

PROCUREMENT ACTIVITIES OF THE COMPANY

Kubanenergo PJSC carries out procurement activities, guided by the Federal Law of July 18, 2011 No. 223-FZ "On the procurement of goods, works, services by certain types of legal entities", and other Regulations of the Russian current law, the Company's Charter and the Unified Procurement Standard of PJSC Rosseti (Procurement Regulations) (further – Standard).

Standard Revision, approved as an internal document by the decision of the Board of Directors of the Company, dated 25.12.2015 (minutes No. 227/2015) and put into effect by order of Kubanenergo PJSC No. 1111, dated 28.12.2015, have been in effect since the beginning of 2018. In November 2018, following the extract from the minutes of the meeting of the Board of Directors of the Company (No. 321/2018 dated 02.11.2018), it was decided to accede to the changes to the Standard.

The Central Tender Committee, based on the Procurement Regulations approved by order No. 363, dated 04.04.2018, is the Company's Collective Working Body for the formation and implementation of unified procurement policy, ensuring an adequate level of competition in procurement, objectivity, impartiality, and transparency of procurement procedures, fair and equitable treatment of all bidders and selection of contractors based on the results of standardized procedures. As well as commissions operate in some regions of activity under order No. 94, dated February 9, 2016.

PRINCIPLES OF ORGANIZATION OF PROCUREMENT

- timely (long-term and short-term) planning of procurement activities, prompt decision-making on the adjustment of procurement parameters;
- equality, fairness, non-discrimination and unreasonable restrictions on competition in relation to procurement participants;
- targeted and cost-effective spending of money on the purchase of goods, works and services;
- unlimited access to the procurement;
- accepting the procurement parameters with account for the characteristics of the purchased products, markets and situations in which the procurement is performed;
- competitive choice of suppliers, contractors, contractors, where it is possible and appropriate, and, if possible, collegial decision-making in situations where competitive choice is impossible or impractical;
- considering the necessary combination of price and non-price factors determining efficiency in the selection of proposals that are optimal for the Company;
- publicity of procurement activities;
- the use of modern information technology, electronic document management and automation of procurement activities, including the use of functional electronic trading platforms;
- collegial decision-making on the most important issues of the organization of procurement activities and on individual procurement;
- professionalism and competence of the Company's employees in preparing and making decisions on procurement; the impeccable behavior of such workers from an ethical point of view.

The methods of procurement procedures and the conditions for their application are determined by the above internal documents of the Company.

Procurement methods used by the Company, in descending order of priority:

- Tender, auction.
- Request for proposals, request for prices.
- Simple purchase, small purchase.
- Purchase from a single supplier (performer, contractor).

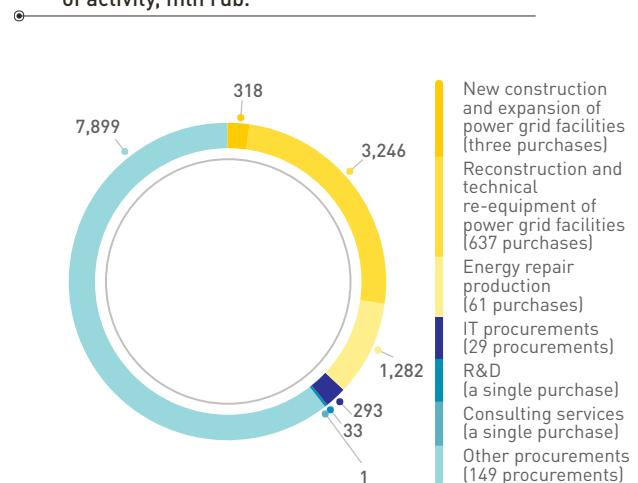
MAIN RESULTS OF THE COMPANY'S PROCUREMENT ACTIVITIES IN 2018

In 2018 The Company has summed up the results of 881 procurement procedures totaling 13,072.8 million rubles. Seven hundred ninety-four (794) purchases in the amount of 11,925.8 million rubles were carried out using e-commerce, which is 100% of the total number of purchases (excluding purchases from a single supplier).

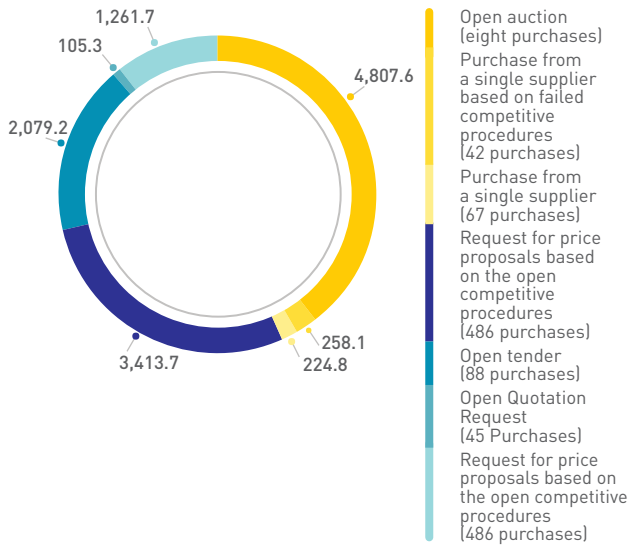
The economic effect for 595.2 million rubles was obtained in the reporting year as a result of regulated purchases by the Company, which is 5% of the planned annual amount of expenses for the purchase of goods, works and services.

At the end of 2018, the results of 15 purchases totaling 781.8 million rubles were summed up with a label of innovative and high-tech products.

Structure of the Company's purchases by type of activity, mln rub.



Structure of the Company's procurement by the methods of procurement procedures, mln rub



PARTICIPATION OF SMALL AND MEDIUM-SIZED BUSINESSES IN PROCUREMENT CONDUCTED BY KUBANENERGO PJSC

As a part of the implementation of the roadmap activities for cooperation with small and medium-sized businesses in the Company, since 2014, there was a partnership program between Kubanenergo PJSC and small and medium enterprises. During the program, 35 participants joined it. In 2018 Kubanenergo PJSC joined the partnership program between the Rosseti Group of Companies and small and medium-sized businesses (order dated 06.03.2018, No. 231), within which there was created a unified register of participants of the partnership program; thus a small and medium enterprise become a partner for all

subsidiaries and affiliates of PJSC Rosseti.

In 2018, 76.6% of the procurement procedures were won by small and medium-sized businesses for a total of 6,051.5 million rubles.

In 2018, 305 procurement procedures were conducted, the participants of which are only small and medium-sized businesses, in the amount of 2,156.6 million rubles, which is 27.3% of the total value of the purchases made.

Also since 2014, the Company has an advisory body for the issues of ensuring the effectiveness of procurement conducted by Kubanenergo PJSC, including from small and medium-sized businesses, which structure, besides the Company's employees, includes representatives of JSC Corporation SME, the Fund for Infrastructure and Educational Programs of the regional branches of the Russian Union of Industrialists and Entrepreneurs, the All-Russian Public Organization of Small and Medium Business "OPORA ROSSII", the All-Russian Public Organization Business Russia and Chamber of Commerce and Industry of the Russian Federation. The Company also has an Operating Plan for the promotion of the Company's partnership program with small and medium-sized businesses.

PERFECTION OF PROCUREMENT ACTIVITIES

The Company purchases goods and services primarily on an open, competitive basis from suppliers offering the best price-quality ratio, optimizing procurement by:

- use of methods to reduce the marginal price of the purchase
- increasing the share of open competitive procedures;
- the introduction of mandatory actions to reduce the prices of procurement participants (re-bidding);
- following the Company's procurement policy, partnership program between Kubanenergo PJSC and small and medium-sized businesses;
- work of the negotiating body in the issues of procurement efficiency conducted by Kubanenergo PJSC, including from small and medium-sized businesses.