

Chairman of the Management Board
RAEX International Group, JSC
D.E.Grishankov
December 25, 2014

General Director
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December 25, 2014

REPORT

on assignment of Governance Quality Rating to IDGC of the North-West, JSC

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1. Rating conclusion

In accordance with the decision of the Rating Committee (**Minutes No 5153 dated 12.12.2014**) taken by virtue of the governance quality analysis conducted, Expert RA rating agency assigned the following rating to IDGC of the North-West, JSC:

A++.gq “Highest Level of Governance Quality”

The governance quality system in the highest possible degree promotes respect and protection of stakeholders' rights.

1.1. Key factors affecting credit rating

In the course of conductance of the rating evaluation, the following key factors were revealed that determine the level of the assigned governance quality rating:

Negative factors

No negative factors revealed.

Restraining factors

- Moderately non-transparent ownership structure (information known on end beneficiaries of 55.38% of the Company's authorized capital; Rosseti, JSC, end beneficiary – Russian Federation);
- Auditor providing non-audit services (in 2013, the auditor provided to the Company non-audit services to the extent of 7% of the remuneration due to the auditor);
- Number of in absentia sessions of the Board of Directors exceeding that of in presentia ones (in 2013, less than 25% of the sessions of the Board of Directors were arranged in presentia);
- Company having no ratings (no credit rating as assigned by Expert RA (RAEX) or S&P, Moody's, Fitch; additionally, there is no risk management or employer attractiveness rating).

Positive factors

- High level of organization of executive bodies' activities (the Company has a Management Board (consisting of 9 persons), the activities are regulated, the remuneration due to members of the Management Board depends on quarterly and annual results of the Company's activities);
- High level of information disclosure (available on the Web-site is information on the Company's strategy and management as well as financial statements);
- High level of corporate social responsibility organization (Company implementing a series of social welfare and charity project; a Corporate Ethics Code adopted, IDGC of the North-West, JSC issuing a social welfare report);
- High level of organization of the system for control over financial and economic activities of the Company (within IDGC of the North-West, JSC, there is an Auditing Commission and an Internal Audit and Control Administration operating; Regulations on the Auditing Commission, an Internal Control Policy as well as an Internal Audit Policy are adopted);
- High level of organization of the risk management system (in charge of risk management is the Unit for Risk Management and Internal Control Organization under the Internal Audit and Control Administration; a Risk Management Policy in effect within the Company);

- High level of organization of committees under the Board of Directors (an Audit Committee under the Board of Directors and a Personnel and Remuneration Committee under the Board of Directors operating, the committees' activities are regulated, sessions of the committees take place more than 3 times a year; additionally, there is a Strategy and Development Committee under the Board of Directors, a Reliability Committee under the Board of Directors and a Committee for Technological Connection to Electric Power Grids under the Board of Directors operating);
- High level of interaction between the Company's management bodies (Corporate Secretary duties fulfilled by Head of the Head of the Corporate Governance Unit of the Department for Corporate Governance and Interaction with Shareholders; the Corporate Secretary's activities are regulated by the regulations on Corporate Secretary);
- Moderately high level of organization of the Board of Directors (consists of 11 persons; Regulations on the Procedure of Preparation Convention and Arrangement of Sessions of the Board of Directors in place, calendar plan of sessions of the Board of Directors in place, 24 sessions of the Board of Directors arranged in 2013);
- Profitability of the Company's activities (according to statements as per Russian Accounting Standards and International Financial Reporting Standards, IDGC of the North-West, JSC ended 2013, 2012 and 2011 with profit earned);
- ISO 9001 management quality certificate available (certificate issued by "Russian Register" Certification Association, valid till 27.06.2016).

1.2. Stress factors

Stress factors

No stress factors revealed.

1.3. Rating conditions

No rating conditions.

2. Input data:

Within the framework of the analysis, the following data were used:

- Questionnaire on the Agency's form;
- Annual report of IDGC of the North-West, JSC for 2013;
- Quarterly report of IDGC of the North-West, JSC for Q1 and Q3 2014;
- Consolidated financial statements for 2013, 2012 and 2011;
- Accounting statements (Form 1 and Form 2) for 2013, 2012 and 2011;
- Information from the Company's Web-site (<http://www.mrsksevzap.ru/>) and other open sources.

In the course of conductance of the rating evaluation, all requested information on the activities of IDGC of the North-West, JSC was provided to the agency in full.

3. Information on the Company

Company description

Table 1. Information on the Company

Full name:	<i>Joint-Stock Company “Interregional Distribution Grid Company of the North-West”</i>
Owners	Rosseti, JSC – 55.38% Energysouz Solutions Russia (Cyprus) Limited – 16.41% Energysouz Holdings Limited – 5.65% Lancrenan Investments Limited – 4.99% Photsvetaniye Holdings Limited – 2.2% The Bank of New York Mellon – 1.67% Faendo Limited – 1.54% Other legal entities – 4.21% Other natural persons – 7.95%
Management	General Director – Alexander Vyacheslavovich Letyagin
Year of incorporation: (date of state registration of the Issuer):	23.12.2004
Specialization	Electric energy transmission
Auditor of the Company	KPMG, CJSC
Engagement of the Issuer in essential court proceedings:	None

Source: Expert RA relying on data of IDGC of the North-West, JSC

Table 2. Composition of the Board of Directors (as of 30.09.2014)

Full names of directors	Professional activities
S.G.Titov (Chairman)	First Deputy General Director for Interaction with IDGC of the North-West, JSC (place of employment – Lenenergo, JSC) Member of the Board of Directors of UES R&D Center, JSC
T.P.Dronova	Deputy General Director for Strategy and Development of Investment Holding E-Union CJSC
A.N.Zharikov	Director of the Department for Corporate Policy and Work with Shareholders of Elektrosentraladka, JSC.
S.S.Zholnerchik	Deputy General Director of Rosseti, JSC Member of the Board of Directors of Lenenergo, JSC Member of the Board of Directors of IDGC of Center and Privolzhye, JSC
A.M.Lavrova	Head of the SDCs Economy Administration of the Economic Planning and Budgeting Department of Rosseti, JSC. Member of the Board of Directors of Dagestan Retail Energy Company, JSC Member of the Board of Directors of Yekaterinburg Electric Power Grid Company, JSC Member of the Board of Directors of Kubanenergo, JSC

Full names of directors	Professional activities
	Member of the Board of Directors of Northwest Energy Managing Company, JSC
S.V.Pokrovsky	Deputy Executive Director of the Investors Protection Association NK
M.M.Saukh	Head of the Corporate Relationships Administration of the Department for Corporate Governance and Interaction with Shareholders and Investors of Rosseti, JSC Member of the Board of Directors of Energy Institute, JSC Member of the Board of Directors of Yekaterinburg Electric Power Grid Company, JSC Member of the Board of Directors of Kabbalenergo, JSC Member of the Board of Directors of Pskovenergosbyt, JSC Member of the Board of Directors of IT Energy Service, LLC Member of the Board of Directors of IDGC of Center, JSC Member of the Board of Directors of R&D Center of Siberia, JSC
V.V.Sofyin	Director of the Technological Development and Innovation Department of Rosseti, JSC. Chairman of the Board of Directors of APBE, JSC Chairman of the Board of Directors of VNIPIenergoprom, JSC Chairman of the Board of Directors of UES R&D Center, JSC Chairman of the Board of Directors of VTI Special Design Bureau, JSC Member of the Board of Directors of IDGC of Center, JSC Member of the Board of Directors of R&D Center of Siberia, JSC Member of the Board of Directors of R&D Center of South, JSC Member of the Board of Directors of Directorate for Fiber Optic Communication Lines on Overhead Transmission Lines, JSC Member of the Board of Directors of Energy Institute, JSC
R.A.Filkin	Co-Director for Power Industry and Machine Building of Prosperity Capital Management (RF) Ltd. representative office Member of the Board of Directors of TGC-6, JSC Member of the Board of Directors of Dalenergomontazh, JSC Member of the Board of Directors of IDGC of Center, JSC Member of the Board of Directors of IDGC of Center and Privolzhye, JSC Member of the Board of Directors of IDGC of South, JSC Member of the Board of Directors of Smolensk Power Industry Repair Company, JSC Member of the Board of Directors of Urengoytruboprovodstroy, JSC Member of the Board of Directors of TGC-2, JSC
D.A.Chevkin	Director of the Department for HR Policy and Organizational Development of Rosseti, JSC Member of the Board of Directors of R&D Center of Ural, JSC Member of the Board of Directors of Tyumenenergo, JSC
A.A.Erdyniyev	Deputy Director of the Electric Power Industry Development Department of the Ministry of Energy of Russia

Source: Expert RA relying on data of IDGC of the North-West, JSC

Table 3. Composition of the Management Board (as of 30.09.2014)

Full names of directors	Professional activities
A.V.Letyagin (Chairman)	General Director of IDGC of the North-West, JSC
O.A.Bezdenezhnykh	Deputy General Director for Implementation of Strategic Development Projects of IDGC of the North-West, JSC Member of the Board of Directors of Energoservice of the North-West, JSC
A.Yu.Gorokhov	Deputy General Director for Technical Issues – Chief Engineer of IDGC of the North-West, JSC
V.Ye.Lutskovich	Deputy General Director – Chief of Staff of IDGC of the North-West, JSC
A.A.Mizgin-Somov	Deputy General Director for Logistics and Material and Technical Support of IDGC of the North-West, JSC
A.V.Mikhalkov	Deputy General Director for Development and Marketing of Services of IDGC of the North-West, JSC Member of the Board of Directors of Energoservice of the North-West, JSC
D.S.Nikiforov	Deputy General Director for Economy and Finance of IDGC of the North-West, JSC.
A.D.Nikonov	Deputy General Director for Security of Lenenergo, JSC Deputy General Director for Security of IDGC of the North-West, JSC
D.A.Orlov	Deputy General Director for Corporate Governance of IDGC of the North-West, JSC
D.P.Tiron	Deputy General Director for Capital Construction of IDGC of the North-West, JSC

Source: Expert RA relying on data of IDGC of the North-West, JSC

4. Rating conclusion substantiation

Negative factors

No negative factors revealed.

Restraining factors

Moderately non-transparent ownership structure

According to the Web-site data, the ownership structure of IDGC of the North-West is as follows:

Table 4. Ownership structure of IDGC of the North-West (as of 19.05.2014)

Shareholder	Portion of the authorized capital, %
Rosseti, JSC	55.38
Energys Solutions Russia (Cyprus) Limited	16.41
Energosouz Holdings Limited	5.65
Lancrenan Investments Limited	4.99
Photsvetaniye Holdings Limited	2.2
The Bank of New York Mellon	1.67
Faendo Limited	1.54

Shareholder	Portion of the authorized capital, %
Other legal entities	4.21
Other natural persons	7.65

Source: Expert RA relying on data of IDGC of the North-West, JSC

In their statements, the company has disclosed the end beneficiary of only Rosseti, JSC. It is the Russian Federation. The end beneficiaries of the other shareholders are not disclosed in the statements of IDGC of the North-West, JSC.

The insufficiently transparent ownership structure has a restraining effect on the rating level.

Provision of non-audit services by the auditor

An auditor rotation procedure is in place within the company. The auditor is selected through a tender organized by the parent company (Rosseti, JSC). The 2013 statements were audited by KPMG, JSC. Apart from audit, KPMG, JSC delivers DipIFR training seminars (7% of the total amount of remuneration due to the auditor). Ernst & Young, LLC was approved of as Auditor of the Company for 2014.

Provision of non-audit services renders the auditor interested in the customer's activities. However, non-audit services account for but a minor portion in the total amount of remuneration due to KPMG, JSC and the factor has a restraining effect on the rating level.

Number of in absentia sessions of the Board of Directors exceeding that of in presentia ones

The Company has an approved calendar plan of sessions of the Board of Directors. According to the date of IDGC of the North-West, JSC, in 2013 less than 25% of the sessions of the Board of Directors were arranged in presentia.

The insufficient number of in presentia sessions reduces involvement of members of the Board of Directors in the Company's activities which has a restraining effect on the rating level.

Company having no ratings

IDGC of the North-West, JSC fails to have a credit rating as assigned by Expert RA (RAEX) or S&P, Moody's, Fitch; additionally, there is no risk management or employer attractiveness rating. A company having the said ratings as assigned by Expert RA (RAEX) and other international rating agencies is an independent acknowledgement of the status of the company's activities segment being rated.

Absence of ratings has a restraining effect on the rating level.

Positive factors

The positive belong to factors positively affecting rating evaluation:

- High level of organization of executive bodies' activities (the Company has a Management Board (consisting of 9 persons), the activities are regulated, the remuneration due to members of the Management Board depends on quarterly and annual results of the Company's activities);
- High level of information disclosure (available on the Web-site is information on the Company's strategy and management as well as financial statements);
- High level of corporate social responsibility organization (Company implementing a series of social welfare and charity project; a Corporate Ethics Code adopted, IDGC of the North-West, JSC issuing a social welfare report);
- High level of organization of the system for control over financial and economic activities of the Company (within IDGC of the North-West, JSC, there is an Auditing Commission and an Internal Audit and Control Administration operating; Regulations on the Auditing Commission, an Internal Control Policy as well as an Internal Audit Policy are adopted);

- High level of organization of the risk management system (in charge of risk management is the Unit for Risk Management and Internal Control Organization under the Internal Audit and Control Administration; a Risk Management Policy in effect within the Company);
- High level of organization of committees under the Board of Directors (an Audit Committee under the Board of Directors and a Personnel and Remuneration Committee under the Board of Directors operating, the committees' activities are regulated, sessions of the committees take place more than 3 times a year; additionally, there is a Strategy and Development Committee under the Board of Directors, a Reliability Committee under the Board of Directors and a Committee for Technological Connection to Electric Power Grids under the Board of Directors operating);
- High level of interaction between the Company's management bodies (Corporate Secretary duties fulfilled by Head of the Head of the Corporate Governance Unit of the Department for Corporate Governance and Interaction with Shareholders; the Corporate Secretary's activities are regulated by the regulations on Corporate Secretary);
- Moderately high level of organization of the Board of Directors (consists of 11 persons; Regulations on the Procedure of Preparation Convention and Arrangement of Sessions of the Board of Directors in place, calendar plan of sessions of the Board of Directors in place, 24 sessions of the Board of Directors arranged in 2013);
- Profitability of the Company's activities (according to statements as per Russian Accounting Standards and International Financial Reporting Standards, IDGC of the North-West, JSC ended 2013, 2012 and 2011 with profit earned);
- ISO 9001 management quality certificate available (certificate issued by "Russian Register" Certification Association, valid till 27.06.2016).

Stress factors

No stress factors revealed.

Rating conditions

No rating conditions.

5. Disclaimer

The Agency assumes no liability in connection with any consequences, interpretations, opinions, recommendations and other actions, directly or indirectly related to the rating evaluation, rating actions performed by the Agency as well as opinions and conclusions contained in the rating report and press releases issued by the agency or omission of any of the aforesaid.

Rating evaluations express the point of view of Expert RA rating agency and fail to constitute establishment of facts or recommendations to purchase, hold or sell any securities or assets or take investment decisions.

The sole source reflecting the actual status of rating evaluation is the official Web-site of Expert RA rating agency www.raexpert.ru.