

SUPPLIER RELATIONSHIP MANAGEMENT

Purchase activities during the reported period were regulated by the Uniform Purchase Standard⁹⁵.

The Company adheres to the following principles in building-up its purchase activities:

Principle 1: Reasonable use of special techniques to enhance the effects of market laws in each purchase case.

Principle 2: Application of compulsory procedures to each purchase case over a specified value (also applicable to smaller purchases, if deemed required), that imply:

- market analysis and planning of demand;

- purchase transparency; equality of rights, justice, zero discrimination or unwarranted competitiveness restrictions towards participants;

- honest and reasonable selection of the most preferable offers after thorough analysis of benefits and expenses (primarily, price and quality of produce);

- target and efficient expenditures to acquire goods and services and measures aimed at cost-cutting;

- unrestricted access to procedures by setting immeasurable requirements for a bidder.

Principle 3: Systemic approach, comprising regulatory environment, prescribed setup of purchase

administration and oversight, trained employees, smooth-running purchase infrastructure (information support, e-commerce means, certification, professional advisors).

Principle 4: Compliance with corporate unity of procurement rules.

Principle 5: Oversight of authorities and liability of purchasing employees.

The Uniform Purchase Standard describes the following purchase types: tender, auction, request for proposals, vendor quotations, ordinary purchase, small-size purchase and single-vendor purchase, vendor tender participation purchase.

During 2016 the Company conducted 4,610 purchases worth RUB 12,355,049.29 thousand, net of VAT

Purchase type	Purchases		Purchase value	
	pcs	% of total purchases	RUB thousand, net of VAT	% of total value
Open tender	210	4.6%	7,227,376.778	58.5%
Open tender for the right to conclude framework agreements	21	0.5%	0.00	0.0%
Open request for proposals	919	19.9%	1,809,912.690	14.6%
Open vendor request	399	8.7%	298,514.016	2.4%
Vendor quotations after open competitive procedures	1,231	26.7%	1,565,458.176	12.7%
Single-vendor purchase	1,823	39.5%	1,283,787.639	10.4%
Purchases from sellers	1	0.0%	170,000.00	1.4%
Open competitive dialogue	6	0.1%	0.00	0.0%

There were 2,786 e-commerce procurement procedures worth RUB 10,901,261.651 thousand net of VAT (100% of total purchases and 100% of total value, net of single-vendor purchases and purchases from sellers). Annual economic effect from the purchases amounted to RUB 976,967.99 thousand net of VAT or 7.33% of the announced price targets. Open purchases (open tender, open request for proposals, competitive dialogue, close requests for prices after open competitive dialogue) contributed 89.610% to the total purchase value. Purchases from small-and medium-size businesses totaled RUB 6,836,151.317 thousand net of VAT (2,708 purchases) or 75.0% of the total value and 90.3% of the total purchases (comprising purchases that are not taken into account when calculating the annual total value). SME purchases amounted to RUB 4,825,492.046 thousand net of VAT (2,285 purchases) or 53.0% of the total value and 76.2% of the total purchases (comprising purchases that are not taken into account when calculating the annual total value). The total innovation-related expenses of the Company (comprising designing, installation and pre-commissioning services) reached RUB 428.5 million in 2015 and RUB 449.52 million in 2016.

The following activities are enforced to enhance economic metrics, improve and promote purchase transparency:

- Use of electronic trading platforms (b2b-energo.ru and etp.rosseti.ru) to conduct max portion of purchases;
- Revisions of specifications in terms of elimination of unnecessary requirements to procurement participants;
- Negotiations with manufacturers to invite them to apply on the ETP without intermediaries;
- Additional requests for documents, required from participants, via ETP;
- Meetings of a special advisory body to enforce efficiency of SME purchases, conducted by IDGC of Urals (OAO);
- Workshops for prospective contractors to explain requirements of tender documentation and filing procedure;
- Pre-contract negotiations;
- Repeated rebiddings.