

POLICY

Moscow

APPROVED


by Order No. 25, dated April 03, 2013

**On the Basic Principles of
Procurement Activities****1. GENERAL PROVISIONS**

- 1.1. This Policy establishes the basic principles and provisions of EvrazHolding (hereinafter - the Company) procurement activities applicable to all enterprises where the Company exercises the authority of the sole executive body (hereinafter - the operated enterprises).
- 1.2. The main purpose of procurement is acquisition and timely delivery of the necessary commodities and materials (hereinafter - CM) and services of proper quality at the lowest price.
- 1.3. Together with the production departments of the operated enterprises, the department of the Procurement Director of the Company and the Procurement Direction / Office of the operated enterprises shall determine the optimal technologies, products and suppliers to meet the requirements of the operated enterprises for commodities and materials in order to continuously reduce production costs.
- 1.4. By constantly improving business processes and studying the best world practices, the Company strives to achieve the minimum total cost of ownership of inventory and minimize the cost of consumed services.
- 1.5. To achieve its goals, the Company considers the development of skills and abilities of business leaders and specialists responsible for each sector of procurement at the production sites and directly at procurement services a priority.

2. BASIC PRINCIPLES OF PROCUREMENT ACTIVITIES

- 2.1. Principle of honesty and partnership.
 - 2.1.1. In conducting its business, the Company acts openly and transparently, building confidence and winning the respect of suppliers.
 - 2.1.2. The Company strives to build its relations with suppliers on a long-term and mutually beneficial basis, on transparent conditions, in a trusting atmosphere and on the principles of partnership.
 - 2.1.3. The Company strives to establish integrated and mutually beneficial relations with suppliers by arranging joint development and support for the introduction of advanced technologies in production processes.
- 2.2. Principle of cost saving.

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- 2.2.1. The Company strives to build relations with suppliers depending on the total cost of procured commodities and materials to minimize the cost of financial and business activities, determining the most efficient procurement strategy for each group of items.
 - 2.2.2. The Company strives to implement procurement procedures in the most optimal and efficient ways at the lowest possible costs.
 - 2.3. Principle of openness and equality.
 - 2.3.1. Any Russian or foreign company can become a supplier of the Company on conditions of free competition and subject to meeting the requirements of the Company to the supplier in terms of transactions reliability and security.
 - 2.4. Principle of minimizing the stock of commodities and materials.
 - 2.4.1. Due to the optimal organization of production and supply processes, the Company strives to minimize the stock of commodities and materials giving absolute priority to safety and continuity of the technological process.

3. MAIN APPROACHES TO PROCUREMENT MANAGEMENT

- 3.1. Centralization / decentralization of procurement.
 - 3.1.1. The Company strives to centralize all procurement where creation of synergies among all operated enterprises is possible and economically justified. The Company strives to benefit from procurement synergies at the level of all operated enterprises.
 - 3.1.2. The Company strives to decentralize as much as possible (transfer to the level of operated enterprises) all procurement with insignificant economic effect from possible synergies, as well as procurement necessary to eliminate production emergencies.
- 3.2. Procurement of commodities and materials for regular consumption.
 - 3.2.1. The Company strives to purchase commodities and materials that are characterized by stable and regular pattern of consumption, minor fluctuations in their consumption and high forecast accuracy on a request-free basis. The list of such commodities and materials is determined in close cooperation with the consuming departments and is constantly updated.
- 3.3. Segregation of responsibility for the created stock of commodities and materials.
 - 3.3.1. In order to minimize the level of stock, the Company uses the principle of segregation of responsibility for formation of low-turnover stocks between the units requesting the requirement and procurement services. The responsibility is implemented through the establishment and control of KPI

by the responsible units.

3.4. Standardization and unification of business processes.

3.4.1. The Company shall ensure maximum transparency of activities at all stages of the procurement process from stating the requirement to the products delivery. The Company strives to achieve unification of regulatory documentation, which determines the procurement procedure among the operated enterprises, unification of the procurement organizational structures, as well as creation of uniform procurement standards.

3.4.2. The Company strives to maximize the use of existing IT-systems to ensure transparency and efficiency of procurement. The Company strives to reduce paperwork in the procurement process.

3.5. Constant interaction between the departments stating the requirements and procurement services.

3.5.1. Due to the constant interaction between the departments stating the requirements and procurement services, the Company achieves delivery accuracy and timeliness. The Company strives to build business processes aimed at ensuring optimum quality and correct selection of the supply source.

3.6. Principles of planning.

3.6.1. The Company is committed to the formation of requests and budgeting of procurement on the principle of rolling planning for one and more reporting period (year) ahead with monthly adjustment of plans.

3.7. Performance monitoring.

3.7.1. The Company intends to measure the performance of procurement by establishing a balanced system of key performance indicators for the employees of production departments and procurement services.

3.8. Management of risks


3.8.1. The Company assesses the risks of the procurement process, identifying the types and cost of losses, as well as the probability of their occurrence.

3.8.2. The Company pays special attention to assessing the risks of working with suppliers, analyzing them for financial stability and long-term capabilities, evaluates its dependence on certain sources of supply, and also plans action in unforeseen circumstances.

4. STAFF POLICY OF THE PROCUREMENT VICE PRESIDENT

4.1. The Company builds personnel management on the principle of partnership, which means the reciprocity of the requirements and obligations of the employees and the Company.

4.2. The Company strives to ensure that its employees are only the best

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professionals from Russia and abroad. Proactive, energetic and highly educated people are the most valuable asset of the Company.

- 4.3. The Company sets high requirements for its employees and strives to create all conditions for its employees to develop their potential and implement their professional ambitions. The Company is interested in the motivation of each employee for professional growth and achievement of the tasks faced by the department and the Company.