

# NLMK Group - Procurement Policy

## 1. PURPOSE

NLMK Group procures goods and services from both, overseas and domestic markets. This policy reflects the NLMK Group's philosophy, values and key principles that govern the procurement process.

The purpose of this Policy is to:

- ensure consistency and control;
- provide guidance on ethical behavior;
- integrate elements of best practice;
- ensure transparency, accountability;
- Provide equal opportunity to all participating suppliers and service providers.

## 2. SCOPE

This Policy forms an integral part of the NLMK Group's procurement governance, providing a high-level framework for detailed procurement guidelines and procedures.

All employees of the NLMK Group involved in procurement activities are required to adhere to this Policy.

## 3. OUR VALUES

NLMK Group's procurement embodies the following core values in all aspects of their engagement:

- a focus on goals, objectives and results;
- an honest and transparent approach;
- a win-win attitude;
- continuous improvement;
- a make it happen attitude;
- teamwork and integrity;
- pro-activeness.

## 4. KEY PRINCIPLE

The following principles should guide all procurement activities:

- to keep safety first;
- to develop and practice highest ethical standards;
- to act fairly towards suppliers & service providers;
- to promote sustainable procurement;
- to strive for best value for money;
- to respect and maintain appropriate confidentiality;
- to monitor and improve performance continuously;
- to perform all procurement activities with integrity and in a manner to withstand the possible audit scrutiny.

## **5. GOVERNANCE**

### **5.1 Organization**

Within NLMK Group, procurement is organized to work with a mix of centralized and decentralized structure, which is led by a Central procurement team. This central team will maintain consistency in the approach to procurement across the group companies through coherent frameworks, policies and procedures.

This Centre-led procurement model is deployed to create balance between leveraging organizational scale (centralized procurement) whilst retaining flexibility in providing customized support for individual group companies (decentralized procurement).

The Procurement Heads at each company of the group are responsible for the actual procurement of goods and services in accordance with the approved policy, strategies and category plans; and must follow approved procedures and internal procurement requirements.

As part of the central procurement team the “Center of Competency” acts is accountable for the development and maintenance of the procurement framework, including setting of procurement policy, procurement processes, providing necessary tools and templates and in supporting with appropriate skill development.

Complementing the category organization within procurement, cross-functional teams are organized to support the category management with the aims of optimizing end-to-end business processes, implementing purchasing pricing approaches and etc.

### **5.2 Accountability**

Accountability means being able to explain and provide evidence on the process followed. The independent third party must be able to see clearly that a fair and just process was followed.

To ensure our accountability, we shall ensure that:

- all procurement employees must be able to account for their procurement decisions made over the lifecycle of goods and services purchased by them;
- all procurement activities should provide an audit trail for monitoring and reporting purposes.

### **5.3 Strategic Sourcing**

NLMK Group procurement has adopted Strategic sourcing as the standard method to manage its procurement activities.

We will focus on Total Cost of Ownership (TCO) incorporating internal customer needs, organizational goals, and market conditions.

In order to organize procurement resources and focus on specific areas of spends; “Category Management” approach shall be followed within procurement. This will enable category managers to focus their time on conducting in-depth market analysis and fully leverage their procurement decisions.

### **5.4 Supplier Relationship**

We recognize that our suppliers and service providers have the required expertise. Our procurement actions shall leverage this competitive advantage for mutual gains.

We support the suppliers with ISO 9001 certified quality management system. We support the development of the quality management system by suppliers to the level corresponding to ISO 9001: 2015, IAATF 16949, ISO 45001 and are ready to work together in the direction of improvements

We shall establish open and honest communication with all our suppliers & service providers based on mutual trust and respect. We shall treat all our suppliers and service providers fairly and give all of them access to the same information. We shall strive to build positive supplier relationships by:

- offering equal opportunity to all the prospective suppliers and service providers;
- protecting commercial interests of existing and potential suppliers;
- maintaining impartiality throughout the procurement process;
- making procurement decisions objectively and free from personal considerations;

### **5.5 Risk Management**

Anticipation and management of possible risks are essential to ensure reliability of procurement function. Risk Management shall be applied to the procurement activities. All procurement strategies shall consider possible risks and determine scenarios identifying risk level, potential losses and mitigation strategies for its prevention.

All procurement employees shall be responsible to ensure that risks in their area of responsibility are understood and managed properly.

### **5.6 Contract Management**

Contract Management principals shall be followed to ensure that we receive goods & services of the required quality and quantity. It implies to establish monitoring and compliance of responsibilities and obligations under the contract related to both the parties. All our contracts shall clearly define:

- rules of cooperation that are to be followed by all the involved parties;
- commitments, KPI/SLA, obligations and scope of interaction;
- other clauses to minimize risks to NLMK Group.

As the commitment formulated in a signed contract is a legal binding and might lead to legal issues, it is mandatory to follow the established "Contract Management" process. The Process must ensure verification of contract formulations, minimization of legal, financial, taxes and penalties, fraud, supply chain and other business risks.

Reference: Contract Management Process

### **5.7 Delegation of Authority**

Only procurement employees with proper authorization shall commit expenditures to the external suppliers and service providers. The internal company regulations shall clearly define authority limits of the empowered employees at all the management levels.

### **5.8 Confidentiality**

Procurement employees deal with sensitive information while performing their job and its inappropriate disclosure might cause damage to the reputation of NLMK Group or to its business.

All procurement employees are expected to take reasonable steps to protect confidential information received by them or which they might have access to.

Confidentiality of information provided by existing and prospective suppliers and service providers must be maintained at all times, particularly commercially sensitive information such as, but not limited to, prices, discounts and costs associated with NLMK's production, maintenance etc.

## **5.9 Sustainability**

NLMK Group procurement is committed to procuring goods and services that ensure the least impact on society and environment throughout its life cycle. Whilst a key element in NLMK Group's procurement is the achievement of value for money, buyers and end-users shall play an important role in meeting sustainable development objectives through the development and use of goods and services, which are environmentally preferable. We shall, wherever possible, take account of relevant sustainable procurement objectives when buying goods and services.

As part of our commitment, we shall put all our efforts to utilize any of the waste generated due to procurement decisions. If in case there is any waste, it should be disposed of in a manner that minimizes risk to the environment and health.

Our key considerations are:

- collaborate with suppliers and service providers who demonstrate a commitment to sustainability;
- conserve resources, particularly those which are scarce or non-renewable;
- reduce waste through re-use and recycling and by using refurbished and recycled products and materials whenever possible.

Within Procurement, we will:

- use environment friendly products in the office;
- use energy as efficiently as possible;
- re-use and recycle materials wherever possible.

## **5.10 People**

To ensure that we achieve the best value, all procurement employees, are required to have an appropriate level of experience and expertise. The "Competency Center" will support in assessing, monitoring and developing procurement skills within the NLMK Group.

To cultivate a culture that inspires, improves and empowers people, NLMK Group encourages appropriate development of its procurement employees through self-learning & individual personal development plans.

## **5.11 Performance Measures and Continuous Improvement**

Key Performance Indicators (KPI) and reporting systems will be used to monitor and control performance of suppliers, effective working of procurement employees and compliance with procurement policies and procedures. The performance measurements and reports will assist us to:

- monitor trends and exceptions where necessary to enhance performance;
- drive improvement to eliminate waste and inefficiencies from the procurement processes;
- effectively manage suppliers and add value.

## 6. DEFINITIONS

**Procurement activity** – any kind of activity, which is a part of process leading to procurement of goods and services.

**NLMK Group** – all the subsidiaries of the NLMK Group, and all the companies where NLMK Group has direct management control.

**Procurement employees** – all the employees of procurement function at any NLMK Group company.

**Contract Management** - the process of managing contract creation, execution and analysis to maximize operational and financial performance while reducing related risks.

**Authorization level** – the limits of officially given power to commit expenditures for procuring goods and services.

Vice-President of procurement  
Khebnev A.V

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