

PROCUREMENT ACTIVITIES

Procurement management

To support its activities, RusHydro Group buys a large number of works, services and products from third parties. RusHydro Group approved a number of local normative documents (acts) aimed at preventing non-targeted and inefficient use of funds.

The company's activities in the field of procurement are regulated by the requirements of the RF legislation, in particular, the requirements of the federal law of July 18, 2011 No. 223-FL "About procurement of goods, works, services by separate types of legal entities", as well as Regulations on the procurement of products for the needs of PJSC RusHydro (approved in a new version by the decision of the Board of Directors of PJSC RusHydro dated June 23, 2016 No. 239). The use of these regulatory instruments contributes to the regulation of procurement, and the timely and high-quality provision of goods, works, services, as well as economical expenditure of the Group's funds.

Regulation of the procurement activities involves the application of mandatory procedures, including careful planning of product requirements; market analysis; information openness of procurement; actions aimed at the achievement of equality, fairness, non-discrimination and unjustified restrictions of competition in relation to the participants of the procurement, the purposeful and cost-effective expenditure of funds for the acquisition of goods, works, services and other activities.

To increase the efficiency, transparency and fairness of procurement, RusHydro Group is guided by the following principles:

- openness (transparency);
- competitiveness;
- validity;
- efficiency.

In 2017, PJSC RusHydro made 1,105 competitive purchases in electronic form for the sum of RUB 63,471.89 mn, which is 99.6 % of the cost of competitive procurement.

Control and coordination of procurement activities in PJSC RusHydro is occupied by a permanent collegial body - the Central Purchasing Commission (CPC). For the immediate organisation and conduct of procurement procedures, CPC appoints a standing procurement commission.

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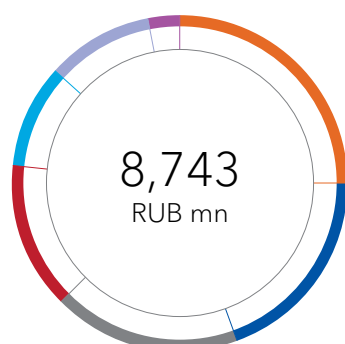
PJSC RusHydro publishes information about planned purchases of goods, works and services of the company, places actual official publications on purchases, containing the name procurement (subject of purchase), significant conditions in competitive procurement and other information on procurement on the official website of the Russian Federation www.zakupki.gov.ru, as well as on electronic trading platform <https://rushydro.roseltorg.ru>. According to the results of purchases, the information on the results of the purchase with the indication of the winner of the purchase and the bid of the winner of the competitive procedure is published.

Implementation of the annual comprehensive procurement programme ^[102-9]

Implementation of the annual comprehensive programme, types of procurement

Indicators	RusHydro Group without RAO ES East Subgroup	RAO ES East Subgroup
Number of procurement procedures, units	4,709	11,111
Volume of purchases in 2017 (by direction)	Current production activity - 84,911.7 million rubles including VAT Investment activities-28,475.9 million rubles including VAT	Operation activity - 166,152.1 million rubles including VAT Investment activity-30,987.4 million rubles including VAT
Share of purchases via the electronic trading platform (e-commerce),%	87.95	42.12
Share of purchases from open sources, %	67.79	42.37
Share of purchases from a single source, %	32.09	57.10
Share of purchases in closed form (from a limited number of sources), %	0.00	0.00

Purchases of PJSC RusHydro at a single source



	RUB mn	%
Services of profile maintenance and repair services under the decision of the Board	2,153	24.6
Services of state monopolies: departmental and extra-departmental security	1,650	18.9
Other state monopoly services: municipal, verification, hydrometeorological information, industry, land lease	1,613	18.4
Services of specialized design institutes of the industry by the decision of the Board	1,259	14.4
Services of state monopolies: payment for use of water objects	891	10.2
Others (spare parts, equipment from manufacturers' monopolists, pre-purchasing for unification)	888	10.2
Other state monopolies services	289	3.3

Procurement efficiency at PJSC RusHydro

Type of activity	Planned value of purchases, bn rubles including VAT	Average market cost of participants' offers, bn rubles including VAT	Total cost of purchases, bn rubles including VAT	Simple economic efficiency ¹		Efficiency regarding average price ²	
				RUB bn	%	RUB bn	%
Current production activity	75.8	67.5	62.6	13.1	17.4	4.9	7.2
Investment activities	11.3	11.1	9.8	1.5	13.1	1.3	11.3
Total	87.1	78.6	72.4	14.6	16.8	6.1	7.8

¹ Difference between the planned and final cost of purchase, or correlation of the planned cost of purchase and efficiency achieved.

² Difference between the average market cost of participants' offers and the final cost of purchase.

Procurement from small and medium-sized businesses

To maintain competition and sustainable development of small and medium-sized businesses, RusHydro Group seeks to collaborate with these enterprises in procurement activities.

PJSC RusHydro has a partnership programme between PJSC RusHydro and subjects of Small and Medium Businesses (hereinafter - the Partnership Programme), approved by the decree of PJSC RusHydro of July 16, 2014 No. 568. The Partnership Programme was set up in accordance with the methodological recommendations of the Ministry of Economic Development of the Russian Federation (November 1, 2013 No. 23941-EE/d28i).

The Partnership Programme is published on the website of PJSC RusHydro (<http://zakupki.rushydro.ru/References/PartnerProgramMsp?sectionId=7>). The register of Small and Medium Business entities included in the Partnership Programme is placed on the official website of PJSC RusHydro in the section "Procurement" and updated as new participants are included.

On the website of the Unified Information system in the field of procurement (<http://zakupki.gov.ru/epz/gws/quicksearch/search.html>) and the site of PJSC RusHydro contains a list of goods, works, services, purchases of which are carried out by the subjects of small and medium enterprises.

By the decision of the Government of the Russian Federation of December 11, 2014 No. 1352 "About the peculiarities of participation of small and medium enterprises in the procurement of goods, works, services by certain types of legal entities" RusHydro's planned indicators for purchases of small and medium-sized businesses were approved for the year of 2017. At the end of the year, the group was able to achieve much more than the plan. The actual result considerably exceeded the plan and the respective indicator of 2016, for the following reasons:

- the procurements planned in the previous periods (2014-2017) were included in the calculation and the procurements required an advance (2018);
- at the end of the reporting period, a number of categories were included in the procurement profile of SMEs under the law, which were excluded earlier.

Proportion of purchases from small and medium-sized enterprises in 2017, %

Indicators		Plan	Fact
Share of purchases from SMEs of total annual value of purchases	PJSC RusHydro	18	85.2
	RusHydro Group	18	74.6
Share of purchases only among SMEs from the cumulative annual value of purchases	PJSC RusHydro	10	38.1
	RusHydro Group	10	33.6

In 2018, RusHydro Group plans to carry out purchases from small and medium-sized enterprises for the sum of at least 18% of the total volume of purchases, including at least 15% of purchases carried out with the participation of only small and medium-sized entities.



The Partnership Programme is published on the website of PJSC RusHydro: <http://zakupki.rushydro.ru>



The list of goods, works, services, purchases of which are carried out by the subjects of small and medium enterprises, is available on the website of the Unified Information system in the field of procurement: <http://zakupki.gov.ru>



Import substitution in PJSC RusHydro

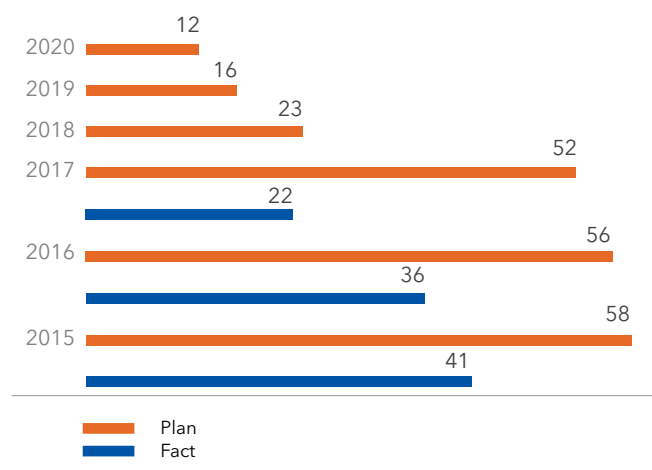
As part of the programme for the comprehensive modernization of the generating facilities of PJSC RusHydro, the Company plans to increase the volumes of deliveries of domestic machine-building products, which will be ensured by localizing production of certain types of equipment and components in Russia.

To realise the growth of the volume of domestic production in 2017 year it was necessary to carry out:

- changes in the technical policy of PJSC RusHydro were made;
- amendments were made to the regulation on the procurement of products for the needs of PJSC RusHydro;
- amendments were introduced to the Company's local regulations on the preparation of technical requirements for the purchase of products in accordance with the requirements of the Technical Policy of PJSC RusHydro and the Regulation on the procurement of products for the needs of PJSC RusHydro;
- roadmap for import substitution for the period until 2020 (as part of the Long-term Development Programme of PJSC RusHydro) was approved.

For the purpose of the measures of gradual substitution of purchases of foreign production (works, services), for purchases of equivalent technical characteristics and consumer properties to the Russian production (works, services), it is proposed to reduce the share of imported equipment in the framework of production activities.

Share of imported equipment, %



The import-substitution road map for the period until 2020 was approved as part of the Long-term Development Programme of PJSC RusHydro, the Board of Directors' minutes No. 212 of April 3, 2015.

For the year of 2017, the indicator of the Roadmap "The share of imported equipment" is 22 %, which corresponds to the benchmark that provides for the non-exceeding of the indicator "Share of imported equipment" - 52 %.

Imported Equipment, %

Equipment type	Share, %
Hydroturbine, hydromechanical, auxiliary equipment	76
Management information & control system	4
Substation control system, relay protection and automation, anti-emergency automatics	2
Equipment that not require installation	2
Hydro-technical utilities	1
Equipment of Dispatch and process control system and communication	1
Security Systems	1
Other	12

Plans to improve procurement activities for 2018

- Adjustments of procurement activities in accordance with the amendments of the Federal Law of 18.07.2011 No. 223-FL "On the procurement of goods, works, services by certain types of legal entities";
- optimization of procurement processes;
- automation of procurement activities, including the development of an automated analytical reporting system.