

SUPPLY CHAIN

The Group has a Specialized Procurement Organization (SPO) that is authorized to conduct procurements and/or organize the supply of goods, the performance of works, or the provision of services. The SPO ensures uniform demand for the same type of products and creates a unified information space of the supply system that handles: planning, accounting as well as carrying out and monitoring procurements. Modern information and telecommunication technologies, e-commerce tools, and electronic document workflow in conjunction with other information systems are used to organize procurements.

The Inter RAO Group uses electronic trading platforms that ensure compliance with the requirements of the laws and other regulatory acts of the Russian Federation, the Procurement Regulation, corporate standards concerning supply as well as the laws of countries where foreign subsidiaries operate.

Sustainable and reasonable measures are taken to support subsidiaries that are created specifically to perform service, repair, innovation, and engineering jobs as well as tasks related to ensuring energy efficiency, among others. Preferences are given to suppliers and contractors taking into account the requirements of the legislation of the Russian Federation and the laws of the countries where foreign subsidiaries operate.

IN 2018, PJSC INTER RAO CONFIRMED ITS STATUS AS ONE OF THE LEADERS OF THE NATIONAL PROCUREMENT TRANSPARENCY RATING PROJECT BY RECEIVING THE GRADE OF 'HIGH TRANSPARENCY'.

Since 2015, the Group has had an advisory body that ensures the efficiency of procurements for companies of the Inter RAO Group, which includes representatives of the regional authorities, public organizations, and other participants. The advisory body drafts proposals that aim to improve the efficiency of procurement activities, including expanded access for small and medium-sized enterprises to the procurements conducted by the companies of the Inter RAO Group.

IN 2018, THE INTER RAO GROUP WON THE MAIN PROFESSIONAL COMPETITION FOR RUSSIAN BUSINESS CUSTOMERS IN THE CATEGORY 'BEST SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISES.' A TOTAL OF 188 COMPANIES FROM ALL OVER THE COUNTRY AND FROM ALL SECTORS OF THE ECONOMY TOOK PART IN THE COMPETITION.

Requirements for certified management systems:

As part of their proposal, procurement participants must submit valid certificates confirming that their enterprises:

- have a procurement participant and/or manufacturer of the products being procured
- have an organized quality control system
- comply with technological processes (input control, production process control system, output control, an ISO 9001 certified quality management system, an ISO 14001 certified environmental management system, an OHSAS 18001 certified occupational safety system, and an ISO 50001/GOST R ISO 50001 certified energy management system)

Procurement of Russian-made goods

Companies of the Group that fall within the scope of Federal Law No. 223-FZ must prioritize goods of Russian origin as well as work and services performed and provided by Russian entities when purchasing goods, work, and services at a tender, auction, or through another procurement method, except for procurements from a sole provider (contractor), over goods originating from a foreign state or work or services performed or provided by foreign entities.

Assessment of the procurement system

In order to fulfill Directive No. DP-11/17668 of the Federal Agency for State Property Management dated May 5, 2016, an Action Plan was approved by a resolution of the PJSC Inter RAO Board of Directors¹ on June 29, 2016 to standardize the procurement of goods, work, and services to meet the needs of PJSC Inter RAO (hereinafter the Plan).

In accordance with item 4 of the Plan, starting in 2017 the Company annually has monitored the results of its procurement activities (including as regards compliance with the approved annual integrated procurement program (AIPP) and regulatory costs for certain types of goods, work, and services for the needs of PJSC Inter RAO) and subsequently included information about the monitoring results in the Company's annual report.

In the 2018 reporting year, the Company carried out procurements in accordance with the approved standards and established limits. Based on procurement activities in 2018 and in accordance with the Methodology for the Standardization of Procurements for Certain Types of Goods and Services², adjustments (updates)³ were made to the List of Certain Types of Goods and Services with Established Standards and Expenditure Limits for certain types of goods and services that are intended for in-house needs and are not subject to commercial resale.

RESULTS OF PROCUREMENT ACTIVITIES IN 2018, RUB THOUSAND

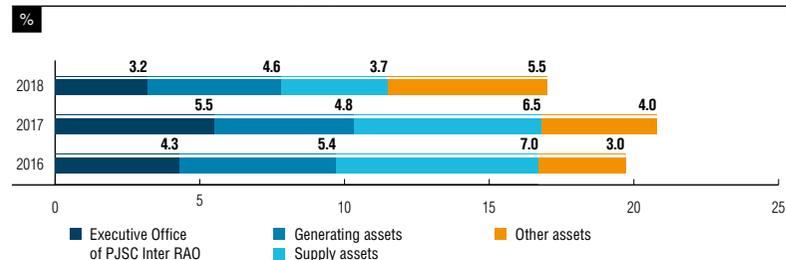
Indicator	Total	Open tenders	Open auctions in electronic form	Procurements from a sole supplier (contractor)	Other procurement methods	
					closed	open in electronic form
Tenders, other procurement methods (lots), and procurements from a sole supplier (contractor)	151,313,098	5,627,100	50,448	33,681,025	1,040,219	110,914,306
Tenders and other procurement methods (lots) that were declared invalid	18,342,237	2,950,274	45,374	738.93	68,370	15,277,481
Tenders and other procurement methods (lots) that were declared invalid or did not result in the signing of contracts	3,139,697	437,147			58,613	2,643,936
Contracts signed	132,968,243	2,676,826	5,074	33,677,668	971,850	95,636,825

¹ Minutes No. 173 dated July 4, 2016.

² Order No. IRAO/425 of PJSC Inter RAO dated September 30, 2016.

³ Directive No. IRAO/1r of PJSC Inter RAO dated January 29, 2019.

REDUCTION IN THE COST OF THE ANNUAL INTEGRATED PROCUREMENT PROGRAM (AIPP) COMPARED WITH THE PLANNED COSTS



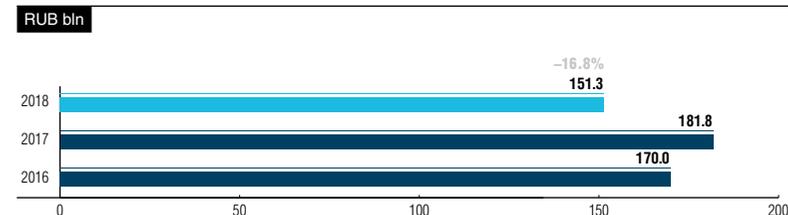
Import substitution

According to the draft 2035 Energy Strategy of Russia, one of the strategic objectives in the development of the country's power sector is to ensure the technological independence of the power sector. The second strategic objective is to ensure adequate expertise in all activities that are crucial for the sustainable development of the power sector, while enhancing and expanding the global technological competitiveness of the Russian fuel and energy industry. In accordance with the Strategy of PJSC Inter RAO, import substitution is one of the mechanisms for the implementation of the Energy Strategy of Russia. The key strategic objectives have been determined as follows:

- increase the proportion of Russian-manufactured products to satisfy the Company's needs as part of its operational and investment activities
- develop production of turbine equipment with features that comply with the best world analogues

In order to implement Directive No. 830p-P13 of the Government of the Russian Federation dated February 6, 2017, the PJSC Inter RAO Board of Directors approved the Corporate Import Substitution Plan of the Inter RAO Group (CISP)¹. The CISP was drafted to detail the objectives and activities of the Company's Strategy, which aim to reduce the Company's dependence on foreign-made products, in the short-term period until 2020.

COST OF PROCUREMENTS EXCLUDING AGENT COMMISSIONS AND INTRA-GROUP PROCUREMENTS



The CISP is an integral part of the Strategy and is carried out in compliance with the following principles:

- eliminating the risks of diminished product safety and safety at permanent facilities (if the supplier chain changes during the implementation of investment projects)
- preserving the main parameters of investment projects being implemented at the proper level
- preventing a cost increase due to changes in the supply chain of certain goods that are required for the implementation of the investment project
- utilizing a risk-oriented approach during project selection concerning the assessment of risk arising from technical solutions in projects which require domestic or foreign solutions

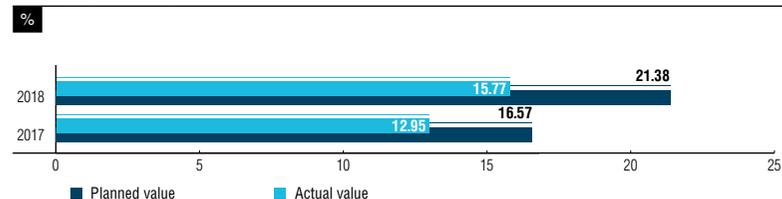
In accordance with the CISP approved by the PJSC Inter RAO Board of Directors, the implementation of the measures of the CISP has been evaluated since 2017 based on an integral indicator² that describes the proportion of foreign products in procurements.

Based on the results of the procurements made in 2018, the actual value of the integral indicator did not exceed the planned value, which indicates the Group's dependence on foreign-made products has decreased.

¹ Minutes No. 208 dated September 18, 2017 of the meeting of the PJSC Inter RAO Board of Directors on September 15, 2017.

² The integral indicator is calculated in accordance with the Methodological Recommendations for the Preparation of the Corporate Import Substitution Plan approved by Order No. 219R-AU of the Russian Ministry of Economic Development dated August 11, 2016 (Directive No. 830p-P13 of the Government of the Russian Federation dated February 6, 2017).

INTEGRAL INDICATOR DESCRIBING THE PROPORTION OF FOREIGN PRODUCTS IN PROCUREMENTS



PJSC Inter RAO signed agreements with the governments of the Yaroslavl and Sverdlovsk Regions in 2018 in an effort to develop cooperation in industry and science on issues concerning the import substitution of equipment and technologies in the energy sector of the Russian Federation.

As part of the agreement with the government of the Yaroslavl Region, a roadmap was approved on October 2, 2018 to expand the use of import-substituting products and technologies at enterprises of the Yaroslavl Region for the needs of the companies of the Inter RAO Group.

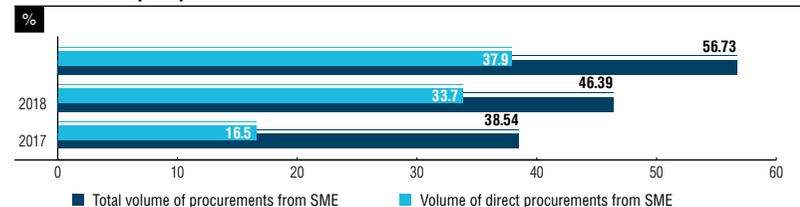
A new roadmap to expand the use of products and technologies, including import-substituting ones, at organizations of the Tomsk Region for the Inter RAO Group over the period of 2018-2022 was approved on November 14, 2018 in order to continue cooperation with the administration of the Tomsk Region.

On December 13, 2018, companies of the Inter RAO Group celebrated Supplier Day, which aimed to inform the heads of technical services at the Group's companies about opportunities for using products with higher quality features as well as high-tech and innovative products in production and technological processes as well as the opportunity to reduce dependence on foreign-made products through the use of export-oriented and import-substituting products.

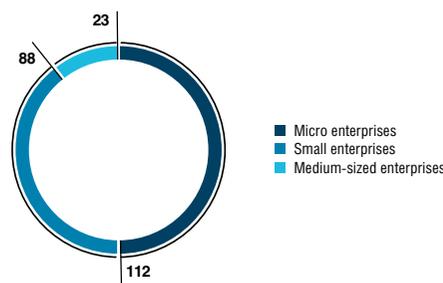
Cooperation with small and medium-sized enterprises

In 2018, LLC Inter RAO – Procurement Management Center worked to achieve the target indicators for the implementation of the Strategy for the Development of Small and Medium-Sized Enterprises in the Russian Federation until 2030, which was approved by Directive No. 1083-r of the Government of the Russian Federation dated June 2, 2016.

VOLUME OF PROCUREMENTS FROM SMALL AND MEDIUM-SIZED ENTERPRISES (SME)



NUMBER OF PARTICIPANTS IN THE PARTNERSHIP PROGRAM BY CATEGORY AS OF THE END OF 2018, COMPANIES



NUMBER OF PARTICIPANTS IN THE PARTNERSHIP PROGRAM BY PERIOD, SMALL AND MEDIUM-SIZED ENTERPRISES

