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Procurement

All materials and equipment procurement activities are based on the regulated purchase procedures and policies and are in full compliance with Federal Law No. 223-FZ On Procurement of Goods, Work and Services By Certain Types of Legal Entities dated 18 July 2011.

In 2016, the Company signed approximately five thousand contracts for centralised procurement of materials and equipment, which totalled around USD 1.6 bn and covered about 99% of its materials and equipment needs. During the reporting period, around 40% of materials and equipment were purchased based on category procurement policies.

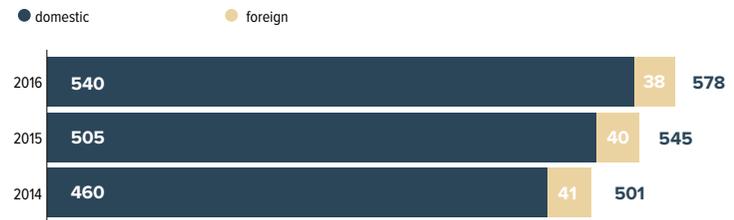
Given the key role of domestic suppliers, the Company pays great attention to fostering ties with reliable Russian businesses. International suppliers are mainly engaged for delivering unique equipment or systems that do not currently have Russian alternatives.

As at the end of 2016, domestic suppliers outnumbered foreign ones by 14 to 1, and their total amount in the procurement system increased by 7% against the previous year, while foreign suppliers saw a minor decline in numbers.

The Company's Tender Committee and tender commissions, which handle larger purchases, carried out procurement procedures for a total of over USD 750 mln. They also oversaw tender procedures of the Company's branches and subsidiaries in Russia to purchase services for over USD 200 mln.

The Company's Tender Committee focuses on improving the procedures for identifying reliable suppliers of quality products at a fair market value. In 2016, the Company secured the purchase of the required equipment and materials with a total price decrease of 5%, which is lower than the industry indices and the data by the Federal State Statistics Service of Russia. The year saw continued efforts aimed at expanding and improving the participant pool of procurement procedures. The procedures are now more open and transparent, among other things thanks to trading at open e-commerce platforms such as Fabrikant and B2B-Center. As a result, over 65% of new contracts were signed directly with producers or with their trading companies.

Number of the Company's suppliers and contractors



PROCUREMENT PROCESS IMPROVEMENT

The unified methodology centre led the ongoing efforts focused on developing and implementing guidelines on procurement processes. The Company also worked on harmonising the regulatory procurement framework across its Russian subsidiaries and branches, including services procurement.

The Company pilot-tested a SAP SRM/SLC-based automated system for supplier relationship management, which helped improve the transparency and competitiveness of the procurement procedures.

MATERIALS AND EQUIPMENT INVENTORY MANAGEMENT

In 2016, the Company's inventory management remained focused on stock cuts and improvements in the stock structure and turnover. As a result, inventory volumes decreased by 5% to USD 1,120 mln on the back of better requirements planning by internal customers and material and technical procurement units at production sites, improved inventory monitoring and controls, and the introduction of standardised inventory levels by category.

ANTI-CORRUPTION POLICY

As part of its anti-corruption initiatives, the Company has formulated a standard anti-corruption clause to be included in contracts with counterparties. In addition, in 2016 the Company continued to work on improving counterparty due diligence procedures. Before signing a contract, the Corporate Security Unit evaluates the business reputation, reliability and solvency of potential counterparties.