

Procurement management

Approach to management

GRI 102-9

Russian Railways' procurement activities are governed by Federal Law No. 223-FZ On Procurement of Goods, Work and Services by Certain Types of Legal Entities dated 18 July 2011, other procurement laws and regulations for state-owned companies, and the Regulation on the Procurement of Goods, Work and Services for the Needs of Russian Railways¹.

In its relations with suppliers and contractors, the Company seeks to provide equal access to procurement, foster fair competition, and ensure openness and transparency in compliance with the Procurement Law, Federal Law No. 135-FZ On Protecting Competition dated 26 July 2006, the Regulation on the Procurement of Goods, Work and Services for the Needs

of Russian Railways, and procurement documentation. Russian Railways complies with anti-corruption and tax clauses, and no conflict of interest requirements. Suppliers may be included in the register of bad faith suppliers on the grounds and in the manner set forth by applicable Russian laws.

Procurement risks

Key procurement risks include:

- procurement of materials and supplies at inadequate prices;
- procurement of materials and equipment in volumes insufficient for Russian Railways' units;
- failure to procure from small and medium-sized businesses as required;
- violation of laws when arranging and holding procurement procedures;
- violation of laws when making procurement disclosures;

- improper preparation of documents for competitive procurement.

To manage these risks, the Company:

- analyses market prices and monitors initial (maximum) prices;
- considers/plans procurement taking into account the requirements for purchases exclusively from small and medium-sized businesses;
- monitors if its units fulfil the requirements for procurement from small and medium-sized businesses;

- monitors legislative changes and amends its procurement regulations;
- monitors changes in the functions of information systems;
- standardises documents to arrange and hold procurement procedures;
- trains its employees;
- makes sure that planning, procurement and contracting are timely;
- automates processes and improves the functions of information systems;
- provides timely responses to queries on procurement.

¹ Approved by the Company's Board of Directors on 28 June 2018.

Procurement in 2021

GRI 102-10

In 2021, we worked to make our procurement more transparent and engage more players from various economic sectors.

We made a number of amendments to the Regulation on the Procurement of Goods, Work and Services for the Needs of Russian Railways to improve, streamline and increase the transparency of our procurement activities and make them more attractive for market players. We also sought to facilitate bidding for small and medium-sized businesses (SMEs). These measures included:

- posting details on competitive procurement in excess of RUB 500 m on our official website to inform market players on the upcoming tenders and invite bids (specifications and characteristics of goods, work and services);
- designing new, simplified mechanisms of non-competitive procurement, determining relevant

requirements and procedures (competitive negotiations which include talks between the customer and suppliers (vendors or contractors), when the best offer is selected and a contract is signed. To meet the requirement for the minimum procurement of Russian-made goods, we established a different procedure for non-competitive procurement);

- streamlined the procedure for changing the size of the contract security to reflect changes in volumes and procurement timelines for goods, work or services;
- facilitated signing contracts with number two bidders in case the contract with the winning bidder is terminated for some reason.

Russian Railways takes consistent measures to raise market players' awareness of its procurement activities:

- created an Information for SMEs section on its corporate website;

- took part in workshops on notifying market players of procurement activities and SME support held by the SME Corporation across Russia. The reporting year saw 86 open workshops which welcomed 6,482 participants;
- on the initiative of the SME Corporation arranged for individual meetings between SME representatives and Russian Railways' units procuring goods, work and services from SMEs.

Russian Railways tops the loyalty rating of major customers procuring from SMEs in 2021¹.

2021 results

In the reporting year, Russian Railways procured goods, work and services for RUB 1,195.7 bn. Key procurement results:

- 68.1% of all procurement activities are competitive;
- an average number of bids is 3.5;
- savings from competitive procurement amount to RUB 7.3 bn or 3.9% of the sum of initial (maximum) bid prices.

In 2021, competitive procurement made up 68.1% (RUB 814.8 bn) of total procurement.

The share of non-competitive procedures was 31.9% (RUB 380.9 bn), including:

- single-source procurement – 31.6%;
- e-procurement marketplace – 0.2%;
- competitive negotiations – 0.1%.

Single-source procurement is special-purpose procurement for the railway industry (contracts for the supply, servicing and maintenance, upgrade and repairs of the rolling stock worth RUB 219.5 bn). Russian Railways engages mostly in competitive e-procurement. As part of e-procurement we signed contracts worth RUB 786.0 bn, which make up 96.5% of the competitive procurement amount (up 94.4% y-o-y).

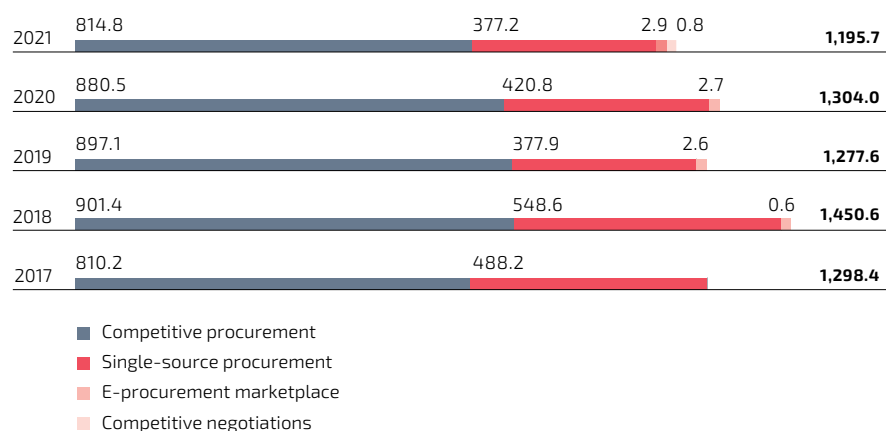
¹ SME Corporation rating

Key procurement indicators

Indicator	2020		2021	
	RUB bn	%	RUB bn	%
Total procurement	1,304.0	100.0	1,195.7	100.0
• based on competitive bidding	880.5	67.5	814.8	68.1
• based on Russian Railways executive documents	136.5	10.5	119.5	10.0
• based on other legitimate grounds	287.0	22.0	261.4	21.9
Based on open electronic bids (% of the competitive procurement amount)	368.8	41.9	299.1	36.7
Share of procurement from SMEs	241.5	63.5	225.1	61.0
Share of procurement involving SMEs only	73.7	19.4	69.9	19.0
Procurement savings (% of the sum of initial (maximum) bidding prices)	11.5	4.6	7.3	3.9

According to the procurement breakdown by type of goods, work and services, goods have the largest share in total procurement (47.1%), with materials and supplies, rolling stock and equipment representing sizeable 25.3%, 11.0% and 7.2%, respectively. Work accounts for 34.8%, of which the largest share is attributable to upgrades, repairs and maintenance of the rolling stock (14.4%) and construction and installation (9.0%). Services make up 18.1% in total procurement, including security, transportation, outsourcing, financial services, water supply and disposal, heating, gas and heat supply, and rolling stock maintenance (10.7%).

Procurement | RUB bn



Procurement from small and medium-sized businesses

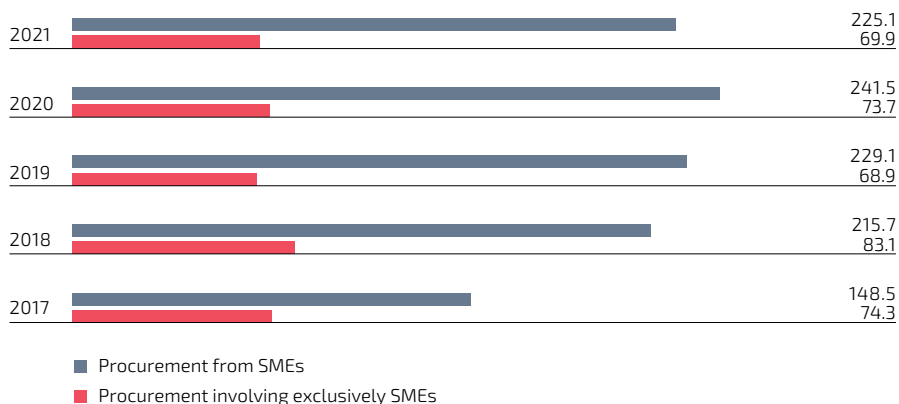
In its procurement activities, Russian Railways complies with legislative requirements for sourcing from SMEs.

We run a permanent partnership programme for SMEs which was designed to provide information and methodological support to our partners.

To attract more SMEs, we made it easy for them to join the programme.

In 2021, procurement activities involving only SMEs made up 19% against the legally required 18% per year, while the total share¹ of procurement from SMEs stood at 61.0% against the annual statutory requirement of 20.0%.

Procurement from small and medium-sized businesses | RUB bn



For more details on procurement from small and medium-sized businesses go to [the Information for SMEs section](#) of our official website.

Import substitution

In 2021, in furtherance of the Russian government directives, the Russian Railways Group continued with its efforts to replace foreign products with domestic ones of equivalent performance and properties in its operations as part of a comprehensive import substitution programme until 2025².

Priority import substitution areas:

- reducing dependency on imported complex technical systems such as signalling and telematics equipment, including digital interlocking systems

at stations, centralised traffic control systems, dispatcher control, automatic cab signalling, automation and telematics equipment at railway sections, and automatic road switching;

- reducing railway industry dependency on imports;
- preferred use of domestic software;
- equipping railway infrastructure with import-independent hardware and software;
- scheduled replacement of foreign products with domestic ones.

GRI 204-1

In 2021, domestically sourced equipment, work and services made up 96.9% in total Russian Railways' procurement.

¹ The share is calculated based on the amount paid in the reporting year as per the 2021 report on procurement of goods, work and services from small and medium-sized businesses by certain types of legal entities.

² Approved by Russian Railways' Order No. 3125/r dated 31 December 2019.

Sustainable development and supplier engagement

Occupational health and safety

The Company relies on the Regulation on OHS Relations of Russian Railways with Contractors to ensure safe work of contractors on its sites. The Company stipulates OHS requirements for contractors in service contracts, putting relevant branches, where contractors perform work, in charge of overseeing compliance. In case of violations the contractor is penalised as provided for by the contract. Contracts for work on Russian Railways sites and premises include the following:

- OHS provisions regulating responsibilities of the customer and contractors, including contractor liability for breaching safety rules when doing work or staying near railways;
- provisions on contractor staff compliance with Russian Railways' OHS requirements;

- provisions on the timely notice to the customer of all accidents, injuries, health impairment and illnesses of employees, and other work-related emergencies.

Supplier environmental responsibility

The Company adopted an in-house methodology to assess supplier environmental responsibility. To monitor contractor compliance with environmental requirements, we use the Methodology for the Recognition and Assessment of Environmental Requirements for Products, Raw Materials and Supplies Purchased by Russian Railways' Business Units. This methodology regulates compliance with additional requirements to reduce the environmental footprint, improve working conditions and increase the Company's economic indicators through better energy and resource efficiency.

Supplier hotline

Russian Railways has put in place a procurement hotline to support its suppliers. The hotline ensures that legal entities and individuals exercise their right to access information about Russian Railways procurement of goods, work, services and to participate in relevant procurement activities.

It is available 24/7.

