

Procurement



90%

Share of centralised materials and equipment procurement in the needs claimed for 2015

221%

Y-o-y growth in procurement volumes reserved to the remit of the Head Office's collegial tender bodies

Performance against key targets of the procurement roadmap in 2015.

- Approved procurement policies for TOP 16 materials and equipment categories, and switched to procurement based on category policies
- Put into effect an updated Regulation on the Company's Tender Committee
- Put in place a Procedure for Emergency and Urgent Procurement of Materials and Equipment
- Implemented an IT project involving the development of a corporate data warehouse (CDW) for the Company's Sales, Commerce and Logistics
- Commenced the implementation of a SAP SRM/SLC—based automated system to manage supplier relations
- The Tender Management Department started to oversee procurement of the most material production-related works and services in the Company's branches and subsidiaries

Centralised procurement

In 2015, centralised procurement totalled around USD 2 bn, covering 89.8% of the materials and equipment needs.

All procurement activities are based on the regulated purchase procedures 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.

Tender committee and tender commissions, which handle larger purchases, carried out tender procedures for a total amount of over USD 600 m. Tenders organised and held by the centralised tender procedure function, which is the competence centre also responsible for ensuring the correct tender procedure

Notwithstanding the unfavourable pricing environment caused by the rouble depreciation and the weakening of the Russian economy, the procurement function was generally able to boost purchasing efficiency and combat price increases, securing the purchase of the required equipment and materials with a total price rise of 13%, which is lower than the industry index increases and the Federal State Statistics Service of Russia values, and below the upticks of the contracts' primary currencies. The improved performance is attributable to the enhanced competence of the centralised procurement function team and the successful development and implementation of procurement policies by product category.

The year saw continued efforts aimed at expanding and improving the participant pool of procurement procedures, as well as increasing their openness and transparency, which included 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.

Procurement process improvement

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

The Company started the implementation of a SAP SRM/SLC—based automated system for supplier relationship management, which is expected to boost the transparency and competitiveness of the procurement procedures.

Inventory management

In 2015, the Company's inventory management operations continued focusing on stock cuts, improvements in stock structure and turnover, and reduction of warehouse storage time. As a result, in 2015, the inventory decreased by USD 56 m to USD 494 m.

The results came on the back of better requirements planning by internal customers and material and technical procurement units at production sites, inventory monitoring and controls improvements, and introduction of standardised inventory levels by category.