

Policy and Practices of Purchases from Local Suppliers and the Share of Such Purchases in the Material Regions of Operations

The basic provisions of the Company's policy on procurement are contained in the Regulations for the Procedure for Regulated Procurements of Goods, Work, Services ("Regulations"), approved by the Board of Directors of the Company. In accordance with Federal Act No. 223-FZ of July 18, 2011, On Purchases of Goods, Work, and Services by Certain Types of Corporate Entities, the Regulations are published on the Company's corporate website and the websites of its subsidiaries and dependent companies.

The Regulations set forth the general principles and goals related to the procurement of goods, work, and services. The Company's principles of procurement are as follows:

- the timely (long- and short-term) procurement planning, making it possible to make prompt decisions on adjusting the parameters of purchases (if necessary)
- equality, fairness, the absence of discrimination and unreasonable restrictions on competition with respect to procurement participants
- proper and economically viable spending on purchased goods, work, and services (taking account of the life cycle cost of purchased products) and the implementation of measures to cut the ordering entity's costs
- the absence of restrictions on access to purchases by means of setting immeasurable requirements applicable to procurement participants
- the particularities of purchased products, markets, and purchasing situations to be taken into account in determining the parameters of purchases
- the competitive selection of suppliers, contractors, and service providers wherever possible and advisable and, if possible, collegial decision making where any competitive selection is not possible or not advisable
- the necessary aggregate of price and non-price factors determining efficiency to be taken into account in selecting any proposals optimal for the Company
- transparent procurement activities, including the publication of procurement information on the official website of the Russian Federation
- the use of modern information technology, electronic document management, and procurement automation, including electronic trading floors
- collegial decision making on the most important issues related to procurement organization in general and specific purchases in particular.

Goal of the Company's procurement

- The Company should be fully provided with goods, work, services, and other objects of civil rights with the necessary indicators of their quality and with the optimum indicators of their price.

To achieve this goal, the Company strives for the following objectives:

- ensuring proper and effective spending on procurement
- forming the market of qualified suppliers, contractors, and service providers capable of meeting the Company's needs in the best way around the Company
- preventing erroneous or unfair acts in procurement
- building a positive image of the Company as a bona fide purchaser of goods, work, services, and other objects of civil rights.

Overall, the Company's subsidiaries completed 37,500 procurement procedures worth 216.87 billion rubles, inclusive of VAT, in the reporting period.

Attaining the objective of ensuring proper and effective spending has an economic effect of 20.776 billion rubles, inclusive of VAT, or 8.7% of the planned purchase price, from completed regulated procurement procedures.

Forming a market of qualified suppliers, contractors, and service providers around the Company is an important

component of procurement. Suppliers and contractors that have shown themselves to be responsible and reliable counterparties (in addition to posting information on the electronic trading floor) are also notified of the start of procurement procedures.

As a socially responsible company that is interested in promoting the economic development of local communities, the Company engages local (regional) manufacturers and contractors to participate in procurement procedures of. The share of local suppliers in SDCs' procurement in 2012 was 100%.

The Company is continuing work on introducing the practice of signing long-term contracts with Russian manufacturers of electrical products, which creates new jobs in this country and shapes the market of qualified suppliers, contractors, and service providers. The range of products contracted on a long-term basis includes cables and power transformers. In total, 162 direct contracts were signed with manufacturers of electrical products for a term of one year, and 10 contracts for a term of three years.

In addition to cooperating extensively with local entrepreneurs and businesses, the Company builds up long-term partner relations with regional and municipal authorities. To implement measures to secure a reliable power supply and create conditions for providing network connections for customers in some regions (Rostov Region, Volgograd Region and Republic of Tuva) cooperation agreements were signed with regional authorities whereby the socio-economic development plans of constituent entities of the Russian Federation are taken into account.

To prevent erroneous or unfair acts in procurement, the Company strives to increase the share of competitive purchases conducted publicly and using modern information technology.

The reporting period saw an increased number of purchases made publicly, up to 93% of the total number of purchases (compared with 86.2% in 2011).

The procurement procedures completed on the electronic trading floor accounted for 93% of total purchases (78% in 2011).

The year 2012 witnessed a significant reduction in sole source purchases, including according to the results of abortive procedures; sole source purchases in 2012 accounted for 4.3% compared with 14.7% in 2011.

In order to increase the transparency of MRSK Holding's operations, all information on procurement is mandatorily posted on the Internet on the electronic trading floor of the Company (b2b-mrsk.ru) ("ETF") and disclosed on the official website of the Russian Federation for information on contracting (zakupki.gov.ru).

TABLE 13. RESULTS OF THE COMPANY IN ACHIEVING THE PROCUREMENT GOALS IN 2012

Item	Indicator	2012
1. Ensuring proper and effective spending		
1.1. economic effect from procurement		8,7%
2. Forming the market of qualified suppliers, contractors, and service providers		
2.2. number of one-year direct contracts with manufacturers of electrical products		162
2.3. number of three-year direct contracts with manufacturers of electrical products		10
2.5. proportion of spending on locally-based suppliers at significant locations of operation (GRI 3.1 EC6)		100%
3. Preventing erroneous or unfair acts		
3.1. share of purchases made publicly		93,0%
3.2. share of purchases made on the electronic trading floor		93,0%
3.3. share of sole source purchases		4,3%