

Procurement

Procurement management [103-2]

As part of its operating activities, RusHydro Group purchases large quantities of third-party works and services, feedstock (including fuel) and materials.

Procurement operations in RusHydro Group are governed by the applicable Russian laws, including Federal Law No. 223-FZ On Procurement of Goods, Works and Services by Certain Types of Legal Entities dated July 18, 2011, and other internal regulations (by-laws) on procurement in RusHydro Group, including the Uniform Regulations on RusHydro Group's Procurement Policy¹, whereby:

- the Company's Board of Directors oversees procurement management, approves RusHydro's annual comprehensive procurement program and its progress report.
- the Central Procurement Commission (CPC) is the Company's permanent collective body which shapes and carries out the uniform procurement policy as well as exercises control and coordination of procurement activities. The CPC Chairman is responsible for procurement management across RusHydro Group.
- the CPC appoints standing procurement commissions which are directly authorized to arrange for and carry out procurement procedures. Depending on the scope of powers, there are procurement commissions of level 1 and level 2 as well as ad hoc commissions.

RusHydro Group has in place a number of internal regulations to prevent inappropriate and inefficient use of funds.

The objectives and principles of the Uniform Regulations on RusHydro Group's Procurement Policy

The Regulations on Procurement set out the following objectives and principles:

- procurement regulation aims to ensure timely and efficient supply of goods, works and services to the customer as well as prudent use of the customer's funds.
- procurement regulation relies on rational use of special procedures to make purchases on an arm's length basis as closely as practicable and provides for mandatory procedures to be followed by the officers in charge of procurement.

These procedures ensure:

- careful demand planning;
- market research;
- procurement transparency;
- focus on equality and fairness, with no discrimination or unreasonable restrictions on competition among participants where possible, or, if impossible, enhanced internal control;
- intended and efficient use of funds allocated for purchasing

goods, works and services (including their life cycle cost, where applicable), and implementation of cost-cutting initiatives;

- absence of restrictions on participation in the procurement in the form of non-measurable requirements for participants;
- efficient and fair selection of preferred suppliers following a comprehensive SWOT analysis (with price and quality being the key factors); and
- follow-up on contracts and use of goods, works and services purchased.

Procurement regulation is based on a systemic approach which ensures that uniform corporate rules are administered and followed, with officers in charge of procurement possessing the necessary authority and responsibility. In the light of above mentioned, the customer enjoys the following:

- benefits of a regulatory framework;
- effective platform for procurement management and follow-up control;
- qualified procurement professionals;
- well-established procurement infrastructure (information support, e-commerce tools, certification, professional consultants, etc.).

¹ Approved by resolution of RusHydro's Board of Directors No. 277 dated October 4, 2018 and amended by resolutions No. 292 dated June 24, 2019 and No. 300 dated December 4, 2019.

RusHydro Group publishes information on planned procurement activities and places up-to-date official announcements describing the scope of procurement (item name), material terms of the competitive procurement and other details on official Russian website at www.zakupki.gov.ru, as well as on the electronic trading platform at <https://rushydro.roseltorg.ru>. Following the competitive procedure, the Company publishes the procurement results specifying the winning bidder and the respective price.



The material terms and other details of RusHydro Group's competitive procurement can be found on the official website of the Russian Federation at <https://zakupki.gov.ru/>



Electronic trading platform:: <https://rushydro.roseltorg.ru/>

Procurement improvement plans in 2020

RusHydro Group's key procurement improvement initiatives include:

- optimization of procurement processes;
- further automation of the Group's procurement processes, including the development of an automated analytical reporting system;
- development of a reference data system;
- fine-tuning of category management tools in procurement.

Implementation of the annual comprehensive procurement program [102-9]

In 2019, total value of contracts awarded under procurement procedures at RusHydro Group amounted to RUB 405.3 bn (including VAT), up by 49.4% y-o-y, mainly due to:

- an increase in procurement under loan agreements by RUB 22.0 bn;
- acquisition of assets at Gotsatlinskaya HPP (RUB 10.1 bn) and Zaragizhskaya HPP (RUB 3.5 bn);
- procurement of works to complete the construction of Ust-Srednekanskaya HPP (RUB 18 bn);
- procurement of main construction and installation works and manufacturing of hydropower equipment for Krasnogorskaya SHPP-1 and Krasnogorskaya SHPP-2 (RUB 7.4 bn);
- procurement of comprehensive transport services and motor vehicle leases valid for three years (RUB 4.8 bn);
- long-term contracts signed for major and minor repairs on property, plant and equipment (RUB 7.87 bn);

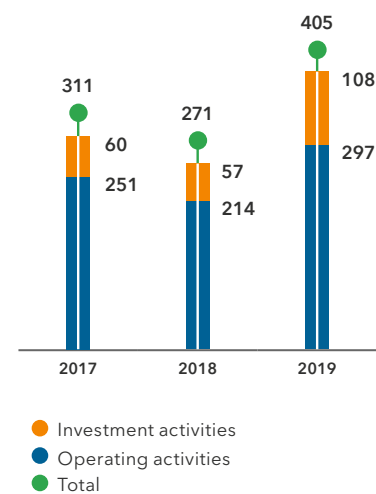
- an increase in the cost of DGK's procurements in fuel by RUB 6.2 bn and in heat by RUB 8.9 bn.

At the same time, the number of procurement procedures rose by 14% to 19,900. Open bidding accounts for over 50% of all procurement procedures, of which 99% run on an electronic trading platform.

In money terms, the largest portion of procurement focuses on works and services related to repair and investment programs (upgrade, capital construction projects) of the companies within RusHydro Group.

The procurement items include goods usually purchased by energy companies: core equipment (boilers and turbines), transformers, switchgear cells, package transformer substations, isolation valves, control valves, line accessories, cable fittings,

Procurement, RUB bn (incl. VAT)



pipelines, steam pipelines and spare parts, cabling and wiring, electrical appliances, metal goods, insulators, heat insulators, etc.

Procurement by method, %

Procurement type	2017	2018	2019
Competitive procurement, including:	51.47	49.42	50.76
electronic procurement	93.94	99.46	99.40
Non-competitive procurement, including:	48.41	49.76	21.10
single-source procurement	99.00	98.47	96.56
Procurement from related parties ¹	0.00	0.13	28.12
Procurement from related parties	0.12	0.69	0.02

One of the Group's most important strategic priorities in procurement is timely and efficient competitive awarding of contracts for fuel supplies. Following the competitive procurement procedures in 2019, the cost of coal supplies to RAO ES East Subgroup's thermal power plants rose by no more than 1.3% y-o-y as a result of the coal mix reshuffling, lower electricity and heat generation and quality discounts driving down the fuel prices. At the same time, the coal price added 10.3% y-o-y driven by higher prices for export-oriented coal grades.

In 2019, the cost of natural gas supplies grew by 9.6% y-o-y, mainly due to US dollar exchange rate fluctuations pushing up prices for natural gas supplied under the contract between DGK and the Sakhalin-1 Consortium.

The cost of fuel oil supplies to RAO ES East Subgroup rose by 33.5% following the fuel mix reshuffling at Kamchatskenergo, which started substituting natural gas with fuel oil as its supplier, Gazprom Mezhrefiongaz Far East, was facing a decline in natural gas production. On top of that, the fuel oil price added 5.3% in 2019 on the back of higher

prices for petroleum products prevailing in the domestic market when procurement was underway.

In 2019, the cost of diesel fuel supplies grew by 9.0% y-o-y driven by rising consumption. At the same time, the diesel fuel price increased marginally by 1.5% y-o-y, which is in line with the Russian Ministry of Economic Development's forecast.

In 2019, the cost of crude oil supplies dropped by 3.2% y-o-y driven by falling consumption. At the same time, the crude oil price increased marginally by 2.4%, also in line with the forecast.

Sustainable procurement [EC]

As one of Russia's largest purchasers of goods, products, services and raw materials, RusHydro Group is fully aware of its responsibility to the regions where it operates, communities

and environment, and therefore amended its Uniform Regulations on RusHydro Group's Procurement Policy. According to the regulation, any design works (including pre-feasibility

studies) for new hydropower and thermal power projects, their construction and modernization, any core equipment and technical specifications and the terms of contracts awarded under

¹ A related party is a legal entity which is deemed related to the customer in accordance with the Russian Tax Code and included in the customer's list of related parties (Appendices 2 and 3 to the Uniform Regulations on RusHydro Group's Procurement Policy). In 2017, the relevant item was not calculated, while in 2018 it was calculated for the period from November 1, 2018 to December 31, 2018.

procurement procedures must be aligned with the customer's approved internal sustainability regulations to ensure:

- compliance with environmental requirements;
- protection of cultural heritage sites;

- industrial and occupational safety;
- protection of indigenous peoples and socially vulnerable groups;
- control over negative footprint on climate change and environment; and

- biodiversity conservation and restoration.

Procurement procedures based on tenders or requests for bids may include relevant sustainability criteria.

Procurement through small and medium-sized businesses

To facilitate competition and development of SMEs, RusHydro Group seeks to partner with small and medium-sized businesses (SMES) as part of its procurement activities.

RusHydro launched a partnership program with small and medium-sized businesses (the "Partnership Program")¹, which was developed in accordance with the Russian Ministry of Economic Development's guidelines².

The Partnership Program and the register of small and medium-

sized businesses included in the Program are available online. The register is updated as necessary.

RusHydro's target for contracts awarded to SMEs in 2019 was determined by Russian Government's Resolution No. 1352 On Special Aspects of Participation of Small and Medium Enterprises in Procurement of Goods, Works and Services for Certain Types of Legal Entities dated December 11, 2014. As at December 31, 2019, the Group significantly exceeded the target.



Partnership Program is published on RusHydro's website at : <http://zakupki.rushydro.ru/>



The list of goods, works and services purchased from SMEs can be found on the website of the Unified Information System for Procurement at : <http://zakupki.gov.ru>

Procurement from SMEs in 2019³

Indicator	Target, %	Actual ⁴ , %	Procurement ⁵ , RUB bn (incl. VAT)
Procurement through businesses including SMEs, % of annually awarded contracts	18	77.9	66.1
Procurement only through SMEs, % of annually awarded contracts	15	27.5	23.3

¹ Approved by RusHydro's Order No. 568 of July 16, 2014.

² Letter No. 23941-EE/D28i dated November 1, 2013.

³ Procurement through SMEs is calculated as a % of total contracts awarded in 2019 by 38 companies of RusHydro Group subject to Russian Government's Resolution No. 1352 dated December 11, 2014.

⁴ Calculated based on financing.

⁵ Calculated based on financing.

Import substitution

As part of the Comprehensive Modernization Program of RusHydro's generating facilities, the Company plans to increase supplies from domestic machinery producers given that, among other things, certain types of equipment and components will be produced in Russia.

To increase supplies from local manufacturers in 2019, RusHydro implemented the following initiatives:

- RusHydro Group's Technical Policy was amended to include the requirements for increased reliance on domestic solutions starting from the design phase;
- the Uniform Regulations on RusHydro Group's Procurement Policy was amended to:
 - determine a price preference for prioritizing domestic bids when purchasing radio-electronics included in the State Register of Russian Radio-Electronics in accordance with the Russian Government's Resolution No. 878 dated July 10, 2019 On Measures for Stimulating Manufacture of Radio-Electronic Products within the

Russian Federation Applied to Public Procurements of Products, Works and Services for State and Municipal Needs, on Amending Russian Government's Resolution No. 925 dated September 16, 2016, and on Recognizing Null and Void Certain Acts of the Russian Government (altering the preference from 15% to 30% in a similar way to the Russian Government's Resolution No. 925 dated September 16, 2016, all other things being equal).

- prioritize Russian manufacturers when purchasing aluminium and/or aluminium-based products in accordance with Russian Government's Directive No. 6574p-P13 dated July 18, 2019.
- the Company's internal regulations were amended to bring the preparation of procurement specifications into line with RusHydro Group's Technical Policy;
- resolution of RusHydro's Board of Directors¹ providing for the Company's increased reliance on domestically developed software:



RusHydro is justly one of the largest Russian power generating companies and third-largest hydropower company of the world. A powerful foundation was built over 15 years to enable stable operations and possibility to realize ambitious projects. Due to its accumulated experience and unique technologies the Company tackles broad-scale tasks, implements automated management systems that always conform to environmental and safety requirements.

Igor Artemjev,

Head of FAS Russia

¹ Minutes No. 285 of March 26, 2019.

- approved the Action Plan for 2019-2021 providing for the Company's increased reliance on domestically developed software;
 - approved KPIs to monitor the Company's migration to domestically developed software.
- the Company joined efforts with the Industrial Development Fund of the Russian Ministry of Industry and Trade to implement the defence industry diversification roadmap for the enhancement of the domestic energy sector within the state industrial information system and also partnered with the Russian Energy Agency of the Russian Ministry of Energy to coordinate import substitution initiatives with the defence industry, specifically:



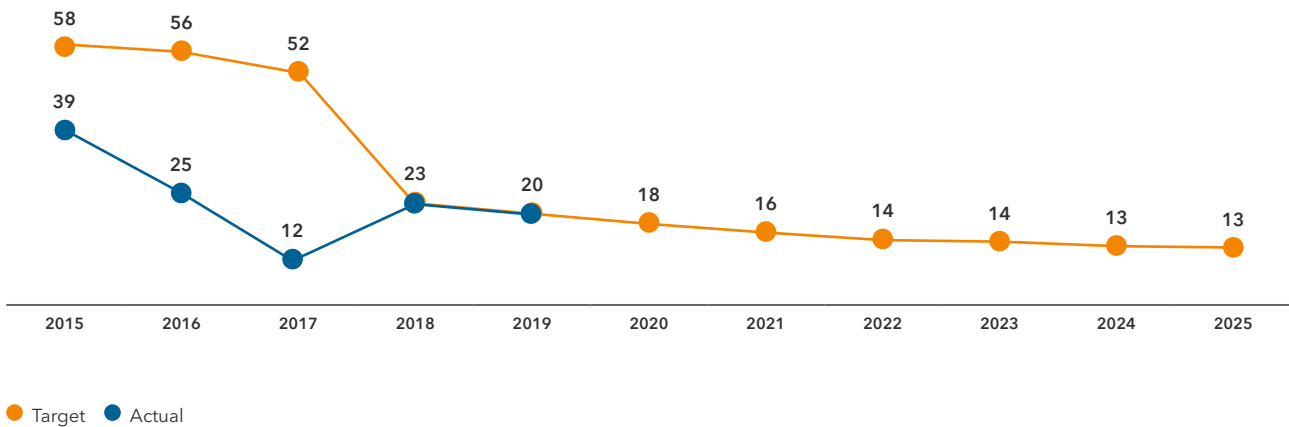
In 2019, the actual share of imported equipment under the TR&M program stood at 20%, which is in line with the import substitution roadmap target.

- developing the list of required hardware and software to be supplied in 2020-2024 and sent it to the Industrial Development Fund of the Russian Ministry of Industry and Trade;
- arranging for the initial population and testing of the state industrial information system;
- signing a non-disclosure agreement with the Russian Energy Agency of the Russian Ministry of Energy to coordinate import substitution

- initiatives with the defence industry;
- sending proposals for manufacturing civil purpose products to the pilot list of defence industry enterprises.

As part of efforts to gradually substitute purchases of foreign-made goods, works and services with those of Russian origin having similar specifications and usability, the Company amended its import substitution roadmap until 2025¹.

Share of imported equipment in procurement, %



¹ The roadmap was amended along with RusHydro Group's updated Long-term Development Program for 2018-2022 (Minutes of the Board of Directors No. 271 of June 1, 2018).