, who are selected according to the criteria of purchase costs and importance.

