

SUPPLY CHAIN MANAGEMENT

RESPONSIVE AND RESILIENT

In a year that fundamentally uprooted Metinvest's logistics and supply routes, the Group was forced to re-orient commercial flows and adjust the supply chain.

APPROACH AND ADAPTATION

GRI 2-6; 3-3

Metinvest's supply management is based on a responsible approach to compliance with applicable legislation. Its supply chain encompasses the purchase of raw materials, goods and services, as well as the procurement, production, marketing and distribution processes. The Group has a procurement management system in place to govern functions such as supplier selection, contract administration, shipment monitoring and product quality control.

In 2022, Metinvest faced wartime business realities, which resulted in the disruption of the supply chains. The blockade and occupation of Ukrainian seaports and the limited capacity of western railway border crossings created transportation bottlenecks. Damage to power infrastructure led to periodic blackouts throughout Ukraine, affecting the Group's operations.

Also, following the full-scale invasion, some suppliers in Ukraine had to evacuate or otherwise suspend operations. As a result, Metinvest has had to look for alternative supply options, including imports.

One way that Metinvest adapted was by reorganising part of its procurement and logistics functions at the Group management level to fall under the operational control of

the new Commercial Directorate headed by the Commercial Director. It combines the Group's sales and procurement functions, managing strategic purchases, including raw materials, fuel and energy with the logistics services. Purchases of other key products are overseen by the Operations Directorate under the control of the Chief Operations Officer. Other directorates are responsible for procuring products and services related to their functions.

Nonetheless, the organisational structure at the entity level of the production assets remains unchanged. Each asset has a planning and analysis service, as well as procurement, supply and warehousing functions. The supply departments of the iron ore assets have been a part of the shared service centre since 2021 to integrate their day-to-day procurement operations.

To ensure compliance with its governing principles, Metinvest conducts audits to monitor and evaluate performance in this area. In 2022, the Internal Audit Directorate audited the Group's subsidiaries in Italy, Bulgaria and the UK to evaluate their procurement controls. The results confirmed that a resilient procurement process was in place, while recommendations were made for further improvements.

PROCUREMENT PRACTICES

GRI 3-3; 205-2

The Group's Code of Business Partnership seeks to establish fair commercial relationships by setting clear compliance standards with sustainable practices and business requirements for existing and potential suppliers. Its key principles are respect and focus on cooperation, occupational health and safety, environmental protection, information confidentiality, compliance with the law and the Code of Ethics, as well as social responsibility.

Metinvest's Procurement Policy and Regulation on Procurement Management guide the internal procedures related to this area. The Procurement Policy is based on the principles of ethical business conduct, free competition among suppliers, information transparency, partnership, economic feasibility and efficiency, and prioritisation of direct producers. The Regulation on Procurement Management covers requirements for supplier verification, tender participants' rights and obligations, and business rules, among other matters.

In addition, the Group adopted a new Procedure for Procurement of Materials and Resources in January 2022. Intended to strengthen oversight of the planning, procurement and supply of materials, it has also helped to cope with the reality of conducting business during the war.

SUPPLIER SELECTION

GRI 2-24; 308-1; 308-2; 414-1; 414-2

Metinvest strives to promote sustainable supply chain management practices and expects its suppliers and business partners to share the same values. The Code of Ethics and Code of Business Partnership outline the Group's expectations for compliance with health, safety and environmental regulations, as well as its zero-tolerance policy towards workplace violence, forced labour and discrimination.

Metinvest requires its suppliers to adhere to all applicable laws, including those that address child labour, minimum living wages, maximum working hours, freedom of association and the right to collective bargaining for their employees.

To ensure fair and transparent procurement processes, a Tender Committee consisting of at least three members from different departments evaluates all offers received based on approved criteria such as price, quality, delivery and payment terms. The Group publishes information about major future tenders on its website a minimum of three days in advance and uses the SAP Ariba digital solution to facilitate secure and efficient communication with bidders.

Metinvest strives to create long-lasting partnerships with its suppliers and business partners while ensuring the highest standards of ethical conduct.

The Group uses pre-contract and pre-qualification procedures to identify potential partnership risks. It also checks suppliers of services related to hazardous work to comply with health and safety requirements and verify that they have the necessary qualifications and licences.

Metinvest reserves the authority to disqualify suppliers for a specified period or indefinitely if they engage in unfair business practices with its companies. The disqualification criteria are available on the Group's website. The Group informs counterparties of the reasons and terms of their disqualification to give them the opportunity to receive feedback and improve their corporate governance as necessary.

In 2022, Metinvest conducted over 8,000 pre-contract assessments and more than 4,000 pre-qualification reviews. Through these processes, it selected 375 new suppliers and disqualified nearly 100 candidates.

The Group also conducts screenings of suppliers and their products to prevent or mitigate corruption risks and non-compliance with international obligations and sanctions. Suppliers which have not passed the compliance screenings are not eligible to participate in the procurement process.

LOGISTICS MANAGEMENT

Metinvest-Shipping manages the logistics function for the Group. It oversees all cargo transport, from rail to port operations, while the executive team coordinates strategic decisions. In 2022, Metinvest reorganised the logistics function to operate under the umbrella of the new Commercial Directorate. This change was intended to ensure expeditious management and consolidation, improve communication and help with the reorientation to new markets. The Group's logistics practices continued to be guided by the key priorities of cost optimisation, risk management, and the development of internal services and competencies.

The full-scale military invasion of Ukraine led to a blockade of crucial seaports in the country. A portion of the Group's fleet of gondola cars and specialised railcars was also blocked in temporarily occupied territory. Railway transportation connection capacity with Western countries has been insufficient to replace seaborne throughput. The reorientation of export deliveries from Ukraine towards the western border crossings has been slowed both by long-standing infrastructure constraints and war-related bottlenecks.

As a result of the Russian Aggression, several vessels with Metinvest products were blocked in Ukrainian ports. In particular, the aggressor state stole goods in the occupied port of Mariupol. In ports that remained under Ukrainian government control, Metinvest arranged a lengthy and complicated unblocking process. This included the discharge and transfer of goods by rail to the ports of the EU for onward shipment to customers. Some of these goods still remain blocked due to legal procedures and other issues.

Despite these challenges, the Group strives to maintain its operations by ensuring the delivery of products to its customers and raw materials to its production assets. In 2022, Metinvest arranged new logistics routes through the EU's northern and southern ports to export its products. In Ukraine, certain volumes were arranged through the port of Izmail, which is located on the Danube river. Also, the number of terminals available for cargo transshipment in the ports of the EU countries was expanded. The Group's sales offices in Poland and Romania hired new staff responsible for logistics in Europe. Metinvest also contributed to making these extended transport routes more accessible. In particular, specific equipment was acquired for pig iron transshipment at Polish ports.

During the reporting period, Metinvest implemented several initiatives to enhance the quality of shipments. Metinvest-Shipping implemented SAP to integrate its business processes with the assets, creating a platform that can be extended in the future to overseas assets and customers. Other projects included improved internal guidelines and audit inspections to verify the quality of transshipment facilities, optimising transportation times while ensuring products are not contaminated with foreign materials.

