

“Approved”
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REPORT

ON ASSIGNMENT OF GOVERNANCE QUALITY RATING TO IDGC of the North-West, PJSC

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1. Rating conclusion

In accordance with the decision of the Rating Committee IDGC of the North-West, PJSC (**Minutes No. 8538 dated 15.03.2016**) taken by virtue of the governance quality analysis conducted, RAEX (Expert RA) rating agency assigned the following rating to IDGC of the North-West, PJSC:

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:

None revealed

Restraining factors:

- Moderately low quality of the risk management process implementation;
- Moderately non-transparent ownership structure (information known on end beneficiaries of 55.38% of the Company's authorized capital; Rosseti, PJSC, end beneficiary – Russian Federation);
- Number of in absentia sessions of the Board of Directors exceeding that of in presentia ones (in 2015, less than 25% of the sessions of the Board of Directors were arranged in presentia);
- IDGC of the North-West, PJSC fails to have ratings (a credit rating as assigned by RAEX (Expert RA) or a foreign rating agency); additionally, there is no risk management or employer attractiveness rating.

Positive factors

- Moderately high profitability of the Company's activities (accumulated net profit following the outcome of 2013-2015 made 299 mln RUB according to RAS with the net profit according to according to RAS following the outcome of 2015 equal to 644 mln RUB);
- High level of organization of executive bodies' activities (the Company has a Management Board (consisting of 8 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 projects; a Corporate Ethics Code adopted, IDGC of the North-West, PJSC issuing an annual report disclosing the indicators of the social, economic and environmental aspects of their activities in accordance with the G4 GRI standard);
- High level of organization of the system for control over financial and economic activities of the Company (within IDGC of the North-West, PJSC, 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 Department; effective within the Company is a Risk Management Policy as well as a Strategy for development and improvement of the internal control system of Rosseti, PJSC and subsidiary and dependent companies of Rosseti, PJSC, a Register of Operational Risks of the Core Business Processes of the Company and a Register of Operational Risks of Other Business Processes of 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; in 2015, over 40 sessions of the committees under the Board of Directors were arranged; 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; the committees' activities are regulated);
- 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);
- High level of organization of the Board of Directors (consists of 11 persons; Regulations on the Board of Directors in place, calendar plan of sessions of the Board of Directors in place, 23 sessions of the Board of Directors arranged in 2015);
- ISO 9001 management quality certificate available (certificate issued by "Russian Register" Certification Association, valid till 27.06.2016); planned in H1 2016 are works related to the QMS recertification for conformity to ISO 9001 with a view of prolonging the certificate validity term by 3 more years).

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 completed by IDGC of the North-West, PJSC on the Agency's form;
- Annual report of IDGC of the North-West, OJSC for 2014;
- Quarterly report of IDGC of the North-West, PJSC for Q3 2015;
- Consolidated reports on profit and loss of IDGC of the North-West, OJSC and on other aggregated income for 2012-2014 prepared in accordance with IFRS;
- Auditor's opinions of the consolidated financial statements of IDGC of the North-West, OJSC and their subsidiary organizations for 2012-2014 prepared in accordance with IFRS;
- Reports on the financial results of IDGC of the North-West, PJSC for 2012-2015 prepared in accordance with RAS;
- Auditor's opinions of the accounting statements of IDGC of the North-West, OJSC for 2012-2014 prepared in accordance with RAS;
- Regulations on the Board of Directors of IDGC of the North-West, PJSC;
- Regulations on Payments of Rewards and Compensations to Members of the Board of Directors of IDGC of the North-West, PJSC;
- Work Plan of the Board of Directors of IDGC of the North-West, PJSC for 2015-2016;
- Regulations on the Management Board of IDGC of the North-West, PJSC;
- Regulations on the General Meeting of Shareholders of IDGC of the North-West, PJSC;
- Regulations on the Audit Committee under the Board of Directors of IDGC of the North-West, PJSC;
- Regulations on the Auditing Commission under the Board of Directors of IDGC of the North-West, PJSC;
- Regulations on the Personnel and Award Committee under the Board of Directors of IDGC of the North-West, OJSC;
- Regulations on the Reliability Committee under the Board of Directors of IDGC of the North-West, OJSC;
- Regulations on the Committee for Strategy and Development under the Board of Directors of IDGC of the North-West, OJSC;
- Regulations on the Committee for Technological Connection to Electric Power Grids under the Board of Directors of IDGC of the North-West, PJSC;
- Internal Control Policy of IDGC of the North-West, PJSC;
- Risk Management Policy of IDGC of the North-West, PJSC;
- Corporate Governance Code of IDGC of the North-West, OJSC;
- Corporate Ethics Code of IDGC of the North-West, OJSC;
- Regulations on Insider Information of IDGC of the North-West, OJSC;
- Charter of IDGC of the North-West, PJSC;
- Information from mass media and other sources.

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

3. Information on the Company

3.1. Company description

Table 1. Information on the Company

Full name:	Public Joint-Stock Company “Interregional Distribution Grid Company of the North-West”
Auditor of the Company	2014 – Ernst & Young, LLC, according to RAS and IFRS, 2015 – RSM RUS, LLC, according to RAS and IFRS (No. 11 in the 2015 ranking of auditor and consulting groups by RAEX (Expert RA))
Management	General Director – Alexander Vyacheslavovich Letyagin Chairman of the Board of Directors Svetlana Semenovna Zholnerchik
Year of incorporation: (date of state registration of the Issuer):	23.12.2004
Registrar of the Company:	Joint-Stock Company “Registrar R.O.S.T.”
Owners:	Rosseti, OJSC – 55.38% Energys Solutions Russia (Cyprus) Limited – 16.41% Energosouz Holdings Limited – 5.65% Lancrenan Investments Limited – 4.99% Photsvetaniye Holdings Limited – 2.2% Faendo Limited – 1.54% Other legal entities - 3.90% Other natural persons - 9.93%
Authorized capital structure:	Authorized capital breakdown: ordinary shares making 100% of the authorized capital
Engagement of the Issuer in essential court proceedings:	None

Source: RAEX (Expert RA) relying on data of IDGC of the North-West, PJSC

Table 2. Composition of the Board of Directors (as of 23.06.2015)

Full names of directors	Professional activities
Svetlana Semenovna Zholnerchik (Chairman of the Board of Directors)	Chief Advisor to Rosseti, PJSC Member of the Board of Directors of Lenenergo, PJSC Member of the Board of Directors of IDGC of the North-West, PJSC Chairman of the Board of Directors of IDGC of the North-West, PJSC
Mikhail Alexandrovich Bychko (Deputy Chairman of the Board of Directors)	Director of the Capital Construction Department of Rosseti, PJSC Member of the Board of Directors of IDGC of Siberia, PJSC Member of the Board of Directors of NIITs IDGC, JSC Member of the Board of Director of Urals Power Engineering Center, OJSC Member of the Board of Directors of IDGC of the North-West, PJSC

	Member of the Board of Directors of North-Western Power Engineering Center, OJSC
Tatyana Petrovna Dronova	Deputy General Director for Strategy and Development of Investment Holding "E-Union", CJSC Member of the Board of Directors of IDGC of the North-West, PJSC Member of the Board of Directors of Bank Agroros, CJSC Member of the Board of Directors of IDGC of Center, PJSC Deputy Chairman of the Board of Directors of Elektrosentraladka, JSC Chairman of the Committee for Technological Connection to Electric Power Grids of IDGC of the North-West, PJSC
Alexey Nikolayevich Zharikov	Director of the Department for Corporate Policy and Work with Shareholders of Elektrosentraladka, JSC. Member of the Board of Directors of IDGC of the North-West, PJSC
Marina Alexandrovna Lavrova	Head of the SDCs Economy Administration of the Economic Planning and Budgeting Department of Rosseti, PJSC. Member of the Board of Directors of Dagestan Retail Energy Company, PJSC Member of the Board of Directors of Yekaterinburg Electric Power Grid Company, OJSC Member of the Board of Directors of Kubanenergo, PJSC Member of the Board of Directors of IDGC of the North-West, PJSC Chairman of the Audit Committee and the Personnel and Award Committee
Alexander Vyacheslavovich Letyagin	General Director of IDGC of the North-West, PJSC Chairman of the Management Board of IDGC of the North-West, PJSC Member of the Board of Directors of IDGC of the North-West, PJSC
Andrey Klavdiyevich Mamontov	Director for Technical Policy and Engineering of Federal Testing Center, PJSC. Member of the Board of Directors of IDGC of the North-West, PJSC
Sergey Vladimirovich Pokrovsky	Deputy Executive Director of the Professional Investors Association Member of the Board of Directors of IDGC of the North-West, PJSC
Mariya Dmitriyevna Stepanova	Head of the Administration for Interaction with Shareholders and Investors of Rosseti, PJSC Member of the Board of Directors of Berendeyevskoye, OJSC Member of the Board of Directors of ESKO Tyumenenergo, OJSC Member of the Board of Directors of IDGC of the North-West, PJSC
Roman Alexeyevich Filkin	Director for Power Industry and Machine Building of Prosperity Capital Management (RF) Ltd. representative office Member of the Board of Directors of Dalenergomontazh, OJSC Member of the Board of Directors of IDGC of Center, PJSC Member of the Board of Directors of IDGC of Center and Privolzhye, PJSC Member of the Board of Directors of IDGC of South, PJSC Member of the Board of Directors of Smolensk Power Industry Repair Company, OJSC Member of the Board of Directors of TGC-2, OJSC Member of the Board of Directors of IDGC of the North-West, PJSC
Erdyniyev, Anton Alexandrovich	Deputy Head of the Department for Electric Energy Development, the Russian Federation Ministry of Energy Member of the Board of Directors of IDGC of the North-West, PJSC

Source: RAEX (Expert RA) relying on data of IDGC of the North-West, PJSC

Table 3. Management Board composition (as of 11.12.2015)

Full name	Position
Letyagin, Alexander Vyacheslavovich	Chairman of the Management Board of IDGC of the North-West, PJSC, General Director
Nikonov, Dmitry Ivanovich	Member of the Management Board of IDGC of the North-West, PJSC, First Deputy General Director –Chief Engineer
Fedorov, Vadim Nikolayevich	Member of the Management Board, Deputy General Director for Development and Marketing of Services
Shiryayev, Pavel Vyacheslavovich	Member of the Management Board, Deputy General Director for Economics and Finance
Orlov, Denis Alexandrovich	Member of the Management Board, Deputy General Director for Corporate Governance
Nesterenko, Vladimir Valeryevich	Member of the Management Board, Deputy General Director for Investment Activities
Medvedev, Ivan Vladimirovich	Member of the Management Board, Deputy General Director - Director of Komienergo branch of IDGC of the North-West, PJSC
Gusev, Vladimir Sergeyeovich	Member of the Management Board, Deputy General Director for Security

Source: RAEX (Expert RA) relying on data of IDGC of the North-West, PJSC

4. Rating conclusion substantiation

4.1. Negative factors:

None revealed.

4.2. Restraining factors:

Moderately low quality of the risk management process implementation;

The Company completed 2014 with losses amounting to (-620 mln RUB according to RAS and -2.2 bln RUB according to IFRS) which was due to the fact that a considerable amount of cash funds of IDGC of the North-West, PJSC (3 bln RUB) was deposited with Tavrishesky Bank. The Bank currently undergoes a sanation procedure conducted by JSCB International Financial Club, OJSC. In this connection, the Company provided for a reserve amounting to 1.7 bln RUB. As of the moment, the Company has succeeded in regaining 1.2 bln RUB out of the 3 bln RUB deposit with the remaining funds converted into subordinated deposits for a term of 20 years at 0.5% annual according to the bank sanation conditions. Additionally, a representative of the Company (Head of the Finance administration of IDGC of the North-West, PJSC) was included in the Board of Directors of Tavrishesky Bank which allows to ensure control over the bank's key decision taking. Additionally, to prevent repetition of a similar negative scenario in future, amendments have been introduced to the in-house documents of the Company stipulating determination of the end number of state banks where cash funds can be placed.

The moderately low quality of the risk management process implementation negatively affects the rating level.

Moderately non-transparent ownership structure

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

Table 1. Ownership structure of IDGC of the North-West, PJSC (as of 19.05.2015)

Shareholder	Portion of the authorized capital, %
Rosseti, PJSC	55.38
ENERGYO SOLUTIONS RUSSIA (CYPRUS) LIMITED.	16.41
Energosouz Holdings Limited	5.65
Lancrenan Investments Limited	4.99
Photsvetaniye Holdings Limited	2.2
Faendo Limited	1.54
Other legal entities	3.9
Other natural persons	9.93

Source: RAEX (Expert RA) relying on data of IDGC of the North-West, PJSC

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

The insufficiently transparent ownership structure 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 data of IDGC of the North-West, PJSC, 23 sessions of the Board of Directors were arranged in 2015 with only 5 sessions (22% of the total number) arranged in the in

presentia form.

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, PJSC fails to have a credit rating as assigned by RAEX (Expert RA) or a foreign rating agency; additionally, there is no risk management or employer attractiveness rating. A company having the said ratings as assigned by RAEX (Expert RA) 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.

4.3. Positive factors

The positive belong to factors positively affecting rating evaluation:

- Moderately high profitability of the Company's activities (accumulated net profit following the outcome of 2013-2015 made 299 mln RUB according to RAS with the net profit according to according to RAS following the outcome of 2015 equal to 644 mln RUB);
- High level of organization of executive bodies' activities (the Company has a Management Board (consisting of 8 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 projects; a Corporate Ethics Code adopted, IDGC of the North-West, PJSC issuing an annual report disclosing the indicators of the social, economic and environmental aspects of their activities in accordance with the G4 GRI standard);
- High level of organization of the system for control over financial and economic activities of the Company (within IDGC of the North-West, PJSC, 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 Department; effective within the Company is a Risk Management Policy as well as a Strategy for development and improvement of the internal control system of Rosseti, PJSC and subsidiary and dependent companies of Rosseti, PJSC, a Register of Operational Risks of the Core Business Processes of the Company and a Register of Operational Risks of Other Business Processes of 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; in 2015, over 40 sessions of the committees under the Board of Directors were arranged; 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; the committees' activities are regulated);
- 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);

- High level of organization of the Board of Directors (consists of 11 persons; Regulations on the Board of Directors in place, calendar plan of sessions of the Board of Directors in place, 23 sessions of the Board of Directors arranged in 2015);
- ISO 9001 management quality certificate available (certificate issued by “Russian Register” Certification Association, valid till 27.06.2016; planned in H1 2016 are works related to the QMS recertification for conformity to ISO 9001 with a view of prolonging the certificate validity term by 3 more years).

4.4. Stress factors

No stress factors revealed.

4.5. 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.

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