

# SUPPLY CHAIN



## Metinvest sales offices

- |                        |                        |                       |
|------------------------|------------------------|-----------------------|
| 1 China                | 8 Bulgaria (3 offices) | 15 Belgium            |
| 2 United Arab Emirates | 9 Romania              | 16 Spain              |
| 3 Russia (11 offices)  | 10 Poland              | 17 United Kingdom     |
| 4 Lebanon              | 11 Italy (3 offices)   | 18 Dominican Republic |
| 5 Turkey               | 12 Germany (2 offices) | 19 Singapore          |
| 6 Ukraine (12 offices) | 13 Switzerland         |                       |
| 7 Belarus              | 14 Tunisia             |                       |

→  
Sea delivery routes

## WE ARE METINVEST

### SUPPLY CHAIN CONTINUED

#### GRI 102-9

Metinvest's supply chain reflects upstream and downstream flows of materials, goods and services, covering processes such as procurement, manufacturing, marketing and distribution. The geography of the Group's supply chain encompasses both Ukraine and international markets.

#### GRI 204-1

More than 80% of raw materials, goods and services were purchased from local suppliers.

According to Metinvest's organisational model, the supply chain is managed by the Logistics and Procurement Directorate. The directorate's main responsibilities are to ensure seamless, efficient and sustainable supply of high-quality materials, goods, equipment and services at the best possible prices; to provide prompt delivery for end users while maintaining optimal stock levels; as well as to meet the Group's standards and customers' expectations.

#### RESPONSIBLE PROCUREMENT

One major aspect of supply chain management is procurement, which we believe should be as responsible and sustainable as possible. For this reason, Metinvest seeks to create a procurement process that considers environmental, social and ethical factors whenever a purchase decision is made.

Metinvest's Logistics and Procurement Directorate is responsible for the procurement process. The main responsibilities of the directorate include establishing and enforcing unified procurement methodologies and policies at Metinvest; coordinating the development, implementation and maintenance of category procurement strategies; maintaining long-term and mutually beneficial supplier relations based on our procurement principles; systematically increasing the effectiveness

of the procurement process by reducing the total cost of ownership of purchased materials, equipment, goods and services while maintaining supply chain reliability; and integrating sustainability principles into supply chain management at the Group. The procurement function adopts set of performance indicators that help to make informed decisions and significantly reduce the time needed to handle bidding and supplier acceptance procedures.

#### GRI 103-2

In 2019, a unified organisational structure for the directorate was introduced at each individual Metinvest asset. This new structure consists of four separate units: a Supply Planning and Analysis Service, a Supply Service, a Procurement Service and a Central Warehouse unit. The calibration of this organisational structure across all business units has allowed us to manage our supply chain more efficiently by concentrating competencies at each asset, consolidating processes, sharing responsibility at each stage and establishing independent control points.

Metinvest has a Procurement Policy, as well as procedures and controls that lay out the key principles, goals and objectives of the procurement process. These tools allow for the effective management of vendor relations. The procurement management system covers processes such as supplier selection (including pre-qualification and pre-contract assessment procedures), value analysis, offer solicitation, contract administration, shipment monitoring and procurement quality control.

#### KEY PROCUREMENT PRINCIPLES:

- Ethical business conduct: Group personnel, as well as new and existing suppliers, must be aware of, and abide by, Metinvest's Code of Ethics.
- Free competition among suppliers: this entails equality, fairness, non-discrimination, as well as the absence of unreasonable restrictions on competition in relation to existing and potential suppliers.
- Information transparency: suppliers may familiarise themselves with the existing procurement procedures of the Group, such as supplier selection, pre-qualification and disqualification, and receive information on future purchases on the Metinvest website.
- Economic feasibility and efficiency of procurement: the Group spends procurement funds in a targeted and cost-effective way, which involves acquiring high-quality, necessary materials and services at the best possible price.

#### GRI 103-3

Metinvest not only sets these principles, it also follows them, which is evident based on its recent internal audit results. In 2019, SCM conducted an audit of purchases in significant categories representing a share of 82% of the total amount of purchases. Both the Group's internal control environment and risk management system were assessed. Metinvest's procurement function was found to have a laudable level of automation, segregation of duties, sound decision-making at the top management level and delegation of duties, and was confirmed compliant with the underlying principles of the Procurement Policy. The audit also assessed the independence of the procurement function and identified no conflicts of interest among key staff.

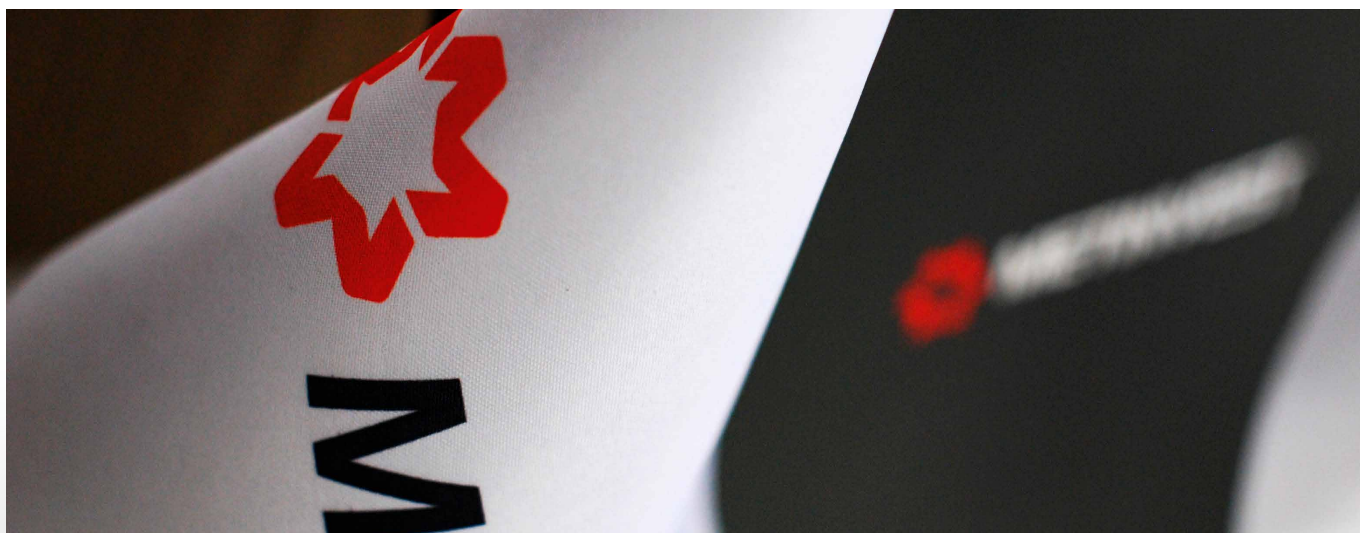


## TECHNICAL SOLUTIONS FOR PROCUREMENT

In line with its strategic focus on process optimisation, the Group is introducing various convenient tools and services that make vendor relations more seamless and transparent. To foster a competitive environment and encourage timely supplier information for future purchases, we use a Procurement Calendar, which is available on the Metinvest website. In 2019, approximately 6,000 future purchases were posted in the Procurement Calendar. The Group also uses SAP Ariba Sourcing Trading System

(STS), a digital commerce solution, which allows for competitive supplier selection by facilitating rapid and reliable online information exchanges with bidders. In 2019, we also implemented the SAP Ariba Supplier Lifecycle Performance (SLP) system for supplier registration and pre-qualification. The new solution increases the usability and efficiency of the initial stages of the procurement process. Both SAP Ariba SLP and SAP Ariba STS are integrated with SAP Enterprise Resource Planning (ERP), a resource planning system deployed at the Group's 10 assets as of the end of 2019.

To ensure that SAP Ariba STS adds value to the procurement process, we conducted two surveys among our suppliers in 2019, which were spaced four months apart, to collect feedback regarding the continuous user experience. The second survey showed a 6% increase in user satisfaction. A total of 44 suppliers surveyed mentioned the increased transparency at each stage of the procurement process for both parties, the versatile functionality and the time-efficiency of the system.



## BLOCKCHAIN TECHNOLOGY FOR PROCUREMENT

Emerging blockchain technologies can lead to positive changes in procurement practices by bringing about unprecedented levels of transparency and traceability. In 2019, Metinvest tested the grounds and completed its first transaction through we.trade, a blockchain platform for

trade financing supported by UniCredit Bank. The solution can be used to manage dispersed transactions across multiple network nodes. In line with its digital transformation goals, Metinvest is in the process of exploring and testing various solutions that offer convenient and secure payment terms.

**“SUCH TRANSACTIONS DEMONSTRATE THE GROUP’S WILLINGNESS TO WORK IN A TRUST-BASED ENVIRONMENT THAT HARNESSES SECURE TECHNOLOGY, IMPROVED RISK MITIGATION AND ENHANCED VISIBILITY.”**

**Jamilya Baimukhambetova,  
Head of Corporate Finance at the  
European Re-rolling Business Unit**

## WE ARE METINVEST

### SUPPLY CHAIN CONTINUED

#### SUPPLIER RELATIONS

Metinvest applies a competitive and transparent tender procedure that evaluates proposals for compliance with specified procurement parameters. Information on major future tenders is published on the Group's website at least three days in advance. The Tender Committee, which consists of at least three members from different departments, considers certain approved criteria, including price, quality, delivery and payment terms, and guarantees. Fast and high-quality online exchange of information with bidders is secured by the SAP Ariba digital commerce solution, which the Group embeds to administrate competitive supplier selection.

Pre-qualification and pre-contract assessments, conducted in line with the corporate Counterparty Risk Management Regulation, are major screening procedures applied by Metinvest to potential vendors. As per the regulation, the Group retains the right to disqualify suppliers from bidding – either for a specified period or indefinitely – should any unfair business conduct be revealed. In 2019, around 60 suppliers were disqualified. We strive to guarantee the transparency of the bidding process and make up-to-date disqualification criteria available on the Group's official website in a timely manner. Metinvest also individually informs disqualified bidders about the reasons for their disqualification, allowing them to undertake corrective actions. Disqualified suppliers have an option to file a complaint to the Group Appeal Committee (can be reached at [appeal@metinvestholding.com](mailto:appeal@metinvestholding.com)) about the actions (or inaction) of the Tender Committee or procurement personnel in case of disagreements over the pre-qualification or bidding results.

All existing suppliers are subject to regular screening, including daily screening against up-to-date international and other sanctions lists. When an infringement is identified, the supplier is blocked in the SAP systems and no transactions with them can be completed. Compliance audits are also conducted for each new supplier.

Using responsible supplier relations management, our objective is to ensure that suppliers and contractors share the Group's business standards and uphold principles of responsible social and environmental behaviour, which are codified in the Group's policies and procedures on supplier selection<sup>7</sup>. All suppliers must familiarise themselves with the Code of Ethics and agree to comply with its provisions before obtaining pre-qualification. As a part of our commitment to ensure open dialogue and responsiveness, Metinvest welcomes queries via the Trust Line. Suppliers who wish to report a violation of the Code of Ethics can do so either by sending an email to [trustline@scm.com.ua](mailto:trustline@scm.com.ua), submitting an electronic form via <https://www.scm.com.cy/trust-line>, or dialling 0800 60 07 00 (within Ukraine) or +38 044 224 72 32 (internationally).

#### LOGISTICS AT METINVEST

Metinvest's logistics function is focused on the safety and quality of products in the supply chain, as well as their timely and efficient delivery to customers, which helps to position the Group as a reliable partner.

To make sure that delivery schedules are not disrupted due to ineffective oversight or pressing circumstances, Metinvest's Logistics and Procurement Directorate constantly tracks product flows and applies a flexible approach to managing shipments. In 2019, restrictions on railway and seaport infrastructure in Ukraine, as well as a 14.2% railway tariff hike in the country, were among major external challenges affecting deliveries and their costs. The Group overcame these issues by cooperating with Ukrainian Railways and rolling stock operators, as well as enhancing sea shipping opportunities. Additionally, Metinvest has introduced several IT solutions to improve road shipping, such as the SAP Ariba module for regular shipments, and has automated the selection of automobile freight companies for one-time shipments. To reduce order processing times, the Group switched to electronic document workflow and partnered with Ukraine's Ministry of Infrastructure to pilot e-CRM at Metinvest-Shipping, the Group's key asset for operating shipments.

Taking a strategic approach towards logistics operations, Metinvest owns over 3,000 gondola railcars and more than 1,000 specialised railcars for the transportation of coke, pellets, and chemical products. Through Metinvest-Shipping, the leading freight carrier in Ukraine, the Group manages a range of shipment services, from railway carriage to port operations. All structural subdivisions of Metinvest-Shipping are certified under the ISO 9001:2008/Cor 1:2009 standard



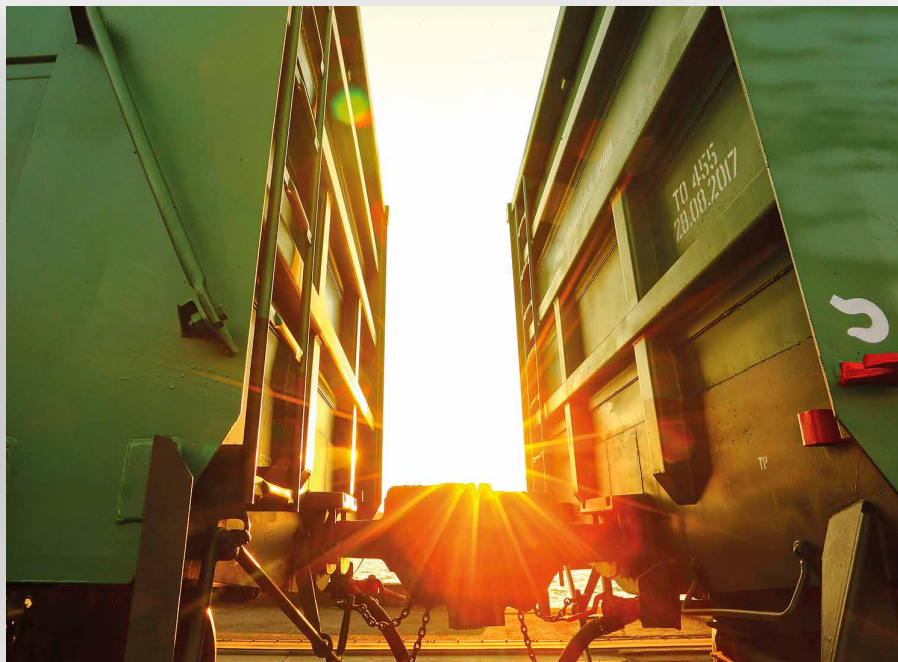
<sup>7</sup> Policies and procedures on supplier selection refer to a set of documents that regulate the process of supplier selection, including the Procurement Policy, the Counterparty Risk Management Regulation and other related documents.

### FORWARDER OF THE YEAR

In 2019, Metinvest-Shipping placed first in the “Forwarder of the Year” category of the 13th National Maritime Ranking of Ukraine, maintaining its top position for the fifth year in a row. Metinvest-Shipping became the absolute leader in the number of bulk cargo shipments through Ukraine’s seaports and terminals, with the volume of freight forwarded surpassing 32 million tonnes in 2019, a greater number than the combined volume shipped by four runners-up.

and have confirmed compliance with the national Provision of Cargo Transportation Services by Railways.

In addition to optimising shipments, several solutions were deployed during the reporting period to improve warehouse logistics focusing on replacing offline procedures with digital management tools. At the end of 2019, Metinvest-SMC introduced a single format for product labelling to enable online dispatching and acceptance. The company also continued optimising logistical processes of service metal centres by introducing new pricing tools, which should improve customer service standards. In 2020, Metinvest-SMC plans to introduce an electronic warehouse map and pilot an electronic queue service.



## EFFICIENT LOGISTICS

In 2019, Metinvest-SMC opened Ukraine’s largest distribution centre in Dnipro with storage capacity for 40,000 tonnes of steel goods and six cranes for on-site logistics. The centre will be able to ship up to 2,400 tonnes of goods by truck and up to 1,800 tonnes by rail every day.

The new centre helped to increase the efficiency of Metinvest-SMC’s logistics, doubling the number of its contractors and tripling the number of direct carriers. Additional efficiency gains were made by shortening the time needed to find a truck, which now takes just one day.

**“WE HAVE CONSOLIDATED OUR RESERVE STOCK THERE. WE CAN KEEP MORE NICHE PRODUCTS IN THE WAREHOUSE WITHOUT FEAR OF LONG TURNOVERS OR INEFFICIENT LOGISTICS.”**

Igor Tonev, General Director of Metinvest-SMC