

Management approach

Through responsible and efficient supply chain management EVRAZ endeavours to ensure business continuity and to support sustainable operations throughout the entire value chain. In our business practices it is very important for us that we adhere to all applicable laws and our procurement principles.

Our strategic goal is to become the leader in the mining and steelmaking industry in Russia in terms of:

- The quality of services in production facilities
- Managing procurement costs
- Procurement function maintenance costs

In order to achieve this goal we have identified the main development areas for the supply chain function graph (see graph below).

The EVRAZ supply chain is headed by the Supply Directorate at the Management Company, whose functions include incorporating strategic goals into daily activities and ensuring that the Group's segments operate smoothly. Supply chain functions in Coal segment, as well as the Ural and Siberia regions of Steel segment together create a uniform supply chain system led by the Management Company. Vanadium Operations are also supported by the Management Company regarding supply chain procedures. In the longer term, EVRAZ intends to include the integration of all enterprises into the Group's supply chain system.

The **Policy on main procurement principles**, introduced in 2013, is the main regulatory document, which sets out the general procurement approach for all Group enterprises.

The EVRAZ approach to attaining strategic procurement goals



The document is in the public domain and can be accessed by all stakeholders on our official website (<https://www.evraz.com/ru/sustainability/supply-chain/#approach-and-policies>).

During the reporting year EVRAZ updated the key functional document – Procurement Regulation – with a view to establishing a clear framework of rules for procurement procedures. It is planned that the document will be approved in 2020, and will be implemented in all business units, so that procurement processes are uniform across all segments.

In 2019, the Group expanded the range of specific regulatory documents governing supply chain management:

- The procurement decision authorisation matrix, which contains an algorithm for decision-making, was approved in October 2019
- A formal approach to savings for the Group, including setting goals based on benchmarking results

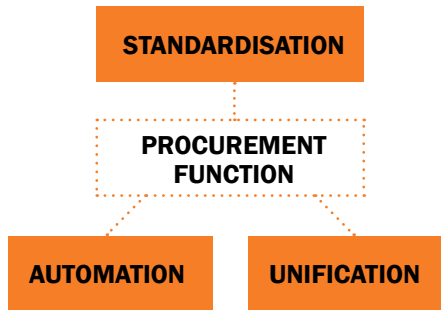
Establishing a system of integrated regulatory documents with clear requirements is an important step in enhancing the transparency of procurement processes.

EVRAZ also strives to create favourable conditions to facilitate the professional development of employees working in the procurement sphere. In the reporting period EVRAZ conducted staff assessments, and the results were used to prepare Staff Development Programmes for 2020.

SUPPLY CHAIN TRANSFORMATION RESULTS

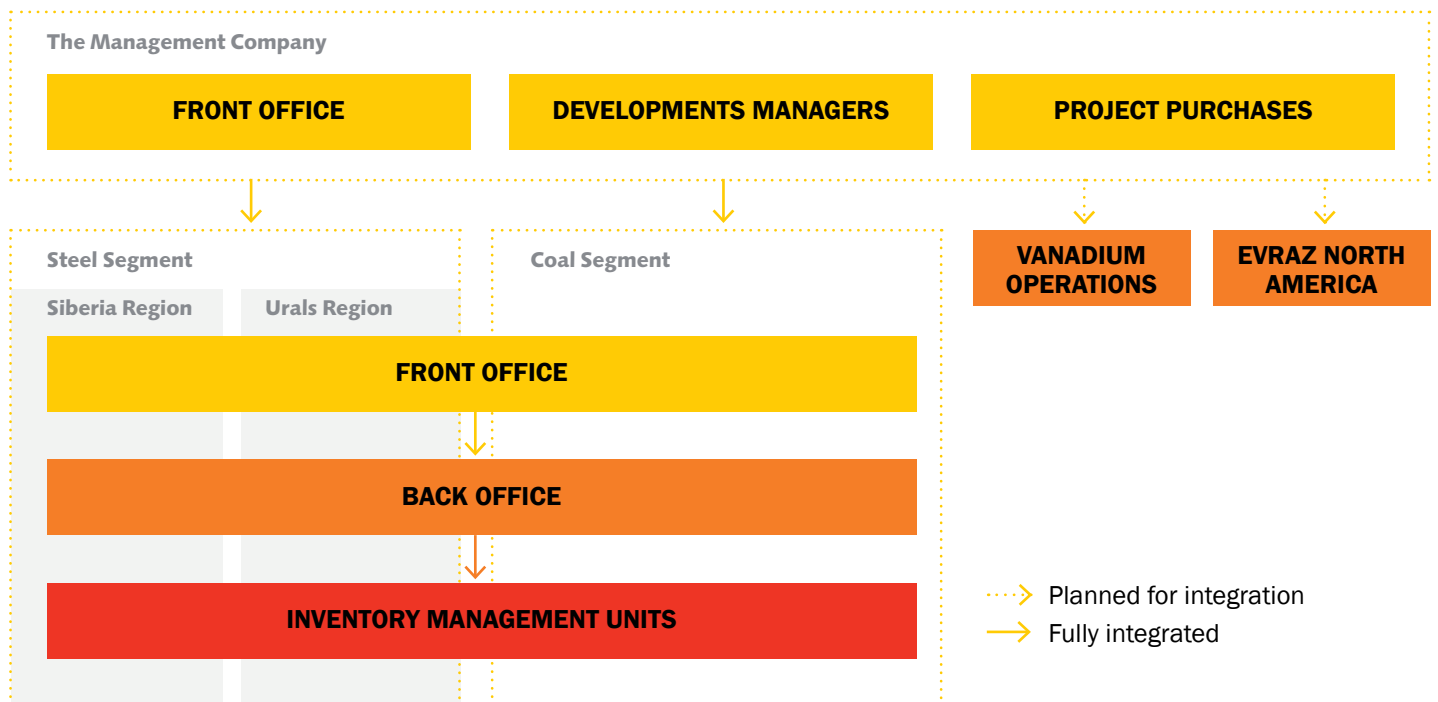
The EVRAZ supply chain transformation is based on three main pillars: standardisation, unification, and automation.

Development areas of the EVRAZ procurement function



In the reporting year, as the Group continued with the Transformation project, the vertically integrated structure of supply chain management underwent a number of changes. The new organisational model of the supply function comprises only front and back offices; the functions of previous middle offices are transferred to front offices. In 2020, we plan to continue transferring standard operation functions to back offices.

EVRAZ supply chain organisational structure update¹



In addition, the Group continued to update the allocation of responsibilities in the Group's supply chain structure: in 2019, the Coal segment, as well as the Siberia region of the Steel segment, transferred their functionality of purchasing services to the Management Company.

The Group aims to maximise the automation of procurement stages in order to ensure a high level of transparency and efficiency. In 2019, up to 80% of purchases were conducted through electronic trading platforms (ETP):

- Internal ETP, based on the SAP SRM (supplier relationship management), covering interactions with suppliers of materials and commodities, equipment, and other inventory items
- External ETP, covering interactions with suppliers of services, and overall contractor market expansion

Another important step made by the Group to establish a centralised procurement function was introducing a set of key performance indicators (KPIs) to measure the efficiency of business processes. The performance of the Group's supply departments is now calculated based on proposed indicators,

on a monthly basis for internal benchmarking purposes. Hence a competitive environment is created, and employees are encouraged to improve their own performance as well as boost the overall efficiency of functions in their respective segments.

In 2019, an external independent assessment of the Group's supply function was performed to identify areas in need of development. Based on benchmarking against the largest companies in Russia and across the globe, the maturity level of the EVRAZ procurement function was determined. Following this process a target supply function state was developed, as well as a three-year roadmap for achieving it.

¹ In the figure the position of Development managers corresponds to the position of Efficiency managers, as disclosed in Sustainability Report 2018.