



ANNUAL REPORT of JSC IDGC of the North-West as of the end of 2011  
**THE MODERN COMPANY SHOULD BE TRANSPARENT**



MRSC SEVERO-ZAPADA

” The modern company should be transparent in: goals setting and achievement, communication with customers and partners, treatment of internal processes, information supply, analysis of the results and discussion of new ideas.

Today, transparency is one of the basic principles and critical success factor. Openness in cooperation, mutual confidence, compliance with legal provisions, professional obligations and established ethical rules are the precondition to long-term and success development.

## MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

” Dear shareholders, partners and colleagues!

*JSC IDGC of the North-West is a member of the JSC IDGC Holding Group of Companies, the largest infrastructure organization of Russia owning 80% of distribution grid complex of the country.*

*JSC IDGC of the North-West remains the key element in the public infrastructure of regional centers of the North-West Federal District, which ensures reliable and uninterrupted power supply to consumers. In accordance with IFRS statements, proceeds of JSC IDGC of the North-West for 2011 grew by 15% and amounted to RUR33,288 mln. The growth of proceeds is, in particular, due to the increase of net supply of electric power. Based on the results of the year, net profit amounted to RUR802 mln.*

*The Board of Directors of JSC IDGC of the North-West has a good balance of executive and non-executive directors and thoroughly monitors how the Company's management achieves identified objectives. During 2011 the Board of Directors of the Company held 20 meetings, where it reviewed 206 relevant issues for the Company's strategic development; they included: programs of innovative development for 2011-2016 and perspective development of the electric power metering system in the retail electricity market in the Company's distribution grids; the energy-saving and energy efficiency program for 2011-2015, the long-term program of consolidation of power supply network assets of JSC IDGC of the North-West for the period of 2011-2015; the system of major investment projects construction management is being currently implemented.*

*Increase of operational efficiency and investment attractiveness is the major component of JSC IDGC of the North-West's development, therefore, at the beginning of 2012, the Board of Directors of JSC IDGC of the North-West developed and approved the Plan of Implementation of IDGC Holding Development Strategy within JSC IDGC of the North-West till 2015 and prospectively till 2020. During preparation of the Plan of Implementation of the Development Strategy, the Company took into account minority shareholders'*

*interests to the fullest extent. Under the Plan of Implementation of the Development Strategy, it is envisaged to increase the level of quality and reliability of power supply to end consumers, keep tariff sources of investments in renewal and development of grids unchanged and increase operational and investment efficiency.*

*With listings passed to RTS and MICEX in 2008, the history of JSC IDGC of the North-West as a public company has started. Listing in May 2011 in Quotation List A of the second level certainly confirmed the Company's reliability and respect of its shareholders' rights.*

*In accordance with Federal Law No. 261-FZ "On Energy Saving and Energy Efficiency Enhancement and Amending Certain Legislative Acts of the Russian Federation", dated 23.11.2011, which has entered into legal force, the commitment to increase energy efficiency of production and economic activity of the Company has been acknowledged as a priority. In January 2011, JSC IDGC of the North-West founded the wholly-owned branch JSC Energoservice of the North-West. Energoservice of the North-West was created to carry out energy studies (energy audit), technical works related to formation of electric power metering systems and increase of their efficiency, as well as energy saving activities.*

*In 2011, the Company issued its first social report for 2010 prepared in accordance with GRI (Global Reporting Initiative) standards, thereby confirming its commitment to sustainable development principles. In the reporting year JSC IDGC of the North-West continued to operate as a socially responsible Company which takes care of its production safety, supports local communities in regions it operates in, builds its activity based on long-term interests of everybody who is directly or indirectly involved in the activity of JSC IDGC of the North-West.*

*To sum up the results of 2011, it should be mentioned that the activity of the Board of Directors not only facilitated efficient work of the Company in 2011, determining the development strategy, but also was aimed at forming a long-term perspective of the activity of JSC IDGC of the North-West.*



Sincerely,  
Chairman of the Board of Directors JSC IDGC of the North-West  
A.V. Demidov



## MESSAGE FROM DIRECTOR GENERAL OF THE COMPANY

” Dear shareholders, colleagues and partners!

*I present to you a report on performance of JSC IDGC of the North-West, one of the largest state infrastructure companies in the North-West Federal District, in 2011.*

*This year our task was maximum implementation of the investment program under the tariff limitation conditions by the Decision of the Government of the Russian Federation and achieving the Company's break-even operation, which we were able to do.*

*Based on the results of 2011, JSC IDGC of the North-West gained a positive financial result. Proceeds grew by 15.7% and amounted to RUR30.8 billion, profit - RUR408 million as compared to the loss for the previous year. Feasibility grew by 4.2% as compared to the previous year and amounted to 9.9%. EBITDA grew by RUR1.3 billion and amounted to almost RUR4 billion. Among positive indicators are also increase in the fixed assets value by RUR2.4 billion, decrease in accounts payable by RUR204 million.*

*Capital investments for the passed year were RURS.2 billion. Most of major and large projects were implemented in the Vologda Region. In particular, reconstruction of 110/35/10 kv SS "Antushevo" was completed with replacement of physically worn-out and outdated equipment, which allowed to increase reliability of energy supply to consumers in Belozerskiy District of the Vologda Region. Reconstruction of 110/10 kv SS "Iskra" enabled to develop the northern part of Cherepovets. Works on reconstruction of the 42.178 km long 35 kv OL "Belousovo-Annenskiy Most" in Vytegorskiy District were completed, which increased reliability of energy supply of six gates of water facilities of Volga Baltic Waterway in Vytegorskiy District, Belorucheykiy mine group JSC Severstal.*

*A large part of the investment program, almost RUR2 billion, accounts for services on technological connection of consumers to electric grids. The largest projects are reconstruction of SS-102A in Mirny of the Arkhangelsk Region, which supplies energy to the only launch complex in our country Plesetsk; construction of 110 kv DSS to connect 110 kv combined-cycle gas turbine of Vologda TPP to electric grids; construction of 35 kv OL and reconstruction of 220/35/6 kv SS "Promyslovaya" to connect LLC RN-Severnaya Neft in the Komi Republic; construction of infrastructure to supply power to 150/35/6 kv SS "Oleniy Ruchey" mining and concentrating complex in the Murmansk Region.*

*In order to prepare network infrastructure to uninterrupted operation in autumn and winter, the Company spent over RUR1.6 billion to repair and renew the electric grid complex. The largest part of funds (40%) of the annual repair program of JSC IDGC of the North-West is allocated for the repair of 0.38-20 kv distribution grids.*

*Tariffs for electric energy transmission services have been regulated in three subsidiaries of the Company (Novgorodenergo, Vologdaenergo, Pskovenergo) using the RAB method since January 1, 2011. In the Murmansk Region and the Komi Republic, where JSC IDGC of the North-West carries out its activity, tariffs were implemented using the method of long-term parameters, and in the territory of the Republic of Karelia, tariffs for electric energy transmission services were set by the method of economically feasible expenses for the period of one year.*

*The volume of electric energy transmission by electric grids of JSC IDGC of the North-West has reached 40.2 billion kWh of energy; the loss index amounted to 6.4%. The purchase amount of equipment, materials and services exceeded RUR37.4 billion.*

*In order to increase ecologic safety in the North-West Region, the Company has developed the Program of implementation of environmental policy for 2010-2012. In 2011, the Company spent approximately RUR22 million, including payments for the negative environmental impact. Environmental care of JSC IDGC of the North-West is not limited to the Program activities only. Personnel of all of the Company's subsidiaries has actively joined social project "Save Forest Energy", initiated by JSC IDGC Holding. Over 17 thousand of trees were planted in the territory of JSC IDGC of the North-West's presence in 2011.*

*A lot of attention of the Company is paid to personnel and professional resources training. Over 66% of the company's employees were trained in 2011, both at workplaces and in licensed training centers. Professional skill competitions are held regularly. Our site in Vologda became the venue of the All-Russia Competition in Professional Skills of Operation and Maintenance Personnel of Electricity Distribution Grids, in which 13 companies of JSC IDGC Holding took part.*

*Today JSC IDGC of the North-West is one of strategic players of the power supply market at the North-West Federal District. Priorities for 2012 remain the strengthening of financial stability, gaining of target profit, informational openness, accuracy and coordination of business processes, increase of energy efficiency and energy saving, improvement of quality of services rendered by the Company, and, which is the most important, uninterrupted, reliable and high-quality electric power supply to consumers within the responsibility zone of JSC IDGC of the North-West.*

*I am sure that the active support and trust of shareholders will facilitate successful implementation of the Company's plans. Electric power industry is today one of the most important segments responsible for sustainment of the region. The way of development chosen by the Company will ensure reliable energy supply in the region and profit on investments made by the Company.*

Sincerely,  
Chairman of the Board,  
Director General of JSC IDGC of the North-West  
A.M. Kukhmay

ANNUAL REPORT  
of JSC IDGC of the North-West  
as of the end of 2011

## KEY FINANCIAL RESULTS

	2009	2010	2011
Total revenue, in RUR mln, including	24 944	26 669	30 849
- from electricity transmission	23 616	25 346	29 486
- from technological connections	497	668	884
- others	831	655	479
Production cost, in RUR mln	22 886	25 145	27 781
EBITDA, in RUR mln	3 199	2 650	3 976
Return on EBITDA, %	13%	10%	13%
Ratio of net debt to EBITDA	1,67	1,76	1,57
Gross profit, in RUR mln	2 058	1 524	3 067
Profit before taxes, in RUR mln	158	-348	960
Net profit, in RUR mln	150	-807	408
Net profit margin, %	0,6%	-3,0%	1,3%
Operating cash flow, in RUR mln	2 651	3 865	4 479
Return on equity secured by cash flow, %	0,27%	-3,70%	0,96%
Capitalization, in RUR mln	22 212,75	23 161,04	7 477,05

## KEY NON-FINANCIAL RESULTS

	2009	2010	2011
Supply to the grid, thousand kWh	41 945	43 735	42 991
Effective supply, thousand kWh	38 948	40 752	40 244
Loss, thousand kWh	2 997	2 983	2 747
Loss, %	7,1	6,8	6,4
Capacity added within technological connection, MW	214,31	157,75	237,80
Length of overhead power transmission lines, km	167 226	166 642	167 216
Length of cable power transmission lines, km	8 048	7 945	7 924
Number of substations (>35kV), pcs	1 145	1 143	1 144
Capacity of substations, MVA	17 835	17 877	18 003
Number of personnel, people	15 202	15 066	15 140



# CONTENT

Message from the Chairman of the Board of Directors .....	4
Message from Director General of the Company .....	5
Key Production and Financial Results .....	6
Content .....	8
Main Events of 2011 .....	10
<b>Section 1. General Information, Company Standing in the Industry .....</b>	<b>14</b>
Brief History of the Company .....	15
Geographical Position .....	16
Organizational Structure .....	17
Description of the Competitive Environment .....	19
<b>Section 2. Strategy Review .....</b>	<b>21</b>
Strategic Priorities .....	22
Priority Activity Areas and Development Perspectives .....	22
<b>Section 3. Corporate Governance .....</b>	<b>29</b>
Corporate Governance Principles .....	31
Governance and Control Bodies .....	34
Remuneration of the Auditing Commission .....	56
Security Market and Joint-Stock Capital .....	61
Dividend Policy .....	65
Interaction with the Investment Society .....	65
Subsidiaries and Dependent entities .....	67
<b>Section 4. Economy and Finance .....</b>	<b>69</b>
Tariff Regulation .....	71
Financial Results Analysis .....	73
Company's Key Performance Indicators .....	78
Cost Optimization .....	78
Equity Structure .....	79
Credit Portfolio and Liquidity .....	86
Accounting Methods and Policy .....	90
<b>Section 5. Production Activities .....</b>	<b>91</b>
Electric Energy Transmission .....	93
Energy Saving and Energy Efficiency Enhancement .....	95
Technological Connection .....	98
Interaction with Service Consumers .....	103
Perspective Development .....	105
Repair Activities .....	108
Information Technologies and Communications .....	109
Purchasing .....	116
Quality Policy .....	121





<b>Section 6. Investment Activities and Innovation Activities.....</b>	<b>124</b>
Indicators for Investment Activities.....	126
Trends and Structure of Capital Investments.....	127
Investment Program Financing Sources.....	130
Innovative Development.....	130
<b>Section 7. Internal Control System and Risk Management.....</b>	<b>135</b>
Basic Documents Regulating the Internal Control and Risk Management System.....	136
Participants of the Internal Control and Risk Management System and Responsibility Delineation.....	136
Improvement of Internal Control and Risk Management Systems.....	137
Company Strategy for Internal Control and Risk Management System.....	137
<b>Section 8. Environment protection.....</b>	<b>142</b>
Environmental Performance Indicators.....	143
Dynamics of environmental costs.....	144
Information on conduction of environmental audit.....	144
Application of advanced technologies and solutions.....	145
Top-Priority Environmental Targets.....	145
<b>Section 9. Prevention of Emergency Situations at the Facilities of the Distributive Electric Network Complex.....</b>	<b>146</b>
Natural Emergency Situation.....	147
Man-Caused Emergency Situations.....	147
Dynamics of Technological Disturbances.....	148
<b>Section 10. HR Policy and Social Partnership.....</b>	<b>149</b>
HR Policy.....	152
Personnel number and structure.....	152
Personnel Training and Development.....	154
Social Accountability.....	157
Occupational safety.....	159
<b>Section 11. Public Relations, Relations with the Government Authorities, International Cooperation, Congress and Exhibition Activity.....</b>	<b>165</b>
Public Relations.....	166
Relations with Government Authorities.....	168
Interaction with Mass Media.....	168
International Cooperation.....	169
Congress and Exhibition Activity.....	169
Reference Information.....	170

## MAIN EVENTS OF 2011

### JANUARY

- 35/10 kv SS “Sheksna-Gas” (Vologda Region) was put into operation after reconstruction.
- 35/6 kv SS “Pakhomovskaya” (Vologda Region) was put into operation after reconstruction.

### FEBRUARY

- Meeting of Head of Energy Committee of the State Duma of the Russian Federation Yuriy Lipatov with Director General of JSC IDGC of the North-West Alexander Kukhmay, visit to Komienergo facilities.
- Reconstruction of 10 kv OL “Timiryazev” (Vologda Region) started.
- Technical connection to electric grids of four Gazpromregiongaz facilities (Arkhangelsk Region) was completed.
- Subsidiaries of JSC IDGC of the North-West Pskovenergo and Novgorodenergo signed an agreement on interaction for operational and technological management.

### MARCH

- Director General of JSC IDGC Holding Nikolay Shvets visited the facilities of Vologdaenergo, a branch of JSC IDGC of the North-West.
- Sergey Titov was appointed Deputy Director General for Capital Construction of JSC IDGC of the North-West.
- 10 kv OL “Ust-Alekseevo-Yakutino” (Vologda Region) was put into operation after reconstruction.
- An agreement on cooperation of Arkhenergo branch of JSC IDGC of the North-West with the Chief Directorate of the MES of Russia for the Arkhangelsk Region was signed.

### APRIL

- 60th Anniversary of Director General of JSC IDGC of the North-West Alexander Kukhmay.
- Vologdaenergo branch of JSC IDGC of the North-West started reconstruction of 110/35/10 kv SS “Antushevo”.
- JSC IDGC of the North-West and Vypelkom launched a project for joint use of fiber-optic communication lines in the North-West Region.
- Statements of JSC IDGC of the North-West for 2010 prepared in accordance with IFRS were published.
- An in-praesentia session of the Board of Directors of JSC IDGC of the North-West was held in Saint Petersburg for the first time.

### MAY

- Meeting of Director General of JSC IDGC of the North-West Alexander Kukhmay with Head of the Republic of Karelia Andrey Nelidov.
- Meeting of the management of JSC IDGC of the North-West with representatives of leading investment funds.
- Shares of JSC IDGC of the North-West were transferred to MICEX Quotation List A of the second level.
- JSC IDGC of the North-West implements the project of technical connection to grids of the oriented strand board plant in Karelia.
- JSC IDGC of the North-West implements the project of electric power supply to a downhole water intake in Pskov.
- The Scheme and the program of electric power development in the Komi Republic for 2011-2015 were approved.
- JSC IDGC of the North-West obtained a license for operation of explosive production facilities.

### JUNE

- Meeting of Governor of the Vologda Region Vyacheslav Pozgalev and Director General of JSC IDGC of the North-West Alexander Kukhmay during the visit to 220/110/35/10 kv SS “Vologda-Yuzhnaya”.
- Changes in the composition of minority shareholders of JSC IDGC of the North-West - Bank of New York Mellon lowered the fraction of ordinary shares, HQ Bankaktiebolag seized to be a shareholder. Energo Solutions Russia /Cyprus/ Limited increased its fraction of share in JSC IDGC of the North-West.
- Annual general shareholders’ meeting of JSC IDGC of the North-West chaired by Deputy Director General for Corporate Management and Property of JSC IDGC Holding Aleksey Perepelkin was held.
- A three-year program for management of costs of JSC IDGC of the North-West has been elaborated.
- 150 kv SS that supplies energy to Kovdorsk Mining and Concentration Complex (MCC) (Murmansk Region) is at the completion stage.



## JULY

- Deputy Director General for Economics and Finances of JSC IDGC Holding Aleksey Demidov was elected Chairman of the Board of Directors of JSC IDGC of the North-West.
- Reconstruction of 110 kv OL “Mikun-Edva” (the Komi Republic) was completed. The project is notable for the use of a Mi-8 helicopter to mount platforms.
- JSC IDGC of the North-West started to arrange works on formation of forecasts of perspective changes in loads and electricity consumption for the period of 2013-2017.
- The program of perspective development of the electric power industry in the Republic of Karelia for the period of 2012-2016 was approved.
- AIS “Autotransport”, an automated information system for registration, use and operation of automotive vehicles, was put into pilot-plant operation at JSC IDGC of the North-West.
- Komienergo branch of JSC IDGC of the North-West implements a pilot project for creation of an automated system of commercial electric power metering for household consumers.
- The Standard of organization of works for conduction of regular technical certification of electric equipment, production facilities and structures was adopted.

## AUGUST

- From August, 1 the new organizational structure of JSC IDGC of the North-West was introduced.
- The Management Board of JSC IDGC of the North-West included Sergey Titov, Deputy Director General for Capital Construction.
- JSC IDGC of the North-West is the leader of the largest companies rating in the Leningrad Region in terms of proceeds in Q1 2011.
- A provision on the innovative activity of JSC IDGC of the North-West was put into effect.
- JSC IDGC of the North-West held a conference call for investors and analytics based on the results of the tariff campaign.
- Certificate SRO-E-095/003 “On admission to the works for the energy audit” dated June 16, 2011 was obtained.
- The perspective program and scheme of the electric power industry development in the Pskov Region for 2012-2016 was approved.
- Repair of 110 kv SS “Lomonosovskaya” (Arkhangelsk Region) was completed.
- Implementation of the project for reconstruction of external electric power supply to Kizhi Island (the Republic of Karelia) started.
- Repair works at 150 kv OL that supplies electric energy to the town of Ostrovnoy (Murmansk Region) were completed.
- Komienergo branch of JSC IDGC of the North-West was included in environmental rating under UNDP/GEF project.
- A new project for electric power metering in Novgorodenergo, a branch of JSC IDGC of the North-West, was implemented.
- Reconstruction of electric grids in the Solombala District of Arkhangelsk was completed.

## SEPTEMBER

- Minister of Energy of the Russian Federation Sergey Shmatko visited Arkhenergo branch of JSC IDGC of the North-West during his visit to Arkhangelsk.
- Consolidated interim condensed financial reporting prepared in accordance with IFRS for the first half of 2011 was published.
- Interregional training of Arkhenergo, Vologdaenergo and Komienergo branches was carried out in the Arkhangelsk Region.
- Co-training of Kolenergo and Karelenergo branches of JSC IDGC of the North-West was arranged in the Murmansk Region.
- Interregional training of Novgorodenergo and Pskovenergo branches was carried out in the Novgorod Region.
- Repair of 10 kv OL that supplies electric energy to five settlements of Nyandomskiy District of the Arkhangelsk Region was completed.
- Repair at sections of three 110 kv OLs nearby Kandalaksha, Kirovsk and Zelenoborskiy towns (Murmansk Region) was completed.

**JSC IDGC of the North-West  
is the leader of the largest  
companies rating in the  
Leningrad Region in terms  
of proceeds in Q1 2011.**

## MAIN EVENTS OF 2011

### ▶ OCTOBER

- JSC IDGC of the North-West was included in the rating of 250 largest companies of the North-West Federal District of Expert Severo-Zapad magazine.
- Regulations for the procedure of assessment of performance of the Board of Directors of JSC IDGC of the North-West were approved.
- Reconstruction of SS-64 (110/35/6 kv) in Murmansk was completed.
- The first stage of the project for technical connection of “Oleniy Ruchey” mining and concentrating complex to JSC IDGC of the North-West was completed (Murmansk Region).
- Pskovenergo, a branch of JSC IDGC of the North-West, completed reconstruction of strategic substation “Pskov”.

### ▶ NOVEMBER

- JSC IDGC of the North-West obtained a passport of readiness for operation in winter 2011/2012.
- The first working meeting of the Plenipotentiary Envoy of the President of the Russian Federation to the North-West Federal District Nikolay Vinnichenko with Director General of JSC IDGC of the North-West Alexander Kukhmay.
- New appointment in the Company – Dmitriy Bukata, Deputy Director General for Logistics and Procurement.
- The Standard for technical policy of energy metering in the grids of JSC IDGC of the North-West was approved.
- The system of management of major investment projects construction of JSC IDGC of the North-West was implemented.
- Feeding centers in four districts of the Pskov Region were reconstructed.
- Construction of a new 10 kv OL in Vinogradovskiy District (Arkhangelsk Region) was completed.

### ▶ DECEMBER

- Dmitriy Bukata, Deputy Director General for Logistics and Procurement, was elected member of the Management Board of JSC IDGC of the North-West.
- Energy audit of JSC IDGC of the North-West facilities started.
- The ceremonious launch of 110/35/10 kv SS “Iskra” (Vologda Region) after reconstruction.
- The reconstructed 110/35/10 kv SS “Iskra”, which became one of high-priority projects under the 2011 investment program of Vologdaenergo branch of JSC IDGC of the North-West was put into operation in Cherepovets. As a result of application of cutting-edge technologies, the reconstructed «Iskra» substation can ensure reliable supply of electric power to a residential complex of Severny microdistrict of Cherepovets, social structure, a plywood and furniture complex and a match factory. Increase of transformers’ capacity will allow to connect new objects to the electric power supply system in the future. The amount of related investments is RUR274 million.
- Construction of the new 110/35/10 kv SS “Yuzhnaya” started in Cherepovets (Vologda Region).

# MAIN EVENTS

## PUBLIC AND SOCIAL ACTIVITY

### MARCH

- Director of Komienergo branch of JSC IDGC of the North-West Ivan Medvedev was elected deputy of the State Council of the Komi Republic, V convocation.

### APRIL

- Professional skill competitions for operating and dispatcher services' personnel of branches of JSC IDGC of the North-West were held for the first time.

### MAY

- President of the Russian Federation Dmitriy Medvedev awarded Order of Friendship to employee of Vologdaenergo branch of JSC IDGC of the North-West Viktor Varentsov.
- Three employees of JSC IDGC of the North-West were honoured with the "Honoured Power Engineer of the Russian Federation" title by the Order of the President of the Russian Federation.
- JSC IDGC of the North-West is one of the winners of the All-Russian contest "Best Insurer of a Year on Obligatory Pension Insurance" in the territory of the Komi Republic.
- 75th anniversary of Kolenergo branch of JSC IDGC of the North-West.

### JUNE

- Professional skill competitions for operating and repair personnel of distribution grids of JSC IDGC of the North-West were held in Vologda.
- 80th anniversary of Karelenegero branch of JSC IDGC of the North-West.
- 55th anniversary of Arkhenergo branch of JSC IDGC of the North-West.

### JULY

- Negotiations on the draft collective contract JSC IDGC of the North-West for 2012 started.

### AUGUST

- Benchmarking among electric grid districts was carried out at Komienergo branch of JSC IDGC of the North-West for the first time.
- The United Council of Youth of JSC IDGC of the North-West headed by Maria Churina was founded.

### SEPTEMBER

- All-Russian professional skill competitions for operating and repair personnel of distribution grids of JSC IDGC Holding were held in Vologda. The team of JSC IDGC of the North-West took the third place.
- 13 operational companies of JSC IDGC Holding took part in the competition. The winner in the team championship was the brigade of JSC Tyumenenergo. The winners in such nominations as "Best Master", "Best Dispatcher", "Best Electrician" were also named. There were additional nominations in individual championship: "The Youngest Participant" and "The Most Experienced Participant", and team championship: "For Will to Win" and "The Best Video Clip". Director General of JSC IDGC Holding Nikolay Shvets visited professional skills competitions.
- JSC IDGC of the North-West became the first winner of special prize "For the Promotion of Efficient and Safe

Power" in the contest "The Organization of High Social Efficiency of Electric Power Industry" established by All-Russian Association of Electric Energy Employers (RaEl) and All-Russian Energy Trade Union.

### OCTOBER

- Winners of All-Russian professional skill competitions for operating and repair personnel of JSC IDGC Holding held in Vologda visited the rodeo of electricians, Annual International Lineman's Rodeo & Expo (Kansas, the USA).

### NOVEMBER

- Management of JSC IDGC of the North-West was named the most transparent and communicative based on the results of the survey of the investment community and analysts of the stock market.

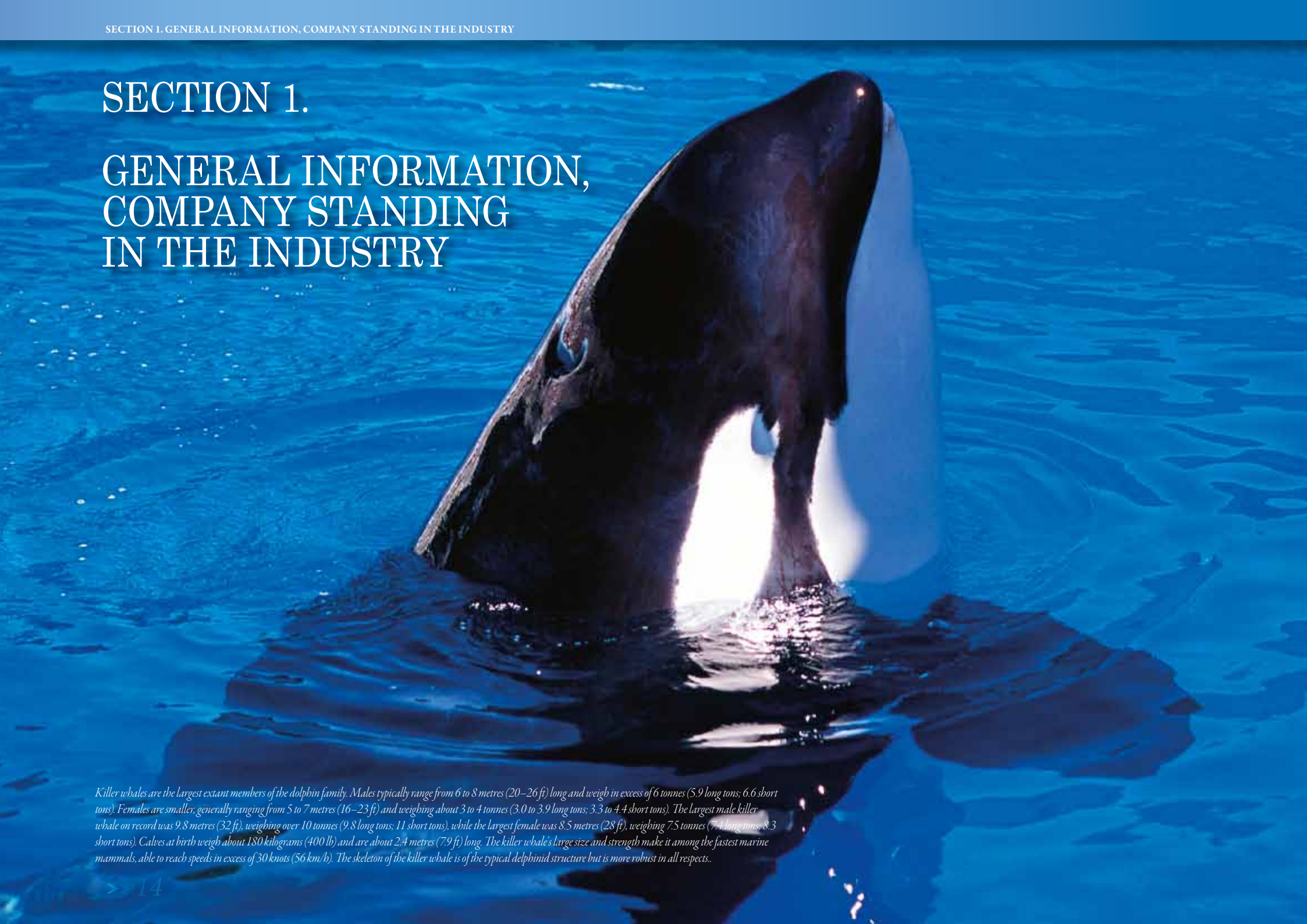
### DECEMBER

- Social report of JSC IDGC of the North-West was certified in the Non-Financial Accounting Board of Russian Union of Industrialists and Entrepreneurs (RSPP).
- The "Corporate Presentation Day" Project turned 3 years old; CPD-13 chose the best ideas and solutions of 2011.
- "Best Accountant of JSC IDGC of the North-West" Award was organized for the first time. Main prizes were won by Arkhenergo branch.
- JSC IDGC of the North-West became a participant of the "Electric Grids of Russia" exhibition (Moscow).
- The Company's history museum was founded at Komienergo branch of JSC IDGC of the North-West.
- III Festival of Creativity of Power Engineers of JSC IDGC of the North-West was held. The Main Winners' Cup was presented to Novgorodenergo branch.

Management of JSC IDGC  
of the North-West was  
named the most transparent  
and communicative

# SECTION 1.

## GENERAL INFORMATION, COMPANY STANDING IN THE INDUSTRY



*Killer whales are the largest extant members of the dolphin family. Males typically range from 6 to 8 metres (20–26 ft) long and weigh in excess of 6 tonnes (5.9 long tons; 6.6 short tons). Females are smaller, generally ranging from 5 to 7 metres (16–23 ft) and weighing about 3 to 4 tonnes (3.0 to 3.9 long tons; 3.3 to 4.4 short tons). The largest male killer whale on record was 9.8 metres (32 ft), weighing over 10 tonnes (9.8 long tons; 11 short tons), while the largest female was 8.5 metres (28 ft), weighing 7.5 tonnes (7.4 long tons; 8.3 short tons). Calves at birth weigh about 180 kilograms (400 lb) and are about 2.4 metres (7.9 ft) long. The killer whale's large size and strength make it among the fastest marine mammals, able to reach speeds in excess of 30 knots (56 km/h). The skeleton of the killer whale is of the typical delphinid structure but is more robust in all respects.*

## BRIEF HISTORY OF THE COMPANY

Interregional Distribution Grid Company IDGC of the North-West, Joint Stock Company, was founded under the decision of its sole founder JSC RAO UES of Russia (Order No. 153r of Chairman of the Management Board, JSC RAO UES of Russia, as of 9 December 2004) and registered on 23 December 2004.

The Company's authorized capital at the moment of its establishment was RUR10 million and was divided into 100 million ordinary shares.

INITIAL CONFIGURATION OF THE JSC IDGC OF THE NORTH-WEST INCLUDED THE DISTRIBUTION GRIDS OF THE UNITED ENERGY SYSTEM OF THE NORTH-WEST:

JSC ARKHENERGO,

JSC KARELENERGO,

JSC KOLENERGO,

JSC AEK KOMIENERGO,

JSC LENENERGO,

JSC NOVGORODENERGO,

JSC PSKOVENERGO,

JSC YANTARENERGO.

Authorized  
capital  
RUR 9 578 600 000

Under the decision of JSC RAO UES of Russia's Board of Directors as of 27 April 2007, the structure of the JSC IDGC of the North-West included JSC Vologdaenergo, which had been earlier a part of IDGC of Centre and North Caucasus, and excluded JSC Lenenergo. After reorganization of JSC RAO UES of Russia the share holding of JSC Yantarenergo according to separation balance sheet passed into the ownership of JSC IDGC Holding established on 1 July 2008 in the result of reorganization of JSC RAO UES of Russia in the form of discharge.

According to Order No.1857-r of the Russian Federation Government as of 19 December 2007, it was decided to form interregional distribution grid companies in the ways stipulated by the Russian Federation laws till 31 December 2008 on the basis of the JSC RAO UES of Russia's shares belonging to open joint-stock companies of the power industry and electrification in order to provide the Russian Federation's control over territorial grid organizations' activities.

On 25 December 2007, JSC IDGC of the North-West extraordinary general meeting of shareholders decided to reorganize the Company in the form of a merger of JSC Arkhenergo, JSC Vologdaenergo, JSC AEK Komienergo, JSC Kareleenergo, JSC Kolenergo, JSC Novgorodenergo, JSC Pskovenergo with it. It was also decided to increase the JSC IDGC of the North-West authorized capital by RUR9,568,700,000 by means of converting shares of seven distribution grid companies and placement of additional ordinary registered shares in the number of 95,687,000,000 pieces at the RUR0.1 par value.

Since 1 April 2008, JSC IDGC of the North-West operates as a united operational company. Its structure includes seven branches - Arkhenergo, Vologdaenergo, Kareleenergo, Kolenergo, Komienergo, Novgorodenergo, and Pskovenergo. The collegial executing body of the Company, the Management Board of JSC IDGC of the North-West, was generated in April 2008.

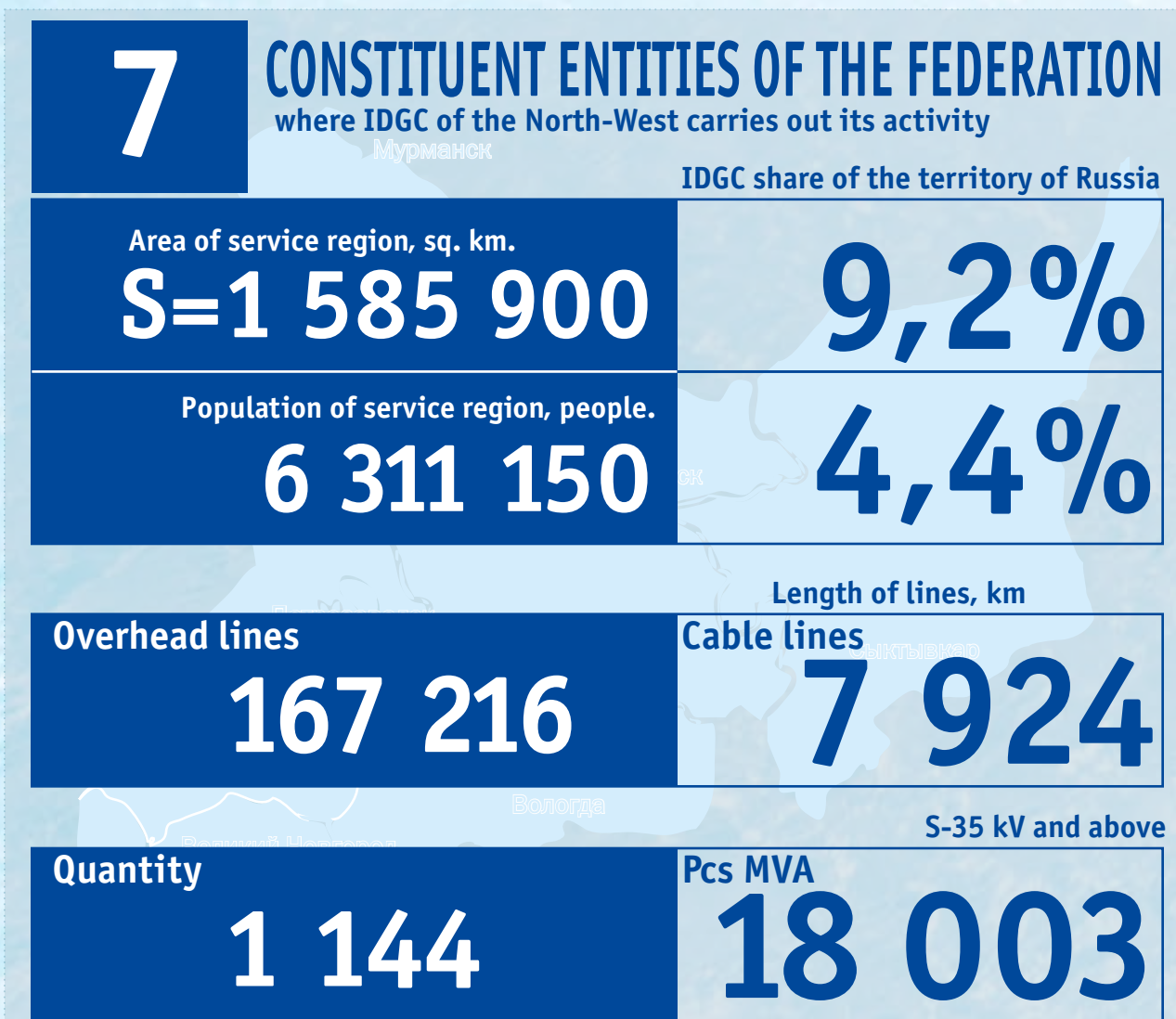
Since 27 May 2008, JSC ordinary registered shares of JSC IDGC of the North-West admitted to trading at the RTS stock exchange; since 29 May 2008 – to trading at the MICEX stock exchange. In December 2008, JSC IDGC of the North-West passed listing at MICEX. The Company's ordinary registered uncertificated shares were included in the B section of the quotation list of securities. On 24 May 2011 JSC IDGC of the North-West shares were transferred from CJSC MICEX Stock Exchange Quotation List B to CJSC MICEX Stock Exchange Quotation List A of the second level.

From the moment of its formation and till 1 July 2008, the Company was headed by Veniamin Pinkhasik. Since 1 July 2008, the Company's Director General is Alexander Kukhmay.

The authorized capital is RUR9.5786 billion. 55.38% shares of JSC IDGC of the North-West belong to JSC IDGC Holding.

## GEOGRAPHICAL POSITION

JSC IDGC of the North-West carries out its activity in the territory of 7 constituent entities of the Russian Federation located in the North-West region: the Republic of Karelia, Komi Republic, Arkhangelsk Region, Vologda Region, Murmansk Region, Novgorod Region, and Pskov Region.



## ORGANIZATIONAL STRUCTURE

### Line Organization of JSC "IDGC of the North-West"

Director General of JSC IDGC of the North-West

Deputy Director General and functional divisions by types of activity

### Branch of JSC IDGC of the North-West

Deputy Director General -Branch's Director

Deputy Director General and functional divisions by types of activity

### Operating Department of JSC IDGC of the North-West Branch

Director of Department

Deputy Director of Department and functional divisions

### Distribution zones of the Branches' Departments of JSC IDGC of the North-West

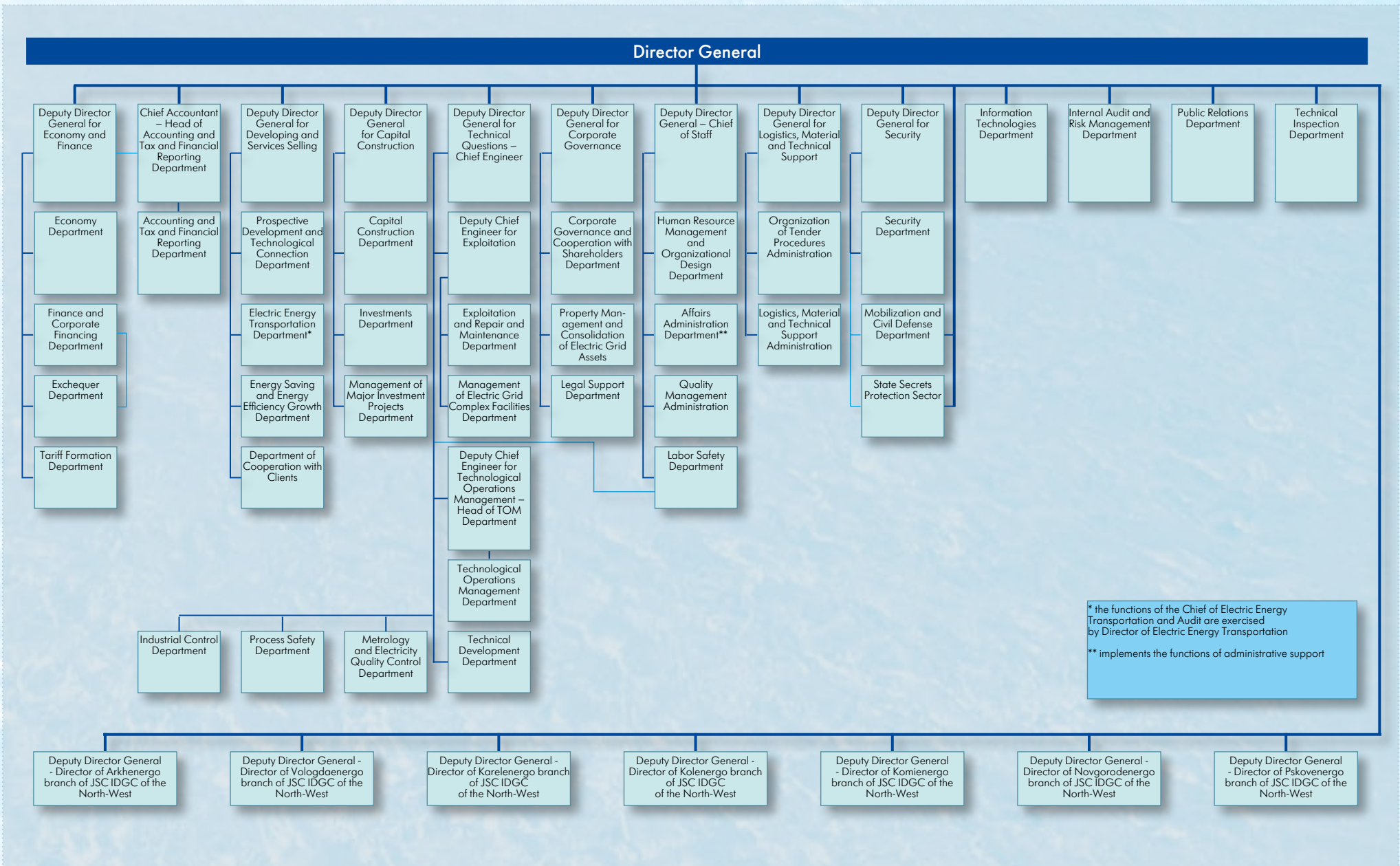
Head of distribution zone

Functional divisions

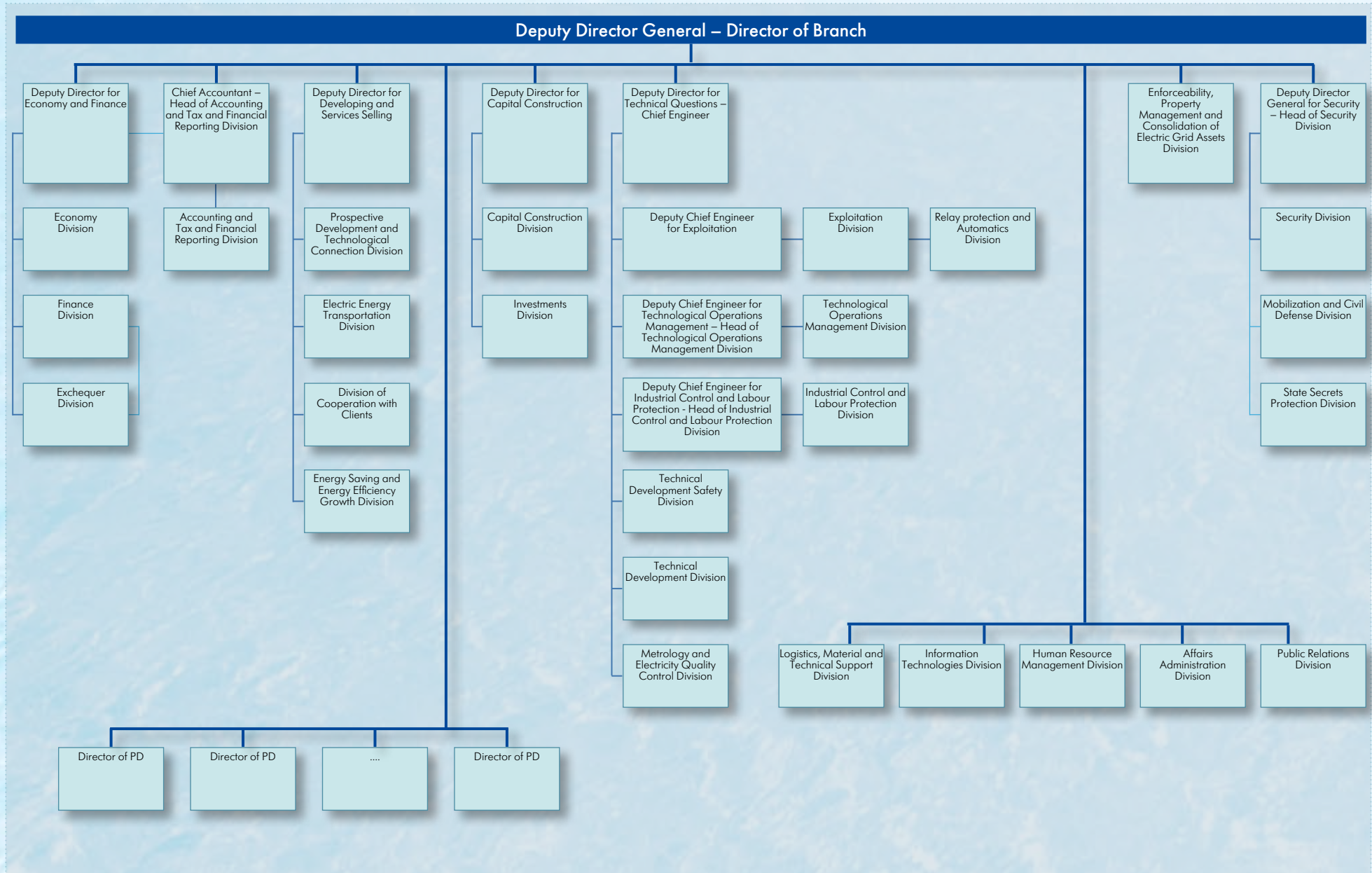




# ORGANIZATIONAL STRUCTURE OF JSC IDGC OF THE NORTH-WEST AS OF 31 DECEMBER, 2011



## TYPE ORGANIZATIONAL STRUCTURE OF JSC IDGC OF THE NORTH-WEST BRANCH





## DESCRIPTION OF THE COMPETITIVE ENVIRONMENT

The main types of the services rendered by IDGC of the North-West are transmission of electric energy through distribution electric networks and technological connection of energy-receiving devices (electrical installations) of legal entities and physical persons to electric networks.

According to the decision of the Federal Tariff Service of the Russian Federation (Order No.191-E as of 3 June 2008), JSC IDGC of the North-West is included in the register of the natural monopoly's entities carrying out the activities of electric energy transmission under No. 47.1.116.

Territorial grid organizations and other proprietors (owners) of electric grid facilities, which carry out the activities on electric energy transmission and technological connection in the territory of the North-West Federal District, can be also attributed to the Company's competitive environment. The share of electric energy transmission through these networks is increasing.

It should be noted that the major part of electric power delivered to consumers through distribution networks of other grid organizations is also transmitted by these organizations through the networks of the Company at high and medium voltage levels. The volumes of the transmitted electric power through the network of IDGC of the North-West are represented in the table.

Branch / IDGC	Transmission through the network of JSC IDGC of the North-West, in million kWh		
	2009	2010	2011
<b>Arkhenenergo</b>	3 492	3 602	3 452
<b>Vologdaenergo</b>	7 956	8 748	8 619
<b>Karelenergo</b>	6 796	7 294	7 272
<b>Kolenergo</b>	10 525	10 828	10 670
<b>Komienergo</b>	5 400	5 238	5 170
<b>Novgorodenergo</b>	3 170	3 337	3 401
<b>Pskovenergo</b>	1 608	1 674	1 659
<b>JSC IDGC of the North-West</b>	<b>38 948</b>	<b>40 752</b>	<b>40 244</b>

The share of electric energy supplied to the network of territorial grid organizations in 2011 was 30.6% out of the total volume of transmission through the networks of IDGC of the North-West.

Branch / IDGC	Share of supply to the grid of territorial network organizations, %		
	2009	2010	2011
<b>Arkhenenergo</b>	18,4	22,3	25,3
<b>Vologdaenergo</b>	33,9	26,8	27,5
<b>Karelenergo</b>	25,9	24,8	25,4
<b>Kolenergo</b>	20,8	49,1	48,8
<b>Komienergo</b>	6,5	27,3	28,9
<b>Novgorodenergo</b>	35,6	35,4	35,6
<b>Pskovenergo</b>	5,7	5,2	6,1
<b>JSC IDGC of the North-West</b>	<b>23,2</b>	<b>29,8</b>	<b>30,6</b>

**VOLUME OF THE TRANSMITTED ELECTRIC  
POWER 40 244 million kWh**

Increase of the share of electric energy supplied to the network of territorial grid organizations (TGO) was due to the lower volume of electric energy transmission in 2011 as compared to 2010. Besides, energy supply to the network of territorial grid organizations grew, TGOs expanded due to the grids of existing consumers in the Murmansk Region, the Vologda Region, the Komi Republic, the Arkhangelsk Region and new grid organizations emerged in these territories. Among those are OJSC "28th Electric Grid", LLC "Gazprom Transgaz Ukhta", LLC "Trans-Electro" in the Arkhangelsk Region; LLC "Cherepovets-Stroyindustriya" in the Vologda Region; OJSC "28th Electric Grid" started operating in the Murmansk Region in addition to the expansion of grids of OJSC "Murmansk Regional Grid Company". Reduction of electric energy supplied to the network of TGOs of the Republic of Karelia is due to the growth of the consumption level of JSC IDGC of the North-West's own consumers.

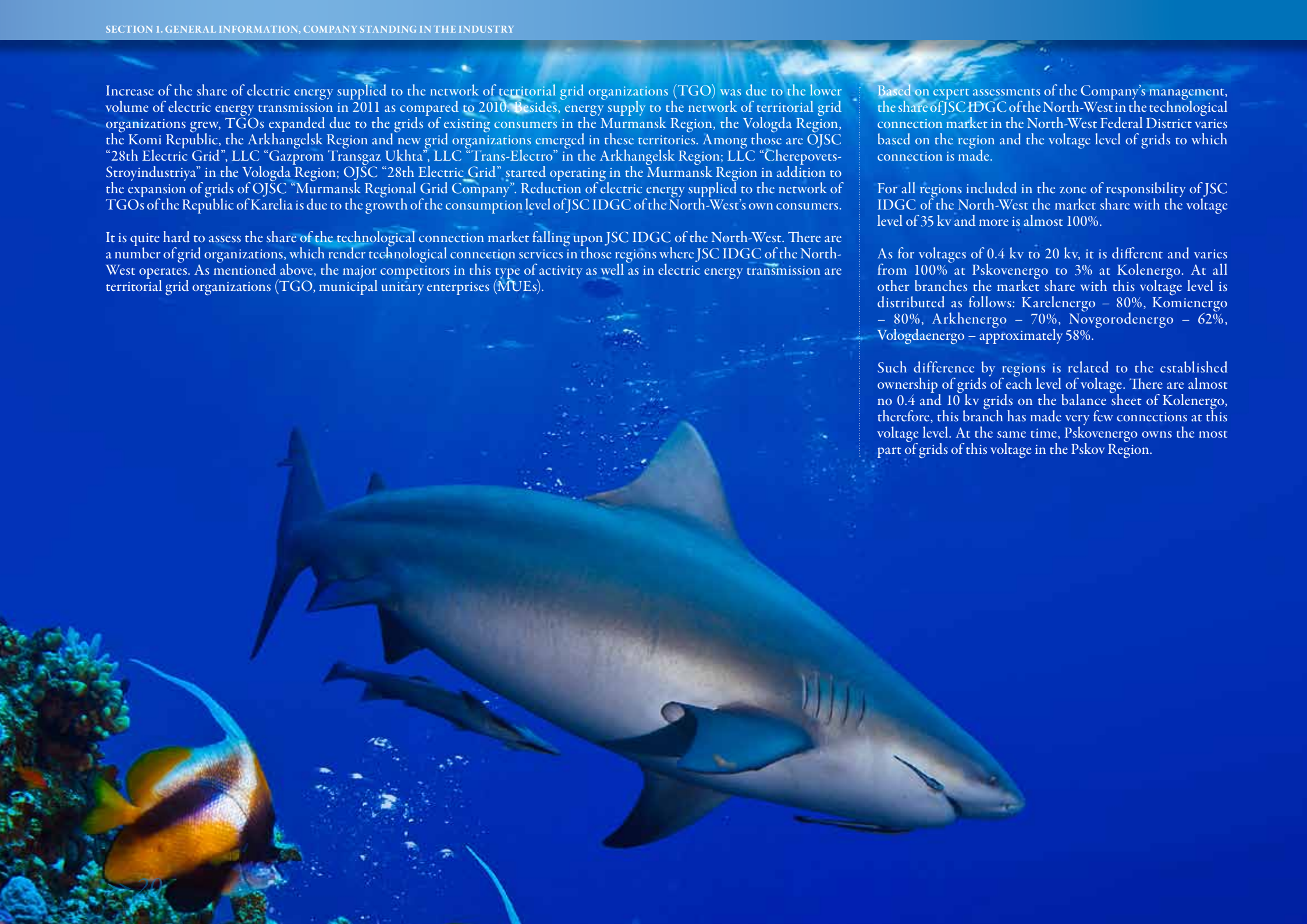
It is quite hard to assess the share of the technological connection market falling upon JSC IDGC of the North-West. There are a number of grid organizations, which render technological connection services in those regions where JSC IDGC of the North-West operates. As mentioned above, the major competitors in this type of activity as well as in electric energy transmission are territorial grid organizations (TGO, municipal unitary enterprises (MUEs).

Based on expert assessments of the Company's management, the share of JSC IDGC of the North-West in the technological connection market in the North-West Federal District varies based on the region and the voltage level of grids to which connection is made.

For all regions included in the zone of responsibility of JSC IDGC of the North-West the market share with the voltage level of 35 kv and more is almost 100%.

As for voltages of 0.4 kv to 20 kv, it is different and varies from 100% at Pskovenergo to 3% at Kolenergo. At all other branches the market share with this voltage level is distributed as follows: Karelenergo – 80%, Komienergo – 80%, Arkhenergo – 70%, Novgorodenergo – 62%, Vologdaenergo – approximately 58%.

Such difference by regions is related to the established ownership of grids of each level of voltage. There are almost no 0.4 and 10 kv grids on the balance sheet of Kolenergo, therefore, this branch has made very few connections at this voltage level. At the same time, Pskovenergo owns the most part of grids of this voltage in the Pskov Region.





## SECTION 2. STRATEGY REVIEW

*Sea turtles play key roles in two ecosystem types that are critical to them as well as to humans—oceans and beaches/dunes. In the oceans, for example, sea turtles, especially green sea turtles, are one of very few creatures (manatees are another) that eat the sea grass that grows on the sea floor. Sea grass must be kept short to remain healthy, and beds of healthy sea grass are essential breeding and development areas for many species of fish and other marine life. A decline or loss of sea grass beds would damage these populations, triggering a chain reaction and negatively impacting marine and human life.*

## STRATEGIC PRIORITIES

The strategic objective of JSC IDGC of the North-West is to achieve the leading position in the industry. The Company sees its mission in ensuring safe and uninterrupted energy supply to its consumers, stable shareholders' income through efficient management of the distribution grid complex based on uniform conceptual approaches to business conduction.

▶ THE STRATEGY OF JSC IDGC OF THE NORTH-WEST IS BASED ON THE FOLLOWING PRINCIPLES OF THE COMPANY'S ACTIVITY:

- increase of the main activity's efficiency;
- increase of capitalization;
- respect of interests of all shareholders of JSC IDGC of the North-West;
- improvement of the corporate management;
- increase of transparency of the financial and economic activity;
- personal responsibility of supervisors for management decision making;
- creation of the best possible comfortable conditions for consumers;
- continued increase of the Company's social responsibility.

## PRIORITY ACTIVITY AREAS AND DEVELOPMENT PERSPECTIVES

To ensure a uniform strategy of electric grid complex development at JSC IDGC of the North-West, the Plan of Implementation of IDGC Holding Development Strategy within JSC IDGC of the North-West till 2015 and prospectively till 2020 was developed and approved by the Board of Directors on 30.03.2012<sup>1</sup>.

The Plan of implementation of the development strategy was elaborated in view of strategic initiatives based on the following middle-term objectives.

### Objectives

#### INCREASE OF QUALITY LEVEL AND RELIABILITY OF SERVICES RENDERED TO END CONSUMERS OBJECTIVES:

1. CREATION OF A SYSTEM OF ACCURATE ASSESSMENT OF QUALITY AND RELIABILITY OF ENERGY SUPPLY BASED ON INTERNATIONAL STANDARDS AND ITS APPLICATION FOR FORMATION OF INVESTMENT AND REPAIR PROGRAMS.
2. INCREASE OF RESPONSIBILITY FOR ACHIEVEMENT OF TARGET QUALITY AND RELIABILITY VALUES WITHIN THE REGULATING SYSTEM FOR ALL GRID ORGANIZATIONS.
3. SATISFACTION OF THE NEEDS OF COUNTRY REGIONS' ECONOMIES WITHIN CONNECTIONS TO ELECTRIC GRIDS.
4. ACHIEVEMENT OF THE FOLLOWING TARGET INDICATORS BY 2016:
  - SAIFI not exceeding 2 cases per consumer per year;
  - SAIDI not exceeding 60 minutes per consumer per year;
  - The share of equipment cutoff with incomplete or unreliable information in accounting systems not exceeding 3%;
  - Voltage stability of (share of consumers without voltage surges over 10%) not less than 95%;
  - Share of lost incoming calls from population to call-center telephones not exceeding 5%;
  - Average consumers waiting time to be connected to an operator (IVR-systems) of the call-center not exceeding 15 minutes for 20% of the longest waitings;
  - Share of accumulated outdated applications for technological requests from the number of applications received during the year not exceeding 5%.

One of the main aspects of assessment of efficiency of services rendered by a grid company is their quality and reliability. The priority task should be ensuring of reliable energy supply quality and reliability data measured in accordance with international standards. To do this, technical measuring devices as well as supporting IT systems, random audit procedures, methods of comparing technical audit results with consumers' complaints received should be implemented. Along with this, the Company's responsibility for electric energy supply quality and reliability indicators should be increased, with such indicators to be included in the list of KPIs of the Company's employees. Also, internal comparative analysis of such indicators between the Company's branches should be carried out in order to reveal and distribute the best practices.

In addition to ensuring energy supply quality and reliability, it is necessary to take a number of measures to improve customer service quality, including creation of an electronic system of the registration and processing of applications for new connections and organization of call-centers.

In order to ensure reliable supply of energy to consumers, the Company's main task is full completion of the necessary scope of works on technical maintenance and planned physical volumes of repair works at the facilities of the electric grid complex of JSC IDGC of the North-West.

To improve the repair and operational activity, the Company has set the following objectives:

- Creation of a comprehensive and efficient structured equipment database, updating databases on completed scheduled and unscheduled works, resources used;
- Improvement of the system of registration and analysis of equipment's damage rate and development of measures aimed at increasing reliability and efficiency of equipment's operation on this basis;
- Establishment of objective functional relations between subdivisions and specialists, allowing the whole system of technical maintenance and repair management to function both during the period of preparation and during works performance;
- Development of organizational and technical events aimed at increasing efficiency and reducing costs of the repair and operating activity.

In order to ensure performance of the activity aimed at increasing quality and reliability of services rendered by the Company, it is planned to introduce KPIs characterizing/assessing the achievement of target quality and reliability values for employees of relevant qualifications.

In October 2011, JSC IDGC of the North-West started implementing the long-term "Program of Consolidation of Electric Grid Assets". The implementation period is 5 years.

By 2015, the Company plans to invest RUR4 billion to purchase energy facilities of the electric grid complex. Implementation of the Consolidation Program during the period from 2011 to 2015 will increase the aggregate established transformers' capacity by 2,904 MVA and the aggregate length of linear object by 14,480 km.

IMPLEMENTATION OF THE CONSOLIDATION PROGRAM WILL ENABLE THE COMPANY TO:

- Increase capitalization and revenues;
- Achieve efficiency of operation of the grid property through faster response to emergencies, fulfilment of comprehensive repair and installation of measuring equipment and meters, implementation of costs reduction procedures;
- Increase reliability, operability and capacity of distribution grids;
- Optimize operational and investment costs of the Company;
- Modernize power transmission lines;
- Increase the level of the Company's influence in the region when solving production and economic issues.

The Company can also see positive effects for economies of regions included in the zone of the Company's presence arising out of the Consolidation Program implementation, namely:

- Reduction of the average regional tariff level (in case of merger of small regional owners' assets, through reduction of the share of administrative and other costs within the gross revenue requirement of the region);
- Increase of the system reliability of the region's energy supply;
- Elimination of capacity deficiency and, consequently, increase of the region's investment attractiveness.

As for all purchased and accepted into technical operation property, the Company is implementing a uniform technical policy, carrying out repair programs to the fullest extent, developing and implementing investment programs. The level of extra losses is decreasing in accepted electric grids.

In order to achieve identified objectives with regard to the consolidation of assets, it is planned to introduce KPIs characterizing/assessing achievement of target values of the electric grid assets Consolidation Program.

## RETAINING TARIFF SOURCES OF INVESTMENTS IN GRID RENEWAL AND DEVELOPMENT

### Objectives

- Retaining the RAB system with specification of its parameters as well as increase of transparency of tariff formation and investment programs of all grid organizations.
- A system decision of the cross subsidizing problem at the federal level, with justified revenues of grid organizations retained.
- Increase of responsibility of regional authorities and investors for loading of facilities under construction for them, including through switching to a double-rate tariff and the “take-or-pay” principle for new connections.
- Solving of retail suppliers’ non-payment problem through stricter responsibility of their owners, coordination of the system of contracts with them by IDGC.
- Achievement of the following target indicators by 2016:
  - » Share of distribution by GRR in the regions of presence not less than 85%
  - » Overdue accounts receivable not exceeding 2% of GRR.

subsidiaries and dependent entities of JSC IDGC Holding to RAB regulation, the Government of the Russian Federation issued Resolution No.1178 dated 29.12.2011. This Resolution put into force a mechanism of review of electric power engineering entities tariff regulation long-term parameters related to its transmission up to the level established by the Forecast of Social and Economic Development of the Russian Federation for 2011-2013.

In accordance with the Resolution, electric grids tariff regulation parameters should be reviewed by 01.04.2012 and, in case of RAB regulation, such parameters will be subject to agreement of FTS (Federal Tariff Service) of the Russian Federation. In order to retain RAB regulation, electric grid companies must ensure compliance with a number of additional financial criteria.

In 2011, in Vologdaenergo, Novgorodenergo, Pskovenergo branches of JSC IDGC of the North-West RAB tariff regulation was applied. In 2012 the company will have to take all possible measures to keep this regulation method in the future in the specified branches subject to the requirements of Resolution No.1178.

Another objective of the Company in 2012 is to switch Karelenegero branch of the Company to tariff regulation based on RAB method. To do so, a corresponding agreement was made between the Government of the Republic of Karelia and the Company.

Due to the need for implementation of a significant number of long-term investment programs, from 2014 upon the end of the long-term period of regulation based on the long-term indexation method in Arkhenergo, Komienergo and Kolenergo branches, the Company is going to switch branches mentioned to RAB.

## INCREASE OF INVESTMENT EFFICIENCY

### Objectives

- Increase of investments performance in the existing network through efficient ranging and selection of projects, traceability of results achieved;
- Achievement of high load of facilities put into operation through better demand planning, review of supply centers’ closure criteria, introduction of stage-by-stage construction, as well as strengthening of IDGC’s various agencies’ relevant motivation system.
- Reduction of the unit cost of construction through application of standard project (technical) solutions, increase of unit costs’ transparency;
- Increase of investment projects implementation quality through implementation of the construction project management system.

Introduction of the production assets management system is aimed at achieving strategic objectives of the Company: increase of operational costs sufficiency, ensuring of a given level of electric energy transmission and redistribution reliability through efficient use of resources and management of production assets based on the balance of costs, risk and assets performance.





#### IN 2012 IT IS PLANNED TO:

- Elaborate and approve the “Management of Production Assets of JSC IDGC of the North-West” Standard based on the “Management of Production Assets of Subsidiaries and Dependent Entities of JSC IDGC of Holding” Typical Standard.
- Put into effect the method for assessment of consequences of equipment malfunction, formation of the production program, production program planning and fulfilment regulations, efficiency of the asset management system, initial and regular collection of consumer data, initial collection of data on equipment of main and distribution grids.
- implementation of informational software, on the basis of which the Company’s production asset management system will be implemented.

The work on development and implementation of a uniform corporate system of regulatory information management of JSC IDGC Holding and subsidiaries and dependent entities (CRIS) is currently being carried out in the Company; this system will provide all users of application accounting and production systems with high-quality (updated, full, unambiguous, reliable and unified) reference information.

CRIS being developed is aimed at ensuring the informational basis for all existing and created application information systems of the Company, namely: high-quality, updated, full, unified, standardized regulatory information.

As for materials and equipment and Counteragents, CRIS is expected to be used for all key business processes.

#### CRIS IS EXPECTED TO BE IMPLEMENTED IN 2012-2013 IN THREE STAGES:

- Conceptual design of a unified corporate system of regulatory information management.
- Test production launch of the system and technical support.

On 10.11.2011 the Board of Directors of JSC IDGC of the North-West decided that the priority objective of the Company’s activity will be implementation of the system of major investment projects construction management.

To ensure implementation of the system at JSC IDGC of the North-West, an action plan for 2011-2012 was elaborated.

In 2011 pilot projects were defined, Regulations for the system implementation was approved, a tender was held and a contract was made with a provider of software to manage projects, projects’ directors candidates were defined, methodological instructions were developed and approved, project management theory training of personnel was arranged.

Continuation of the work on improvement of the investment process at JSC IDGC of the North-West is one of the major goals of the Company for 2012 and the next five years.

#### IT IS PLANNED TO IMPLEMENT:

- the system of assessment of the Company’s activity related to capital construction (interaction with contractors, time schedule, cost and scope of works performed, quality of materials and execution);
- the system of forecast and traceability of reliability and quality individual effect of the investment project;
- the system of categorization, ranging and selection of projects based on pass-through filters;
- the investment projects efficiency monitoring system;
- the system of monitoring of construction unit cost within benchmarking;
- the approach to stage-by-stage construction of new facilities aimed at reducing the scope of construction of unloaded facilities.

In order to increase the quality of implementation of investment projects, achieve investment efficiency indicators, reduce the unit cost of construction as well as ensure utilization of capacities to be put into operation, it is planned to introduce the corresponding KPIs for employees of the Company.

## ENERGY SAVING AND LOSSES REDUCTION

### Objectives

- Implementation of reliable electricity metering.
- Creation of a uniform system of energy saving and energy efficiency enhancement in the group of distribution grid companies of JSC IDGC Holding with achievement of the target electric energy loss indicator of 7.46% under standard conditions (by 2015).

Implementation of the program of energy saving and energy efficiency enhancement of JSC IDGC of the North-West (hereinafter referred to as the Energy Saving Program) is a strategic initiative of the Company aimed at reducing losses during electric energy transportation, efficient and rational use of electric resources for production and economic needs.

To implement the Energy Saving Program, it is planned to carry out major strategic events, such as:

- Development and actualization of the Energy Saving Program;
- Implementation of the energy saving policy, which strengthens the commitment, main energy saving provisions and criteria during new construction, reconstruction and operation of electric grids and consumption of electric energy for economic needs.
- Inventory of own needs of electric grids and substations and emphasizing on own needs of electric receivers used for production and economic needs of grid organizations among all connections;
- Implementation of measures related to energy audits of production and economic facilities and electric grid facilities. Obtaining an energy performance certificate;
- Development of a pool of targeted measures related to energy saving based on the results of energy audits;
- Development of measures related to reduction of electric energy and other energy resources consumption for own needs of branches.

In 2011 the Company elaborated the Program of energy saving and energy efficiency enhancement for 2011 and for the period till 2015. The Program involves optimization of costs for energy resources through reduction of resources consumption in the administrative and economic complex, reduction of the technical loss volume occurring during transmission of electric energy within the electric grid complex of the Company.

In order to carry out energy audits and actions aimed at energy saving and energy efficiency enhancement for utilization of energy resources, the wholly-owned subsidiary of the Company, OJSC "Energoservice of the North-West", was founded in 2011.

Under the energy audit of JSC IDGC of the North-West's facilities involving OJSC "Energoservice of the North-West", instrumental and documentary inspections are planned to be carried out in 2011-2012. In Q4 2011 and the first half of 2012, it is planned to carry out instrumental inspections of 230 35 kv and higher substations of 1,142 inspected and 922 administrative and production objects (buildings, premises, structures).

▶ BY 31.08.2012 IT IS PLANNED TO:

- carry out documentary inspection of 922 administrative and production objects (buildings, premises, structures) and 1,142 facilities of the electric grid complex;
- complete generation of a consolidated energy performance certificate executed in accordance with Order of the Ministry of Energy of the Russian Federation No. 182 as well as complete development of the targeted measures program related to energy saving and energy efficiency enhancement.

#### THE PROGRAM OF ENERGY SAVING AND ENERGY EFFICIENCY ENHANCEMENT FOR 2012 AND THE PERIOD UP TO 2016 WAS DEVELOPED<sup>2</sup>.

During the period of 2012-2016, the Program costs will amount to RUR6,922.76 million, including those accounted in calculation of the economic efficiency in the amount of RUR3,500.54 million. As a result of implementation of measures covered by the Program, it is planned to reduce electric energy losses by 292.284 million kWh. The expected economic effect from implementation of the Program in value terms will amount to RUR948.42 million.

## INCREASE OF OPERATIONAL COST EFFICIENCY

### Objectives

- Optimization of costs for repair, operation, operational and technological management and auxiliary functions through implementation of the asset management program, improvement of the management system at JSC IDGC of the North-West, implementation of measures aimed at increasing labour performance;
- Staff development, including training and knowledge exchange, stronger orientation to fulfilment of key performance indicators and professional growth, efficient assessment and promotion of best employees.
- Reduction of expenses for maintenance of the executive apparatus of JSC IDGC of the North-West as well as management apparatuses of branches.

In order to form an efficient mechanism of innovative cycle implementation ensuring favourable conditions for creation and promotion of high-tech equipment and advanced technologies on a continuously renewed basis, considering Decisions of the Commission under the President of the Russian Federation for modernization and technological development of Russia's economy, the Innovative Development Program of JSC IDGC of the North-West for 2011-2016 was developed.

The Innovative Development Program of JSC IDGC of the North-West for 2011-2016 was approved by the Board of Directors of the Company on 27.07.2011. The Innovative Development Program is aimed at implementing high-technological equipment and advanced technologies, creating organizational and economic electric grids reliability, design and cost effectiveness management mechanisms during their planning, design, construction, technical maintenance and repair, during dispatcher management.

This includes scientific and methodological procurement at the modern level of market relations in the industry and development of principles and management methods, obtaining of patents, development of standards, provisions and methods.

Implementation of the Strategy of Innovative Development will allow to increase reliability and safety of electric grids, improve economic indicators of JSC IDGC of the North-West significantly. In its turn, reliability and safety of electric grids and electric energy systems under current conditions can be increased only through the use of a set of innovative methods and means based on a system approach.

One of the components of the Innovative Development Program and implementation of innovative solutions in the activity of the electric grid complex of the North-West is complex optimization and reengineering of business processes existing in the Company, as a basis for a systematic and efficient implementation of solutions and formation of an innovative oriented management system.

A targeted landmark in the course of implementation of measures aimed at optimizing business processes within the Innovative Development Program is complex automation of business processes existing in the Company.

AS FOR THE DEVELOPMENT OF ACTIVITY RELATED TO SKILL POOL FORMATION IN THE SHORT-TERM, THE FOLLOWING TASKS ARE TO BE FULFILLED:

- » updating of the Provision on the work with skill pool;
- » Development of a uniform Method for personnel assessment for application in the Company;
- » Development of individual plans of the skill pool's members.

## KEY AREAS IN COOPERATION WITH EDUCATIONAL INSTITUTIONS ARE AS FOLLOWS:

- development and implementation of joint programs with higher educational institutions and secondary educational institutions of young specialists training considering specifics of the distribution grid complex.
- attraction of the Company's employees with relevant qualification to take part in the educational process;
- conduction of industry-oriented work and competitive selection among educational institutions' students;
- organization of internship and probations of educational institutions' students at the Company's facilities;
- conclusion of contracts on joint cooperation between educational institutions and the Company.

There are measures planned to be carried out in 2012 related to staff development in accordance with the Plan of training, retraining and advanced training as well as additional measures, the strategically important of which are:

- improvement of the "School of Supervisors at Russian Electric Grids (REG)" Program,
- development and implementation of the system of masters' distant training,
- development of a uniform approach to formation of the skill pool and training of direct executors under program Methods for personnel assessment and development.

## IMPROVEMENT OF INTERACTION WITH CONSUMERS, SOCIETY AND INVESTORS

### Objectives

- Increase of transparency of IDGC's and all branches' activity through informational openness as well as implementation of the "tariff in exchange for quality and reliability" principle of negotiating with regulating authorities;
- Promotion of IDGC's brand as a competent leader and one of the largest infrastructure company;
- Pursuing a target-oriented policy related to the increase of IDGC's credibility;
- Achievement of the following indicators by 2016:
  - » completeness of information disclosed in the Internet by branches and IDGC - 100% of branches post key information in the Internet;
  - » growth of the profit share of consumers who positively perceive IDGC (IDGC's branches) – at least 50% of the number of consumers who are aware of the brand.

In order to improve the work with customers and increase the quality of services, the "Quality Management System. System of Centralized Service of Services' Customers" Standard of JSC IDGC of the North-West was introduced by the decision of the Board of Directors of JSC IDGC of the North-West dated 28.12.2011. To implement provisions of the Standard, the Company has developed and implemented the action plan till 2015 on implementation of the new Standard provisions.

**THE "QUALITY MANAGEMENT SYSTEM. SYSTEM OF CENTRALIZED SERVICE OF SERVICES' CUSTOMERS" STANDARD OF JSC IDGC OF THE NORTH WEST WAS INTRODUCED ON 28.12.2011**

It includes opening of a personal account for consumers on the corporate website of the Company, a function of electronic applications for technological connection and online tracking of the status of submitted applications. The key task under the approved action plan is formation of a network of call centers by 2016 with a unified automated support system in seven branches of JSC IDGC of the North-West. In 2011 functions of call centers were carried out through implementation of a uniform hot line “Switching the light off” within the Company.

Promotion of brands of JSC IDGC of the North-West, JSC IDGC Holding, as competent leaders and the largest infrastructure companies, is carried out at JSC IDGC of the North-West on the basis of the uniform information and reputation policy by formation of a clear vertically integrated system of interaction with JSC IDGC Holding.

A Provision on the uniform corporate style (brand-book) ensuring uniform requirements within positioning of JSC IDGC Holding Group of Companies and JSC IDGC of the North-West within public space was elaborated, criteria for application of all corporate symbols: flag, logo and other obligatory elements of the uniform corporate style were defined at JSC IDGC of the North-West.

In order to improve the work in this area and in accordance with the decision of the commission for the corporate style of JSC IDGC Holding, it is planned to carry out by 2013 co-branding and by 2016 rebranding of JSC IDGC Holding. Bringing to the uniform corporate style will allow to strengthen positions of JSC IDGC Holding and its subsidiaries and dependent entities as a leader of competences within the distribution grid complex and as one of the largest infrastructure companies of Russia.

The target-oriented policy aimed at higher credibility of JSC IDGC Holding Group of Companies and JSC IDGC of the North-West, an affiliate thereof, is pursued through development of reputation and event management aimed at creating conditions that facilitate increase of the publicity capital (image property), increase of business reputation of JSC IDGC Holding Group of Companies and its subsidiaries and dependent entities.

By 2016, it is planned to develop and implement a uniform communication strategy of JSC IDGC Holding Group of Companies, uniform brand architecture and corporate style, uniform concept of “Corporate social responsibility” of

distribution grid complex companies. Representatives of JSC IDGC of the North-West were included in the Creative Council of JSC IDGC Holding, which is responsible for preparation of a set of documents, which will allow increasing credibility of JSC IDGC Holding Group of Companies and its subsidiaries and dependent entities.

Under the Strategy aimed at increasing the Company’s credibility, 2012 is determined as a switch to the reputation management model with harmonious integration of GR technologies, innovative communications, communication with expert community.

A set of measures aimed at increasing loyalty and credibility of the Company improving the work and customer service quality will allow JSC IDGC of the North-West to achieve such indicators as:

- » ensuring 100% disclosure of information in the Internet under Standard “Quality Management System. System of Centralized Service of Services’ Customers” of JSC IDGC of the North-West, approved by the Board of Directors of the Company;
- » creation of conditions to increase investors’ interest and attract additional financing sources to develop the electric grid complex of the North-West Region;
- » increase of consumers and main stakeholders’ loyalty to assessment of activity of JSC IDGC of the North-West and JSC IDGC Holding Group of Companies, with negative publications in mass media on the Company’s activity less than 3 per cent.

## SWITCH TO TARGETED CORPORATE AND ORGANIZED HOLDING’S STRUCTURE

### Objectives

- Formation of a targeted vision with regard to the property within the industry and its structure (extent of consolidation);
- Achievement of the following targeted indicators by 2016:
  - readiness to make a decision on privatization of part of IDGC based on the analysis of the following factors: management performance, current capitalization of IDGC, achieved regulation quality (including success in formation of balanced motivations for investors and regulation stability).

In 2012, it is planned to take measures on design of standard organizational structure of the production division based on principles of unification of the main processes, procedures and functions as well as their relationships in accordance with the requirements to vertical integration of the Company’s management structure.

The result will be implementation of unified organizational and functional structures in all production departments of the Company by 2013, ensuring optimization of procedures and functions at all levels of the Company’s management and formation of a balanced vertically integrated company.



# Section 3. Corporate Governance

*Most marine angelfishes restrict themselves to the shallows of the reef, seldom venturing deeper than 50 m (160 ft). The recently described *Centropyge abei* is known to inhabit depths of 150 m (490 ft). They are diurnal animals, hiding amongst the nooks and crevices of the reef by night. Some species are solitary in nature and form highly territorial mated pairs; others form harems with a single male dominant over several females. As juveniles, some species may eke out a living as cleaner fish. Common to many species is a dramatic shift in coloration associated with maturity. For example, young male ornate angelfish, *Genicanthus bellus*, have broad, black bands and are indistinguishable from females; as they mature, bright orange bands develop on the flanks and back.*



## ANATOLIY KUSHNEROV

DEPUTY DIRECTOR GENERAL FOR CORPORATE GOVERNANCE

“ Upon foundation of JSC IDGC of the North-West, the system of corporate governance was developed and implemented. This system aims at protecting the interests of all shareholders, facilitating efficient and timely decision-making and obtaining transparent governance information.

*We have formulated the criteria of corporate governance of JSC IDGC of the North-West as follows:*

*The main objective is to increase the shareholder value of the Company.*

*The Company provides for accurate and reliable information in due time, which satisfies market needs, for investors to make better decisions.*

*The Board of Directors of the Company includes representatives of all the*

*Company's shareholders.*

*Remuneration of the members of the Board of Directors and managers should meet shareholders' interests; the payment policy and amount of remunerations are disclosed in the Annual Report.*

*The practice of corporate governance is aimed at continued optimization of the Company's operational activity.*

*Application by the Company of best corporate governance practices.*

## CORPORATE GOVERNANCE PRINCIPLES

JSC IDGC of the North-West considers the corporate governance system, first of all, as an instrument of the human rights protection and observance of shareholders' interests. The mission of the efficient corporate governance is to decrease the investment risks and the cost of the debt capital, increase the investment attractiveness and shareholder value of the company, and strengthen the commercial goodwill.

Following the major provisions of the Corporate Code of Conduct, approved by Regulation of the Russian Federation FFMS of 04.04.2002 No. 421/p and recommended to be applied by joint-stock companies incorporated in the Russian Federation, taking into consideration the recommendations of the best practices of corporate governance, on 31.10.2006, the Company's Board of Directors approved the company internal document – the Corporate Governance Code<sup>3</sup> (hereinafter referred to as the Code).

For further improvement of the corporate governance as a resource, the use of which can considerably promote the successful development of the Company as a whole, on 22.08.2008 the Board of Directors approved the redraft of the Code, most completely considering the recommendations of the Russian Federal Financial Markers Service.

ACCORDING TO THE CODE, THE CORPORATE GOVERNANCE SYSTEM OF JSC IDGC OF THE NORTH-WEST IS BASED ON THE FOLLOWING PRINCIPLES:

### Accountability

The Code determines the accountability of the Company's Board of Directors to all the shareholders in accordance with the current legislation of the Russian Federation and serves as guidelines for the Board of Directors during the strategy making, management by, and control over the implementation of the activity of the Company's executive bodies.

### Justice

The company is obliged to protect the shareholders' rights and ensure equal concern to all shareholders. The Board of Directors provides all the shareholders with the right to get efficient protection in case of their rules violation.

### Transparency

The Company ensures the timely disclosure of the reliable information on its activity, including its financial position, social and ecological indicators, performance, property structure and management of the Company as well as provides a free access to such information to all the interested persons.

### Responsibility

The Company recognizes the rights of all the interested persons determined by the current legislation of the Russian Federation and is aimed to cooperate with such persons for the purposes of its development and financial stability provision.

*All the principles mentioned above are implemented by JSC IDGC of the North-West in practice. Together with this, the Company tends to improve the corporate governance using the experience of other companies, following the latest changes of the legislation of the Russian Federation and the leading standards in this sphere, as well as bringing the corresponding corrections to its corporate governance system<sup>4</sup>.*

<sup>3</sup>You can find the full version of the Corporate Governance Code of JSC IDGC of the North-West at <http://www.mrsksevzap.ru>.

<sup>4</sup>Information on compliance to the Corporate Code of Conduct of FEMS of Russia is represented in Appendix 6 to the Annual Report of JSC IDGC of the North-West as of the end of 2011.

## IMPROVEMENT OF CORPORATE GOVERNANCE

At present, the Company's key criteria of good corporate governance are:

- professional structured Board of Directors;
- initiative Board Committees;
- effective external audit and an adequate system of internal control and risk management;
- improvement of transparency and disclosure procedures;
- openness in relations with the investment community.

At the annual shareholders meeting as of 16.06.2011 the Board of Directors was elected with a strong professional structure, experience and qualifications of its members. Members of the Board of Directors of JSC IDGC of the North-West have significant managerial and industry experience. The representatives of minority shareholders were reelected to the Board of Directors in order to secure continuity. Remes Seppo Yukha, Tatiana Petrovna Dronova, being competent specialists in the sphere of the electric power industry, make valuable contribution to the work of the Board of Directors and its Committees. The interests of minority shareholders are also represented by Roman Alekseevich Filkin, Co-Director of "Prosperity Capital Management (RF) Ltd." Company. Professional staff of Board of Directors makes it possible to form objective opinion on the questions under discussion and it eventually contributes to strengthening of the shareholders' and investors' trust to the Company.

The efficiency of the Board of Directors is supported by the work of Committees. The Company has established five committees of the Board of Directors: Strategy and Development Committee, HR and Remuneration Committee, Audit Committee, Reliability Committee and the Committee on technological connection to the grid. Committees play an active role in the Board of Directors decision-making by elaborating recommendations on their competence issues.

The Strategy and Development Committee chaired by Director of Economics of JSC IDGC Holding Aleksey Vladimirovich Sergutin takes active part in the strategic decision-making process, the Committee also includes representatives of minority shareholders (Remes Seppo Yukha, Roman Alekseevich Filkin, Aleksey Nikolaevich Zharikov), as well as Mikhail Evgenievich Kuznetsov acting as the President of CJSC "Center of Corporate Development of AID". Having received approval of the Strategy and Development Committee, the Board of Directors supported initiatives on approval of the following documents: Program of perspective development of the electricity metering system in the retail electricity market in distribution grids of JSC IDGC of the North-West, Program on energy saving and energy efficiency enhancement of the Company for 2011-2015, Innovative Development Program of the Company for 2011-2016, etc.

Due to changes made in 2011 and related to competence expansion, level of participation of the Human Resources and Remuneration Committee in the process of generation of recommendations for the Board of Directors and Director General increased significantly. Previously the Committee reviewed: the Company's and its branches' organizational structure, revised Provisions of material incentives for Director General and material incentives and the system of incentives and compensations (social package) of Superior Managers; candidates for election as members of the Board and appointment for positions were approved, with the Company's Board of Directors being responsible for agreement of candidates for such positions.

The Audit Committee is headed by independent director, professional finance specialist Remes Seppo Yukha. The Chairman of the Audit Committee cooperates with the Internal Audit and Risk Management Office takes active part in improvement of the internal audit and risk management system.

In order to improve internal control and risk management procedure, the project on implementation of an integrated risk management and internal control system is being

implemented in the Company. Within the project, at the meeting of the Board of Directors on 31.05.2011 (Minutes No. 78/18), the Company has approved four provisions on control environment and business process risks: commercial accounting and provision of electric energy transmission services, procurement, operational activity, provision of technological connection services. The work on implementation of provisions is carried out in the Company. Development of provisions on control environment and business process risks: investment activity and planning and budgeting is at its last stage. The report on key risks of the Company reviewed by the Company's Board and put for review of the Audit Committee of the Board of Directors is generated on a quarterly basis. Methodological recommendations on risk management were approved by Order of the Company's Director General No. 462 "On Improvement of the Risk Management System" dated 07.10.2011.

According to the decision of the Board of Directors (Minutes No. 83/4), the collective assessment of the Company's Board of Director's activity was carried out for the first time based on the performance results for 2010-2011 corporate years. This procedure revealed the most significant risks in the activity of the Board of Directors and Committees, in the Company's corporate governance system development in general, as well as defined key zones of their development and improvement. The Company is planning to continue this work in the future, starting with the results of the next corporate year; the activity of the Board of Directors will be assessed as compared to the previous period.


In 2011 JSC IDGC of the North-West published its first Report on sustainable development based on standards elaborated by established international organization Global Reporting Initiative (GRI). By publishing its Report, the Company declares its intention to improve the mechanism of social reporting execution, carry out efficient control of social investments and maximum transparency of all related processes.

An important source of information is the Company's website (in Russian and English), which publishes Articles of Association, internal documents, financial statements, annual reports, as well as information on other important events. In addition, since 2009 JSC IDGC of the North-West has been presenting financial reporting in compliance





## OPENNESS IN RELATIONS



with IFRS standards. In 2010, IFRS statements for 2009 were published on 11.05.2010, in 2011 IFRS statements for 2010 were published on 29.04.2011 (1.5 months prior to the annual General Shareholders' Meeting of the Company). The Company believes that early publication of financial statements allows shareholders to take better decisions on the issues included in the agenda at the annual General Shareholders' Meeting.

Terms of reporting publication become shorter every year. The Company published IFRS financial statements for 2011 on 09.04.2012.

To improve information transparency, the Company is planning to publish semiannual non-audited IFRS statements within 60 days upon the end of the period starting from 2012 (in 2011, semiannual reporting was published on 29.09.2011), and starting from 2013 – on a quarterly basis within 45 days. JSC IDGC of the North-West discloses information on interested-party transactions, information on related parties of the Company and its dependent entities in accordance with IFRS requirements (IFRS) 24.

## GOVERNANCE AND CONTROL BODIES

The Management System of the Company is implemented on the basis of the current legislation of the Russian Federation, the Company's Articles of Association<sup>5</sup>, as well as the Corporate Governance Code. The System of the Corporate Governance of JSC IDGC of the North-West includes the following governance and control bodies:

- **General Meeting of Shareholders is the supreme management body of the Company.**
- **The Board of Directors** is a management body responsible for development strategy generation, corporate management and control over financial and economic activities of the Company.
- **Management Board** is a collegial executive body entitled to solve the most difficult issues of management by the Company's current activities
- **Director General** is the sole executive body carrying out the current management by the Company's activities and responsible for the implementation of its strategy worked out by the Board of Directors
- **Auditing Commission** is a body carrying out the regularly control over the Company's financial activities

## GENERAL MEETING OF SHAREHOLDERS

The competence of the shareholders' meeting<sup>6</sup>, shareholders rights, regulation of the general shareholders meetings procedure are determined in accordance with the Federal Law on Joint-Stock Companies, Articles of Association of JSC IDGC of the North-West and Regulations for the Procedure of Preparation and Carrying out of General Meeting of Shareholders of the Company.

The shareholders of JSC IDGC of the North-West take part in the management of the Company through decisions made at the General Meeting of Shareholders concerning such issues as approval of the redrafted Articles of Association of the Company (introduction of amendments and modification into the Articles of Association of the Company), approval of internal documents regulating the activities of the Company's management bodies, election of the members for the Board of Directors and the Auditing Commission, approval of annual accounting and financial reports, auditor, dividends payment as well as other issues according of the legislation of the Russian Federation and the Company's Articles of Association.

The Company timely and properly informs the shareholders and other interested parties about carrying out of General Shareholders Meetings. According to the Articles of Association of JSC IDGC of the North-West the notices informing about holding General Shareholders Meetings shall be published not later than 30 days before carrying out (in compliance with the paragraph 1, article 52, of the Federal Law on Joint Stock Companies). This term determined for publishing notices positively influences on the procedure of General Meeting of Shareholders, as it enables maximum possible amount of shareholders (including the foreign ones) to receive information on arrangement of the meeting.

Information (materials) for the items on agenda of the Annual General Shareholder's Meeting for 2011, with observance of time prescribed by the Russian Federation law, was placed on the Company's website in Russian and English languages.

Regulations for procedure of preparation and holding of General Meeting of Shareholders of JSC IDGC of the North-West govern the stages and the process of meetings.

## THE BOARD OF DIRECTORS

The major functions of the Board of Directors consist in determination of strategy and priority trends of the Company's development, supervision over the activities of the executive bodies, and implementation of the objective assessment of the Company's financial standing. Authorities of the members of the Board of Directors<sup>8</sup> are rather wide and allow them to influence considerably on the Company's activities. This determines the high level of responsibility of the Board of Directors' members to the shareholders and the Company for decisions they should make. *The accountability to the shareholders is one of the generally accepted principles of the corporate governance realized in the practical activity of the Company.*

## MAIN DECISIONS OF THE GENERAL MEETING OF SHAREHOLDERS

In 2011 JSC IDGC of the North-West held only one General Meeting of Shareholders<sup>7</sup> that was held on 16.06.2011 (Minutes No.4)

THE FOLLOWING WAS ACHIEVED AT THE ANNUAL GENERAL SHAREHOLDERS' MEETING:

- the annual report of the Company for 2010, annual financial statements for 2010, including the profit and loss statement (profit and loss accounts) of the Company, distribution of the Company's profit (losses), the Company's auditor were agreed and approved;
- new members of the Board of Directors and of the Company's Auditing Commission were elected;
- revised Articles of Association and internal documents of the Company, namely, Provision on the procedure of preparation for and conduction of the General Shareholders' Meeting of the Company, Procedure on the convening and conduct of the Company's Board meetings, Provision on the Company's Board were approved.

<sup>5</sup> You can find the full version of the Articles of Association and internal documents of JSC IDGC of the North-West at the Company's website: <http://www.mrsksevzap.ru>

<sup>6</sup> Information on the competence of the General Meeting of Shareholders is given at the website of JSC IDGC of the North-West: <http://www.mrsksevzap.ru/about/struct/>

<sup>7</sup> Information on decisions made by the Company's General Meeting of Shareholders is available at the website of JSC IDGC of the North-West: <http://www.mrsksevzap.ru>

<sup>8</sup> Information on authorities of the Company's Board of Directors is placed at the website of JSC IDGC of the North-West: <http://www.mrsksevzap.ru/about/struct/>

The Articles of Association and internal documents of IDGC of the North-West specify a number of regulations describing the activity of the Board of Directors from the point of view of the Corporate Governance Code observance, in particular:

- Authorities of the Board of Directors concerning the quarterly and annual assessment of the financial condition of the Company are defined;
- The accountability principle is being implemented, including through the transition of election and early termination of the power issues of Director General to the competence of the Board of Directors;
- We assigned the responsibility of the members of the Board of Directors to keep from any kind of activities which can lead to a conflict between their interests and the interests of the Company, the obligation to inform the Board of Directors in case of occurrence of such a conflict as well the obligation to keep from the voting concerning the respective issues;
- Meetings of the Board of Directors should take place at least once in six weeks;
- To increase the efficiency of the Board of Directors, we determined the right of its members to require and timely receive qualitative and complete information on the activity of the Company, including commercial secret information;
- Inclusion of independent directors in the structure of the Board of Directors contributes to its balanced state in terms of possibilities for exercising rights and considering interests of all the shareholder groups.

*The cumulative voting used by election of the members of the Company's Board of Directors makes it possible to introduce the representatives of minority shareholders into its structure in accordance with the structure of the Company's property and to consider the interests of all general categories of shareholders.*

Procedural issues of the Company's Board of Directors activities are controlled by the Regulations of JSC IDGC of the North-West for Procedure of Convening and Holding of the Board of Directors' Meetings.

## MEETINGS OF THE BOARD OF DIRECTORS

IN 2011, 20 MEETINGS OF THE JSC IDGC OF THE NORTH-WEST BOARD OF DIRECTORS WERE CARRIED OUT, THREE OF THEM WERE IN PRESENCE.

### PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN MEETINGS HELD IN 2011<sup>9</sup>.

Name	Participation In presence/External	Participation %
Perepelkin A.Yu.	1/9	100
Dronova T.P.	1/6	70
Kulikov D.V.	1/9	100
Kukhmay A.M.	1/9	100
Popov A.A.	1/9	100
Remes S.	1 <sup>10</sup> /7	80
Sannikov A.V.	0/7	70
Sinyansky V.I.	0/9	90
Shogenov V.M.	1 <sup>10</sup> /9	100
Yurchuk S.E.	1/9	100

The total number of meetings for the period from 16.06.2011 to 31.12.2011 is 10.

Name	Participation In presence/External	Participation %
Demidov A.V.	2/8	100
Dronova T.P.	1/7	80
Inozemtsev V.V.	2/8	100
Kukhmay A.M.	2/8	100
Korshunov A.V.	2 <sup>10</sup> /7	90
Kurbatov M.Yu.	2 <sup>10</sup> /8	100
Kurochkin A.V.	2/8	100
Popov A.A.	1/8	90
Remes S.	2 <sup>10</sup> /6	80
Filkin R.A.	2 <sup>10</sup> /8	100
Shevchenko T.V.	2/8	100

<sup>9</sup> Participation of members of the Board of Directors of JSC IDGC of the North-West in meetings in 2011 is also given in Annex 11 to the Annual Report.

<sup>10</sup> During the meeting of the Board of Directors, the member of the Board of Directors represented a written opinion (questionnaire) on the agenda of the meeting in part-time form.

## THE FOLLOWING MAJOR DECISIONS WERE REVIEWED AND TAKEN AT THE MEETINGS OF THE BOARD OF DIRECTORS<sup>11</sup>:

### 1. THE FOLLOWING COMPANY'S ACTIVITY AREAS WERE DEFINED AS PRIORITY ONES:

- development of the Innovative Development Program of the Company; the Innovative Development Program of the Company for 2011-2016 was approved;
- conduction of mandatory energy audit of production and economic facilities and facilities of the electric grid complex of the Company in 2011-2012; the Action Plan on mandatory energy audit of production and economic facilities and facilities of the electric grid complex of the Company in 2011-2012 was approved;
- fulfilment of works on registration of ownership to real estate objects, registration/re-registration of rights of land use during 2011-2014; the adjusted Program of works of JSC IDGC of the North-West for registration of ownership to real estate objects, registration/re-registration of rights of land use during 2011-2014 was approved;
- implementation of the system of major investment projects construction management;
- ensuring by the Company of the given level of reliability and quality of the services rendered in accordance with normative legal acts.

### 2. IN ADDITION, UNDER THE STRATEGIC DEVELOPMENT OF THE COMPANY:

- the Program of perspective development of electric energy metering in the retail electricity market in distribution grids of the Company was approved;
- the Program of energy saving and energy efficiency enhancement for 2011-2015 was approved;
- The Long-term program of consolidation of JSC IDGC of the North-West network assets for the period of 2011-2015 was approved;
- the Company's preparation for the work in autumn and winter 2011-2012 was analyzed.

### 3. AS FOR FINANCIAL AND ECONOMIC AND INVESTMENT ACTIVITY:

- targeted values of key performance indicators of the Company, the adjusted business plan (including adjusted investment program) for 2011 were approved; and an additional Program of the Company's costs management for 2011 was reviewed;
- the Complex annual procurement program for 2011 was approved;
- the Program of the Company's insurance protection was approved;
- time-phased-action-plans for reduction of overdue accounts receivable for energy transmission services and disagreements settlement as of the beginning of the quarter and reports on execution thereof are quarterly approved;
- reports prepared by the Company's Director General by activity areas, in particular, on fulfilment of targeted key performance indicators; compliance with the business plan (including the investment program); credit policy, ensuring of insurance protection, execution of the complex annual procurement program of the Company; execution of the Programs approved by the Board of Directors are quarterly reviewed.

### 4. AS FOR DECISIONS ON ORGANIZATIONAL DESIGN AND PERSONNEL MANAGEMENT:

- the organizational structure of the Company's executive apparatus was approved;
- Provisions on material incentives for the Director General and Superior managers of the Company were approved;
- the revised List of positions included in the category of Superior managers at JSC IDGC of the North-West and the List of positions were approved; the Company's Board of Directors is responsible for agreement on the candidates for such positions.
- issues related to agreement of candidates for positions determined by the Company's Board of Directors were reviewed;
- issues on termination of authorities of members of the Company's Board and election of members of the Company's Board were reviewed.

### 5. AS FOR CORPORATE GOVERNANCE OF THE COMPANY AND ITS SUBSIDIARIES AND DEPENDENT ENTITIES:

- the issue on assessment of the Board of Director's activity was reviewed, Regulations on the procedure for assessment of the activity of the Company's Board of Directors were approved;
- issues related to preparation for and conduct of the annual General Shareholders' Meeting of the Company for 2010 were reviewed;
- personal compositions and budgets of Committees of the Board of Directors were approved;
- Director General's reports on compliance with the Provision on Company's information policy; work of the Company's Board; execution of decisions adopted at meetings of the Company's Board of Directors are reviewed quarterly;
- issues on determination of the Company's representatives' position for voting at general shareholders' meetings and meetings of boards of directors of subsidiaries, in particular, on approval of targeted values of key performance indicators, business plans of subsidiaries and dependent

**206 key issues  
REVIEWED by THE  
BOARD of DIRECTORS**

<sup>11</sup> Information on the decisions made by the Company's Board of Directors is available at the website of JSC IDGC of the North-West: <http://www.mrsksevzap.ru>



entities and reports on execution thereof; on payment of remunerations and compensations to members of Boards of Directors and Auditing Commissions of subsidiaries and dependent entities; on recommendations with regard to distribution of profit (including payment of dividends) and losses of subsidiaries and dependent entities and on recommendations on the amount of share dividends and the procedure of payment thereof are reviewed;

Along with this, the Board of Directors of the Company approved a number of internal documents regulating the Company's activity in various areas:

- » Provision on control environment and risks of the Company's business processes: "Commercial Accounting and Sale of Electric Energy Transmission Services", "Procurement Control", "Provision of Technological Connection Services", "Operational Activity" by the decision of 31.05.2011 (Minutes No. 78/18);
- » Regulations for formation, adjustment of the investment program and preparation of reporting on execution thereof in the Company (decision of 15.11.2011, Minutes No. 87/8);
- » Standard on technical policy related to electricity metering within the distribution grid complex of JSC IDGC of the North-West (decision of 10.11.2011, Minutes No. 86/7);
- » "System of Centralized Service of Customers of JSC IDGC of the North-West" Standard (decision of 19.12.2011, Minutes No. 88/9);
- » revised Provision on insider information of JSC IDGC of the North-West (decision of 28.12.2011, Minutes No. 89/10);
- » revised Provision on the procedure of arrangement of regulated purchase of goods, services for the needs of JSC IDGC of the North-West (decisions of 28.12.2011, Minutes No. 89/10).

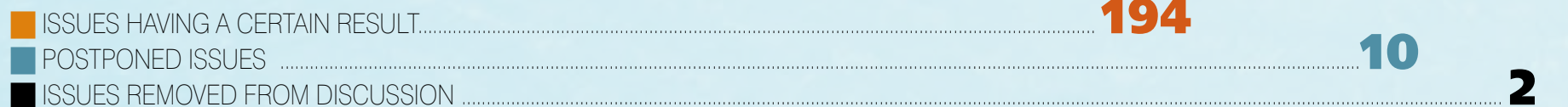
There were 206 key issues of the total number of issues reviewed by the Board of Directors in 2011.

### THE STRUCTURE OF KEY ISSUES REVIEWED BY DIRECTIONS MAY BE REFLECTED AS FOLLOWS:

<b>14</b>	STRATEGY, INVESTMENTS, INNOVATIONS, ENERGY EFFICIENCY AND ENERGY SAVING
<b>17</b>	APPOINTMENTS AND HR POLICIES
<b>42</b>	TRANSACTION APPROVAL
<b>9</b>	APPROVAL OF INTERNAL DOCUMENTS AND POLICIES
<b>31</b>	FINANCIAL STATEMENTS, PLANNING, INTERNAL CONTROL AND AUDIT, RISK MANAGEMENT
<b>32</b>	CORPORATE GOVERNANCE
<b>9</b>	PROCUREMENT
<b>29</b>	REPORTS OF THE DIRECTOR GENERAL BY ACTIVITY AREAS
<b>16</b>	MANAGEMENT OF SUBSIDIARIES' AND DEPENDENT ENTITIES' ACTIVITY, <small>determination of the Company's representatives' positions as to the agenda issues reviewed at general shareholders' meetings and meetings of boards of directors of subsidiaries and dependent entities</small>
<b>7</b>	OTHER ISSUES WITHIN THE COMPETENCE OF THE BOARD OF DIRECTORS

## ISSUES REVIEWED BY THE BOARD OF DIRECTORS IN 2011

### SPECIFICS OF DECISION-MAKING PROCESS OF THE BOARD OF DIRECTORS IN 2011



### SPECIFICS OF VOTING AT MEETINGS OF THE BOARD OF DIRECTORS IN 2011



### VOTE PARTICULARITIES AT MEETINGS OF THE BOARD OF DIRECTORS IN 2011

<b>82,74%</b>	AFFIRMATIVE VOTE
<b>10,68%</b>	NOT PRESENT AT THE MEETING
<b>3,18%</b>	ABSTAINED
<b>2,56%</b>	DID NOT TAKE PART IN THE VOTING IN ACCORDANCE WITH THE REQUIREMENTS OF THE LEGISLATION
<b>0,84%</b>	NEGATIVE VOTE



## STRUCTURE OF THE COMPANY'S BOARD OF DIRECTORS

The quantitative structure of the Board of Directors is determined by the Articles of Association and accounts for 11 members.

In 2011 the Company's Board of Directors operated in two structures:

During the period from June 24, 2010 up to June 16, 2011 the Board of Directors of JSC IDGC of the North-West operated in the following personal structure: A.Yu. Perepelkin, T.P. Dronova, D.V. Kulikov, A.M. Kukhmay, E.V. Lukianov, A.A. Popov, S.Yu. Remes, A.V. Sannikov, V.I. Sinyavsky, V.M. Shogenov, S.E. Yuchuk.

The present structure of the JSC IDGC of the North-West Board of Directors was elected at the annual General Shareholder's Meeting on June 16, 2011 as follows<sup>12</sup>.



### ALEKSEY VLADIMIROVICH DEMIDOV

#### Chairman of the Board of Directors

Elected to the Board of Directors on 16.06.2011, Chairman of the Board of Directors since 12.08.2011.

Date of the first election to the Company's Board of Directors: 10.06.2009.

Born in 1976.

In 1998 he graduated from Saint Petersburg State University of Trade and Economics, majoring in Accounting and Audit, qualified as an economist.

Upon graduation from the university, worked in fuel and energy companies:

2003-2006 – First Deputy Director General of CJSC "Sevmorneftegaz", Advisor of the Deputy Chairman of the Board of OJSC "Gazprom";

In 2006-2009 occupied the post of the First Deputy Financial Director of Open Joint-Stock Company Oil Company "Rosneft".

In March 2009 appointed Deputy Director General for Economy and Finance at JSC IDGC Holding.

In November 2011 appointed as acting Director General of JSC IDGC of the North Caucasus with combined duties.

Currently he is a member of management bodies of the following organizations: Chairman of the Board of Directors of JSC IDGC of Siberia; member of the Board of Directors of JSC Lenenergo, JSC IDGC of the North Caucasus, JSC Kubanenergo, member of the Management Board of JSC IDGC Holding.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

<sup>12</sup> Consent of members of the Board of Directors, members of the Management Board on information disclosure presented in the Annual Report of JSC IDGC of the North-West as of the end of 2010 was received.

**MIKHAIL YURIEVICH  
KURBATOV****Deputy Chairman of the Board of Directors**

Elected to the Board of Directors on 16.06.2011 (for the first time), elected as Deputy Chairman of the Board of Directors on 12.08.2011.

Born in 1981.

In 2003 he graduated from Saint Petersburg State University of Trade and Economics, majoring in World Economy, qualified as an economist.

2005 to 2010 was an office worker at the Ministry of Economic Development of the Russian Federation and took the following positions: Consultant, Deputy Head of the Department, Head of the Energy Sector Restructurization Department, Deputy Director of the Department, Director of the Department.

In July 2010 he was appointed Deputy Director General of JSC IDGC Holding, where he continues to work now.

Currently he is a member of management bodies of the following organizations: Chairman of the Board of Director at JSC IDGC of Ural, JSC "TRK"; member of the Board of Directors of JSC "SG-Trans", JSC "Management VOLS-VL", JSC Tyumenenergo, JSC IDGC of Center, is a member of the supervisory board of NP "Sovet Rynka".

Member of the Management Board of JSC IDGC Holding, member of the Board of the Federal Tariff Service for tariffs of the Russian Federation.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

**TATIANA PETROVNA  
DRONOVA**

Elected to the Board of Directors on 16.06.2011.

Date of the first election to the Board of Directors: 10.06.2009.

Born in 1954.

Higher education, graduated from Finance Academy under the Government of the Russian Federation, majoring in "Finances and Credit", qualified as an economist.

From 2001 to 2008 worked in the electric energy sector at JSC Mosenergo in the position of the Chief Accountant, was a member of the Management Board of JSC Mosenergo.

Since 2008 until now has been Deputy Director General for Strategy and Development of CJSC "Energosoyuz Investment Holding".

Currently she is not a member of management bodies of any organizations.

She did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

**VLADIMIR VYACHESLAVOVICH  
INOZEMTSEV**

Elected to the Board of Directors on 16.06.2011 (for the first time).

Born in 1977.

In 1999 he graduated from Omsk State Technical University, majoring in "Industrial Power Supply", qualified as an electric engineer.

From 2004 to 2005 occupied the post of Head of the Energy Transportation Department at subsidiary of JSC AK Omskenergo "Electric Grid Facility"; from 2005 to 2006 – Head of the Energy Transportation Department at JSC AK Omskenergo.

In 2006 he was Head of Transport and Reduction of Electricity Losses department in the Management Center of IDGC at OJSC "Federal Grid Company of the Unified Energy System" (FGC UES).

From 2008 until now has been Head of Transport of Electricity and Energy Saving Department at JSC IDGC Holding.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.





### ALEXANDER MARKOVICH KUKHMAY

Elected to the Board of Directors on 16.06.2011.

Date of the first election to the Company's Board of Directors: 10.06.2009.

Born in 1951.

In 1974 he graduated from M. I. Kalinin Leningrad Polytechnic Institute, majoring in "Electric Traction and Automation of Traction Devices", qualified as engineer electrician.

Upon graduation of the Institute worked at fuel and energy facilities. In 1994 passed internship in the USA at the Academy of International Development under Program "Management of Energy Companies". In 2003-2004 took an advanced training under Program "Company Development Management" at the Academy of National Economy under the Government of the Russian Federation.

From 1976 to 2003 took various supervisory positions in technical departments at JSC Kolenergo.

In 2004-2005 took the following positions at OJSC "North-West Energetic Engineering Center": Deputy Director General – Head of the Business-Unit Group - First Deputy Director General – Executive Director.

In 2005 was hired by IDGC of the North-West as Technical Director, from 2007 – First Deputy Director General – Chief Engineer. In July 2008 he was appointed Director General of IDGC of the North-West.

Currently he is not a member of management bodies of any organizations.

He has a share in the authorized capital of JSC IDGC of the North-West: 0.0005%. Settled no transactions with securities of the Company during 2011.

### ALEKSEY VLADIMIROVICH KORSHUNOV

Elected to the Board of Directors on 16.06.2011 (for the first time).

Born in 1982.

Higher education. In 2005 he graduated from one of the most established higher institutions of Russia, Moscow State University of Bauman, majoring in "Alternative and Renewable Energy", qualified as an engineer. Upon graduation in 2005-2007 continued scientific activity as a research assistant, postgraduate student of the Institute of High Temperatures of the Russian Academy of Sciences, carried out research in the sphere of high temperatures.

In 2007 occupied the post of a sales engineer in the machine building sector at CJSC "SKF". In 2008 was employed by CJSC "Complex Energetic Systems" as Senior Expert in the Department of Repairs, Technical Reequipment and Reconstruction.

In October 2010 occupied the post of an office worker at the Ministry of Energy of the Russian Federation in the position of the Senior Expert at the Department of Operational Control and Management in the Energy Sector and Mobile Training in the Fuel and Energy Complex.

Since 2011 has been taking the position of the Deputy Director of the Department of Operational Control and Management in the Energy Sector at the Ministry of Energy of the Russian Federation. Currently he is not a member of management bodies of any organizations.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

### ALEKSEY VALERIEVICH KUROCHKIN

Elected to the Board of Directors on 16.06.2011.

Date of the first election to the Company's Board of Directors: 29.06.2007.

Born in 1973.

In 1995 he obtained a diploma of higher education upon graduation from the Ural State Law Academy, majoring in "Jurisprudence".

From 2005 to 2008 occupied the post of Deputy Head of Center of Management of Interregional Distribution Grid Complexes JSC "FGC UES".

In 2008 occupied the post of the Director for Corporate Policy at JSC IDGC Holding, during the period from 2009 to 2011 occupied the post of Head of the Department of Corporate Governance and Shareholder Relations of JSC IDGC Holding.

Since 2011 until now has been working in JSC IDGC Holding in the position of the Director for Corporate Policy.

Currently he is a member of executive bodies of the following organizations: member of the Board of Directors of JSC Yantarenergo, JSC Yekaterinburg Electric Grid Company, JSC Tyumenenergo.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

**ALEXANDER ALBERTOVICH  
POPOV**

Elected to the Board of Directors on 16.06.2011.

Date of the first election to the Company's Board of Directors: 10.06.2009.

Born in 1955.

In 1976 he graduated from Zhitomir Higher Education Military Command School of Radio Electronics of Air Defence named after Lenin Komsomol, an officer with higher military special education, qualified as an engineer for operating radio engineering facilities.

After graduation of the School took various positions at the Armed Forces and the Federal Security Service of the Russian Federation. In 1991 graduated from Military Command Red Banner Air Defense Academy after Marshal of the Soviet Union G.K. Zhukov, majoring in Command Headquarters Operational and Tactical of Air Defense Forces, an officer with higher military education.

In 2000 studied at the Russian Academy of Public Administration under the President of the Russian Federation under the State and Municipal Management Program.

In 2007 worked as the Chief Specialist of OAU of the service of the Vice-President – Security Director of LLC AVTOVAZ GROUP, in the same year became an office worker at the Administration Representative Office of the Amur Region under the President of the Russian Federation and the Government of the Russian Federation in the position of Head of HR and Organization Department.

During 2007-2008 – Head of the Apparatus of the Governor of the Region and the Government of the Amur Region.

During 2008-2009 – Head of the Administration Representative Office of the Amur Region under the President of the Russian Federation and the Government of the Russian Federation.

In 2009 appointed Deputy Director General – Head of the Apparatus of JSC IDGC Holding; has been working in the same position until now.

Currently he is a member of the management bodies of the following organizations: member of the Board of Directors of JSC Moscow United Electricity Distribution Company

**REMES SEPPO  
YUKHA**

Elected to the Board of Directors on 16.06.2011.

Date of the first election to the Company's Board of Directors: 09.12.2004.

Born in 1955.

In 1984 he graduated from University of Oulu (Finland), economist. In 1994 graduated from the Higher School of Business Economy and Management (Finland), candidate of economic sciences.

From 1993 to 2001 occupied the post of the Vice-President in Russia, Head of the Representative Office of NESTE (FORTUM) in Moscow; 2001-2003 – Director General of Vostok Energo Investment Ltd., 2003-2004 – Director of Vostok Nafta Investment Ltd.

During 2004-2007 – Chief Advisor of CJSC "FIM Investment Bank". Since 2008 until now has been working as the Director General of Kiuru Ltd.

Currently he is a member of management bodies of the following organizations: member of the Board of Directors of: JSC IDGC Holding, JSC Lenenergo, JSC Sollers, JSC Sibur Holding, JSC OMZ, JSC Institute Energosetproject. Chairman of the Board of Directors of EOS Russia.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

(MOESK), JSC IDGC of Center, JSC IDGC of Siberia, JSC Lenenergo, member of the Supervisory Council of the Non-Commercial Partnership Corporate Educational and Scientific Center of the Unified Energetic System (NP KONZ UES).

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

**ROMAN ALEKSEEVICH  
FILKIN**

Elected to the Board of Directors on 16.06.2011 (for the first time).

Born in 1983.

In 2005 he obtained a diploma of higher education upon graduation from the Finance Academy under the Government of the Russian Federation, majoring in Finances and Credit, qualified as an economist.

Since 2009 until now has been working as Co-Director at the Representative Office of Prosperity Capital Management (RF) Ltd. (electric energy, machine building).

Currently he is a member of management bodies of the following organizations: member of the Board of Directors of JSC IDGC of the South, JSC Tver Energy Repair Company, JSC Territorial Generating Company No. 6, JSC Penza Energy and Repair Company, JSC IDGC of Center, JSC IDGC of Center and Volga Region.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.



## TARAS VYACHESLAVOVICH SHEVCHENKO

Elected to the Board of Directors on 16.06.2011 (for the first time).

Born in 1973.

In 2001 he graduated from the Lomonosov Moscow State University, qualified as a lawyer.

During 2001-2009 occupied the post of a lawyer at the Moscow Bar Association Lawyer's League.

Since 2009 until now has been working at JSC IDGC Holding in the position of the Procurement Director – Head of the Procurement Department.

Currently he is not a member of management bodies of any organizations.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

## COMMITTEES OF THE BOARD OF THE DIRECTORS

Within the implementation of principles determined in the Corporate Governance Code, the Company created the consulting bodies under the Board of Directors of IDGC of the North-West: Audit Committee, HR and Remuneration Committee, Strategy and Development Committee, Reliability Committee and Committee for Technological Connection to Electrical Grids (hereinafter referred to as the Committee).

This group in the system of the Company's corporate governance bodies takes a special position as it meets the best standards of corporate governance within the framework of the Company's openness by making the most important decisions for all groups of shareholders of JSC IDGC of the North-West.

The Committees of the Board of Directors preliminarily consider, work out and present the recommendations (opinions) concerning the most important issues pertaining to the competence of the Board of Directors. The decisions of the Board of Directors are advisory for the Company's Board of Directors.

The activity of the Committees is regulated by the internal regulatory documents of the Company, Regulations for the Committees, controlling the activity, forming procedure, competence and the term of authorities of the Committees<sup>13</sup>.

The quantitative and personal structure of each Committee of the Board of Directors is defined by the decision of the Board of Directors.

As the Committees' members are elected for the period until the conduction of the first meeting of the Board of Directors with new members elected, two individual compositions of each Committee were effective in 2011.

Effective quantitative and individual compositions of the Committees are determined in accordance with the Committees' working plans approved at the first meeting of the Committees with new members elected annually.

<sup>13</sup> See the full text of the Regulations for the Committees of the JSC IDGC of the North-West Board of Directors at the JSC IDGC of the North-West web-site: <http://www.mrsksezap.ru>.

## AUDIT COMMITTEE

Key tasks and goals of the Audit Committee are provision of effective work of the Board of Directors, evaluation of candidates for auditors, evaluation of auditor's reports, efficiency evaluation of internal control procedures and risk management, development of proposals on their improvement.

The Provision on the Audit Committee of the Company's Board of Directors is approved by the decision of the Company's Board of Directors dated 23.06.2010.

### The current structure of the Audit Committee includes:

The Audit Committee consists of the members of the Board of Directors of JSC IDGC of the North-West only.

1. Seppo Yukha Remes (Chairman of the Committee) – Director General of Kiuru Ltd.
2. Aleksey Vladimirovich Demidov (Deputy Chairman of the Committee) – member of the Board, Deputy Director General for Economy and Finance of JSC IDGC Holding.

### Members of the Committee:

3. Tatiana Petrovna Dronova – Deputy Director General for Strategy and Development of CJSC Investment Holding Energetic Union;
4. Mikhail Yurievich Kurbatov – member of the Board, Deputy Director General of JSC IDGC Holding;
5. Aleksey Valerievich Kurochkin – Director for Corporate Policy of JSC IDGC Holding;
6. Roman Alekseevich Filkin – Co-Director, electric energy sector, machine building of the Representative Office of Prosperity Capital Management (RF) Ltd.;
7. Taras Vyacheslavovich Shevchenko – Procurement Director (Head of the Procurement Department) at JSC IDGC Holding.

By the decision of the Audit Committee of 09.09.2011, an employee from the Department of Internal Audit and Risk Management of JSC IDGC Holding was attracted to take part in the Audit Committee's activity as an expert in order to make a more detailed and justified decision in the area of internal audit and risk management.

In 2011 the Audit Committee held 9 meetings; 1 of them was held as a physical meeting. In the course of the meetings recommendations were considered and given to the Board of Directors, in particular, concerning information (materials) for the Annual General Shareholder's Meeting:

- annual report of the Company for 2010;
- annual financial statements of the Company for 2010 prepared in accordance with Russian Accounting Standards (RAS);
- evaluation of the auditor's report on accounting and financial (accounting) statements of the Company for 2010 prepared according to the Russian Accounting Standards (RAS);
- nominated auditor to audit the financial (accounting) statements of the Company under the Russian Accounting Standards in 2011 for approval at the Annual General Meeting of the Company for 2010.

WITH REGARD TO INTERNAL CONTROL, AUDIT AND RISK MANAGEMENT:

- work schedules of the Internal Audit Administration and internal control and audit subdivisions of JSC IDGC of the North-West for the 1st and 2nd halves of 2011 were approved;
- reports on the work of the Company's internal control and audit subdivisions are under review;
- information on the state of affairs with regard to execution of documents aimed at improving and developing internal control, audit and risk management in the Company is under review;
- the revised Provision on insider information of JSC IDGC of the North-West was reviewed prior to approval at the meeting of the Board of Directors;
- reports of independent appraisers on determination of the fair value of the Company's real estate are under preliminary review

THE FOLLOWING IS REGULARLY REVIEWED AT THE COMMITTEE'S MEETINGS:

- the Company's financial statements prepared in accordance with international financial reporting standards (IFRS);
- the Company's accounting (financial) statements prepared in accordance with Russian accounting standards (RAS)

The Committee reviewed the external auditor's comments as to the main problems in the accounting (financial) statements for 2010 prepared in accordance with RAS.

Besides, the issues related to the amount of the remuneration to be paid to the external auditor of the statements prepared in accordance with Russian accounting standards (RAS) for 2011 and to the external auditor of the statements prepared in accordance with IFRS for 2011 were reviewed.

## HR AND REMUNERATION COMMITTEE

In compliance with the corresponding Regulation, the competence of the HR and Remuneration Committee of the Board of Directors of JSC IDGC of the North-West includes the actual issues of establishing principles and criteria of remuneration of the members of the Board of Directors, Management Board, Director Generals of the Company as well as determination of material conditions of the agreements with the members of the collegial and sole executive bodies, together with the regulation of their activity assessment.

The Provision on the HR and Remuneration Committee of the Board of Directors of JSC IDGC of the North-West was approved by the Board of Directors on 30.07.2010.

On 31.03.2011 the Board of Directors approved changes to the Provisions on the HR and Remuneration Committee.



### The current structure of the HR and Remuneration Committee:

The HR and Remuneration Committee consists of members of the Board of Directors of JSC IDGC of the North-West only.

1. Alexander Albertovich Popov (Chairman of the Committee) – Deputy Director General – Head of the Apparatus of JSC IDGC Holding;
2. Aleksey Valerievich Kurochkin (Deputy Chairman of the Committee) – Director for Corporate Policy of JSC IDGC Holding;

### Members of the Committee:

3. Tatiana Petrovna Dronova – Deputy Director General for Strategy and Development of CJSC Investment Holding Energetic Union;
4. Mikhail Yurievich Kurbatov – member of the Board, Deputy Director General of JSC IDGC Holding;
5. Roman Alekseevich Filkin – Co-Director, electric energy sector, machine building of the Representative Office of Prosperity Capital Management (RF) Ltd.;
6. Taras Vyacheslavovich Shevchenko – Procurement Director (Head of the Procurement Department) at JSC IDGC Holding.

In 2011 the HR and Remuneration Committee held 13 meetings with 2 official ones, at which the following issues were reviewed:

AS FOR ELABORATION OF RECOMMENDATIONS RELATED DECISION MAKING BY THE COMPANY'S BOARD OF DIRECTORS:

- changes and amendments to the Provision on the HR and Remuneration Committee with regard to the expansion of objectives, tasks and competence of the Committee and tightening of criteria to the election of the Committee's members;
- the revised provision on material incentives for Director General of JSC IDGC of the North-West; the revised Provision on material incentives and the system of benefits and compensations (social package) of superior managers of JSC IDGC of the North-West;

- termination of authorities of the Company's Board and election of members of the Company's Board;
- candidates for positions determined by the Company's Board of Directors: Deputy Director General for Logistics and Procurement of the Company;
- organizational structure of the executive apparatus of JSC IDGC of the North-West, as well as the list of positions assigned to the superior managers category of JSC IDGC of the North-West and the list of positions, the approval of which is the responsibility of the Company's Board of Directors.

IN ORDER TO PREPARE RECOMMENDATIONS FOR THE COMPANY'S DIRECTOR GENERAL, THE COMMITTEE REVIEWED THE FOLLOWING ISSUES:

- the Program of support and development of the Company's human resources up to 2014;
- skill pool candidates in the positions of the executive apparatus and Company's branches for 2011;
- Provision on skill pool of young specialists of JSC IDGC of the North-West;
- candidates for positions of: Chief Accountant of Arkhenergo, Deputy Safety Director of Karelenergo;
- organizational structures of management apparatuses of JSC IDGC of the North-West branches.

## STRATEGY AND DEVELOPMENT COMMITTEE

The Strategy and Development Committee, in accordance with the corresponding Regulation, develops and provides recommendations to the Board of Directors of the Company on priorities, strategic objectives and core principles for the strategic development of the Company, as well as on performance evaluation, improvement of investment opportunities and financial planning of the Company.

The Provision on the Committee for Strategy and Development of the Board of Directors of JSC IDGC of the North-West was approved by the Company's Board of Directors on 22.08.2008.

### The current structure of the Strategy and Development Committee:

1. Aleksey Vladimirovich Sergutin (Chairman of the Committee) – Director for Economy at JSC IDGC Holding;
2. Remes Seppo Yukha (Deputy Chairman of the Committee) – Member of the Board of Directors of JSC IDGC of the North-West, Director General of Kiuru Ltd;

### Members of the Committee:

3. Denis Lvovich Gurianov – Head of the Department of Corporate Governance and Shareholder Relations of JSC IDGC Holding;
4. Aleksey Nikolaevich Zharikov – Director of the Department for Corporate Governance and Shareholder Relations of JSC Electrocentraladka;
5. Mikhail Evgenievich Kuznetsov – Director General of CJSC Center of Corporate Development of the AID;
6. Dmitriy Leonidovich Pankov – Director for strategy, development and innovations of the Department of Corporate Governance and Shareholder Relations of JSC IDGC Holding;
7. Yuriy Nikolaevich Pankstianov – Head of the Tariff Setting Department of JSC IDGC Holding;
8. Timur Khyzyrovich Tambiev – Head of the Department of Analysis and Assessment of Efficiency of Investment Projects of the Investment Department of JSC IDGC Holding;
9. Roman Alekseevich Filkin – Co-Director, electric energy sector, machine building of the Representative Office of Prosperity Capital Management (RF) Ltd.

In 2011 the Strategy and Development Committee held 12 meetings; one of them was in praesentia. At the meetings recommendations were reviewed and given to the Board of Directors, in particular applicable to the following issues:

#### THE COMPANY'S PRIORITY ACTIVITY AREAS ARE AS FOLLOWS:

- development of the Innovative Development Program of the Company; recommendations as to the approval of the Innovative Development Program of the Company for 2011-2016 were given;
- ensuring the set level of reliability and quality of the services rendered by the Company in accordance with normative legal acts;
- conduction of mandatory energy audit of production and economic facilities and facilities of the electric grid complex of the Company in 2011-2012; recommendations as to the approval of the Action plan on implementation of mandatory energy audit of production and economic facilities and facilities of the electric grid complex of the Company in 2011-2012 were given;
- implementation of the system of major investment projects construction management;
- fulfilment of works related to registration of ownership to real estate objects, registration/re-registration of rights of land use for the period of 2011-2014; recommendations as to the approval of the adjusted Program of JSC IDGC of the North-West related to registration of ownership to real estate objects, registration/re-registration of rights of land use for the period of 2011-2014 were given, with the works on preparation of data on the borders of protected territories of the electric grid complex facilities taken into account.

#### WITH REGARD TO FINANCIAL-ECONOMIC AND INVESTMENT ACTIVITIES:

- the Company's key performance indicators (KPI), adjusted business plan and the Company's investment program for 2011 as well as quarterly reports on their execution were approved;
- The Program on perspective development of the system of electricity metering in the retail electricity market in electric grids of JSC IDGC of the North-West, the report on execution thereof, were approved;
- the adjusted Program on energy saving and energy efficiency enhancement of the Company for 2011 – 2015, reports on execution thereof were approved;
- the Program on management of the Company's costs for 2011 and an additional Program on management of the Company's costs for 2011-2013 were approved;
- the Report of the Director General on measures taken with regard to switching to regulation of tariffs for electric energy transmission services with application of the return on investment capital method (RAB) was reviewed;
- Regulations for formation, adjustment of the investment program and preparation of reports on execution thereof in the Company was reviewed;
- the business plan of the Project on heat supply in Belomorskiy and Suoyarvskiy Regions of the Republic of Karelia was reviewed.

#### WITH REGARD TO PARTICIPATION OF THE COMPANY IN OTHER ORGANIZATIONS:

- terms of termination of the Company's participation in JSC Pskovenergoavto, Non-Profit Partnership Innovations in Electric Energy Industry (NPP IEEL) were approved.

## RELIABILITY COMMITTEE

Establishment of the Reliability Committee is determined by the necessity of guarantee provision of the control and preservation of the reliability functioning of the Company's grid complex.

The Provision on the Reliability Committee of the Board of Directors of JSC IDGC of the North-West was approved by the Board of Directors of the Company on 28.12.2005.

#### The current structure of the Reliability Committee:

1. Sergey Vladimirovich Shpilevoy (Chairman of the Committee) - Deputy Head of the Industrial Control and Labor Safety Directorate of JSC IDGC Holding.
2. Andrey Vladimirovich Bocharov (Vice-Chairman of the Committee) – Head of the Administration for Prevention of Emergency Situations of JSC IDGC Holding.

#### Members of the Committee:

3. Aleksey Nikolaevich Zharikov – Director of the Department for Corporate Governance and Shareholder Relations of JSC Electrocentronaladka;
4. Dmitriy Leonidovich Pankov – Director for strategy, development and innovations of JSC IDGC Holding;
5. Georgiy Vasilievich Turlov – Deputy Director General for Technical Issues – Chief Engineer of JSC IDGC of the North-West;
6. Marina Evgenievna Shvedko – Deputy Head of the Capital Construction Department of JSC IDGC Holding.



IN 2011 THE RELIABILITY COMMITTEE HELD 10 MEETINGS. IN THE COURSE OF THE MEETINGS THE FOLLOWING ISSUES WERE CONSIDERED AND ANALYZED:

- adjusted investment program of the Company for 2011, quarterly reports on its execution with relation to complex reliability requirements;
- quarterly execution of the Company's repair program;
- Standard of the organization of Personal Protective Equipment to Protect from Electric Arc's Thermal Influence. Requirements to selection and the Procedure of Operation by Employees of JSC IDGC of the North-West.
- report on organization of operational and technological management of ETL and substations' equipment of the Company in 2010;
- report on the bringing of protected zones (clearings) of overhead electric energy transmission lines of JSC IDGC of the North-West to normative values;
- state of main funds of the Company's power assets;
- Standard of arrangement of technical maintenance and repair in the electric grids of the Company.

WITH REGARD TO THE INCREASE OF THE COMPANY'S RELIABILITY DURING THE PERIODS OF EXTREME NATURAL INFLUENCES:

- » report on results of the Company's work under the conditions of autumn and winter period of 2010-2011; tasks on preparation of the Company's electrical grid facilities for the autumn and winter period of 2011-2012;
- » report on preparation of the Company's electrical grid complex for the storm season of 2011;
- » report on preparation of the Company for the work during the autumn and winter period of 2011-2012.

## COMMITTEE ON TECHNOLOGICAL CONNECTION TO THE GRID

The main purpose of the Committee on technological connection to the grid is to ensure transparency of activities and non-discriminatory access to technological connection of consumers to the electric networks of the Company.

The Provision on the Committee on Technological Connection to the Grid of the Board of Directors of JSC IDGC of the North-West was approved by the Board of Directors of the Company on 10.02.2009.

### The current structure of the Committee on technological connection to the grid:

1. Tatiana Petrovna Dronova – Member of the Board of Directors of JSC IDGC of the North-West, Deputy Director General for Strategy and Development of CJSC Investment Holding Energetic Union;

2. Valentin Mikhailovich Komarov (Deputy Chairman of the Committee) – Deputy Head of the Department of Perspective Development and Technological Connection – Head of the Department of Technological Connection Organization of JSC IDGC Holding;

### Members of the Committee:

3. Vera Leonidovna Grishina – Director of the North-West Branch of CJSC Agency for Energy Forecasting;

4. Anatoliy Valerievich Kushnerov – Deputy Director General for Corporate Governance of JSC IDGC of the North-West;

5. Alexander Vladimirovich Mikhalkov – Deputy Director General for development and implementation of services of JSC IDGC of the North-West.

In 2011, 3 meetings of the Committee on Technological Connection to the Grid were held; issues of the Company's activity monitoring as to the technological connection of consumers to the grid, including contractual work and general statistics with various consumer groups taken into account were reviewed.

## EXECUTIVE BODIES OF THE COMPANY

According to the Articles of Association of JSC IDGC of the North-West management of the Company's current activity is performed by the sole executive body of the Company (Director General) and collective executive body of the Company (Management Board)<sup>14</sup>. Executive Bodies are accountable to the Board of Directors and General Meeting of Shareholders.

The Company Articles of Association, its Corporate Governance Code and other internal documents fixed the norms enabling to improve quality and minimizing possibility of interests' conflict occurrence between the executive bodies, the Board of Directors and the shareholders of the Company. The following norms were determined:

- Director General and the members of the Management Board are obliged to keep from the activities which can lead to the conflict occurrence between their interests and the interests of the Company. In case of occurrence of such a conflict, Director General and the members of the Management Board are obliged to notify the Board of Directors about this fact. They should also keep from the discussion and voting concerning the correspondent issues;
- Director General shall quarterly report about the activity of the Company and his/her obligations implementation to the Board of Directors, as well as present the annual report to the consideration of the Board of Directors not later than 30 days before the date of the Annual General Shareholder's Meeting. The Management Board is also accountable for its activities to the Board of Directors;
- The agreements signed by the Company with Director General and the members of the Management Board, determine the responsibility for the violation of the Russian laws concerning the commercial secret.

As a collegial body, the Management Board ensures analyzing the most complex and important issues regarding the current activity of the Company. The Management Board's competence covers the development and submission for approval of the Board of Directors of priority areas of the Company's activity and perspective plans on execution thereof, strategic supervision with regard to subsidiaries and dependent entities of JSC IDGC of the North-West.

In 2011, 46 meetings of the Company's Management Board were held, 23 of which were in the form of a physical meeting, 165 issues were reviewed.

According to the Company's opinion, the Management Board is fairly needed; it is an essential institution for the Company's efficient activities.

### STRUCTURE OF THE MANAGEMENT BOARD

The initial structure of the Management Board was approved by the Board of Directors as of 10.04.2008. By the decision of the Company's Board of Directors of 25.08.2009, changes were made to the quantity of members of the Management Board: the composition of the Management Board was increased from 7 to 10 persons.

DURING 2011, THE FOLLOWING CHANGES TOOK PLACE IN THE COMPOSITION OF THE COMPANY'S MANAGEMENT BOARD:

- By the decision of the Board of Directors of 22.02.2011, the authorities of member of the Company's Management Board Bloschitsin V.A. were terminated due to the cancellation of the employment contract. Zaichko T.V. – Deputy Director General for Logistics and Procurement of the Company – was elected a member of the Company's Management Board.
- By the Decision of the Board of Directors of 12.08.2011, the authorities of member of the Company's Management Board Zaichko T.V. were terminated due to the cancellation of the employment contract. Titov S.G. – Deputy Director General for Capital Construction of the Company – was elected a member of the Company's Management Board.
- By the Decision of the Board of Directors of 16.09.2011, the authorities of member of the Company's Management Board Schelkogonov V.P. were terminated.
- By the decision of the Board of Directors, Bukata D.A. – Deputy Director General for Logistics and Procurement of the Company – was elected a member of the Company's Management Board.
- In accordance with the Articles of Association of JSC IDGC of the North-West, the functions of Chairman of the Company's Management Board are performed by the Company's Director General.
- Information on Director General of the Company Alexander Markovich Kukhmay is presented above in the Structure of the Company's Board of Directors Section.

<sup>14</sup> Information on the competence of Director General and the Management Board can be found at the website of JSC IDGC of the North-West: <http://www.mrsksevzap.ru/about/struct/>



THE FINANCIAL STATEMENT  
INTERNAL AUDIT PERFORMANCE  
IS THE IMPORTANT ELEMENT IN  
THE TOTAL SYSTEM OF CONTROL  
OVER THE ACTIVITY OF THE  
COMPANY'S EXECUTIVE BODY...



**GEORGIY VASILIEVICH  
TURLOV****Deputy Chairman of the Management Board**

(date of the first election to the Management Board 26.09.2008)

Born in 1951.

In 1974 he graduated from Leningrad Agricultural Institute, majoring in Rural Electrification. In 1996 graduated from the Academy of National Economy under the Government of the Russian Federation, majoring in Top-Manager. In 2011 upon completion of the MBA Course Innovative and Project Management obtained the qualification of Master of Business Administration.

Since 2005 has worked at JSC IDGC of the North-West: 2005-2008 – Head of the Department of Technical Development and Connection of New Consumers of the Department of Grid Development and Electric Energy Transportation, Deputy Head of the Department-Head of the Department of Electric Grid Complex Development, Deputy Chief Engineer for Operation and Technical Development.

Since August 2008 has been Deputy Director General - Chief Engineer of the Company. Since August 2011 Deputy Director General for Technical Issues - Chief Engineer of JSC IDGC of the North-West.

Competence of Georgiy Vasilievich Turlov covers determination of the technical policy and its conduction in the course of operation, new construction, technical re-equipment and reconstruction of the electric grid complex of the North-West Region to ensure safe, reliable and efficient functioning thereof.

Currently he is a member of management bodies of the following organizations: member of the Board of Directors of JSC Energoservice of the North-West.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

**VLADIMIR MIKHAILOVICH  
SHESTOV****Member of the Management Board**

(date of election to the Management Board: 25.08.2009)

Born in 1955.

In 1978 he graduated from Tula Polytechnical Institute, majoring in Field Installations. In 1989 graduated from the Higher School of KGB. In 1985 – higher courses of KGB. Repeatedly passed advanced training.

From 1984 to 2009 worked at the Federal Safety Service Administration of Russia.

Completed his service at the Federal Safety Service Administration of Russia as a colonel of the Federal Safety Service. Awarded with breastplates "For Service in Counterespionage", degrees II and III.

Since February 2009 has worked at JSC IDGC of the North-West as Deputy Director General for Safety.

Competence of Vladimir Mikhailovich Shestov covers the ensuring of organization of the Company's work and economic and informational safety.

Currently he is not a member of management bodies of any organizations.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

**ANATOLIY VALERIEVICH  
KUSHNEROV****Member of the Management Board**

(date of election to the Management Board: 10.04.2008).

Born in 1971.

In 1998 he graduated from East Kazakhstan State University, majoring in Legal Science.

In 2004 graduated from the Academy of National Economy under the Government of the Russian Federation, majoring in Company Development Management. In 2004-2005 took training at the State Educational Institution of higher professional education State Management University under MBA – Management of the Company, Master of Business Administration Program.

Since 2005 has worked at JSC IDGC of the North-West: until 2007 – in the position of Director for Corporate Governance, from 2007 - Deputy Director General for Corporate Governance.

Competence of Anatoliy Valerievich Kushnerov covers organization of the system of legal support and corporate management of the Company, as well as organization of relations with shareholders and investors and their informational support.

Currently he is a member of management bodies of the following organizations: JSC Energoservice of the North-West.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.



## **OLGA VADIMOVNA MAKAROVA**

### **Member of the Management Board**

(date of election to the Management Board: 10.04.2008)

Born in 1971.

In 1996 she graduated from Saint Petersburg University of Economy and Finance, majoring in National Economy. In 2009 graduated from the Academy of National Economy under the Government of the Russian Federation, where she took an MBA course and obtained an additional qualification of Master of Business Administration, majoring in National Economy.

Since 2005 has worked at JSC IDGC of the North-West: until 2007 occupied the post of Director for Economy and Finance, since 2007 until now – Deputy Director General for Economy and Finance.

Competence of Olga Vadimovna Makarova covers organization of tariff setting processes, implementation of the tariff policy and forecast of tariff levels in regions, organization of business planning, budgeting, economic and financial planning in the Company.

Currently she is not a member of management bodies of any organizations.

She did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

## **ALEXANDER VLADIMIROVICH MIKHALKOV**

### **Member of the Management Board**

(date of election to the Management Board: 10.04.2008)

Born in 1962.

In 1985 he graduated from Leningrad Polytechnic Institute, majoring in Supply of Electric Energy to Industrial Facilities, Cities and Rural Areas. In 2001 graduated from the Academy of National Economy under the Government of the Russian Federation, majoring in Management in Electric Energy Sector.

Since 2005 has worked at JSC IDGC of the North-West: 2005-2007 – Director for Strategic Management, since 2007 has been Deputy Director General for Development and Provision of Services.

Competence of Alexander Vladimirovich Mikhalkov covers organization of work on provision of electric energy supply services and fulfilment of technological connection; elaboration of the strategy of the Company's electric grids and grid services development; organization of works with authorities of the subjects of the North-West Federal District of the Russian Federation as to the issues related to territory development and satisfaction of the demand for electric grid services, energy saving and energy efficiency enhancement of the Company; pursuing the customer-oriented policy of the Company.

Currently he is a member of management bodies of the following organizations: Chairman of the Board of Directors of JSC Energoservice of the North-West.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

## **SERGEY GENNADIEVICH TITOV**

### **Member of the Management Board**

(date of election to the Management Board: 15.08.2011).

Born in 1963.

Has a higher technical education. In 1987 he graduated from Leningrad Mechanical Institute, majoring in Components of Field Installations. In 1993 graduated from postgraduate studentship at Baltiyskiy State Technical University.

Repeatedly took advanced trainings: PSM Consulting, majoring in Project Management, Advanced Training Institute under Rosenergo, majoring in Financial Management.

From 2002 to 2007 worked as head of the JSC Lenoblغاز branch, from 2007 to 2011 occupied the post of Deputy Director General for Economy and Finance at the Apparatus of JSC Lenoblغاز.

Since March 2011 has worked as Deputy Director General for Capital Construction at JSC IDGC of the North-West.

Competence of Sergey Gennadievich Titov covers implementation of the investment policy of the Company in order to increase the reliability of electric grid operation, as well as management of construction, reconstruction and technical re-equipment of electric grid objects in accordance with the uniform investment policy.

Currently he is not a member of management bodies of any organizations.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

**ASLAN INALOVICH  
CHEKHOEV**

Member of the Management Board (date of election to the Management Board: 25.08.2009).

Born in 1965.

Has two higher educations. In 1989 he graduated from the First Leningrad Medical Institute, majoring in General Medicine. In 2007 graduated from Saint Petersburg Academy of Management and Economy, majoring in Organization Manager.

In 2005-2007 worked at JSC WGC-6 as Deputy Director General for Investment Implementation and Capital Construction.

Since February 2009 has worked at JSC IDGC of the North-West: since 2009 – as Deputy Director General for Investments, since September 2011 – Deputy Director General – Head of the Apparatus.

Competence of Aslan Inalovich Chekhoev covers implementation of the HR policy of the Company, organization of the work on the Company's social processes management, ensuring documentary service of the Company's activity.

Currently he is not a member of management bodies of any organizations.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

**DMITRIY ANDREEVICH  
BUKATA****Member of the Management Board**

(date of election to the Management Board: 28.12.2011).

Born in 1962.

In 1984 he graduated from V.I. Lenin Belarusian State University in Minsk, majoring in Radiophysics and Electronics.

In 1997 graduated from the Open University Business School (London) and obtained a professional certificate in the field of management. Passed advanced training in the Belarusian Association of Freight Forwarders on organization and management of transportation and freight forwarding activity, Saint Petersburg State Architectural and Construction Activity in 2011 under Construction, Reconstruction, Capital Repair of Capital Construction Objects Program.

During 1997-2007 worked in companies involved in transportation and freight forwarding activity and provided logistics services.

In 2007 was employed by JSC Leningrad Regional Utilities, where he developed and protected investment programs.

During 2008-2010 worked at LLC Skandinaviya as Deputy Director General for Investments and Development.

In September 2011 was appointed Deputy Director General for Logistics and Procurement of JSC IDGC of the North-West. Competence of Dmitriy Andreevich Bukata covers the ensuring of fulfilment of tasks related to regulated purchases of goods, works and services for the Company's needs, including arrangement thereof; increase of the Company's activity efficiency through a significant increase of the level of suppliers' competitiveness when purchasing goods, works and services; development of the procurement policy under the competitive environment conditions.

Currently he is not a member of management bodies of any organizations.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.





## INFORMATION ON DIRECTOR GENERAL

The competence of Director General covers all the issues directed to the implementation of the current activity of the Company. According to the Company's Articles of Association Director General has large powers in such key spheres as property management, transactions making on behalf of the Company, issue of orders, approval of guidelines, and internal documents in all important spheres of the Company's activity<sup>15</sup>.

Alexander Markovich Kukhmay was elected as Director General of the Company by the Board of Directors of JSC IDGC of the North-West on 01.07.2008.

### ALEXANDER MARKOVICH KUKHMAY

#### Director General – Chairman of the Management Board.

(date of the first election to the Management Board: 10.04.2008).

Born in 1951.

In 1974 he graduated from M. I. Kalinin Leningrad Polytechnic Institute, majoring in Electric Traction and Automation of Traction Devices, qualified as an engineer electrician.

Upon graduation of the Institute worked at fuel and energy facilities. In 1994 passed internship in the USA at the Academy of International Development under Management of Energy Companies Program. In 2003-2004 took advanced training under the Company Development Management Program at the Academy of National Economy under the Government of the Russian Federation.

From 1976 to 2003 took various supervisory positions in technical departments of JSC Kolenergo.

In 2004-2005 took the following positions at JSC North-West Energetic Engineering Center: Deputy Director General – Head of the Business-Unit Group – First Deputy Director General – Executive Director.

In 2005 was hired by IDGC of the North-West as Technical Director, from 2007 – First Deputy Director General – Chief Engineer. In July 2008 was appointed Director General of IDGC of the North-West.

For many years of labour and professionalism Alexander Markovich Kukhmay was awarded with the honorary title Honoured Worker in the Unified Energy System of Russia, honorary title Veteran of the Distribution Grid Complex, awarded with the Certificate of Merit of JSC RAO UES, has an acknowledgement issued by the Legislative Assembly of Saint Petersburg.

Currently he is a member of the Board of Directors of the Company.

Share in the authorized capital of JSC IDGC of the North-West is 0.0005%.

Settled no transactions with securities of the Company during 2011.

## AUDITING COMMISSION OF THE COMPANY

Control and assessment of the quality of management of JSC IDGC of the North-West is carried out by the Board of Directors (including Audit Committee), Auditing Commission, internal control office and external auditor of the Company).

Auditing Commission is the instrument of control over the activity of the Company from the part of shareholders. The undeniable advantages of the Auditing Commission of the Company are legal approval the auditing commission notion together with the right of convening of the General Shareholders Meeting. Another important thing in the activity of the Auditing Commission is the right to require the presentation of the documents concerning the financial and industrial activity of the Company from the Company's officials.

### INFORMATION ON THE MAIN DECISIONS MADE AT THE AUDITING COMMISSION'S MEETINGS IN 2011:

- » on 21.03.2011 a decision on the time schedule of audit of the financial and economic activity of JSC IDGC of the North-West for 2010 was made;
- » on 11.04.2011 the opinion of the Auditing Commission on the results of audit of the financial and economic activity of JSC IDGC of the North-West for 2010 was approved;
- » on 04.07.2011 the Chairman and the Secretary of the new composition of the Auditing Commission were elected;
- » on 01.03.2012 a decision on conduction of an audit of the Company's financial and economic activity for 2011 was made, the time schedule and procedure for audit conduction were approved.

<sup>15</sup> Information on the competence of Director General can be found at the website of JSC IDGC of the North-West: <http://www.mrsksevzap.ru/about/struct/>

## STRUCTURE OF THE AUDITING COMMISSION

The quantitative structure of the Auditing Commission of the Company is defined by the Articles of Association and consists of 5 people.

In 2011, there were two compositions of the Auditing Commission:

From June 24 2010 through June 15, 2011, the Auditing Commission of JSC IDGC of the North-West consisted of the following members: I.A. Alimuradova, V.N. Arkhipov, L.D. Kormushkina, M.M. Saukh, I.A. Filippova.

The current members of the Company's Auditing Commission were elected at the Company's General Shareholders Meeting on June 16, 2011.

### IZUMRUD ALIGADZHIEVNA ALIMURADOVA

#### Chairman of the Auditing Commission

(Date of the first election to the Auditing Commission: 24.06.2010.)

Born in 1971.

In 1994 she graduated from Dagestan State University after Lenin, majoring in Economic theory. Candidate of economic sciences.

2003-2009 – Development Director at LLC Energoconsulting;

2009-2010 – Head of the Internal Audit and Risk Management Department of JSC IDGC Holding.

From 2010 until now has been working as Director for Internal Audit and Risk Management of JSC IDGC Holding (Head of the Internal Audit and Risk Management Department).

She did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

### VLADIMIR NIKOLAEVICH ARKHIPOV

#### Member of the Auditing Commission

(Date of the first election to the Auditing Commission: 24.06.2010.)

Born in 1956.

In 1979 he graduated from Novosibirsk Electronic Technical Communication Institute, majoring as Electrical Communication Engineer.

2006-2009 – Director General of CJSC Rustel;

2009-2011 – First Deputy Head of the Safety Department of JSC IDGC Holding;

From 2011 until now – Head of the Safety Department of JSC IDGC Holding;

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

## REMUNERATION OF THE AUDITING COMMISSION

The amount and procedure of remuneration payment and benefits payment to the members of the Auditing Commission of the Issuer in 2011 was governed by the Regulations on Remuneration and Compensation Payment to the Members of the Auditing Commission of JSC IDGC of the North-West approved by the decision of the Annual General Shareholder's Meeting as of 29.05.2008.

According to the Regulations for participation in the check up (audit) of the financial and industrial activity of the Company, the member of the Auditing Commission gets lump-sum remuneration in the amount equal to 25 minimum monthly tariff rates of the first rate determined by the sector tariff agreement in the electric power complex of the Russian Federation (hereinafter referred to as Agreement) for the period of the checkup (audit) carrying out, considering the indexation determined by the Agreement.

Besides, the member of the Auditing Commission gets the remuneration of all actual charges he / she incurred during the checkup (audit).

The current system of the motivation of the members of the Auditing Commission positively influenced the productivity of the given body of control.

## IGOR YURIEVICH BOGACHEV

### Member of the Auditing Commission

(Date of the first election to the Auditing Commission: 16.06.2011.)

Born in 1959.

In 1981 he graduated from Moscow Automotive Institute, majoring as Technical Engineer.

2007-2010 – Chief Specialist of JSC Moscow United Electricity Distribution Company (MOESK);

From 2010 until now – Leading Expert of the Internal Audit and Risk Management Department of JSC IDGC Holding.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

## MAKSIM MIKHAILOVICH SAUKH

### Member of the Auditing Commission

(Date of the first election to the Auditing Commission: 10.06.2009.)

Born in 1979.

In 2001 graduated from Saint Petersburg Humanitarian University of Trade Unions, majoring in Legal Science.

2004-2008 – Leading Expert, Senior Expert, Head of the Department of Corporate Governance and Shareholder Relations of JSC RAO UES of Russia.

2008-2011 – Deputy Head of the Department of Corporate Governance and Shareholder Relations of JSC IDGC Holding;

2011 until now – First Deputy Head of the Department of Corporate Governance and Shareholder Relations of JSC IDGC Holding.

He did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

## IRINA ALEXANDROVNA FILIPPOVA

### Member of the Auditing Commission

In 1979 she graduated from Ryazan Agricultural Institute after professor Kostychev, majoring in Accounting in agricultural economy.

2006-2009 – key expert at LLC Energoconsulting;

2009 until now – key expert of the Department of Internal Audit, Audits and Expert Examinations of the Internal Audit and Risk Management Department at JSC IDGC Holding.

Currently she is not a member of management bodies of any organizations.

She did not hold any shares in JSC IDGC of the North-West in 2011 nor settle any transactions with securities of the Company during 2011.

### REMUNERATIONS PAID TO THE MEMBERS OF THE AUDITING COMMISSION IN 2011 (RUR)

Type of remuneration	Amount for checking based on the results of the year 2010, in RUR	Amount for checking based on the results of the first half of the year 2011, in RUR
<b>Remuneration for participation in auditing check-up including involved specialists and experts</b>	709 638	607 337
<b>Benefits and / or compensation of charges including involved specialists and experts</b>	8 880	-
<b>Additional compensation</b>	-	-
<b>Total</b>	<b>718 518</b>	<b>607 337</b>
<b>including involved specialists and experts</b>	<b>118 055</b>	<b>-</b>

For calculation of remunerations for participation in the meetings of the Board of Directors in 2011 the following minimum monthly tariffs were used:

1st quarter of 2011 – RUR 4 207;  
2nd quarter of 2011 – RUR 4 367;  
3rd quarter of 2011 – RUR 4 417;  
4th quarter of 2011 – RUR 4 417.

## REMUNERATION TO MANAGEMENT BODIES

### REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

According to the Corporate Governance Code of IDGC of the North-West the remuneration system for the members of the Board of Directors complies with the market conditions, it is transparent and clear.

Types, amount and procedure of remuneration and benefits payment to the members of the Board of Directors of JSC IDGC of the North-West in 2011 were controlled by the Regulations for Remuneration and Compensation Payment to the Members of the Board of Directors of JSC IDGC of the North-West approved at the Annual General Shareholder's Meeting as of 29.05.2008<sup>16</sup>.

The system of remunerations payment to the members of the Company's Board of Directors according to the Regulations on Remuneration and Compensation Payment to the Members of the Board of Directors of JSC IDGC of the North-West includes three categories of payments:

- For each meeting the member of the Board of Directors took part in.

For participation in the meeting of the Board of Directors held in the external form, the member of the Board of Directors gets the remuneration in the amount equal to eight minimum monthly tariffs of the first rate determined by the sector tariff agreement in the electric power complex of the Russian Federation (hereinafter referred to as the Agreement) for the day of the Company's Board of Directors meeting carrying out considering the indexation specified in the Agreement within one month after holding the meeting of the Board of Directors.

For participation in the meeting of the Board of Directors carried out in presence of the shareholders the member of the Board of Directors is paid remuneration in the amount equal to ten minimum monthly tariffs of the first rate determined by the Agreement for the day of the Board of Directors meeting considering the indexation specified in the Agreement within one month after holding the meeting of the Board of Directors.

The amount of remuneration to the Chairman (Deputy Chairman) for each meeting, where he executed the functions of the Chairman of the Board of Directors, increases by 50%.

- For the index of the Company's net profit according to the data of the annual financial statements approved by the General Meeting of the Company's shareholders.

Remuneration to the members of the Board of Directors is connected with the net profit calculated in compliance with the Russian Accounting Standards. The amount of remuneration for the index of the net profit depends on the amount of the attended meetings (participation in work) of the Board of Directors during the year when according to the results of activities the net profit was realized.

- Additional remuneration in case of the Company's market capitalization increase during the period of work of the Board of Directors.

According to the Regulations on Remuneration and Compensation Payment to the chairman and Members of the Board of Directors of IDGC of the North-West, to whom payments from profit organizations are restricted or prohibited by Federal Law, remuneration and compensation are not paid.

The amount of additional remuneration to each member of the Board of Directors, being paid for the Company's market capitalization increase, is equal to 0,0175 percent from increment of the Company's commercial value calculated over the period from election of the member into the Board of Directors up to new election into the Board of Directors.

Payments of remuneration for increment of the Company's commercial value are made under compliance with the following conditions:

- if from the moment of permission for the shares to be sold at the Stock exchanges RTS and MICEX up to termination of the member's powers passed not less than six months;

## AUDITOR OF THE COMPANY

The financial statement internal audit performance is the important element in the total system of control over the activity of the Company's executive body carried out by the shareholders.

According to art. 1 of Federal Law on Auditing Activity as of 30.12.2008 No. 307-FZ and art. 86 of Federal Law on Joint-Stock Companies as of 26.12.1995 N208-FZ, the auditor shall conduct an independent checkup of the financial-economical activity of the Company to approve the reliability of the financial statement of the Company on the basis of its accounting (financial) reports in order to express an opinion on such statements.

On 16.06.2011 the Annual General Shareholder's Meeting of the Company approved LLC RSM Top-Audit (Moscow city) as an auditor of financial statements for 2011 prepared in accordance with the Russian legislation applicable to accounting.

LLC RSM Top-Audit has been a member of self-regulatory organization of auditors "Non-profit partnership "Russian Board of Auditors" since 31.12.2009 (Certificate of Membership No.984-ю), and is included in the register of auditors and audit companies of self-regulatory organization of auditors "Non-profit partnership "Russian Board of Auditors" under main registration No. 10305006873. LLC RSM Top-Audit has a license of the Federal Security Service of the Russian Federation authorizing performance of works with the use of data constituting the state secret (GT No.0002233 No. 11268 dated 14.12.2007). Since 1997 LLC RSM Top-Audit has been a legal member of RSM International, the international auditor association and has the right of international signature of RSM International, auditor opinions of which are recognized by all international financial institutions.

<sup>16</sup> Полный текст Положения о выплатах членам Совета директоров ОАО «МРСК Северо-Запада» вознаграждений и компенсаций доступен на сайте ОАО «МРСК Северо-Запада» по адресу <http://www.mrsksevzap.ru/>.





The amount of remuneration of the auditor's services for 2011 is RUR2.360 million (including VAT 18%) is determined by the Company's Board of Directors.

Starting from the reports for 2008 the Company prepares consolidated financial statements in compliance with the International Financial Reporting Standards (IFRS). The auditor reviewing these statements is CJSC KPMG (North-West Regional Center).

CJSC KPMG is a company incorporated under the Russian legislation in 1990, a member of the KPMG network of independent firms, included in the KPMG International Cooperative (KPMG International) registered under the legislation of Switzerland.

CJSC KPMG renders auditing and consulting services on taxation and finances, is a member of self-regulating organization of auditors of non-commercial partnership Audit Chamber of Russia, as well as a member of European Business Association, Association of Russian Banks, Russian Association of Industrialists and Entrepreneurs, National Council on Corporate Governance, Institute of Professional Accountants and Auditors of Russia and

many other international professional associations and companies.

Selection of auditing organization for conducting audit of financial statements of JSC IDGC Holding's subsidiaries and dependent entities in compliance with the International Financial Reporting Standards (IFRS) was carried out by the Central Purchasing Commission of JSC IDGC Holding.

CJSC KPMG became the winner of this selection and was recommended to the Company as the auditor of financial statements for 2011 according to IFRS with amount of remuneration RUR8,024 million, including 18% VAT.

In compliance with the legislation of the Russian Federation and internal regulatory documents of the Company the candidacy for the auditor of consolidated financial statements according to IFRS is not subject to consideration of the Board of Directors of JSC IDGC of the North-West and approval at the General Meeting of Shareholders. Determination of the remuneration amount for the auditor of financial statements according to IFRS

is also out of competence of the Company's Board of Directors.

Works on special auditing tasks for LLC RSM Top-Audit and JSC KPMG were not carried out. Deferred and delayed payments for rendering the auditor's services are absent.

There are no factors that can influence on independence of the Company's auditors as well as considerable interests connecting the auditors (officials of the auditors) with the Company (the Company's officials).

According to the requirements of art. 12 of the Federal Law on Auditing Activity as of 30.12.2008 No. 307-FZ the auditors are completely independent from the management bodies of the Company.

**THE FINANCIAL STATEMENT INTERNAL AUDIT PERFORMANCE IS THE IMPORTANT ELEMENT IN THE TOTAL SYSTEM OF CONTROL OVER THE ACTIVITY OF THE COMPANY'S EXECUTIVE BODY...**



- if the monthly average volume of transactions made in equity shares of JSC IDGC of the North-West within the period of authorities of the Board' members of to be remunerated comprises to RUR1.5 million at the stock exchange.

#### PAYMENT OF ADDITIONAL REMUNERATIONS IS SUBJECT TO A NUMBER OF RESTRICTIONS:

- additional remunerations would not be paid, if the member of the Board of Directors took no participation in over 50% of held (upon election thereof until termination of authorities thereof) meetings;
- the amount of an additional remuneration for achievement of the net profit indicator cannot exceed the amount of salary fixed for Director General:
  - » more than 5 times for a member of the Board of Directors;
  - » more than 7 times for the Chairman of the Board of Directors

Besides, according to the Regulations for Remuneration and Compensation Payments to the Members of the JSC IDGC of the North-West Board of Directors, the member of the Board is compensated only for actual charges incurred, which are associated with execution of functions of the Board's members.

Remunerations and compensations shall not be paid to members of the Board of Directors of the Company which are persons to whom a restriction or a prohibition to receive any payments from commercial organizations is applied in accordance with the Federal law.

#### REMUNERATIONS PAID TO THE MEMBERS OF THE BOARD OF DIRECTORS IN 2011<sup>17</sup> (RUR.)

Structure of the Board of Directors	Remuneration for participation in the meetings of the Board of Directors*	Remuneration for the index of the Company's net profit	Remuneration in case of the Company's market capitalization increase	Total
Structure of the Board of Directors elected by the Annual General Shareholder's Meeting on 24.06.2010	3 947 476	-	-	3 947 476
Structure of the Board of Directors elected by the Annual General Shareholder's Meeting on 16.06.2011	3 339 252	-	-	3 339 252
<b>Total</b>	<b>7 286 728</b>	<b>-</b>	<b>-</b>	<b>7 286 728</b>

\* For calculation of remunerations for participation in the meetings of the Board of Directors in 2011 the following minimum monthly tariffs were used: 1st quarter of 2011– RUR4,207; 2nd quarter of 2011– RUR4,367, 3rd quarter of 2011 – RUR4,417; 4th quarter of 2011 – RUR4,417.

The total amount of remunerations paid to the members of the Company's Board of Directors in 2010 accounted for RUR365,165.

The Company considers that the current system of benefits is highly productive and the amount of remuneration of the members of the Board of Directors corresponds to the merits of the members of the Board of Directors and the scope of the Company.

## REMUNERATION OF MEMBERS OF COMMITTEES OF THE BOARD OF DIRECTORS

Types, amount and procedure of remuneration and benefits payment to the members of Committees of the Company's Board of Directors are governed by the Regulations for Remuneration and Compensation Payment to the Members of Committees of the Board of Directors of JSC IDGC of the North-West, approved by the decision of the Company's Board of Directors as of 25.08.2009.

Regulations provide the payment of remuneration for each meeting, in which the member of the Committee of the Board of Directors took part.

For participation in the meeting of the Committee of the Board of Directors held in the external form, the member of the Board of Directors gets the remuneration in the amount equal to one minimum monthly tariff of the first rate determined by the sector tariff agreement in the electric power complex of the Russian Federation for the day of the meeting of the Board of Directors' Committee considering the indexation specified in the Agreement within 30 calendar days after holding the meeting of the Committee of the Board of Directors.

For participation in the meeting of the Committee of the Board of Directors carried out in presence of the shareholders the member of the Committee of the Board of Directors is paid remuneration in the amount equal to two minimum monthly tariffs of the first rate determined by the Agreement for the day of the meeting of the Board of Directors' Committee considering the indexation specified in the Agreement within 30 calendar days after holding the meeting of the Committee of the Board of Directors.

The amount of remuneration paid to the Chairman (Deputy Chairman for each meeting, at which he functions as Chairman of the Board of Directors) shall be increased by 50%.

<sup>17</sup> Remunerations paid to members of the Board of Directors, Committees of the Board of Directors are stated with the personal income tax taken into account.



Besides, according to the Regulations on remuneration and compensation to the members of Committees of the Board of Directors of IDGC of the North-West, the member of the Committee is compensated only for actual charges incurred related to the functions of a member of the Committee.

REMUNERATIONS AND COMPENSATIONS SHALL NOT BE PAID TO MEMBERS OF COMMITTEES, WHICH ARE A SINGLE EXECUTIVE BODY, MEMBERS OF THE COMPANY'S MANAGEMENT BOARD, OFFICE WORKERS.

REMUNERATIONS PAID TO MEMBERS OF COMMITTEES OF THE BOARD OF DIRECTORS IN 2011 RUR

Name of the Committee of the Board of Directors	Remuneration for participation in the meetings of Committees of the Board of Directors*
<b>Audit Committee</b>	324 335
<b>Reliability Committee</b>	257 092
<b>Strategy and Development Committee</b>	636 521
<b>HR and Remuneration Committee</b>	291 469
<b>Committee on Technological Connection to the Grid</b>	45 433
<b>Total</b>	<b>1 554 850</b>

REMUNERATION PAID TO MEMBERS OF THE MANAGEMENT BOARD

In accordance with the Provision on material incentives and social package for superior managers, members of the Company's Management Board are also classified as superior managers of JSC IDGC of the North-West. The remuneration system for members of the Management Board includes:

1. Annual basic wages (amount of wages for the year according to the labor agreements).
2. Remuneration for execution of authorities of the member of the Company's Management Board, provided for in labor agreements and the Provision on material incentives and social package of superior managers at JSC IDGC of the North-West.

During the period 01.01.2011 - 15.06.2011 in accordance with the terms and conditions of supplementary agreements to labor agreements made with the Management Board's members, the latter received a monthly remuneration for execution of authorities of a member of the Management Board in the amount of RUR 15 830.

Starting from 16.06.2011, in accordance with the Provision on material incentives and social package of superior managers of JSC IDGC Holding, approved by the decision of the Board of Directors of 15.06.2011, when a superior manager is elected a member of the Company's Management Board, an individual extra amount for execution of authorities of a member of the Company's Management Board equal to 15% of the official salary of a superior manager is fixed thereto (proportionally to the amount of hours worked).

The total amount of remunerations paid to members of the Committees of the Company's Board of Directors over the accounting period made RUR12,421.

\* For calculation of remunerations for participation in the meetings of the Committees of the Board of Directors in 2011 the following minimum monthly tariffs were used:

- 1st quarter of 2011 – RUR 4 207;
- 2nd quarter of 2011 – RUR 4 367;
- 3rd quarter of 2011 – RUR 4 417;
- 4th quarter of 2011 – RUR 4 417.

3. Payment of premiums in accordance with the Provision on material incentives for superior managers of JSC IDGC of the North-West, approved by the Board of Directors of the Company on 31.03.2007, as amended on 10.02.2009, during the period 01.01.2011 - 15.06.2011, and with the Provision on material incentives and social package of superior managers of JSC IDGC of the North-West, approved by the decision of the Board of Directors of 15.06.2011 for the period from 16.06.2011.

The amount of bonus payments for the top managers depends on the degree of implementation of key performance indicators (KPI) approved by the Board of Directors as well as on the degree of implementation of individual KPI determined by Director General for the area of activity over the corresponding periods (quarter and year)

## REMUNERATION OF DIRECTOR GENERAL

Criteria for determination and the amount of remuneration of the Director General shall be fixed in the labor agreement and the Provision on material incentives.

In 2011, during the period 01.01-15.06.2011, remunerations of the Director General were regulated by the Provision on material incentives for Director General of JSC IDGC Holding approved by the Company's Board of Directors on 21.06.2007, as amended on 28.05.2008 and on 10.02.2009, during the period from 16.06.2011 – by the Provision on material incentives for Director General of JSC IDGC of the North-West, approved by the Company's Board of Directors on 15.06.2011.

### REGULATIONS ON MATERIAL INCENTIVES DETERMINE:

- The procedure of defining, approval and change of the amount of the wages of the Company's;
- The types of bonus payments;
- The procedure of payment of wage and remunerations;
- The procedure of making decisions aimed at realization of the approved Regulations.

The amount of bonus payments of Director General depends on the degree of implementation of key performance indicators (KPI) approved by the Board of Directors of the Company for the corresponding periods (quarter and year).

KPI OF THE COMPANY (TARGET VALUES) SET BY THE BOARD OF DIRECTORS

KPI OF THE GENERAL DIRECTOR (TARGET VALUES)  
SET BY THE BOARD OF DIRECTORS

KPI OF SUPERIOR MANAGERS (TARGET VALUES)  
SET BY THE GENERAL DIRECTORS

ANNUAL KPI

QUARTERLY KPI

NET PROFIT BASED ON ANNUAL PERFORMANCE;

RETURN ON EQUITY (ROE)  
PROVIDED BY MONEY FLOW;

LOSS OF ELECTRIC ENERGY TO BE  
SUPPLIED TO THE NETWORK;

RELIABILITY CRITERION (ANNUAL);

EFFICIENCY OF THE INVESTMENT  
PROGRAM IMPLEMENTATION WITH  
REGARD TO CURRENT YEAR.

AVOIDANCE OF MORE THAN THE LIMIT  
NUMBER OF ACCIDENTS FALLING WITHIN  
THE CHARACTERISTICS SET FORTH IN CLAUSE  
2.1 OF THE GUIDANCE ON INVESTIGATION  
AND REGISTRATION OF TECHNOLOGICAL  
MALFUNCTIONS IN THE OPERATION OF ENERGY  
SYSTEMS, ELECTRIC STATIONS, BOILERS,  
ELECTRIC GRIDS AND HEATING SYSTEMS;

ABSENCE OF INDUSTRIAL FATAL ACCIDENTS  
OR GROUP ACCIDENTS, IF THERE IS AN  
INJURED WITH A SEVERE OUTCOME  
DURING THE REPORTED PERIOD;

OBTAINING (AVAILABILITY) A READINESS  
CERTIFICATE IN DUE TIME;

SYSTEM INDICATOR OF CONSUMERS'  
POWER SUPPLY INTERRUPTIONS (FOR  
6 KV AND HIGHER FEEDERS);

SYSTEM INDICATOR OF THE AVERAGE LENGTH  
OF CONSUMERS' POWER SUPPLY INTERRUPTIONS  
(FOR 6 KV AND HIGHER FEEDERS);

EFFICIENCY OF THE INVESTMENT  
PROGRAM IMPLEMENTATION WITH  
REGARD TO CURRENT QUARTER.

The Company's Board of Directors assesses the achievement of KPI based on the report of the Director General on achievement of KPI targeted values. In 2011 the Company's Board of Directors approved reports on achievement of KPI: for Q4 2010 and 2010; for Q1 2011; for Q2 2011.

#### REMUNERATIONS PAID TO THE CHAIRMAN AND MEMBERS OF THE COMPANY'S MANAGEMENT BOARD IN 2011

Remuneration	Amount of remuneration
Remuneration for functions of the member of the Management Board	2 094 352
Bonus payment for achievement of determined quarterly KPI (4th quarter of 2010, 1st and 2nd quarters of 2011)	9 347 234
Remuneration (bonus payment) for achievement of yearly KPI determined for 2010	0
<b>Total</b>	<b>11 441 586</b>

## SECURITY MARKET AND JOINT-STOCK CAPITAL

### JOINT-STOCK CAPITAL

As of December 31, 2011 the amount of the authorized capital of the Company amounts to 9,578,592,313 (nine billion five hundred seventy eight million five hundred ninety two thousand three hundred thirteen) rubles 80 kopecks.

### THE AUTHORIZED CAPITAL WAS FORMED AS FOLLOWS.

The first placement of shares of JSC IDGC of the North-West accounted for 100,000,000 (one hundred million) pieces with the par value 10 kopecks each was carried out on 23.12.2004 (date of the state registration of the Company as a legal body) by means of shares acquisition by the sole founder - JSC RAO UES of Russia.

The issue of the securities of JSC IDGC of the North-West was registered by the Federal Service for Financial Markets on 23.03.2005 under the state registration number No. 1-01-0334-D.

25.12.2007 the Management Board of JSC RAO UES of Russia within the framework of functioning of Extraordinary General Meeting of Shareholders of JSC IDGC of the North-West took the decision to increase the authorized capital of the Company by means of additional registered ordinary shares placement the amount of which accounted for 95,687,000,000 pieces with the par value 10 kopecks per each. 22.01.2008 in accordance with the given decision the amendments to the Articles of Association of the Company were registered, on the basis of which the Company determined the additional placement of the shares accounted for 95,687,000,000 pieces with the par value 10 kopecks per each the total amount of which accounted for RUR9,568,700,000.

On March 18, 2008, the Federal Service for Financial Markets registered 11 additional securities issues with the numbers: 1-01-03347-D-001D, 1-01-03347-D-002D, 1-01-03347-D-003D, 1-01-03347-D-004D, 1-01-03347-D-005D, 1-01-03347-D-006D, 1-01-03347-D-007D, 1-01-03347-D-008D, 1-01-03347-D-009D, 1-01-03347-D-010D, 1-01-03347-D-011D.

Placement of the shares of additional issues was carried out as of April 1, 2008. The type of placement is the conversion of shares of JSC Astrakhanenergo, JSC Vologdaenergo, JSC AEK Komienergo, JSC Karelenergo, JSC Kolenergo, JSC Novgorodenergo, JSC Pskovenergo attached to JSC IDGC of the North-West in addition to ordinary shares of the Company.

After the completion of the conversion procedure, the authorized capital of the Company accounted for 9,578,592,313 (nine billion five hundred seventy eight million five hundred ninety two thousand three hundred thirteen) rubles and 80 kopecks and consisted of 95,785,923,138 pieces (ninety five billion seven hundred eighty five million nine hundred twenty three thousand one hundred thirty eight) pieces with the par value of 10 kopecks per each.

Amount of the ordinary shares in the authorized capital of the issuer: 100%.

On August 21, 2008 the Federal Service for Financial Markets carried out the cancellation of the following individual numbers (codes) 001D, 002D, 003D, 004D, 005D, 006D, 007D, 008D, 009D, 010D, 011D in earlier assigned numbers of additional securities issues and combined all the additional issues under the state registration number No. 1-01-03347-D.

**AMOUNT OF THE  
ORDINARY SHARES IN THE  
AUTHORIZED CAPITAL OF  
THE ISSUER: 100%**

## INFORMATION ON DECLARED SHARES

STATISTICAL DATA ON THE COMPANY'S SHAREHOLDERS AT THE DATE OF SHARE REGISTER OPENING TO THE ANNUAL GENERAL SHAREHOLDER'S MEETING BASED ON THE RESULTS OF 2010 (11.05.2011).

	Residents		Non-residents	
	Quantity	Share in the Authorized capital, %	Quantity	Share in the Authorized capital, %
<b>JSC IDGC Holding</b>	1	55,38	-	-
<b>Legal entities</b>	289	4,74	101	32,01
<b>Individuals</b>	13 918	7,85	27	0,02

As of 11.05.2011 the overall number of shareholders (including clients of the national holders) amounted to 14 336.

As of 31.12.2011 the overall number of shareholders (excluding clients of the national holders) amounted to 12 466.

In accordance with the paragraph 4.6, Section 4 of the Articles of Association of JSC IDGC of the North-West the Company declares in addition to the listed shares 1 076 862 (one million seventy six thousand eight hundred sixty two) pieces of the ordinary registered shares with par value of 10 (ten) kopecks per each for the total amount of the nominal value accounted for 107 686 (one hundred seven thousand six hundred eighty six) rubles 20 kopecks.

Ordinary registered shares declared by the Company to listing entitle their owners with the rights determined by the paragraph 6.2, Section 6 of the Articles of Association.

### STRUCTURE OF JOINT-STOCK CAPITAL OF THE COMPANY AS OF 11.05.2011

<b>2,56%</b>	-	JSC GMK NORILSKIY NICKEL
<b>5,65%</b>	-	ENERGOSOUZ HOLDINGS LIMITED
<b>7,50%</b>	-	ENERGYO SOLUTIONS RUSSIA (CYPRUS) LIMITED
<b>7,58%</b>	-	THE BANK OF NEW YORK MELLON
<b>7,87%</b>	-	OTHER INDIVIDUALS
<b>13,46%</b>	-	OTHER LEGAL ENTITIES
<b>55,38%</b>	-	JSC IDGC HOLDING

## INFORMATION ON ACTIVITIES TO INCREASE MARKET CAPITALIZATION OF THE COMPANY

During 2008-2011 shares of JSC IDGC of the North-West were circulated at Russian leading stock markets - CJSC Moscow Central Stock Exchange (MICEX) and OJSC Russian Trading System (RTS): Quotation List B of CJSC MICEX and Securities, eligible for trading without listing procedure at OJSC RTS.

In spring 2011, the Company suggested to include Company's securities in Quotation List A of the second level at CJSC MICEX. Such decision was made due to the necessary increase of securities liquidity and attractiveness, as well as to attract new investors. On 24.05.2011 shares of JSC IDGC of the North-West were transferred from Quotation List B of CJSC MICEX to Quotation List A of CJSC MICEX of the second level.

In August 2011, the Company received a notice that OJSC RTS started a reorganization procedure in order to consolidate with CJSC MICEX. On December 19 2011, a record on termination of the activity of OJSC RTS was made in the Unified State Register of Legal Entities, the registering body also registered a revised version Articles of Association of Open Joint-Stock Company MICEX. As a result of the reorganization, OJSC MICEX became a full successor of all rights and obligations of OJSC RTS.

### MICEX: INFORMATION ON ORDINARY SHARES TRADING (MARKET TRANSACTIONS)

	2010	2011
<b>Maximum price for the year, RUR</b>	0,2830	0,2349
<b>Minimal price for the year, RUR</b>	0,1866	0,0743
<b>Price for the year then ended, RUR</b>	0,2418	0,07806
<b>Trading volumes, RUR million shares</b>	2 749,75	2 246,70
<b>Trading volumes, RUR million</b>	657,17	314,55
<b>Capitalization, RUR million</b>	23 161,04	7 477,05

### RTS: INFORMATION ON ORDINARY SHARES TRADING (MARKET TRANSACTIONS)

	2010	2011
<b>Maximum price for the year, RUR</b>	0,2800	0,2300
<b>Minimal price for the year, RUR</b>	0,2000	0,0831
<b>Price for the year then ended, RUR</b>	0,2250	0,0831
<b>Trading volumes, RUR million shares</b>	16,04	5,69
<b>Trading volumes, RUR million</b>	3,63	0,76

The Company signed the agreement with JSC RusIndex for services rendering concerning the information and technological support of the set of interactive web instruments, in accordance with which the corporate website of the Company and the website rustocks.com (aimed at the foreign investors) place the information on IDGC of the North-West, in English as well, including information on the current rates of the Company's shares, announcements and releases, with the distribution of the materials to different agencies located outside the territory of the Russian Federation. In addition, implementing the principle of transparency in the activities of the Company, this resource has annual reports of IDGC of the North-West in English, as well as other materials, including press releases issued on the most important events in the Company's activity, thereby increasing the opportunity for non-residents to get acquainted with it.

On continuing basis IDGC of the North-West publishes a quarterly bulletin for the investors with information on the current financial and economic situation and technical condition as well as the major parameters and plans of the investment activity of the Company in its web-site.

According to the norms determined in the Regulations, the management of IDGC of the North-West carries out press conferences and briefings dedicated to important events which take place in the Company. With the help of the press service, the Company distributes the official comments about its activity and future development in mass media, and answers the requests of the mass media representatives.

DYNAMICS OF THE SHARE PRICE OF JSC IDGC OF THE NORTH-WEST IN 2011 against MICEX's and MICEX-Energy's Indices (based on MICEX's data)



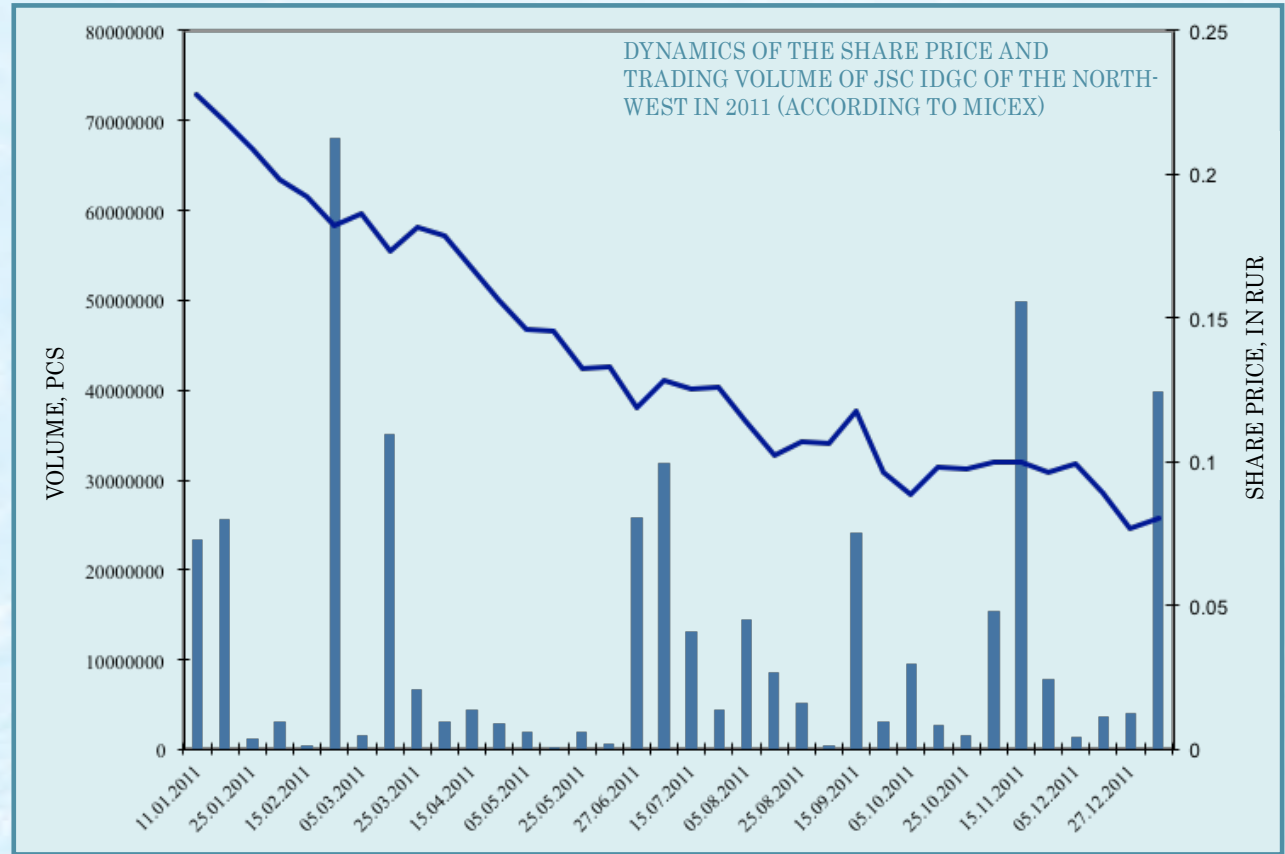
JSC IDGC OF THE NORTH-WEST ■  
 MICEX INDEX, COMPOSITE ■  
 MICEX INDEX, ENERGY ■

2011 was quite difficult for the whole world economy. Since in formation of a new trend the Russian stock market largely relies on the external factor, in 2011 the Russian market kept up with world stock markets and ended it at a loss.

Dynamics of MICEX indices for a year is in general within the world's trend: from the beginning of the year MICEX index lost 18%, MICEX-Energy index – 40%.

During 2011, most investors focused on high regulatory risks within the energy sector. Prior agreed rates of tariffs' growth were slowed down, the term of indexation was postponed from the 1st of January to the 1st of July, uncertainty, caused by overload of RAB regulation, initiated by the Government, affected companies' share.

After making tariff decisions, capitalization of distribution companies will start to restore in 2012 due to the fact that main negative is already in 2011 quotations.



CAPITALIZATION OF JSC IDGC OF THE NORTH-WEST IN 2008-2011 (ACCORDING TO MICEX)



Based on the results of 2012, JSC IDGC of the North-West expects a positive financial result. EBITDA will amount to RUR3,949 million. The expected amount of net profit in 2012 is RUR21 million. Return on equity (ROE) ensured by the money flow is expected at the level of 0.08%.





## DIVIDEND POLICY

JSC IDGC of the North-West's policy of distribution of net profit is based on the balance of the interests of the company and its shareholders, on the increase of the company's attractiveness and capitalization, strict compliance with shareholders' rights pursuant to the applicable legislation of the Russian Federation, Company's Articles of Association and internal documents.

Distribution of net profit of the Company based on results of 2009-2010 and distribution of net profit for 2011, suggested by the Board of Directors to the General Shareholders' Meeting is given below in the report.

### DISTRIBUTION OF NET PROFIT OF THE COMPANY IN 2009-2011, thous. RUR

	2009	2010	2011
<b>Undistributed profit (uncovered loss) of the reporting period:</b>	150 430	-807 102	407 651
<b>To be disbursed to: Reserve fund</b>	7 522	0	20 383
<b>Profit for development</b>	142 908	0	387 268
<b>Dividends</b>	0	0	0
<b>Repayment of undistributed deficit of previous years</b>	0	0	0

In accordance with the decision of the annual General Shareholders' Meeting, based on the results of 2009 profit was disbursed to formation of the Reserve Fund in accordance with the Company's Articles of Association, as well as to development, technical re-equipment and modernization of the Company's production facilities.

Based on the results of 2010 financial year, due to the fact that the Company obtained profit at the amount of RUR807,102 thous., Company's net profit was not disbursed.

Based on the results of 2011 reporting year, the Company gained profit at the amount of RUR407,651 thous. As estimated net profit from technological connection with the targeted purpose being investment activity, based on the results of 2011 amounted to RUR629,145 thous., the suggestion as to distribution of net profit includes:

- making all necessary payments to the reserve fund at the amount of RUR20,383 thous. (5% of net profit for 2011);
- the remaining amount of net profit equal to RUR387,268 thous. to be disbursed for production development.

Based on the results of the poll of the investment society and analysts of the stock market, in 2011, experts acknowledged the management of JSC IDGC of the North-West as the most open and communicable. This was the third award that was presented to IR Service of the Company, which is already the holder of special Certificates in nominations Best Meeting with Investors-20092, IR Breakthrough of a Year-2010.

## INTERACTION WITH THE INVESTMENT SOCIETY

The Company's Code of Corporate Behavior and the Information Policy provide for an approach to interaction with investors and disclosure of information. The Company publishes investor's calendar with the dates of key events specified for investors and analysts<sup>18</sup>, regularly informs the informational society of the results of its activity. The Company publishes quarter informational bulletins, containing updated intermediary data on the Company's activity results and financial indicators, as well as data on the main decisions of the Board of Directors and updated information on the property structure.

Meetings of the Company's management with investors and analysts, participation in investment conferences, making conference calls are ordinary practice. In May 2011, JSC IDGC of the North-West held a meeting with representatives of leading investment funds, the Company presented its performance results for 2010 and plans for 2011.

At the telephone conference the Company presented its financial statements prepared in accordance with international financial reporting standards (IFRS) for 2010. At the beginning of the annual General Shareholders' Meeting, a telephone conference with Company's minority shareholders, arranged together with JSC IDGC Holding, was held at JSC IDGC of the North-West. There were two telephone conferences dedicated to the results of analysis of tariffs, effective in the territory of the Company's operation in 2011.

The Company's top management took part in Russia 2011 Forum arranged by Troyka Dialog, in XV International Conference of Investors of Renaissance Capital, in VTB Capital Investment Forum Russia Calling!

<sup>18</sup> Investor's calendar for 2012 is presented in Annex 16 to the Annual Report of JSC IDGC of the North-West based on the performance results for 2011.

## TRANSPARENCY OF INFORMATION

Rules and approaches to information disclosure, the order and terms of its disclosure and presentation, list of information and documents subject to disclosure to all the interested parties is determined by the Regulations for Information Policy of IDGC of the North-West. The Regulations for Information Policy is worked out in accordance with acting legislation of The Russian Federation, Articles of Association, Corporate Governance Code of JSC IDGC of the North-West as well as taking into account international practice of corporate governance.

The endeavor of the Company to build actually productive system of information disclosure and insurance of the high transparency level is reflected in the principles of information policy, set forth in the Regulations:

- guarantee of completeness and reliability of the disclosed information;
- efficiency of the disclosure of information concerning all essential facts in its activity;
- provision of high level of the integrity of information pertaining, according to the internal documents to the state, official or commercial secret;
- publicity and non-selectivity of information disclosure.

The Regulations was compiled considering the requirements of the leading international standards of information disclosure. It also takes into consideration the concerns of different interested parties, including shareholders and the potential investors, creditors and contractors.

Further in its activity, the Company intends to adhere to the principles mentioned above and besides the methods of information disclosure, determined by the legislation, it plans to carry out meetings with shareholders and investors and publish information in mass media.

As of December 28, 2011 the Board of Directors of JSC IDGC of the North-West approved the redrafted Regulations for Insider Information of the Company, which determined the following: notion and procedures of the insider information disclosure, list of the insider information, rules of making lists of persons-insiders, their obligations and responsibility.

The Company also determined the list of information which makes up the official and commercial secret, conditions of access to such information and the possibility of its use. The goal of the Company was to follow the reasonable balance between the openness and the intention to prejudice the Company's interests.

The official website of the Company is the most important source of information and an active

mechanism of the Company's information policy implementation. Quarterly, the Company publishes its accounting (financial) statement, prepared in accordance with RAS, annually (starting from H1 2001 – once a half- year period) – the financial statement prepared in accordance with IFRS. The Company publishes the annual report for the shareholders. It highlights the key trends of the industrial and financial activity and reflects the economic analysis according to the results of the work for the reporting year. To provide the equal access of all the interested participants to information and, in particular, ensure information rights and interests of foreign shareholders and investors, the Company also discloses information in English at the English version of the website.

The list of the affiliated persons of JSC IDGC of the North-West as of 31.12.2011 as well as the list of announcements on material facts published by the Company in Internet in 2011 and subject to disclosure according to the laws of Russian Federation are presented in Appendix 14 and 15 to the Annual Report.



## SUBSIDIARIES AND DEPENDENT ENTITIES

INFORMATION ON SUBSIDIARIES AND DEPENDENT ENTITIES IN WHICH THE COMPANY'S OWNS AT LEAST 20% OF THE VOTING SHARES

List of subsidiaries and dependent entities of JSC IDGC of the North-West as of 31.12.2011<sup>19</sup>:

Enterprise which shares (shares in the authorized capital) are in possession of the Company	% in the authorized capital
JSC Lesnaya skazka	97,96
JSC Pskovenergoavto	100
JSC Pskovenergosbyt	100
JSC Pskovenergoagent	100
JSC Energoservice of the North-West	100

Within the framework of the strategy of branch business development IDGC of the North-West intends at most to optimize the structure of the assets by means of decrease of participation in non-profile and additional business.

Thus, for this purpose and in accordance with the decision made by the Company's Board of Directors, the procedure on liquidation of JSC Pskovenergoavto is currently coming to an end. In 2012 JSC IDGC of the North-West is planning to tender packages of shares of JSC Lesnaya Skazka and JSC Pskovenergoavto owned by the Company.

## CORPORATE GOVERNANCE OF SUBSIDIARIES AND DEPENDENT ENTITIES

IDGC of the North-West being the shareholder in subsidiaries and dependent entities, carries out its relations with the latter, governed by the requirements of the Russian laws, the Company's Articles of Association and internal documents, by Articles of Association and internal documents of subsidiaries and dependent entities, which determine the order of the activity of Management Board and control bodies (Regulations on the Boards of Directors, Auditing Commissions and etc.).

INTERESTS OF THE COMPANY IN THE ACTIVITY OF SUBSIDIARIES AND DEPENDENT ENTITIES ARE REALIZED IN THE DEVELOPMENT AND IMPLEMENTATION OF THE CORPORATE GOVERNANCE POLICY WHICH INCLUDES SEVERAL AREAS, SUCH AS:

- formation of and control over the implementation of the strategy of subsidiaries and dependent entities development;
- planning of and control over the financial results of subsidiaries' and dependent entities' activity, including the determination of directions and control of subsidiaries' and dependent entities' profit distribution;
- control over the financial and industrial activity of subsidiaries and dependent entities including transactions making with the assets of subsidiaries and dependent entities;
- uninterrupted increase of productivity of internal processes of subsidiaries and dependent entities in the sphere of business management;
- forming and implementation of the staff policy of subsidiaries and dependent entities

CORPORATE GOVERNANCE OF SUBSIDIARIES AND DEPENDENT COMPANIES IN IDGC OF THE NORTH-WEST IS CARRIED OUT THROUGH THE SYSTEM OF BODIES OF DECISION TAKING AND CONTROL IN ACCORDANCE WITH THE INTEREST OF THE COMPANY:

- the Board of Directors of JSC IDGC of the North-West;
- the Management Board of JSC IDGC of the North-West;
- the Board of Directors of subsidiaries and dependent entities
- the Auditing Commission of subsidiaries and dependent entities.

THE COMPANY HAS AN APPROVED PROCEDURE FOR INTERACTION OF IDGC OF THE NORTH-WEST WITH THE ORGANIZATIONS IN WHICH THE COMPANY PARTICIPATES.

This document was approved with the purpose of:

- ensuring a stable financial development, profitable operation of the Company, subsidiaries and dependent entities;
- ensuring compliance with the current legislation of the Russian Federation in the process of the Company's, subsidiaries' and dependent entities' activities;
- protecting the rights and lawful interests of the Company's, subsidiaries' and dependent entities' shareholders;
- increasing investment attractiveness of the Company, subsidiaries and dependent entities by guaranteeing their corporate transparency, balance and predictability of the corporate policy as a whole;
- harmonization of relations between the Company's, subsidiaries' and dependent entities' shareholders and officers, excluding occurrence of conflicts between them;
- creating conditions for balanced development of relations between energy organizations with organizations in other sectors of economy;
- development and implementation of a coordinated and effective investment policy of the Company, subsidiaries and dependent entities;

<sup>19</sup> Information on participation of JSC IDGC of the North-West in profile and non-profile types of activities is presented in Appendix 17 to the Annual Report of JSC IDGC of the North-West as of the end of 2011.

- improvement of interaction efficiency of subsidiaries and dependent entities in all areas of their activities;
- harmonization of relations between the Company, subsidiaries and dependent entities and the federal authorities, agencies of constituent entities and municipal authorities.

Remuneration of the members of the Board of Directors of subsidiaries and dependent entities consists in fixed wages for the participation in the meeting of the Board of Directors and temporary part actually calculated from the amount of the dividends declared by the Company related to the equity shares and amount of meetings in which the member of the Board of Directors took part. Thus, the activity of the members of the Board of Directors concerning the participation in the meetings is encouraged and the productivity of work of the Board of Directors is correspondently increased.

On 27.06.2011 the annual General Shareholders' Meeting of subsidiaries and dependent entities: JSC Pskovenergoby, JSC Pskovenergoavto, JSC Pskovenergoagent (functions of which were executed by the Management Board of JSC IDGC of the North-West) approved an auditor candidate, being CJSC Gorislavtsev and K. Audit, license No.E 003461 dated 04.03.2003, prolonged until 04.03.2013 by Order of the Ministry of Finance of the Russian Federation No. 109 dated 14.02.2009.

By the decision of the annual General Shareholders' Meeting of JSC Lesnaya Skazka of 29.06.2011, auditor CJSC Gorislavtsev and K. Audit, license No.E 003461 dated 04.03.2003, prolonged until 04.03.2013 by Order of the Ministry of Finance of the Russian Federation No. 109, dated 14.02.2009 was approved.

By the decision of the extraordinary General Shareholders' Meeting JSC Energoservice of the North-West of 27.06.2011 (functions of which were executed by the Management Board of JSC IDGC of the North-West), auditor CJSC Gorislavtsev and K. Audit, license No.E 003461 dated 04.03.2003, prolonged until 04.03.2013 by Order of the Ministry of Finance of the Russian Federation No. 109, dated 14.02.2009 was approved for JSC Energoservice of the North-West.

## INFORMATION ON MANAGEMENT AND CONTROL BODIES OF IDGC OF THE NORTH-WEST

Director General	Board of Directors	Auditing Commission
<i>JSC Lesnaya skazka</i>		
<b>Elena Vladimirovna Sopoleva</b>	1. Vladimir Vasilievich Kirichuk – Chairman of the Board of Directors 2. Daniil Evgenievich Savelyev 3. Elena Vladimirovna Sopoleva 4. Khomyakov Andrey Nikolaevich 5. Nikolai Vladimirovich Shibaev	1. Albina Mikhailovna Sotnikova 2. Oksana Sergeevna Bogdanova 3. Olga Sergeevna Sinizyna
<i>JSC Pskovenergoavto</i>		
<b>Alexander Sergeevich Petrov</b> <sup>20</sup>	1. Aleksey Nikolaevich Boev - Chairman of the Board of Directors 2. Gennady Vladimirovich Grishin 3. Valery Alexandrovich Dobryden 4. Alexander Sergeevich Petrov 5. Sayan Balzhinimaevich Tsyrendashiev	1. Natalya Georgievna Bereza 2. Olga Sergeevna Sinizyna 3. Tamara Vasilievna Lavrentsova
<i>JSC Pskovenergoagent</i>		
<b>Tatiana Alekseevna Churikova</b>	1. Lyudmila Igorevna Gorkavenko - Chairman of the Board of Directors 2. Margarita Alexandrovna Storchay 3. Khomyakov Andrey Nikolaevich 4. Tatiana Alekseevna Churikova 5. Victor Vasilievich Yakutovich	1. Elena Arkadijevna Glodya 2. Olga Sergeevna Sinizyna 3. Larisa Valentinovna Khan
<i>JSC Pskovenergoby</i>		
<b>Olga Veniaminovna Smirnova</b>	1. Svetlana Vasilievna Gorshkova – Chairman of the Board of Directors 2. Elena Georgievna Isaeva 3. Maxim Mikhailovich Saukh 4. Olga Veniaminovna Smirnova 5. Evgeny Victorovich Stakanov	1. Gennady Vladimirovich Grishin 2. Olga Sergeevna Sinizyna 3. Lidiya Grigorevna Solpekovskaya
<i>JSC Energoservice of the North-West</i>		
<b>Andrey Anatolevich Karandashev</b>	1. Alexander Vladimirovich Mikhalkov – Chairman of the Board of Directors 2. Anatoly Valerevich Kushnerov 3. Georgy Vasilevich Turlov 4. Svetlana Vasilevna Gorshkova 5. Gennady Andreevich Alexandrov 6. Andrey Anatolevich Karandashev 7. Alexander Viktorovich Peshkov	1. Gennady Vladimirovich Grishin 2. Lubov Borisovna Shakhova 3. Olga Sergeevna Sinizyna

<sup>20</sup> On 26.08.2011 the extraordinary General Shareholders' Meeting of JSC Pskovenergoavto (functions of which were executed by the Company's Management Board) made a decision on liquidation and appointment of the liquidation commission consisting of: Alexander Alekseevich Timofeev (Chairman of the Liquidation Commission); Irina Gennadiyevna Ilyina; Alexander Alekseevich Yuhnevich; Natalia Mikhailovna Ignatieva; Alexander Sergeevich Petrov; Aleksey Nikolaevich Boev.

## SECTION 4.

# ECONOMY AND FINANCE



*Fugu contains lethal amounts of the poison tetrodotoxin in its organs, especially the liver, the ovaries, and the skin. The poison, a sodium channel blocker, paralyzes the muscles while the victim stays fully conscious. The victim is unable to breathe, and eventually dies from asphyxiation. There is no known antidote. The standard treatment is to support the respiratory and circulatory systems until the poison is metabolised and excreted by the victim's body.*

## OLGA MAKAROVA

DEPUTY DIRECTOR GENERAL FOR ECONOMY AND FINANCE



*”In 2011 the Company completed another stage of its activity. Since 01.01.2012 all branches, except for JSC Karelenargo, have switched to long-term tariff regulation at JSC IDGC of the North-West. In 2011 RAB regulation was applied in three of seven branches of the Company: Vologdaenergo, Novgorodenergo and Pskovenergo.*

*In April 2011, Resolution of the Government No.1172 was issued; it limited growth of tariffs for electric energy transmission services by 15%. This resulted in regulatory bodies making a significant adjustment of tariff parameters, which caused the Company to lose certain tariff achievements, gained at the beginning of the year.*

*It must be the first time when the work on minimization of tariff restrictions effects was performed to such a great extent together with authorities of certain subjects of the Russian Federation. Authorities of almost all regions made significant efforts in order to support energy companies even under such stiff state restrictions. Suitable methods allowing to achieve the maximum result*

*in the current company’s activity were developed. It resulted in fulfilment of the annual business plan and achievement of control KPI. Based on the result of the year, the net profit amounted to RUR407.65 million.*

*What objectives do we set for the future? Resolution of the Government No.1178 determined long-term energy sector parameters we will have to consider within several next years.*

*In spring 2012, we will carry out the so-called reloading of long-term parameters. But even under such conditions we continue to implement our plans gradually. In 2012, we still aim at switching of JSC Karelenargo to RAB regulation.*

*From 2014, upon completion of the first long-term regulation period, we plan to switch three remaining branches to RAB regulation. No one has cancelled the objective of investment development on the territories, which is also understood by regional authorities. On our part, we will do everything to switch to RAB regulation.*

## TARIFF REGULATION

In the reporting year the Company's tariff policy was aimed at ensuring break-even operation of the Company.

Tariffs for electric energy transmission services for consumers of branches of JSC IDGC of the North-West for 2011 were approved:

- by Resolution of the Agency for Tariffs and Prices in the Arkhangelsk Region No. 70-э/4 of 28.12.2010, with amendment No. 38-э/12 of 17.06.2011 effective since 01.05.2011, for Arkhenergo branch of JSC IDGC of the North-West;
- by Resolution of the Regional Energy Commission of the Vologda Region No. 487 of 29.12.2010, with amendment No. 84 of 19.05.2011 effective since 01.05.2011, for Vologdaenergo branch of JSC IDGC of the North-West;
- by Resolution of the State Committee of the Republic of Karelia for Prices and Tariffs No. 274 of 20.12.2010, with amendments No.60 of 20.04.2011 and No. 86 of 15.06.2011 effective since 01.05.2011, for Kareleenergo branch of JSC IDGC of the North-West;
- by Resolution of the Office for Tariff Regulation of the Murmansk Region No. 46/2 of 24.12.2010, with amendment No.22/1 of 09.06.2011 effective since 01.05.2011, for Kolenergo branch of JSC IDGC of the North-West;
- by Order of the Tariff Service of the Komi Republic No.96/8 of, with amendment 58/5 of 17.08.2011 effective since 6.12.2010, for Komienergo branch of JSC IDGC of the North-West;
- by Resolution of the Committee for Pricing and Tariff Policy of the Novgorod Region No. 81/2 of 28.12.2010, with amendment No.35/1 of 16.06.2011 effective since 01.01.2011, for Novgorodenergo branch of JSC IDGC of the North-West;
- by Order of the State Tariff Committee of the Pskov Region No.51-э of 29.12.2010, with amendments No. 14-э of 11.05.2011 and No.25-э of 14.07.2011 effective since 01.01.2011, for Pskovenergo branch of JSC IDGC of the North-West;

Adjustment of tariff decisions for 2011 was related to putting into force of Resolution of the Government of the Russian Federation No.1172 of 27.12.2010. In accordance with Clause 9 of the Resolution mentioned above, executive bodies of the subjects of the Russian Federation were instructed to review tariffs for the services of electric energy transmission through electric grids fixed for 2011, based on the increase of Russian Federation's subject's average one-phase tariff for the services of electric energy transmission through electric grids, not exceeding 15%. This Resolution was issued due to the fast growth of tariffs at the retail electricity market, due to the mass switch of grid companies to the Regulatory Asset Base (RAB), which led to growth of investment programs' volumes.

Tariffs for the services of electric energy transmission for 2011 at all branches of JSC IDGC of the North-West, except for JSC Kareleenergo, were approved based on fixed long-term parameters. In this case, in JSC Vologdaenergo, JSC Novgorodenergo and JSC Pskovenergo branches long-term parameters of regulation calculated with the application of RAB method were approved.

During 2011, works related to switching of Kareleenergo branch to return on investment method starting from 01.01.2012 were performed. The Order of FTS of Russia of 13.12.2011 refused to switch to regulation of tariffs with application of RAB method. The works on switching of JSC Kareleenergo branch to the return on investment method continued in 2012.

Considering advantages and efficiency of the new long-term regulation, as well as the need in implementation of existing scope of the investment program, JSC IDGC of the North-West is planning to switch all branches to RAB method after the end of the first long-term period, namely, starting from 2014.

Tariffs for the services of electric energy transmission in 2011 varied greatly by regions controlled by the Company. Such great differentiation is due to the different balance of voltage levels. Branches, at which low voltage electric grids prevail, such as: Arkhenergo, Komienergo and Pskovenergo, fixed high tariffs, resulting from higher expenses for electric grids' service, as compared to branches, at which high voltage electric grids prevail, such as Vologdaenergo, Kareleenergo, Kolenergo, Novgorodenergo.

Information on an average estimated tariff for the services of electric energy transmission at Company's branches (without considering costs related to payment for third-party grid companies' services) before and after issue of Resolution No.1172 of 27.12.2010:

Branch / IDGC	Average calculated tariff for 2010, in RUR/mWh	Average calculated tariff for 2011, in RUR/mWh	Growth 2011/2010, %
Arkhenargo	1 028,91	1 311,69	27,48
Vologdaenergo	611,89	711,70	16,31
Karelenargo	501,13	615,69	22,86
Kolenergo	357,85	444,99	24,35
Komienergo	914,38	1 127,53	23,31
Novgorodenergo	763,06	1 088,62	42,66
Pskovenergo	1 443,09	1 774,98	23,00
<b>IDGC of the North-West</b>	<b>648,92</b>	<b>791,46</b>	<b>21,97</b>

Approved tariffs provided in aggregate the surplus of tariff revenues of 16% up to RUR31 billion. Federal factors accounted for 44.6% or RUR13.8 billion of necessary gross revenues (hereinafter referred to as NGR), regional factors – for 55.4% or RUR17.2 billion of NGR, of which 8.4% or RUR1.4 million are expenses for payment for services of territorial grid companies.

#### STRUCTURE OF TARIFF PROCEEDS OF JSC IDGC OF THE NORTH-WEST

	2009	2010	2011	Growth rate, %	
				2010/2009	2011/2010
<b>Revenues, RUR million, including</b>	25 104,24	26 620,50	30 982,32	106,04	116,39
<b>Own revenues, RUR million</b>	13 688,94	14 100,79	15 740,73	103,01	111,63
<b>Share of own revenues,, %</b>	54,53	52,97	50,81	97,14	95,91
<b>Revenues from TGC, RUR million</b>	2 069,42	283,06	1 434,51	62,00	111,80
<b>Share of revenues from TGC, %</b>	8,24	4,82	4,63	58,47	96,06
<b>Payment of services of FGC, RUR million</b>	5 589,70	7 246,35	9 016,39	129,64	124,43
<b>Share of expenses of FGC, %</b>	22,27	27,22	29,10	122,25	106,91
<b>Expenses to cover losses, RUR million</b>	3 756,18	3 990,29	4 790,70	106,23	120,06
<b>Share of expenses to cover losses, %</b>	14,96	14,99	15,46	100,18	103,16
<b>Total:</b>					
<b>Regional factors, RUR million</b>	15 758,36	15 383,86	17 175,23	97,62	111,64
<b>Share of regional factors, %</b>	62,77	57,79	55,44	92,06	95,93
<b>Federal factors, RUR million</b>	9 345,88	11 236,64	13 807,09	120,23	122,88
<b>Share of federal factors, %</b>	37,23	42,21	44,56	113,38	105,58

The growth of investment sources in Vologdaenergo, Novgorodenergo and Pskovenergo branches is due to the switching of such branches to RAB regulation.

Upon switching to the long-term regulation, the works on fixing of key performance indicators were performed. Indicators were fixed by regulatory authorities at all branches of JSC IDGC of the North-West, except for Karelenargo, as in 2011 this branch was not switched to the long-term regulation. In 2012 upon switching of this branch to the long-term regulation, performance indicators will be fixed for the whole period of regulation.



As for the tariff regulation in 2011, it should be mentioned that there was a growing influence of the investment component of the tariff for the electric energy transmission services. When calculating long-term parameters used to determine tariffs for the electric energy transmission services on the part of regulatory authorities of the North-West, over RUR4.3 billion of investment sources (including loans) were disbursed for the Company, which is 49% higher than in 2010.

RUR million

Branch / IDGC	2010		2011	
	Total volume of investment sources	including return on capital investments	Total volume of investment sources	including return on capital investments
Arkhenenergo	278	0	387	83
Vologdaenergo	589	11	1 001	290
Karelenenergo	309	118	264	27
Kolenergo	223	0	273	38
Komienergo	522	150	686	118
Novgorodenergo	554	95	820	
Pskovenergo	390	224	829	99
JSC IDGC of the North-West	2 865	599	4 260	655

## FINANCIAL RESULTS ANALYSIS

### REVENUE AND NET COST DYNAMICS ANALYSIS FOR THE COMPANY FOR 2009-2011

The Company's revenue in the reporting period is the combined income of the following types of activity:

- service rendering on electric energy transmission;
- technological connection to electrical networks;
- production and sale of DPP electric energy in JSC Arkhenenergo and JSC Komienergo (property complex DPP of JSC Komienergo was implemented in the 4th quarter of 2010);
- maintenance and repair of electricity supply network objects;
- other services in the core and non-core activity

The main consumers of electric energy transmission services rendered by the Company are sales companies formed during the reorganization of RAO UES of Russia Holding.



The total revenue of IDGC of the North-West for 2011 amounted to RUR30,849 million, which is RUR4,179 million, or 15.7 % more than the level of 2010. In addition:

- revenue from electric energy transmission increased by RUR4,140 million or 16.3%;
- revenue from technological connection services grew by RUR216 million, or 32.3 %, which is caused by gradual overcoming of the crisis tendencies in the economy, accompanied by growth of industry consumption in the regions and, as consequence, increase in the number of applicants;
- revenue from other activities decreased by RUR176 million, or 26.9 %, which is caused by reduction of other core and non-core activity, mainly, by reduction of diesel engine plant sales in Komienergo branch in the 4th quarter.

Increase of revenue from electric energy transmission services as of 2011 compared to 2010 is non-uniform for the regions of the JSC IDGC of the North-West responsibility area. The highest increase in revenues is observed in Kolenergo; that is caused by the undervalued basis of the branch's revenues in 2010: approved resolutions on tariffs and balance in 2010 caused shortfall in income generation for amount more than RUR800 million.

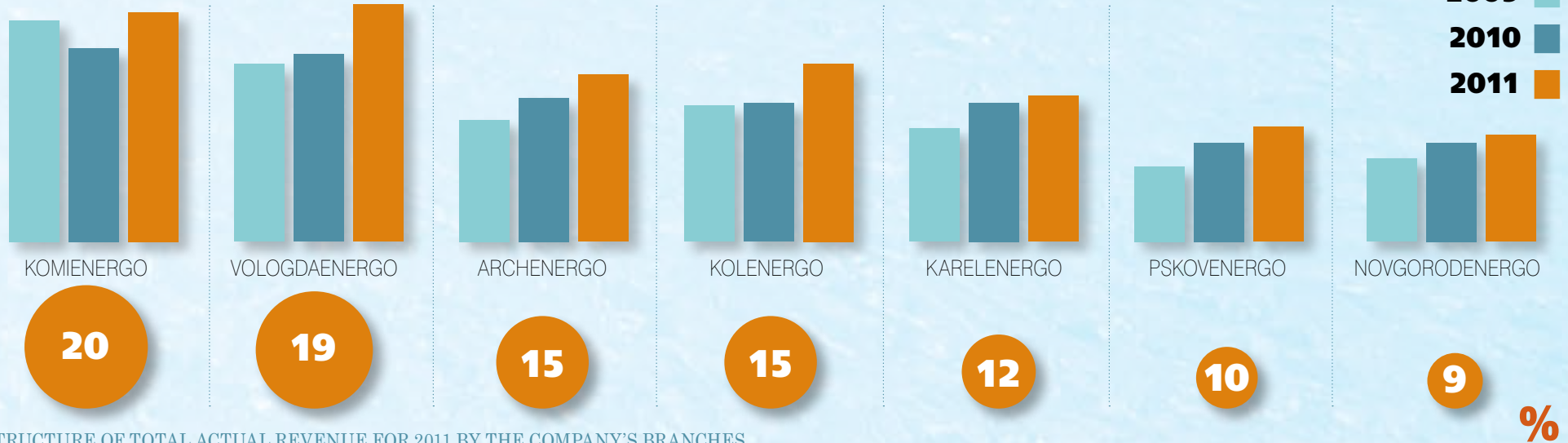
**THE TOTAL REVENUE  
AMOUNTED TO  
RUR 30 849 million**

ACTUAL REVENUE CHANGE DYNAMICS FOR 2008-2010  
BY BRANCHES ACCORDING TO THE ACTIVITIES RUR MLN.

Type of activity	2009	2010	2011
<b>ARKHENERGO TOTAL</b>	3 361	3 903	4 652
Electricity transmission revenue	3 089	3 636	4 219
TC revenue	43	68	247
Revenue from other activities	229	199	186
<b>VOLOGDAENERGO TOTAL</b>	4 525	4 832	5 969
Electricity transmission revenue	4 486	4 741	5 692
TC revenue	11	48	215
Revenue from other activities	29	42	61
<b>KARELENERGO TOTAL</b>	2 894	3 571	3 740
Electricity transmission revenue	2 855	3 519	3 686
TC revenue	27	36	33
Revenue from other activities	12	16	21
<b>KOLENERGO TOTAL</b>	3 478	3 594	4 659
Electricity transmission revenue	3 439	3 506	4 550
TC revenue	21	59	77
Revenue from other activities	17	29	32
<b>KOMIENERGO TOTAL</b>	6 160	5 455	6 031
Electricity transmission revenue	5 628	4 906	5 776
TC revenue	64	264	196
Revenue from other activities	468	285	59
<b>NOVGORODENERGO TOTAL</b>	2 429	2 646	2 801
Electricity transmission revenue	2 140	2 553	2 723
TC revenue	266	60	42
Revenue from other activities	23	33	36
<b>PSKOVENERGO TOTAL</b>	2 093	2 667	2 998
Electricity transmission revenue	1 979	2 485	2 840
TC revenue	65	132	75
Revenue from other activities	50	51	83
<b>IDGC of the North-West TOTAL</b>	24 944	26 669	30 849
Electricity transmission revenue	23 616	25 346	29 486
TC revenue	497	668	884
Revenue from other activities	831	655	479



### TRANSMISSION REVENUE CHANGE DYNAMICS



### STRUCTURE OF TOTAL ACTUAL REVENUE FOR 2011 BY THE COMPANY'S BRANCHES

### DATA ON THE ACTUAL NET COST FOR 2009-2011 BY THE BRANCHES, RUR MLN

Branch/IDGC	Indicators	2009	2010	2011
Arkhenargo	Total net cost	3 391	3 639	4 270
	Purchased power for loss compensation	838	1 012	899
	Raw and other materials	300	316	349
	Production works and services	322	116	578
	Electricity transmission services by the UNPG objects	411	510	520
	Labour costs with deductions	976	1 083	1 296
	Other expenses	544	603	628
Vologdaenergo	Total net cost	3 833	4 438	4 917
	Purchased power for loss compensation	535	615	505
	Raw and other materials	154	250	323
	Production works and services	106	118	174
	Electricity transmission services by the UNPG objects	1 245	1 473	1 665
	Labour costs with deductions	924	1 109	1 337
	Other expenses	868	872	913

### STRUCTURE OF TOTAL ACTUAL REVENUE FOR 2011 BY ACTIVITY TYPES

**96%** POWER TRANSMISSION REVENUE

**3%** TC SERVICES REVENUE

**1%** REVENUES FROM OTHER ACTIVITIES

Branch/IDGC	Indicators	2009	2010	2011
Karelenergo	Total net cost	2 706	3 139	3 228
	Purchased power for loss compensation	371	449	342
	Raw and other materials	109	129	152
	Production works and services	174	218	90
	Electricity transmission services by the UNPG objects	1 115	1 305	1 412
	Labour costs with deductions	572	668	785
	Other expenses	365	371	447
Kolenergo	Total net cost	3 421	4 182	4 726
	Purchased power for loss compensation	283	339	208
	Raw and other materials	103	89	111
	Production works and services	837	892	913
	Electricity transmission services by the UNPG objects	1 087	1 715	2 124
	Labour costs with deductions	656	701	812
	Other expenses	455	446	558
Komienergo	Total net cost	5 685	5 101	5 325
	Purchased power for loss compensation	858	906	859
	Raw and other materials	353	314	258
	Production works and services	1 321	370	364
	Electricity transmission services by the UNPG objects	794	1 077	1 185
	Labour costs with deductions	1 473	1 560	1 753
	Other expenses	886	874	906
Novgorodenergo	Total net cost	1 932	2 379	2 634
	Purchased power for loss compensation	368	482	447
	Raw and other materials	104	108	128
	Production works and services	137	116	122
	Electricity transmission services by the UNPG objects	372	606	757
	Labour costs with deductions	426	483	575
	Other expenses	526	584	605

Total actual net cost for 2011 amounted to RUR27,781 million, which is more than the level of 2010 by RUR2,636 million, or 10.5%. The greatest increase of expenses is marked in the following items:

- Electric energy transmission services by UNPG objects - RUR1,080 million, or 15.2%; the growth is caused by the rise in tariffs for the services rendered by JSC FGS UES;
- Labor costs with deductions – RUR1,117 million, or 17.6%, which is caused by the following factors: economic effect of tariff rates (official salaries) indexation on the actual CPI pursuant to the terms of the Industry tariff agreement in electric power industry (average annual 8.8%) and the corresponding growth of social deductions, as well as the growth of the tariff ratio in general according to the legislation, as well as in respect of the Company's personnel based on the results of a scheduled attestation;
- Production works and services – RUR442 million, or 21.9%: growth in respect to this item is largely due to the growth of expenses for TSE caused by the increase of tariffs and change of boiler mutual settlements, as well as the growth of expenses for contractors; services for maintenance and repair of the equipment as a result of the expanded scope of the repair program;
- Other expenses – RUR365 million, or 8.8%, the growth is due to the following reasons: formation in 2011 of provisions for estimated liabilities within the self cost's structure (Karelenergo and Kolenergo branches, RUR127 million); increase of expenses for registration of land legal documents in accordance with the Program of registration of ownership to real estate objects, registration/re-registration of rights of land use during 2011-2014 with the performance of works related to preparation of data on the borders of protected zones of the electric grid complex facilities (RUR75 million); growth of costs for depreciation due to the expanded scope of the Company's investment program for 2011 and, thus, a result of increase of volumes of main assets' input (RUR149 million).



Branch/IDGC	Indicators	2009	2010	2011
Pskovenergo	Total net cost	1 918	2 266	2 680
	Purchased power for loss compensation	301	374	386
	Raw and other materials	129	172	218
	Production works and services	177	183	215
	Electricity transmission services by the UNPG objects	273	410	514
	Labour costs with deductions	645	730	893
	Other expenses	393	396	454
JSC IDGC of the North-West	Total net cost	22 886	25 145	27 781
	Purchased power for loss compensation	3 556	4 177	3 646
	Raw and other materials	1 252	1 376	1 540
	Production works and services	3 074	2 013	2 455
	Electricity transmission services by the UNPG objects	5 297	7 096	8 177
	Labour costs with deductions	5 670	6 335	7 452
	Other expenses	4 037	4 146	4 511

The data above reflects the outstripping growth rate of payment costs for electric energy transmission services of UNPG objects and of purchased power for compensation of losses in comparison with other Company's expenses.

**BY ACTIVITY TYPES THE ACTUAL NET COST OF 2011 HAS THE FOLLOWING STRUCTURE:**

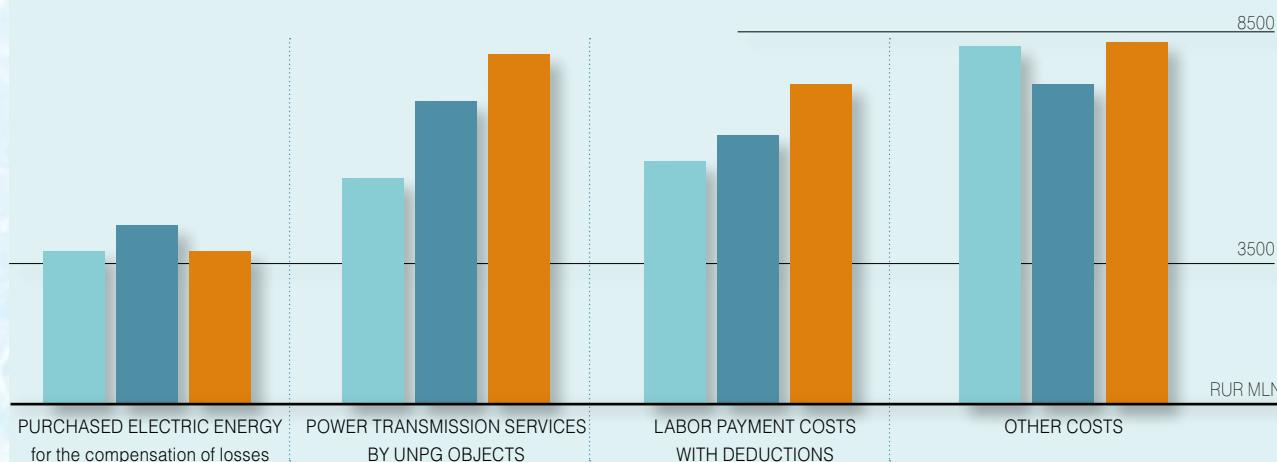
- Net cost of electric energy transmission - RUR27,281 million, or 98.2 %;
- Net cost of technological connection services – RUR97 million, or 0.4 %;
- Net cost of other activity – RUR377 million, or 1.5 %.

Total growth of actual net cost at year-end 2011 against the level of last year amounted to 10.5 %, at this, the revenue grew by 15.7 %. Such balance is largely due to the results of the Company's management cost reduction work<sup>22</sup>.

**PROFIT DYNAMICS FOR 2009-2011, RUR MLN**

Indicator	2009	2010	2011
Gross profit	2 058	1 524	3 067
Profit on sales	1 292	724	2 218
Profit before tax	158	-348	960
Net profit	150	-807	408

DYNAMICS OF NET COST CHANGE FOR 2009-2011 BY MAJOR NET COST ITEMS



**TOTAL GROWTH OF ACTUAL NET COST AT YEAR END 2011 AGAINST THE LEVEL OF LAST YEAR AMOUNTED TO 10.5 %, AT THIS, THE REVENUE GREW BY 15.7 %.**

<sup>22</sup> More detailed information is presented in Costs Management Program Section.

## THE COMPANY'S KEY PERFORMANCE INDICATORS

Rapid development of modern economic relations, necessity of forming a clear vision of competitive advantages by companies' management led to the need of developing and introducing a system of balanced parameters that could be universally applied both for making strategic administrative decisions and for assessment of the management efficiency and improvement of management motivation.

Russian electric power industry reform, the purpose of which is creation of competitive markets of electric and thermal energy manufacture, transmission and sale, actualizes the issue of firming such system of parameters.

Since the time of its forming the model of economic planning is formed and applied in the Company, based on the system of Key performance indicators (KPI). According to the JSC IDGC of the North-West Standard of business planning approved by the Board of directors, business plan is considered as an instrument of KPI.

The Company's Board of directors annually approves and, if necessary, corrects annual and quarterly KPI and their target values. Below is the information on the list, targeted and actual KPI values fixed for 2011.

DATA ON ACTUAL FULFILMENT OF ESTABLISHED KPI FOR 2011

Availability of net profit (used as a mandatory condition for motivation)	Return on equity (ROE) secured by cash flow, %		Efficiency of the investment program implementation with regard to current year (by terms and cost), %		Energy losses to grid output, %	
	target	actual	target	actual	target	actual
408 RUR million	0,09	0,94	≥95	122	6,68	6,39

COMPLEX PARAMETER RELIABILITY CRITERION FOR IDGC OF THE NORTH-WEST IS FULFILLED.

Non-admission of more than the limit number of failures conforming with the features of item 2.1. of the Instruction		System indicator of consumers' power supply loss (for feeders 6 kV and above)		System indicator of the average length of consumers' energy supply interruptions (for feeders 6kV and above)	
target	actual	target	actual	target	actual
0	0	<1	<1	<1	<1

## COST OPTIMIZATION

Currently, in the context of prevention from cost growth at facilities, which are natural monopolies, implementation of the costs management program (CMP) is becoming more relevant. In accordance with Order of the Ministry of Energy of the Russian Federation No. AIII-446np of 23.12.2010 (minutes of the meeting held by Deputy Minister of Energy of the Russian Federation A.N. Shishkin), CMP has been implemented under business planning processes as to cost reduction by at least 3% in 2011 as compared to 2010 and bringing the scope of CMP in 2011-2013 up to 10% to the level of costs in 2010.

Cost reduction is assessed as the relation of actual costs in 2011 to the costs in 2010 with the index of standard units number growth and the consumer price index (CPI) taken into account. The expenses shall be excluded from the cost structure by the following items:

- Purchased electricity;
- Services of distribution grid companies (JSC FGC of UES and TGC);
- Depreciation;
- Taxes, including insurance payments;
- Rent expenses;
- Cost of registration of ownership (registration of land and legal documents);
- Protection of electric grid complex facilities;
- Expenses, related to liquidation of natural disaster effects;
- R&D expenses;
- Provision for annual remuneration and other provisions related to the self cost of products.

Indicator	Actual 2010	Target 2011	Actual 2011
Material expenses	5 887	6 032	5 506
Purchased energy	4 504	4 546	3 960
Purchased energy for technological purposes	327	364	313
Purchased energy for compensation of losses during transmission	4 177	4 182	3 646
Other materials	1 383	1 486	1 546
Industrial services	9 132	10 993	10 661
Services of distribution grid companies	1 273	1 612	1 503
Services of FGC	7 096	8 417	8 177
Other services	763	963	981
Payments to infrastructural organizations	0	0	0
Depreciation	2 537	2 712	2 692
Personnel costs, total	6 744	7 776	7 914
Labour compensation fund	5 485	5 938	6 105
Insurance payments	1 169	1 760	1 732
Non-state pension funds	90	77	77
Non-industrial services	1 173	1 446	1 407
Administration services	280	238	238
Other non-industrial services	893	1 208	1 169
Taxes	161	168	159
Property tax	0	0	0
Land tax (land rent)	0	0	0
Other taxes and levies	0	0	0
Rent	152	149	136
Insurance	135	118	118
R&D	0	10	7
Deferred expenses	0	0	0
Other expenses	0	0	0
Total expenses	25 920	29 404	28 600
<b>FOR REFERENCE</b>			
Personnel count (average)	15 019	15 179	14 929
expenses for repair, total	1 227	1 566	1 609
Volume of standard units, s.u.	927 123	976 730	990 842

## EQUITY STRUCTURE

Due to the putting into force of Order of the Ministry of Finance of Russia No.66H of 02.07.2010 On the Forms of Financial Statements of Organizations, a retrospective method was applied for analysis of financial statements' indicators for a three-year period. Retrospective reflection is based on an assumption that a changed method of accounting was applied upon occurrence of the facts of the organization's economic activity and involved adjustment of related items of financial statements disclosed for each period presented in the financial statements.

Indicator	Actual 2010	Target 2011	Actual 2011
<b>Additional expenses items decreasing the base for assessment of the cost management program</b>			
Expenses for registration of ownership	15	159	90
Protection of electric grid complex facilities	181	208	205
Expenses, related to liquidation of natural disasters	0	0	0
Expenses for energy audit	0	15	0
R&D expenses	0	10	7
Provision for annual remuneration	0	0	260
Provision for assessment liabilities within the self cost	0	0	127
Additional vacation provisions	0	61	74
<b>Fixed, total</b>	<b>8 833</b>	<b>9 586</b>	<b>9 479</b>
<b>CPI</b>		<b>1,079</b>	<b>1,061</b>
<b>s.u. growth with the account of elasticity</b>		<b>1,040</b>	<b>1,052</b>
<b>(CPI)*(s.u. growth with the account of elasticity)</b>		<b>1,122</b>	<b>1,116</b>
<b>Fixed adjusted</b>		<b>8 542</b>	<b>8 496</b>
<b>relation to the fixed amount in 2010</b>		<b>96,7%</b>	<b>96,2%</b>
<b>Cost reduction %</b>		<b>3,3%</b>	<b>3,8%</b>

Based on the terms of the calculation above, the approved targeted value of cost reduction for JSC IDGC of the North-West for 2011 was 3.3% as to the level of 2010. The actual value of cost reduction amounted to 3.8%, with the growth of standard units' volumes and of the actual CPI value taken into account.





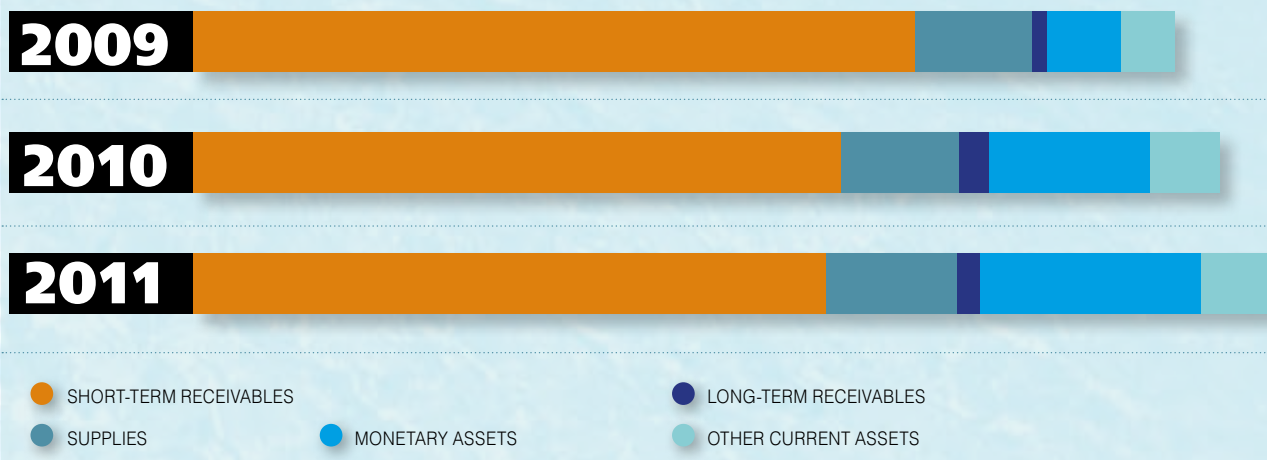


## CURRENT ASSETS' STRUCTURE

DYNAMICS AND STRUCTURAL CHANGES IN CURRENT ASSETS RUR MILLION.

	2009	Share, %	2010	Share, %	2011	Share, %
Reserves	792	11,8	796	11,2%	887	11,9
VAT for purchased values	35	0,5	42	0,6%	114	1,5
Accounts receivable	4 984	74,0	4 629	65,3%	4 446	59,7
including						
trade receivable	4 556		3 729		3 567	
advances paid	62		82		106	
other accounts receivable	366		818		773	
Short-term financial investments	-		-	0,0%	42	0,6
Money assets	539	8,0	1 132	16,0	1 485	19,9
Other current assets	385	5,7	485	6,8	477	6,4
<b>Current assets</b>	<b>6 735</b>	<b>100,0</b>	<b>7 084</b>	<b>100,0</b>	<b>7 451</b>	<b>100,0</b>

DYNAMICS OF CURRENT ASSETS (RUR MILLION)



When analyzing the dynamics of the Company's Current Assets from 2009 to 2011, a conclusion on their stable expansion can be made; the surplus amounted to 10.6 % (from RUR6,735 to RUR7,451 million). It should be mentioned that the following changes in their structure took place on 2011 (as compared to indicators for 2010):

- decrease in account receivable by RUR183 million (including by decrease of the debt of buyers and customers by RUR162 million);
- increase in material stock by RUR91 million;
- increase in financial investments by RUR 42 million by issue of short-term loans;
- increase in monetary assets by RUR353 million.

The balanced structure of current assets positively characterizes the Company's working capital management policy. The working capital management policy of JSC IDGC of the North-West aims at determining a sufficient level and rational structure of current assets, as well as determination of the amount and structure of sources of funding thereof. In order to achieve objectives related to efficient use of own and borrowed capital and to save its financial stability, the Company has carried out the works as to the follows: attraction of borrowed funds in accordance with the approved debt position limits and formation of a good and balanced budget management system (cash flow management).

**DECREASE IN ACCOUNT  
RECEIVABLE  
by RUR  
183 000 000**

## STRUCTURE OF ACCOUNTS RECEIVABLE

Dynamics of changes in the structure of accounts receivable RUR mln.

	2009	Share, %	2010	Share, %	2011	Share, %
<b>Accounts receivable</b>	4 984	100,0	4 629	100,0	4 446	100,0
<b>Accounts receivable (payments are expected in over 12 months after the reporting date)</b>	103	2,1	203	4,4	148	3,3
<b>trade receivable</b>	37	0,7	32	0,7	28	0,6
<b>bills receivable</b>	-	0,0	-	0,0	-	0,0
<b>debt of subsidiaries and affiliates</b>	-		-		-	
<b>advances paid</b>	-		-		1	
<b>other debtors</b>	66	1,3	171	3,7	119	2,7
<b>Accounts receivable (payments are expected within 12 months after the reporting date)</b>	4 881	97,9	4 426	95,6	4 298	96,7
<b>trade receivable</b>	4 519	90,7	3 697	79,9	3 539	79,6
<b>bills receivable</b>	-		-		-	
<b>debt of subsidiaries and affiliates</b>		0,0		0,0		0,0
<b>advances paid</b>	63	1,3	82	1,8	106	2,4
<b>other debtors</b>	299	6,0	647	14,0	653	14,7

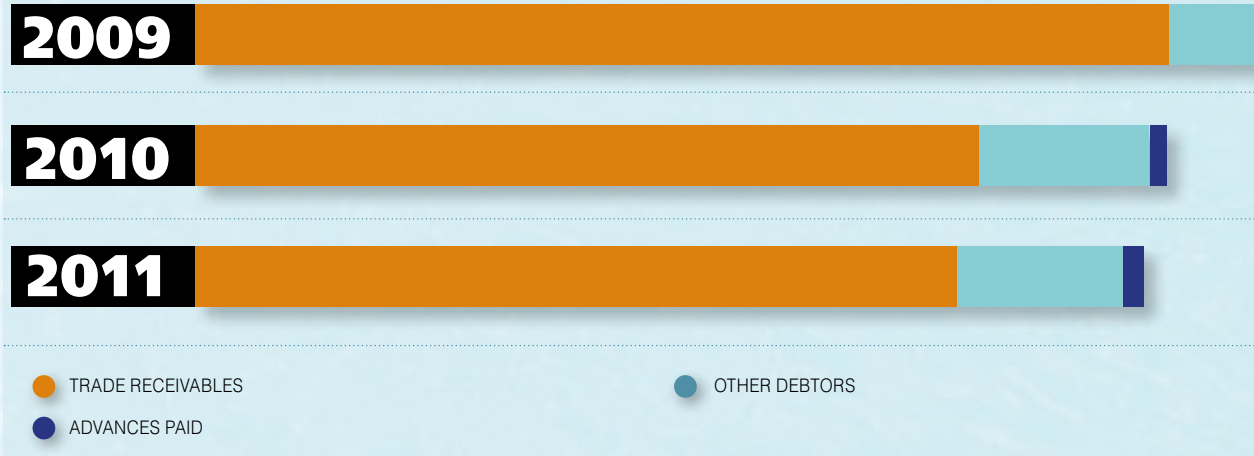
Analyzing changes for 2009-2011 there may be made a conclusion that the main growth of the accounts receivable fell within 2009. The growth of accounts receivable was due to two factors, both of which were caused by the financial and economic crisis in the country:

- violation with payment discipline on the part of retail companies;
- disputable indebtedness in place.

Disagreements regarding payment arose in two areas: first, by the type of the applied tariff (one-rate and two-rate), and by the size of the declared capacity between IDGC of the North-West and the sales companies. Disputed amount between the Company and the main consumers regarding the rendered transmission services at year-end 2009 amounted to RUR2,317 million (45.3 % of the total receivables). In 2010, the Company took all measures to receive a disputable indebtedness. Through court proceedings, claims of JSC IDGC of the North-West related to recognition of contractual volumes of electric energy transmission services were satisfied; this resulted in a significant reduction of disputable indebtedness to RUR410 million as of 31.12.2010, which was RUR1,907 million lower than as of the end of 2009.



## DYNAMICS AND STRUCTURE OF ACCOUNTS RECEIVABLE



### BASED ON THE RESULTS OF 2011, ACCOUNTS RECEIVABLES DECREASED BY:

- RUR183 million as compared to 2010;
- RUR538 million as compared to 2009.

It should be mentioned that, along with the positive changes, i.e. improvement of the payment discipline of counteragents consumers and execution of targeted values, proceeds for 2011 (including based on court decisions related to settlement of disagreements in favor of JSC IDGC of the North-West), there were negative events, which had effect on the decrease of accrued revenues for electric energy transmission services:

- analysis of tariff and balance decisions in order to limit growth of tariffs in accordance with Resolution of the Government of the Russian Federation No.1172 of 27.12.2010;
- switch of a number of consumers in Vologdaenergo, Arkhenergo, Karelenergo, Komienenergo branches connected to the Federal Grid Company (FGC) to contractual relations with JSC FGC of UES as to connection of the last mile.

Based on the results of the Company's work in 2011, significant risks affecting revenues from electric energy transmission services and, thus, amount of the indebtedness of buyers and customers, are as follows:

- occurrence of new and non-settlement of already existing disagreements as to contractual volumes of consumed power with retail companies;
- risks of termination of contracts of the last mile.

Considering problems specified above, based on the results of 2011, the Company made a decision on formation of a provision for doubtful debts in the amount of RUR1,012 million, which is exceeding the provision fixed based on the results of 2010 by RUR335 million.

All factors mentioned had an effect on decrease in accounts receivable of JSC IDGC of the North-West during the period in question.

In order to regulate and control over the level of accounts receivable, including prevention of overdue indebtedness growth, system works with counteragents is being carried out in all branches of JSC IDGC of the North-West, including by following areas:

- agreement on contractual terms and conditions with counteragents as to calculation of the cost and the manner of payment for the electric energy transmission services rendered, in order to prevent from disagreements related to the scope and the cost of the services rendered;
- constant monitoring of that counteragents pay for the services rendered in due time and in full;
- fulfilment of the claim-related work;
- conclusion of Agreements on the procedure of repayment of the debt with counteragents (Restructuring Agreements on), which facilitate normalization of payments and reduction of the indebtedness;
- application of off-sets of mutual uniform claims subject to compliance with the norms and requirements of the applicable law of the Russian Federation.

## STRUCTURE OF ACCOUNTS PAYABLE

### CHANGES IN THE STRUCTURE OF ACCOUNTS PAYABLE RUR MILLION

	2009	Share, %	2010	Share, %	2011	Share, %
<b>Accounts payable</b>	4 298	100,0	5 155	100,0	5 321	100,0
<b>Other long-term liabilities (without taking into account credits and loans)</b>	40	1,0	301	6,0	227	4,0
<b>Accounts payable of suppliers and contractors</b>			2		9	
<b>Other long-term liabilities</b>	40	1,0	299	6,0	218	4,0
<b>including advances for technological connection</b>	40		299		205	
<b>Accounts payable (without taking into account credits and loans)</b>	4 258	99,0	4 854	94,0	5 094	96,0
<b>suppliers and contractors</b>	2 296	53,4	2 074	40,2	2 390	44,9
<b>bills payable</b>	0,25		0,25		0,25	
<b>wages payable to employees</b>	253	5,9	270	5,2	298	5,6
<b>debts to state and non-budget funds</b>	74	1,7	65	1,3	99	1,9
<b>debts with regard to taxes and levies</b>	468	10,9	535	10,4	274	5,1
<b>advances received</b>	1 079	25,1	1 783	34,6	1 868	35,1
<b>including advances for technological connection</b>	1 044		1 723		1 847	
<b>other creditors</b>	88	2,0	127	2,5	165	3,1
<b>debts to subsidiaries and affiliates</b>		0,0		0,0		0,0
<b>Level of overdue accounts payable</b>	9,0		6,0		8,0	

Based on the results of 2011, accounts payable amounted to RUR5,321 million. There was a growth of the indebtedness during the period in question:

- by RUR166 million (or by 3.2%) as compared to 2010;
- by RUR1,023 million (or by 23.8%) as compared to 2009.

Analyzing the structural changes for a three-year period, it may be concluded that the share of the long-term indebtedness increase from 1 to 4%, and the share of the short-term indebtedness lowered from 53 to 45%. Long-term liabilities for 2009-2011 grew by RUR187 million and based on the results of 2011 are by 90% represented by advances for technical re-equipment.

Short-term indebtedness for 2011 increased by RUR240 million (+4.9%) as compared to the indebtedness in 2010, and by RUR 596 million (+14%) as compared to 2009.

Key items of the short-term accounts payable, having an effect on its changes are as follows: indebtedness to suppliers and contractors shall be distributed as follows:

- indebtedness to JSC FGC of UES – 19.7%;
- indebtedness for expenses for energy resources (compensation of losses, energy for household needs) – 17.1%;
- indebtedness for the electric energy transmission services using electric grids of grid organizations – 11.3%;
- indebtedness to material suppliers – 4.2%;
- indebtedness to construction organizations – 36%;
- other suppliers and contractors – 11.7 %.

The reason for liabilities growth to construction organizations by RUR173 million (+25.5%) from 2009 to 2011, is the Company's implementation of the long-term investment program.

When analyzing indebtedness to suppliers and contractors, it should be taken into account that main sources of repayment thereof is accounts receivable of buyers and contractors and such repayment directly depends on payment discipline of the Company's main consumers.

The second large component of the sort-term indebtedness is the indebtedness under received advances, its dynamics for the period analyzed is as follows:

- 2010-2011 – increase by RUR85 million or 4.8%.
- 2009-2010 – increase by RUR704 million or 65.2%;

Cash received for technological connection, are disbursed to new construction, modernization and expansion of existing facilities to supply energy to and connection of consumers to the electric grids of JSC IDGC of the North-West.

## STRUCTURE OF EQUITY AND BORROWED FUNDS

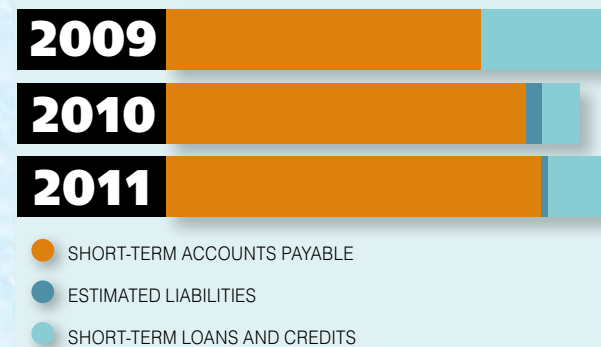
LIABILITIES DYNAMICS AND STRUCTURE RUR MILLION.

	2009	Share, %	2010	Share, %	2011	Share, %
Authorized capital	9 579	25,2	9 579	25,0	9 579	23,3
Own shares purchased from shareholders	0	0,0	0	0,0		0,0
Reassessment of non-current assets	16 111	42,3	16 046	41,9	16 018	39,0
Surplus capital (with no reassessment)	1 290	3,4	1 318	3,4	1 318	3,2
Reserve capital	337	0,9	344	0,9	344	0,8
Undistributed profit (uncovered loss)	812	2,1	-399	-1,0	-371	-0,9
Undistributed profit (uncovered loss) in the reporting year	0	0,0	0	0,0	407	1,0
<b>Total equity</b>	<b>28 128</b>	<b>73,9</b>	<b>26 888</b>	<b>70,3</b>	<b>27 295</b>	<b>66,5</b>
Long-term credits and loans	2 809	7,4	4 372	11,4	6 148	15,0
Deferred tax liabilities	943	2,5%	1 039	2,7%	1 237	3,0%
Other long-term liabilities	40	0,1	301	0,8	227	0,6
<b>Total long-term liabilities</b>	<b>3 793</b>	<b>10,0</b>	<b>5 712</b>	<b>14,9</b>	<b>7 612</b>	<b>18,5</b>
Short-term credits and loans	1 849	4,9	279	0,7	80	0,2
Short-term accounts payable	4 258	11,2	4 854	12,7	5 094	12,4
including advances received	1 079		1 783		1 867	
Deferred revenues	51	0,1	46	0,1	42	0,1
Assessment liabilities	0	0,0	491	1,3	934	2,3
Other short-term liabilities	0	0,0	0	0,0		0,0
<b>Total short-term liabilities</b>	<b>6 158</b>	<b>16,2</b>	<b>5 670</b>	<b>14,8</b>	<b>6 150</b>	<b>15,0</b>
<b>Total liabilities</b>	<b>38 079</b>	<b>100,0</b>	<b>38 270</b>	<b>100,0</b>	<b>41 057</b>	<b>100,0</b>

Analyzing the changes during the period from 2009 to 2011, it may be concluded that the Company's structure of liabilities remained the same in general. The main share of liabilities falls within the equity: in 2011 amounted to 66.5%, in 2010 – 70.3% and in 2009 – 73.8%.

In 2011, the largest relative weight in property sources is Authorized capital (23.3%) and reevaluation of main assets (39%). The amount of equity of JSC IDGC of the North-West is RUR27,295 million and the decrease as compared to 2009 was RUR834 million. This was affected by the loss based on the results of financial activity for 2010 in the amount of RUR807 million, caused by negative results of tariff regulation of Kolenergo. However, dynamics for 2010 and 2011 being compared, shows that the Company's equity increased by RUR407 million, which is due to the positive results of the financial and economic activity in 2011.

DYNAMICS OF SHORT-TERM LIABILITIES (RUR MLN)



**The amount of equity is  
RUR 27,295 million**

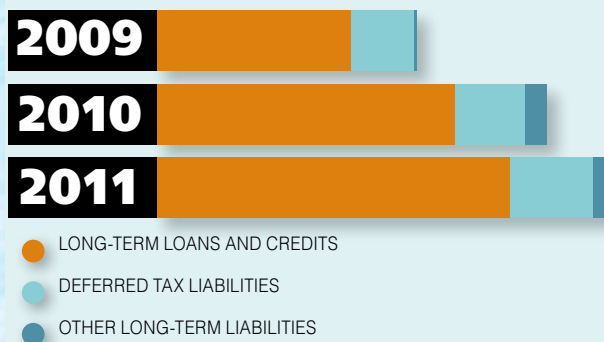
Borrowed capital (long-term and short-term credits and loans) as of the end of 2011 amounts to RUR6,228 million (including RUR677 million of targeted investment credits), which exceeds the results of 2010 by RUR1,577 million. The share of the borrowed capital during the period in question varies from 12% to 15%. Two key factors influenced the growth of credit liabilities:

- switching to RAB regulation (return on investment method), which caused changes in the structure of the investment activity financing, including significant increase of the share of borrowed funds in financing sources of investment programs being implemented at the regions, switched to RAB regulation.
- decrease in revenues due to the review of tariff and balance decision in accordance with Resolution of the Government of the Russian Federation No. 1172 of 27.12.2010.

In 2011 the Company pursues the policy of credit portfolio management aimed at attracting long-term credits and loans.

Other long-term liabilities are by 90% represented by advances for technological connection, by 6% - long-term settlements under medical insurance agreements and by 4% - other long-term liabilities.

#### DYNAMICS OF LONG-TERM LIABILITIES (RUR MLN)



## CREDIT PORTFOLIO AND LIQUIDITY

### DYNAMICS OF KEY FINANCIAL INDICATORS, RUR MILLION

	2009	2010	2011	Dynamics for 2010,%	Dynamics for 2011,%
<b>Net assets cost</b>	28 180	26 933	27 338	-4,4	1,5
<b>Ratio of net assets to the authorized capital</b>	2,94	2,81	2,85		
<b>Ratio of the amount of funds attracted to the capital and reserves (%)</b>	35	42	50	19,7	19,1
<b>Equity to debt ratio (with no advances on technological connection taken into account), %</b>	32	36	44		
<b>Cover of debt service payments (%)</b>	36	75	89	108,1	18,6
<b>Accounts receivable turnover, times</b>	5,0	5,8	6,9	15,1	20,4
<b>Accounts payable turnover, times</b>	5,9	5,5	6,1	-6,2	10,2
<b>Level of overdue accounts payable (%)</b>	9,0	6,0	6,0	-33,3	0,0
<b>Return on assets (%)</b>	0,40	-2,11	0,99		
<b>Return on capital (%)</b>	0,53	-3,0	1,49		
<b>Current liquidity ratio</b>	1,09	1,22	1,20	12,7	-2,3
<b>Fast liquidity ratio</b>	0,95	1,07	1,03	13,0	-4,0
<b>Absolute liquidity ratio</b>	0,09	0,20	0,25	128,0	24,1
<b>Equity-assets ratio (Equity to Total Assets)</b>	0,74	0,70	0,67	-4,9	-5,4
<b>Equity to debt ratio</b>	2,85	2,38	1,99	-16,5	-16,2

During the period of 2010-2011, there was a positive dynamics in the change of the cost of the Company's net assets: increase by RUR405 million or by 1.5%.



During the period of 2009-2010 – decrease of the cost of net assets by RUR1,247 million or by 4.4%. The following factors had an effect on the change in the cost of net assets:

- increase of the residual value of main assets;
- cash increase;
- increase of long-term credit liabilities;
- increase of evaluation liabilities.

The growth of evaluation liabilities by RUR934 million during 2009-2011 was due to the execution by the Company of Orders of the Ministry of Finance No. 186<sup>н</sup> of 24.12.2010 and No.167<sup>н</sup> of 01.12.2010, which made amendments to normative legal acts related to accounting.

The relation of net assets to the authorized capital of JSC IDGC of the North-West in 2011 was 2.86, which is a criterion of the Company's financial state stability.

### LIQUIDITY RATIO

2009	2010	2011	
<b>0,09</b>	<b>0,20</b>	<b>0,25</b>	ABSOLUTE LIQUIDITY RATIO
<b>0,95</b>	<b>1,07</b>	<b>1,03</b>	QUICK RATIO
<b>1,09</b>	<b>1,22</b>	<b>1,20</b>	CURRENT RATIO

### NET ASSETS DYNAMICS, RUR MLN

<b>2009</b>	<b>28 179 000 000</b>
<b>2010</b>	<b>26 933 000 000</b>
<b>2011</b>	<b>27 337 000 000</b>

Increase in borrowed funds from 2009 to 2010 was largely due to the sufficient growth of advances for technological connection, not through expansion of the Company's credit portfolio. When calculating this indicator without advances received for technological connection services, indicator values were 32% in 2009 and 36% in 2010; in 2010 dynamics was significant. However, due to the expansion of credit portfolio during 2011, indicator's value in 2011 was worse and increased up to 50%, meaning that the Company's dependence on attraction of borrowed funds was higher. Unfavorable changes were caused by a number of factors undependable of the financial policy of capital management, in particular: growth of evaluation liabilities (changes in legislative and normative acts of organizations' accounting) and review of TBR for 2011 (Resolution of the Government of the Russian Federation No.1172 of 27.12.2010).

As of the end of 2011, loans and credits are by 100% represented by long-term credits of banks. As for keeping and increase of the facility's financial stability, long-term liabilities expand Company's economic possibilities and are less risky for it than short-term liabilities.

Analyzing the absolute liquidity indicator, it should be mentioned that its growth during 2009-2011 was over 100%, which was facilitated by the increase in cash funds, due to the repayment of accounts receivable, as well as through diversification of the credit portfolio by credit products and borrowing terms, i.e. its modification to attract long-term credits. Main share of liquidity resources the Company obtained accounts for 2010. All methods of financial management used in 2010 allow maintaining liquidity indicators at a quite high level in 2011, too.

When analyzing liquidity indicators, deferred revenue is excluded from current liabilities, which in fact are not liabilities payable.

During the period in question, the ratio of equity autonomy has a tendency to an insignificant lowering, meaning a slight increase of dependence on external financing sources. But, despite such lowering, the amount of such ratio remains higher than the normative one (over 0,6). The ratio of financial dependence shows a relative weight of own sources in the facility's capital. Based on the results of 2011, 67% of the Company's assets were formed by means of equity and demonstrates that the Company is quite stable in financial terms.

For 2011 turnover of accounts receivable increased, showing good organization of settlements with debtor counterparties, including due to successful claim-related work of the Company aimed at collecting indebtedness (including disputable one) from retail companies. The indicator's value of accounts payable turnover also increased, thus, the Company's settlement discipline as to its liabilities to creditors improved.

Based on calculated ratios, it may be concluded that JSC IDGC of the North-West has a sufficient payment capacity, i.e. it is able to cover its payment liabilities in due time with cash resources.

#### DYNAMICS OF RETURN ON ASSETS AND CAPITAL CORRELATES WITH THE AMOUNT IF COMPANY'S NET PROFIT IN THE REPORTING PERIOD.

Based on the results of 2011, operational cash flow enabled the Company to cover 88,9% of existing credit and loan liabilities.

#### SIGNIFICANT INDICATORS WHICH HAD AN EFFECT ON THE POSITIVE DYNAMICS OF PAYMENTS ARE AS FOLLOWS:

- profit at the amount of RUR408 million, the Company gained based on the results of 2011;
- amount of depreciation payments, tending to constant increase;
- amount of cash turnovers related to debt repayment. The amount of liabilities for credit and loans repaid in 2009-2010 includes repayment of short-term trenches and the principle amount, which increases turnovers for liabilities repayment significantly. In 2011, the Company's credit portfolio was 100% represented by long-term liabilities with maturity terms exceeding 12 months and, thus, decreases the amount of turnovers for credits repayment in the reporting financial year.

The balance of equity and borrowed funds characterizes the share of the borrowed capital in the structure of own funds and sources of formation thereof. Based on the results of 2011, RUR1,99 of equity falls on RUR1 of borrowed capital, showing a low relative weight of borrowed funds and a higher level of equity provision, which reflects Company's stable financial structure of its funds and a sufficient level of financial stability thereof. However, as compared to previous reporting periods, there was an increase in the share of borrowings in equity formation sources in 2011.







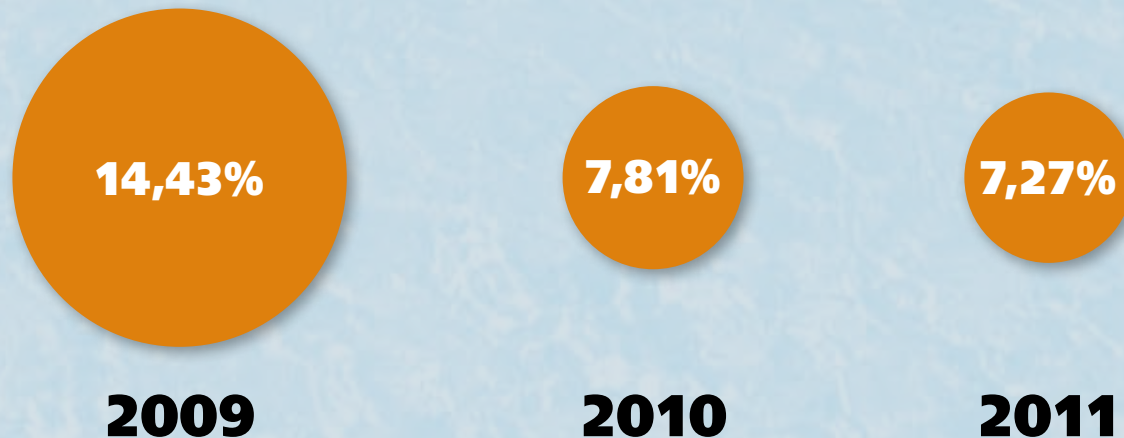
#### STRUCTURE AND CHANGES OF THE CREDIT PORTFOLIO

Показатель	2009	2010	2011	change for 2010	change for 2011
Total credits and loans, RUR million	4 658	4 651	6 228	-7	1 577
long-term	4 083	4 373	6 148	289	1 775
short-term	575	279	80	-296	-199

#### STRUCTURE OF THE CREDIT PORTFOLIO AS OF 31.12.2011

Bank	Bank share in the Management Project Contract %	Indebtedness, RUR million
OJSC Bank VTB	23	1 452
Sberbank of Russia	40	2 484
ALPHA-BANK	12	721
Svyaz-Bank	2	132
Gazprombank	1	71
JCB RUSSIA	22	1 369
<b>Total</b>	<b>100</b>	<b>6 228</b>

#### DYNAMICS OF AVERAGE WEIGHTED RATE ON THE OUTSIDE CREDITS



Borrowed capital (long-term and short-term credits and loans) in 2011 amounted to RUR6,228 million, which is RUR1,577 million more as compared to the results of 2010. During 2009-2010, volumes of credit resources remained at the same level. In 2011, there was a surplus of borrowed capital by 34%, which was due to a number of reasons.

Based on the results of the tariff campaign for 2011 according to Resolution of the Government of the Russian Federation No.1172 of 27.12.2010, the need in search of additional financial resources to cover revenues deficiency occurred.

Switching to RAB regulation of Vologdaenergo, Novgorodenergo and Pskovenergo branches of JSC IDGC of the North-West caused additional attraction of investment credits.

It should be mentioned that there was a positive dynamics of reduction of borrowed capital's cost. A weighted average interest rate for attracted loans in 2009 was 14.43% per annum, in 2010 – 7.81% per annum, and in 2011 – 7.27% per annum.

Sberbank of Russia accounts for the largest share of the Company's credit portfolio - 40%, VTB Bank has also a large share of 23% and JSB Rossiya – 22%.

During 2009-2010 the Company diversified its credit portfolio by credit products, banks, borrowing terms, as well as gradually reduced the share of short-term loans and credits by transforming them into long-term borrowings. In 2011 the Company keeps following the policy of the credit portfolio management aimed at attracting long-term credits.

## ACCOUNTING METHODS AND POLICY

The Company conducts accounting for solving the problems specified in clause 3, Art.1 of Federal Law on accounting No. 129-FZ dated 21.11.1996, namely:

- For providing the information necessary for internal and external users of accounting reporting to control the compliance with the Russian laws in the Company's economic operations and their expediency, presence and turnover of property and liabilities, use of material, labor and financial resources;
- For prevention of negative results of the Company's economic activity and revealing inner reserves for provision of its financial stability;
- For gathering complete and trustworthy information on the Company's activity and its property status, necessary for internal users of accounting reporting - directors, shareholders, - and for external users - investors, creditors and other users of accounting reporting.

On the basis of accounting data and in execution of requirements of item 5.1 of the Corporate Governance Code approved by the Board of Directors on 22.08.2008 (Minutes No. 35/3), the Company presents the following to internal and external users:

- Accounting (financial) reporting according to the legislation of the Russian Federation on accounting

Accounting methods and policy of the Company are documented in the Company's Accounting policy for 2011. All essential aspects of the accounting policy provisions, accepted by the Company, are described in the explanatory note to the annual accounting (financial) reporting.

Company's accounting (financial) reporting for 2011, including unqualified opinion of LLC RSM Top-Audit, as well as the conclusion of the Company's Revision committee are presented in Appendices Nos. 1 and 2 to the Annual report.

- Consolidated financial reporting according to IFRS.

Consolidated financial reporting according to IFRS includes information on activity of JSC IDGC of the North-West and its subsidiaries (JSC Pskovenergosbyt, JSC Pskovenergoagent, JSC Pskovenergoavto, JSC Energoservice of the North-West, LLC PSE Energia, JSC Lesnaya Skazka).

In 2011, an automated system based on 1C: Enterprise 8.2, which ensured keeping of parallel accounting and preparation of consolidated statements according to IFRS by own forces of JSC IDGC of the North-West, was developed and implemented in the Company.

Implementation of the ACS IAS at JSC IDGC of the North-West allowed to increase the speed of preparation of statements according to IFRS, reduce expenses for preparation thereof, increase transparency of financial accounting according to IFRS and quality of financial information required to make management decisions.

The Company is geared to the maximum convergence of accounting policies for the purposes of forming accounting (financial) reporting according to the legislation of the Russian Federation on accounting and the financial reporting according to IFRS.

All essential aspects of the accounting policy provisions accepted by the Company are explained in the comments to the consolidated financial reporting for the year ended on December 31, 2011. Consolidated financial reporting for 2011 and unqualified opinion of CJSC KMPG are presented in Appendix No. 4 to the Annual report.

A large manta ray is the central focus, swimming from the left towards the right. It has a white underside and a dark, patterned top. The water is clear and blue, with several smaller fish swimming in the background. The overall scene is bright and clear.

# SECTION 5. PRODUCTION ACTIVITIES

*The Giant Oceanic Manta Ray (*Manta birostris*), is a species of ray in the family Mobulidae, and the largest type of ray in the world. The largest recorded specimen was more than 7.6 metres (25 ft) across, with a weight of about 2,400 kilograms (5,300 lb). They are circumglobal and are typically found in tropical and subtropical waters, and can also be found in temperate waters.[3] Oceanic mantas reside in deepwater, pelagic zones, making periodic visits to cleaning stations at seamounts and coastal reefs.*



## ALEXANDER MIKHALKOV

DEPUTY DIRECTOR GENERAL FOR DEVELOPMENT AND SALES OF SERVICES

“2011 was not an easy one for the electricity market. Yet, at the beginning of the year the issue on payment of “last mile” of services for electric energy transmission by consumers had not been solved. That led to differences concerning volumes of rendered services with trade companies and major industrial enterprises for the period starting from July 2008.

In order to reduce the growth of tariffs for electricity, Resolution of the Government No. 1173 was issued in April of 2011, according to which schedules on step-by-step termination of “last mile” facilities lease till 2014 were developed in the regions.

The Company entered into lease contracts with JSC FGC UES that allowed solving a number of issues associated with the acknowledgment of accounts receivable by “last mile” consumers as well as leveling the risk of charge of unjust enrichment from the Company for the use of UNPG facilities for the services rendered since 2008.

As a result of purposeful work carried out by IDGC of the North-West in 2011 on reduction of accounts receivable for services rendered in electric energy transmission with defaulters, the level of debt in arrears has been reduced by RUR682 mln. or 27,3% as of 01.05.2011. The loss reduction is one of the trends for effective

work of the network complex. During 2011 the level of loss in the Company’s facilities was reduced by 235,9 million kWh and amounted to 6,39% of electric energy transmission to supply networks of IDGC of the North-West as compared to the previous year.

Such indicators have been achieved through consistent implementation of unified approaches when arranging measures for loss enhancement as well as carrying out the investment program with regard to the arrangement and modernization of electricity metering.

During 2011 the Company carried out the energy saving program. It resulted in the following figures of energy resources conservation as compared to the previous year: electric energy by 239 million kWh, heat power by 9 thousand gigacalories, water supply by 18 thousand cubic meters.

In pursuance of Federal law No. 261-FZ “On Energy Saving...” as of 23.11.2011, in 2011 the Company developed and approved for implementation the “Action Plan for Mandatory Energy Audit of Facilities used for Production and Commercial Operations and Electric Grid Facilities of the Company”. As a result of this work the Company will receive an energy performance certificate; the potential of energy saving and energy efficiency improvement will be determined as well as the action sheet for energy saving and energy efficiency improvement for the subsequent period will be developed.

# ELECTRIC ENERGY TRANSMISSION

## THE RESULTS OF PRODUCTION ACTIVITIES FOR 2011

Branch/IDGC	Network supply, million kWh	Supply from network to consumers and related TNO <sup>23</sup> , million kWh	Loss	
			million kWh	million kWh
Arkhenenergo	3 901,3	3 452,2	449,1	11,51
Vologdaenergo	9 043,6	8 619,3	424,3	4,69
Karelenenergo	7 566,8	7 271,6	295,2	3,90
Kolenergo	11 012,6	10 670,2	342,4	3,11
Komienergo	5 765,5	5 170,2	595,4	10,33
Novgorodenergo	3 770,3	3 401,2	369,1	9,79
Pskovenergo	1 930,7	1 659,0	271,7	14,07
<b>IDGC of the North-West</b>	<b>42 990,8</b>	<b>40 243,7</b>	<b>2 747,1</b>	<b>6,39</b>

## DYNAMICS OF THE VOLUME OF SERVICES RENDERED FOR ENERGY TRANSMISSION IN 2010-2011

Branch/IDGC	Volume of electricity transmission services rendered <sup>24</sup> , million kWh			
	2010	2011	Change	
			million kWh	%
Arkhenenergo	3 452,1	3 022,6	-429,4	-12,44
Vologdaenergo	8 748,5	8 599,8	-148,7	-1,70
Karelenenergo	7 285,3	7 261,6	-23,7	-0,33
Kolenergo	10 736,4	10 598,8	-137,6	-1,28
Komienergo	5 211,7	5 146,7	-65,0	-1,25
Novgorodenergo	3 363,1	3 397,7	34,6	1,03
Pskovenergo	1 674,2	1 659,0	-15,2	-0,91
<b>IDGC of the North-West</b>	<b>40 471,2</b>	<b>39 686,2</b>	<b>-785,0</b>	<b>-1,94</b>

<sup>23</sup> Supply from network to consumers and related TNO is the IDGC network transmission of electric energy till the border of balance participation with the consumers attached to the IDGC networks and till the border of balance participation with TNO (boiler «up» + boiler «down»)

<sup>24</sup> The volume of electricity transmission services rendered is the volume of electrical energy supplied from the IDGC network to consumers and related TNO in accordance with the signed agreements. («The volume of electricity transmission services rendered» differs from «Supply from network to consumers and related TNO» for the volume of energy supplied to TNO networks – «recipient of payment» on the tariff and balance decisions in the Arkhangelsk region; for the losses in the TNO networks – «recipient of payment» in Kolenergo, Komienergo and Novgorodenergo branches; for economic needs of Vologdaenergo, Karelenenergo and Komienergo branches).

To gain profit and satisfy its own needs, IDGC of the North-West has the right to carry out any activities allowed by the law, including:

- rendering of electric energy transmission services;
- operational and process management;
- rendering of services for technological connection of power receiving devices (electrical installations) of legal entities and individuals to electric networks;
- collection, transfer and processing of technological information, including measurement and accounting data;
- control over safe maintenance of consumers' electrical installations connected to the Company's electric networks;
- activities related to electric networks operation.

Today the Company's main task is to arrange efficient management of the distribution grid system of the North-West, avoidance of networks wear and tear, energy shortage and unconstrained consumers' connection.

The main production activity of IDGC of the North-West is rendering of electric energy transmission services.

According to the results of JSC IDGC of the North-West work, the volume of services rendered for energy transmission in 2011 was 39,686 million kWh. That is less than the indicators of 2010 by 785 million kWh or 1,94%.

**THE MAIN REASONS FOR REDUCTION IN THE VOLUMES OF SERVICES RENDERED FOR TRANSMISSION ARE THE FOLLOWING:**

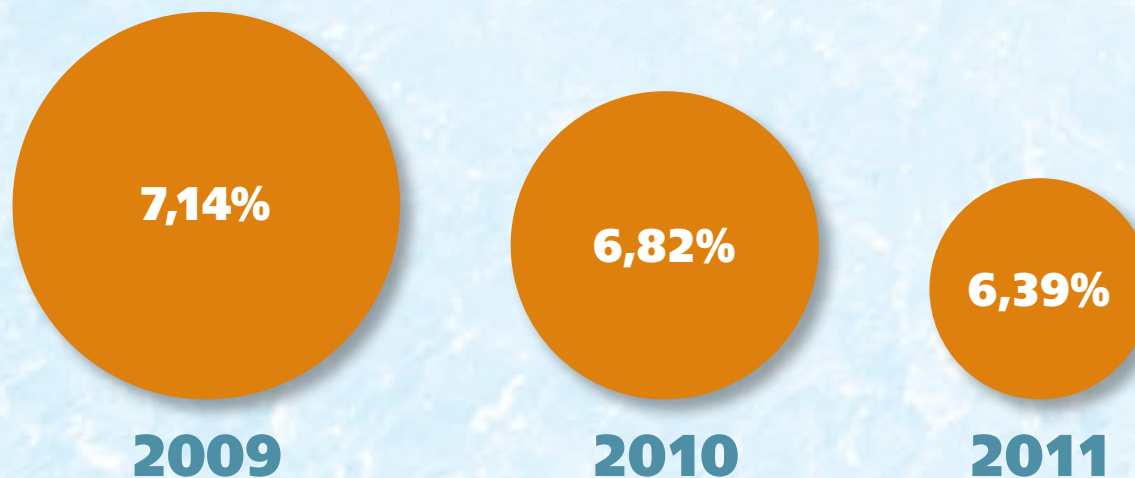
- Modification of contractual terms with consumers LLC "Rusenergoresource", LLC "Rusenergosbyt", JSC "Russian Railways" in Vologdaenergo, Arkhenergo, Kareleenergo, Komienergo branches as related to the altered list of electric energy supply points in 2011.
- Modification of the procedure for formation of the volume of rendered services in Arkhenergo branch: a number of TNOs that were Customers of the branch's services according to the tariff contractual model in 2010, passed into the category of TNOs being recipients of payment in 2011. The volume of services rendered to such network organizations in 2010 was 198,6 million kWh.
- As a result of abnormal high temperatures in the North-West during November-December 2011 the consumption of energy by population and other customer groups equated to it considerably reduced. The decrease of consumption in this category of consumers was 199 million kWh as compared to 2010.

**ACCORDING TO THE RESULTS OF JSC IDGC OF THE NORTH WEST WORK, THE VOLUME OF SERVICES RENDERED FOR ENERGY TRANSMISSION IN 2011 WAS 39 686 000 000 kWh**

**ACTUAL LOSS OF ELECTRIC ENERGY IN 2010-2011**

Наименование филиала/МРСК	Energy losses					
	Actual 2010 <sup>25</sup>		Actual 2011		Change	
	million kWh	% comp.	million kWh	%	million kWh	% comp.
Arkhenergo	512,8	12,46	449,1	11,51	-63,7	-1,46
Vologdaenergo	444,7	4,84	424,2	4,69	-20,5	-0,23
Kareleenergo	376,2	4,90	295,2	3,90	-81,0	-1,10
Kolenergo	351,9	3,15	342,4	3,11	-9,5	-0,04
Komienergo	633,1	10,78	595,4	10,33	-37,7	-0,70
Novgorodenergo	388,6	10,35	369,1	9,79	-19,5	-0,56
Pskovenergo	275,7	14,14	271,7	14,07	-4,1	-0,07
<b>IDGC of the North-West</b>	<b>2 983,0</b>	<b>6,82</b>	<b>2 747,1</b>	<b>6,39</b>	<b>-235,9</b>	<b>-0,52</b>

**DYNAMICS OF ELECTRIC ENERGY LOSS FOR THE LAST THREE YEARS**



The diagram shows that during 2009-2011 an annual stable reduction of the absolute electric loss value is observed. The loss of electric energy was reduced by 0,25 billion kWh for 3 years. Relative values also show reduction of electric energy loss. As a result of carrying out the "Program of Measures for Electric Energy Loss Reduction", including organizational and technical arrangements as well as arrangements to improve energy calculation and technical accounting systems, the absolute loss value in the Company's network is decreasing stably.

<sup>25</sup> The relative loss of electrical energy in 2010 is calculated in comparable conditions as in 2011. The absolute value of losses in Arkhenergo, Vologdaenergo, Kareleenergo and Komienergo branches is attributed to the supply to network less the volume of electricity transmission facilities for the last mile from the FGC substations.




## ENERGY SAVING AND ENERGY EFFICIENCY ENHANCEMENT

Approved target indicators	Measurement units	2010 actual	Target value		
			2011 target	2011 actual	
			Value	Value	Deviation, %
Energy losses, including	RUR mln, including VAT	5 145,99	5 504,48	4 302,65	-21,83
	million kWh	2 983,00	2 930,78	2 747,10	-6,27
	% to FA	6,91	6,68	6,39	-4,29
Consumption for substations' own needs	RUR mln, including VAT	140,51	184,75	150,20	-18,70
	million kWh	97,32	97,46	90,56	-7,08
Consumption of resources for economic needs, including by resources types	RUR mln, including VAT	402,17	448,65	381,99	-14,86
Fuel and energy, including	RUR mln, including VAT	395,42	440,75	375,84	-14,73
	ton of reference fuel	43118,94	42 440,61	40 815,15	-3,83
Electric energy	RUR mln, including VAT	303,34	343,59	292,38	-14,90
	thousand kWh	92982	91493	90366	-1,23
Thermal energy	RUR mln, including VAT	89,70	94,30	81,24	-13,86
	Gcal	69 451,62	67 838,71	60 469,48	-10,86
Hot water supply	thous. cub. m	23,47	20,52	20,78	1,25
	RUR mln, including VAT	1,64	1,92	1,61	-16,34
Cold water supply	thous. cub. m	238,06	236,73	222,99	-5,80
	RUR mln, including VAT	5,11	5,98	4,54	-23,95
Natural gas	thous. cub. m	663,80	728,25	604,84	-16,95
	RUR mln, including VAT	2,38	2,84	2,22	-22,22
Equipment with the account of economic needs, including by resources types	%	100,00	100,00	100,00	0,00
Provision with electricity meters in the retail electricity market, including	%	26,50	26,80	27,25	1,68

With regard to energy saving and energy efficiency enhancement the following target values are adopted in compliance with the program of energy saving and energy efficiency enhancement of IDGC of the North-West:

- Electric energy loss;
- Consumption for the substations' own needs;
- Consumption of electric and thermal energy for economic needs;
- Consumption of cold water for economic needs;
- Provision with accounting devices in the retail market.



Target and achieved effects in 2011 on the program measures are shown in the “Effects from Implementation of Measures According to the Program of Energy Saving” Table.

## EFFECTS FROM IMPLEMENTATION OF MEASURES ACCORDING TO THE PROGRAM OF ENERGY SAVING

Event	Numerical value within the dimensional product specified	2011		Economy numerical value, RUR million	
		2011		2011	
	Dimensional product	Target	Actual	Target	Actual
Measures to reduce electric energy losses	million kWh	32,32	69,41	72,38	127,62
Target measures to reduce electric energy losses	million kWh	24,37	58,36	55,16	108,42
Non-target programs/measures (measures directly or indirectly influencing target indicators and financed under other programs)	million kWh	7,95	11,05	17,22	19,20
Target measures to reduce energy resources consumption at industrial and economic facilities.	thous. ton of reference fuel	0,17	0,45	1,08	2,73

Financing sources for the program of energy saving were the investment program in the amount of RUR479,18 mln (exclusive of VAT) and maintenance program in the amount of RUR74,0 mln (exclusive of VAT).

The expenses associated with the programs in 2011 amounted to:

- Program on accounting system development – RUR28,89 mln (exclusive of VAT).
- Renewal program – RUR380,07 mln (exclusive of VAT).
- Program on perspective development of distribution network – RUR50,17 mln (exclusive of VAT).

## FINANCING SOURCES FOR THE PROGRAM OF ENERGY SAVING WERE:

### INVESTMENT PROGRAM

RUR **479,18** mln

### MAINTENANCE PROGRAM

RUR **74,0** mln

## THE EXPENSES ASSOCIATED WITH THE PROGRAMS IN 2011 AMOUNTED TO:

### PROGRAM ON ACCOUNTING SYSTEM DEVELOPMENT

- RUR **28,89** mln

RENEWAL PROGRAM - RUR **380,07** mln

### PROGRAM ON PERSPECTIVE DEVELOPMENT OF DISTRIBUTION NETWORK

- RUR **50,17** mln



## ENERGY LOSS REDUCTION MEASURES

Within the priority area the Company realizes the action plan aimed at optimizing (reducing) the loss level.

Due to the implementation of the action plan for loss enhancement in 2011 the total effect amounted to 69,415 million kWh or 0,16% of transmission to the network.

According to the results of measures to reduce commercial loss, the effect amounted to 58,908 million kWh. Such decrease was achieved due to the carrying out of measures for revelation of consumption without accounting and contracts as well as the Program of Perspective Development of Electric Power Metering Systems in the Retail electricity market, replacement of uninsulated wire for SIW (Self-Supporting Insulated Wire), replacement of devices for electricity metering by consumers. Decrease of technological loss due to organizational arrangements amounted to 49,778 million kWh and of technical arrangement – 7,657 kWh.

Main arrangements for reduction of technological electric energy loss for 2011

Measure	Annual effect of losses reduction due to the measures taken, thous. kWh
<b>Measures, total</b>	69 415,14
<b>Organizational measures</b>	49 778,56
<b>Optimization of distribution of the load between substations of the main electric grid by means of circuit switching</b>	680,90
<b>Optimization of points of cutting grid loops</b>	8,65
<b>Switching off of transformers in the working modes of low loads of transformers at substations with two and more transformers</b>	0,45
<b>Switching off of transformers at substations with seasonal load</b>	55,70
<b>Reduction of consumption for own needs of substations</b>	2 026,07
<b>Evening of loads of phases in 0.38 kv electric grids</b>	194,84
<b>Detection of non-metered electric energy as a result of raids</b>	46 811,95
<b>Technical measures</b>	7 657,18
<b>Installation and putting into operation of condensers' batteries (capacitor banks)</b>	5 430,87
<b>Replacement of cables at overloaded lines</b>	1 057,70
<b>Replacement of branches from 0.38 kv overhead lines to buildings</b>	116,67
<b>Replacement of overloaded and installation of additional transformers for operation</b>	23,29
<b>Replacement of underloaded power transformers</b>	258,65
<b>Other measures</b>	770,00
<b>Measures to improve metering and technical accounting of electricity электроэнергия</b>	11 979,40
<b>Installation of automated informative electric power accounting systems</b>	5 893,24
<b>Installation of electric meters of a high precision category</b>	6 086,16

### REDUCTION OF NON-TECHNICAL LOSS IS ACHIEVED THROUGH IMPLEMENTATION OF THE FOLLOWING MEASURES:

- Execution of the “Program of Perspective Development of Electric Power Metering Systems in the Retail electricity market”

On 22.02.2012 the adjusted Program of Perspective Development of Electric Power Metering Systems in the Retail electricity market for distribution networks of IDGC of the North-West was approved by the decision of the Board of Directors. Within the execution of measures according to the adjusted Program the works on creation and modernization of information-measuring complexes for electricity metering were performed in 2011 for 2 785 metering points.

- Replacement of branches of 0.4 kV OL to buildings.

During the reporting year 6,241 m thous. pcs. of 0,4 kV OL branches to buildings were replaced during the reporting year with a naked wire on a self-supporting insulated wire (SIW). Such arrangements are carried out along with putting of meters on buildings' faces and allow avoiding possible non-accounted consumption of electric energy, unauthorized access to accounting circuits, external exposure on correct operation of a meter, access of the personnel of a grid company and a capacity supply company to take household users' readings, etc.

- Technical check of electricity metering complexes.

During 2011 technical (instrumental) checks were conducted at 276,636 thous. electricity metering complexes. Based on the results of the arrangements specified, violations were revealed and eliminated at accounting complexes, which allowed to reduce losses by 24,31 million kWh, non-accounted (non-contractual and unaccounted) consumption of 46,81 million kWh revealed. Under accounted electric capacity is calculated under extra-charge acts in accordance with the regulatory and legal acts of the Russian federation from the moment of the last technical check or by the period of limitation (not exceeding 3 years). Thus, electric energy net supply for 2011 included kWh, lost during previous years.

- Arrangement of the system of technical accounting of electric energy at IDGC main substations.

In order to initiate more detailed analysis of reasons of increased losses, their localization and elimination, the works on equipment of auxiliary electric energy technical metering points were carried out. Thus, 1,49 thous. accounting complexes were installed, replaced or repaired during 2011.

- Taking of control reading from calculation electricity metering complexes.

In order to determine the volume of the electric energy transmission service rendered, the personnel of the Company every month visits household users and carries out taking of control readings from meters installed for entities. There are over 1,399,18 thous. of household users supply points and 154,45 thous. entities supply points (including in the network of adjacent territorial grid organizations) within the operational activity area of IDGC of the North-West. Readings taking arrangements were carried out in 2011 at the Company's facilities with the following regularity: household users – once a quarter (over 353,5 thous. metering points per month); legal entities – for meters, installed at the Company's objects – every month (over 54,8 thous. metering points per month), at consumer's objects – once a quarter (over 86,04 thous. metering points per month).

## TECHNOLOGICAL CONNECTION

### REGULATORY BASE FOR TECHNOLOGICAL CONNECTION

- Federal Law No. 35-FZ on Electric Energy Industry of 26.03.2003 as amended by Federal Law No 401-FZ of 06.12.2011 (<http://clients.mrsksevizap.ru/tekhnologicheskoe-prisoedinenie/baza/>);
- Resolution of the Government of the Russian Federation No. 861 of 27.12.2004 on Regulations for Technological Connection of Power Receiving Devices of Electric Power Consumers, Electric Energy Producing Objects as well as Electronetwork Objects Belonging to the Network Organizaitons and Other Bodies to Electric Networks as amended by Resolution of the Government of the Russian Federation No. 1178 as of 29.12.2011 (<http://clients.mrsksevizap.ru/tekhnologicheskoe-prisoedinenie/baza/>);
- Federal Law No. 51-FZ of 30.11.1994 “The Civil Code of the Russian Federation” as amended by Federal Law No. 363-FZ of 30.11.2011 as amended by Federal Law No. 337-FZ of 28.11.2011 (<http://clients.mrsksevizap.ru/tekhnologicheskoe-prisoedinenie/baza/>);
- Order of the Government of the Russian Federation No. 109 of 26.02.2004 on Electricity and Heat Pricing in the Russian Federation as amended by Resolution of Government of the Russian Federation No. 122 of 14.02.2012 as amended by Resolution of Government of the Russian Federation No. 1178 of 29.12.2011 (<http://clients.mrsksevizap.ru/tekhnologicheskoe-prisoedinenie/baza/>);
- Order of the Federal Tariff Service (FTS) of the Russian Federation No. 365-e/5 of 30.11.2010 on Methodological Instructions for Determination of the Amount of Fees for Technological Connection to Electric Networks as amended by Order of the Federal Tariff Service (FTS) of the Russian Federation No. 190-e/1 of 09.08.2011 (<http://clients.mrsksevizap.ru/tekhnologicheskoe-prisoedinenie/baza/>);
- Resolution of the Tariff and Price Department of the Arkhangelsk Region No. 48-E/1 of 22.07.2011 On Introduction of Alterations into Appendix to the Resolution of the Tariff and Price Department of the



Arkhangelsk Region No. 22-E/1 of July 16, 2010 (<http://clients.mrsksevizap.ru/tarif-tp>);

- Resolution of the Regional Energy Committee of the Vologda Region No. 2 of 18.01.2010 On Determination of Charge Amount for Technological Connection to the Electric Networks of Vologdaenergo branch of IDGC of the North-West (<http://clients.mrsksevizap.ru/tarif-tp>);
- Resolution of the Regional Energy Committee of the Vologda Region No. 70 of 30.04.2010 On Determination of Charge for Technological Connection to the Electric Networks (<http://clients.mrsksevizap.ru/tarif-tp>);
- Resolution of the Regional Energy Committee of the Vologda Region No. 38 of 21.02.2011 On Introduction of Alterations into the Resolution of the Regional Energy Committee (REC) of the Vologda Region No. 69 of 30.04.2010 (<http://clients.mrsksevizap.ru/tarif-tp>);
- Resolution of the State Committee of the Republic of Karelia No. 333 of 30.12.2011 On Determination of Standardized Charge Tariff Rates for Technological Connection to the Electric Networks of the Branch of the Open Joint-Stock Company Interregional Distribution Grid Company of the North-West "Karelenergo" (<http://clients.mrsksevizap.ru/tarif-tp>);
- Resolution of the Tariff Regulation Directorate of the Murmansk Region No. 16/1 of 13.04.2011 On Determination of Charge for Technological Connection to the Electric Networks of the Karelenergo branch IDGC of the North-West (<http://clients.mrsksevizap.ru/tarif-tp>);
- Resolution of the Tariff Service of the Komi Republic No. 7/1 of 15.10.2010 On Determination of Charge Rates for Technological Connection to the Electric Networks of JSC IDGC of the North-West (<http://clients.mrsksevizap.ru/tarif-tp>);
- Resolution of the Price and Tariff Policy Committee of the Novgorod Region No. 5 of 04.02.2011 On Determination of Charge for Technological Connection to the Electric Networks of the Open Joint-Stock Company Interregional Distribution Grid Company of the North-West (Novgorodenergo branch) (<http://clients.mrsksevizap.ru/tarif-tp>);
- Order of the State Committee of the Pskov Region for Tariffs and Energy Industry No. 38-E of 27.09.2011 (<http://clients.mrsksevizap.ru/tarif-tp>);
- And other regulatory legal acts.

## INFORMATION ON TECHNOLOGICAL CONNECTION TARIFFS FOR 2011 AND APPROVAL OF TARIFFS FOR 2012

During 2011 in the branches of IDGC of the North-West the following tariffs for technological connection were applied:

- During the first half of 2011 Arkhenergo branch used the tariffs approved by Resolution of the Tariff and Price Agency of the Arkhangelsk Region No. 22-e/1 of 16.07.2010 for technological connection of applicants' energy receiving devices with a capacity of up to 8 500 kW including the investment component. During the second half of 2011 Arkhenergo branch applied the tariffs for technological connection approved by Resolution of the Tariff and Price Agency of the Arkhangelsk Region No. 48-e/1 of 22.07.2011 without the investment component.
  - The tariffs for technological connection of applicants' power receiving devices were regulated by the following Resolutions of the Regional Energy Committee of the Vologda Region:
    - » Resolution No. 2 of 18.01.2010 On Determination of Charge Amount for Technological Connection to the Electric Networks of Vologdaenergo branch of IDGC of the North-West;
    - » Resolution No. 70 of 30.04.2010 On Determination of Charge for Technological Connection to the Electric Networks;
    - » Resolution No. 38 of 21.02.2011 On Introduction of Alterations into Resolution of the Regional Energy Committee (REC) of the Vologda Region No. 69 of 30.04.2010;
  - In Karelenergo branch the charge rates for technological connection in 2011 were revised and there were used the rates approved by Resolution of the State Committee of the Republic of Karelia No. 25 of 28.04.2006. In the same way the Resolution of the State Committee of the Republic of Karelia No. 333 of 30.12.2011 established the standardized tariff rates for technological connection to the electric networks per work unit.
  - In Kolenergo branch the charge rates for technological connection without the investment component and without reference to the connecting capacity volume were established by the Resolution of the Tariff Regulation Directorate of the Murmansk Region No. 16/1 of 13.04.2011.
  - In 2011 Komienergo branch applied the tariffs approved by the Resolution of the Tariff Service of the Komi Republic No. 7/1 of 15.10.2010 for technological connection of applicants' power receiving devices with a capacity of up to 750 kW inclusively, with classification of the components considering the investment component and with classification of areas of technological connection to be done. In the same way the Resolution of the Tariff Service of the Komi Republic No. 82/2 of 17.10.2011 established the standardized tariff rates for technological connection.
  - In Novgorodenergo branch Resolution of the Price and Tariff Policy Committee of the Novgorod Region No. 5 of 04.02.2011 established the tariffs for technological connection of plants with a capacity of up to 637.5 kW.
  - The Order of the State Committee of the Pskov Region for Tariffs and Energy Industry No. 38-E of 27.09.2011 approved the charge for technological connection of plants with a capacity of up to 100 kW and the Order of the State Committee of the Pskov Region for Tariffs and Energy Industry No. 26 of 24.10.2006 established the rates without the investment component.
- In 2010 based on Federal Law No. 187-FZ of 26.07.2010 amendments were made to Federal Law No. 35-FZ on Electric Energy Industry of 26.03.2003, in accordance with which from January 1, 2011, the fees for technological connection cannot include the investment component to cover expenses related to development of existing infrastructure, including relations between objects of territorial grid organizations and objects of the unified national (All-Russian) capacity grid, except for expenses for construction of capacity grid facilities, from existing capacity grid facilities objects to connected power receiving devices and (or) electric energy industry objects. Expenses included in the fees for technological connection are established by the federal executive body in the sphere of tariff regulation.

In 2010 by Order of FTS of Russia No. 365-e/5 of 30.11.2010 changes to the Methodological Instructions for Determination of the Amount of Fees for Technological Connection to Electric Networks were made.

Not all tariffs for technological connection of applicants' power receiving devices that are currently effective in the Company's territory of service satisfy the Company's interests. In addition, there are some disagreements in establishing of tariffs for fees for technological connection based on an individual project by authorized executive bodies in the sphere of state regulation. With the complexity of the situation taken into account, the Company carries out a close dialog with executive authorities of constituent entities of the Russian Federation in the sphere of tariff regulation in order to establish economically justified fees for technological connection.

In compliance with the current Regulations for Technological Connection of Power Receiving Devices of Electric Power Consumers, Electric Energy Producing Objects as well as Electronetwork Objects Belonging to the Network Organizations and Other Bodies to Electric Networks approved by Resolution of the Government of the Russian Federation No. 861 of 27.12.2004 the charge for

technological connection of power receiving devices with the capacity not exceeding 15 kW inclusive (with the previously connected capacity taken into account) is established on the basis of the costs of actions for technological connection in the amount not more than RUR550 when connecting the applicants possessing the facilities associated with the third reliability category (for one power supply source) provided the distance from the applicant's land plot borders to the capacity grid facilities of the grid organization of a voltage class required by an applicant is less than 300 meters in cities and urban settlements and less than 500 meters at rural areas.

Technological connection of applicants' power receiving devices with a capacity of up to 15 kW inclusive for connection point for RUR550 (including VAT) causes, in its turn, shortfall in income of the Company, which arise during execution of obligations on mentioned applicants' connection. Nevertheless, JSC IDGC of the North-West carries out connection thereof in accordance with the applicable legislation.

Volumes and tariffs for technological connection applied for to the tariff regulation authority in reporting 2011 and for 2012 and tariffs for technological connection are set forth in Appendix No. 21 to the Annual Report.

## VOLUME OF DEMAND FOR TECHNOLOGICAL CONNECTION

During 2011 in the IDGC of the North-West:

- there were filed: 25476 applications for technological connection for the total capacity of 951,1 MW, – as compared to 2010 the number of applications increased by 6902 (by 37%) and the requested capacity decreased by 13,9 MW (by 0.2%);
- there were made: 20062 contracts for technological connection for the total capacity of 450,3 MW – as compared to 2010 the number of made contracts grew by 4553 (by 29%) and the capacity volume increased by 156,8 MW (by 53%);
- there were executed: 12745 contracts for technological connection of the total capacity of 237,8 MW – as compared to 2010 expansion of executed contracts made up 4516 (55%), while the capacity increased by 80 MW (51%);
- the volume of unsatisfied applications for technological connection made up 1715 with the capacity of 201,2 MW – as compared to 2010 the number of unsatisfied applications for technological connection increased by 282 at reduction of capacity by 64 MW. The main reason for unsatisfied applications was refusal on the part of the applicant;
- there were cancelled: 1633 contracts for technological connection of capacity 83 MW – as compared to the corresponding period of the previous year their number decreased by 606. The main reason for cancellation of contracts for technological connection was lack of source of finance with the applicants.



### TECHNOLOGICAL CONNECTION ACTIVITY ANALYSIS (PCS.)



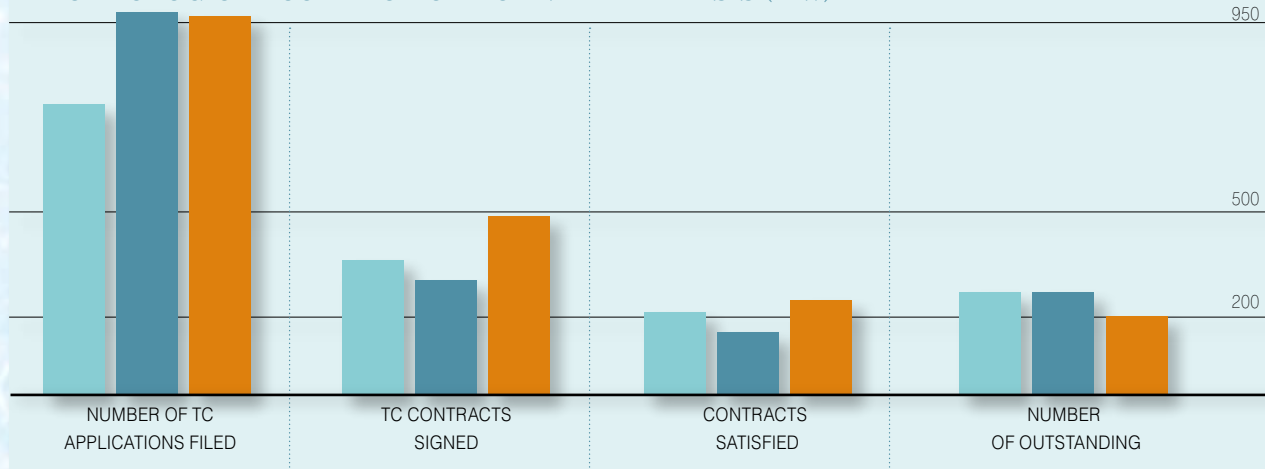
### ANALYSIS OF APPLICATIONS FILED FOR TECHNOLOGICAL CONNECTION IN 2011

In Q1 of 2011 there were 4 551 applications for the capacity of 374,2 MW, in Q2 – 8332 applications for the capacity of 326,6 MW, in Q3 – 6791 applications for the capacity of 148,6 MW and in Q4 of 2011 – 5802 applications for technological connection of capacity 102.1 MW.

### ANALYSIS OF TECHNOLOGICAL CONNECTION OF POWER RECEIVING DEVICES WITH A CAPACITY OF UP TO 15 KW (INCLUSIVE) IN 2011

In Q1 of 2011 there were 3985 applications submitted for technological connection of power receiving devices with a capacity of up to 15 kW (inclusive) for the capacity of 41,9 MW, in Q2 – 7753 applications for the capacity of 80,1 MW, in Q3 – 6328 applications for the capacity of 58,2 MW and in Q4 of 2011 – 5104 applications for technological connection of total capacity 50,8 MW.

### TECHNOLOGICAL CONNECTION ACTIVITY ANALYSIS (MW)



National economy industry	Number of TC applications filed in 2009		Number of TC applications filed in 2010		Number of TC applications filed in 2011	
	pcs	with the total capacity of (N) kW	pcs	with the total capacity of (N) kW	pcs	with the total capacity of (N) kW
<b>Individuals</b>	9 555	74,2	13 818	136,8	21057	211,1
<b>Electric power industry (generation)</b>	8	69,3	8	221,9	3	222,3
<b>Electric power industry (TNO's electric networks)</b>	164	80,1	116	292,0	185	69,2
<b>Non-ferrous and ferrous metallurgy</b>	2	61,0	0	0,0	2	0,1
<b>Petrol, chemical and petrochemical industry</b>	88	48,7	47	40,4	64	28,8
<b>Machinery and metalworking</b>	5	0,9	9	0,5	12	3,2
<b>Forest, woodworking, pulp and paper, glass, porcelain industry</b>	132	43,0	89	57,0	77	47,1
<b>Construction materials industry</b>	17	6,1	15	3,8	10	0,9
<b>Light, food, flour-and-cereals and feed mill industry</b>	16	3,4	36	10,8	9	10,0
<b>Other industries</b>	114	65,6	53	12,9	46	16,4
<b>Agriculture</b>	93	11,5	181	26,4	148	50,2
<b>Transportation</b>	84	59,1	68	38,7	70	29,2
<b>IT and communication</b>	257	1,8	299	7,0	457	6,4
<b>Trade, catering, storage facilities, logistics.</b>	624	35,2	524	14,5	330	36,8
<b>Other commercial organizations</b>	233	16,1	369	26,2	316	50,8
<b>Housing and utilities sector</b>	264	59,9	146	6,2	187	17,0
<b>Residential construction</b>	259	56,4	216	69,4	242	57,0
<b>Budget organizations</b>	410	42,9	504	51,1	561	63,2
<b>Other</b>	903	98,0	2 084	171,6	1703	254,2
<b>Total by industries</b>	3 673	758,9	4 764	1050,2	4422	962,8
<b>Total with individuals</b>	13 228	833,1	18 582	1186,9	25479	1173,9

## ANALYSIS OF APPLICATION FOR TECHNOLOGICAL CONNECTION

Analyzing the structure of applications submitted for 2009, it should be noted that most of them fall on the following areas:

- electric power industry (TNO's electric networks) (10%);
- individuals (9%);
- electric power industry (generation) (8%);
- other (12%).

Analyzing the structure of applications submitted for 2010, it should be noted that most of them fall on the following areas:

- electric power industry (TNO's electric networks) (24,6%);
- electric power industry (generation) (18,7%);
- other (14,5%);
- individuals (11,5 %);
- housing construction (5,8%).

Analyzing the structure of applications submitted for 2011, it should be noted that most of them fall on the following areas:

- other (21,6 %);
- electric power industry (generation) (18,5 %);
- individuals (18,0 %);
- electric power industry (TNO's electric networks) (5,9 %).



When analyzing the structure of applications for technological connection of power receiving devices within the North-West Federal District for 2009-2011, what is of special interest is the expansive growth of applications for technological connection of power plants with a capacity of up to 15 kW. As compared to 2009 the number of applications submitted in 2011 increased from 9,555 for the capacity of 74.2 MW up to 21,057 for the capacity of 211.1 MW (the increase is more than twice).

The positive dynamics of development during 2009-2011 is observed in territorial network organization, budget organizations and agriculture.

The number of applications from territorial network organizations increased from 164 to 185 (2010 was the year of recession). This indicates the current development of the territorial network organizations which are enhancing their market share and exercising more and more influence on the development of regions.

The number of applications from agricultural organizations increased insignificantly – from 93 to 148, while the volume of requested capacity increased almost twice – from 11.5 MW to 50.2 MW.

The number of applications from budget organizations increased from c 410 to 561, the volume of capacity to be connected increased from 42.9 MW to 63.2 MW.

The negative dynamics of development during 2009-2011 is observed in petrol, chemical and petrochemical industry; forest, woodworking, pulp and paper, glass and porcelain industries; non-ferrous and ferrous metallurgy; construction materials industry.

The number of submitted applications and requested capacity in such key industries are petrol, chemical and petrochemical industries (88 applications for the capacity of 48.7 MW in 2009 and 64 applications for the capacity of 28.7 MW in 2011); forest, woodworking, pulp and paper, glass and porcelain industries (132 applications for the capacity of 43 MW in 2009 and 77 applications for the capacity of 47.1 MW in 2011); non-ferrous and ferrous metallurgy (2 applications for the capacity of 61 MW in 2009 and 2 applications for the capacity of 0.09 MW in 2011); construction materials industry (17 applications for the capacity of 6.1 MW in 2009 and 10 applications for the capacity of 0.9 MW in 2011).

The number of applications submitted by trade, catering, storage facilities, logistics organizations is 624 for the capacity of 35.2 MW in 2009 and 330 for the capacity of 36.8 MW in 2011.

## INTERACTION WITH SERVICE CONSUMERS

Customer Service Centers of IDGC of the North-West are responsible for complex service of electricity consumers and maintenance of unified service standards. Today 25 Customer Service Centers where 55 people work are successfully operating in all seven branches.

Branch/IDGC	Number of Customer Service Centers (CSC) as of 01.01.2012
Arkhenergo	2 CSCs (Arkhangelsk, Severodvinsk)
Vologdaenergo	CSC (Vologda)
Karelenergo	4 CSCs (2 CSCs in Petrozavodsk, Kem, Sortavala)
Kolenergo	3 CSCs (Murmashi, Murmansk, Apatity)
Komienergo	6 CSCs (Syktyvkar (3 CSCs), Ukhta, Vorkuta, Pechora)
Novgorodenergo	5 CSCs (2 CSCs in Velikiy Novgorod, Borovichi, Valday, Staraya Russa)
Pskovenergo	4 CSCs (Pskov, Velikie Luki, Opochnka, Bezhanitsy)
<b>Total</b>	<b>25 CSCs</b>

Moreover, 170 experts responsible for customer relations establishment carry out customer service center's functions in the production departments.

Main functions performed by such structural departments are as follows: organization of work on registration, processing and support of consumers' applications to make service contracts for electric capacity transportation, technological connection, additional paid services; organization of work on creating the most comfortable conditions for consumers, implementation of a constant interaction system with customers in order to improve the quality of service; organization of receipt, accounting, analysis of customers' complaints and claims, settlement of disagreements.

In connection with the peculiarity of territories serviced by the Company (the most part is characterized by considerable length and underpopulation that strongly complicate operative decision-making during live service of customers) the development of remote channels of communication with the customers allows to solve issues related to the Company's activity within the terms stipulated by the normative documents.

Information on existing common telephone lines is represented on the Company's official website and on the websites of the branches<sup>26</sup>, (unified) telephone numbers are included in the telephone databases of access carriers' reference services as well as regularly communicated to all the persons concerned through publication of such information in the regional mass media available for the majority of population.

Helplines accept any messages with information on damaging facilities of electronetwork objects, larceny of electrical equipment, evidences on illegal electric energy consumption or consumption in violation of the procedures to be followed. Such messages are immediately redirected by the accepted specialist to the security management of the branch.

Apart from the documents listed above the customer service specialists are guided by the current legislation of the Russian Federation, including the normative documents published on the Company's website, as well as by internal documents of the branches on the issues of technological connection of customers to electric networks, rendering services for electric energy transmission and providing complementary fee-based services.

Efficient customer feedback is a tool, which allows to solve arising questions related to the Company's activity, including those related to technological connection (TC) within the terms established by regulatory documents. Disclosure of TC information, in particular, location of index maps and information on the load of main substations on the Company's websites, clear competent consultations of the Company's personnel given by requests of consumers, had contributed greatly to making the situation in the regions serviced the Company.

To effectuate customers' feedback, For Customers Section at websites of the Company and all branches is used in full. This Section contains information in the territory of service and services rendered, tariffs and prices set for the services rendered, customer service centers, customer feedback forms, as well as contact information for consumers. Any interested person can freely access the information mentioned.

In accordance with the Standard Analysis and Assessment of Customers' Satisfaction an interactive questionnaire

Within the measures on implementation of customer-oriented approach in JSC IDGC of the North-West the following normative documents were developed and adopted.

Document	Document status	Scope of application
<b>Standard of customer service of JSC IDGC of the North-West</b> <sup>27</sup>	Approved by the Board of Directors of the Company on 18.07.2008	The Standard establishes general requirements to the customer service and characteristics of the work with consumers for all customer service subdivisions
<b>Regulations on the procedure for registration and review of applications (complaints) of consumers</b>	Approved by the Resolution of JSC IDGC of the North-West on 16.06.2008	The Regulations establish a unified method of registration and review of customers' applications (complaints), development and implementation of corrective actions
<b>Employees' behaviour rules for on-site, off-site and online customer service</b>	Approved by the Resolution of JSC IDGC of the North-West on 16.06.2008	The Rules introduces a unified procedure of customer service for all employees and subdivisions working with customers
<b>Provision on additional paid services rendered to legal entities and individuals at customer service centers of JSC IDGC of the North-West «Северо-Запад»</b>	Approved by the order of JSC IDGC of the North-West on 25.12.2008	The Provision establishes functions, responsibility, and the procedure for activity organization when rendering additional paid services to interested parties
<b>Standard Analysis and Assessment of Customers' Satisfaction</b>	Approved by the order of JSC IDGC of the North-West on 02.07.2010	The Standard determines communication channels and means when interacting with customers, methods of receipt, analysis and use of information reflecting the level of customers' satisfaction. The Standard is aimed at creating an efficient customer feedback system to ensure further improvement of the on-site and off-site service system.
<b>Standard of JSC IDGC of the North-West System of Centralized Service of Service Consumers</b>	Standard No. STO 01.Б1.03 – 2011 was approved by the decision of the Board of Directors of 28.12.2011	A regulating document determining the unified concept and requirements in the field of complex service of company's services consumers and applied at all levels of the company's management.
<b>Order of JSC IDGC of the North-West On Execution of Regulation of the Government of the Russian Federation No. 1220 dated 31.12.2009 and Order of the Ministry of Energy of Russia No. 296 dated 29.06.2010.</b>	Order of JSC IDGC of the North-West of 01.11.2010	Organization of works on determination of rendered services' reliability and quality indicators
<b>Order of JSC IDGC of the North-West On Disclosure of Information according to Resolution of the Government of the Russian Federation No. 24 dated 21.01.2004 On Approval of Standards of Information Disclosure by Wholesale and Retail Electricity Market Subjects</b>	Order of JSC IDGC of the North-West dated 09.11.2010	Determines time schedule, channel of publication and submission of information, as well as those responsible for information to be disclosed.

<sup>26</sup> Information on hotline numbers is given in "Reference Information".

<sup>27</sup> The Standard became void according to the decision of the Board of Directors of JSC IDGC of the North-West of 28.12.2011 due to the approval of System of Centralized Service of Services' Consumers STO 01.Б1.03 – 2011



EVALUATE OUR WORK is posted on the websites of IDGC of the North-West and its branches for monitoring the opinions and proposals for improvement of the quality of service.

In order to achieve efficient customer feedback system, formation and further improvement of the system of on-site and off-site service, the Customer Relations Sector of IDGC of the North-West has developed an interactive questionnaire EVALUATE OUR WORK, which under the uninterrupted poll taking mode has been posted on the Company's website since 24.11.2010. Each quarter based on the poll results, in accordance with Standard Analysis and Assessment of Customers' Satisfaction, a study of the information received is carried out, which allows to take measures to improve the quality of service, expand potential additional services. It is planned to post information on poll results on the Company's website. From posting of the interactive questionnaire on the website at the end of 2010 (a little more than for one month) 46 customers' questionnaires were received. The customers addressed to the website are offered to determine the level of significance for them of certain services for the Company's key activities (electric energy transmission and technological connection) as well as their satisfaction level by such services. Besides, it is offered to estimate completeness and availability of the information published on the website for particular issues and there is an opportunity to express personal wishes or notes and to send a complaint or request.

This information is consolidated by the customer service employees every day for the purpose of immediate preparation of answers to the customers' requests or complaints, analysis and development of proposals aimed at further improvement of the quality of customer service, and elimination of revealed deficiencies.

Since January 2011 Complaints and Claims Accounting and Accounting of Additional Paid Services automated systems have been put into operation at all branches of the Company. The complaints and claims accounting automated system allows to improve the customer service level, reducing terms for making management decisions with regard to customers' applications due to the quick submission, completeness and reliability of information, which fully complies with the Quality Policy of JSC IDGC of the North-West. Implementation of automated accounting and control over APS contracts' execution makes it possible to organize this work.

## PERSPECTIVE DEVELOPMENT

### REGULATORY BASE FOR PERSPECTIVE DEVELOPMENT

The perspective development activity is carried out on the basis of existing federal, regional and jurisdictional legislative and normative acts:

- Civil Code of the Russian Federation;
- Federal Law No. 35-FZ of 26.03.2003 on Electric Energy Industry (<http://www.mrsksevzap.ru/files/clients/35.doc>);
- Resolution of the Government of the Russian Federation No. 861 on Approval of Regulations for Free Access to Electric Energy Transmission Services and Rendering of These Services, Regulations for Free Access to the Operational Dispatch Management Services in the Electric Energy Industry and Rendering of These Services, Regulations for Free Access to the Wholesale Market Trading System Administrator's Services and Rendering of These Services and Regulations of Technological Connection of Power Receiving Devices (Electrical Installations) of Legal Entities and Individuals to Electric Networks, of 27.12.2004 (<http://www.mrsksevzap.ru/files/clients/861.rtf>).
- Resolution of the Government of the Russian Federation No. 24 of 21.01.2004 on Establishment of Standards of Information Disclosure by the Entities of Wholesale and Retail Electric Capacity Markets (as subsequently amended);
- Resolution of the Government of the Russian Federation No. 823 of 17.10.2009 on Plans and Programs for Electric Power Industry Development;
- Order of the Ministry of Energy of Russia No. 281 of 30.06.2003 on Approval of Methodical Instructions for Development Project Planning of Electric Networks;
- Order of the Ministry of Energy of Russia No. 229 of 19.06.2003 on Approval of Rules for Technical Operation of Electric Power Plants and Grids in the Russian Federation;
- Order of the Federal Tariff Service (FTS) of the Russian Federation No. 20-e/2 of 06.08.2004 on Approval of Methodical Instructions on Calculation of Regulated Tariffs and Prices for Electric (Thermal) Power in the Retail (Consumer) Market;
- SO-001-2007 Standard for Making and Adjusting Plans and Programs for Development of Electric Networks of DGC approved by the Order of IDGC of the North-West No. 68 of 03.03.2008;
- Organization Standard STO 01.B1.01-2009 Forecast of Perspective Change of Loads and Power Consumption in the Territory of the Constituent Entity of the Russian Federation Served by JSC IDGC of the North-West approved by Order of JSC IDGC of the North-West No. 472 of 05.10.2010,

## INFORMATION ON AVAILABILITY OF AGREEMENTS MADE WITH ADMINISTRATIONS OF CONSTITUENT ENTITIES OF THE RUSSIAN FEDERATION

As of 01.01.2011 the Agreements with Administrations of constituent entities of the Russian Federation were in force in the Vologda and Murmansk Regions and in the Komi Republic. These Agreements are made between the Governments of the aforesaid regions with JSC RAO UES of Russia. The Agreements were aimed at implementing measures for development of the electric power complex and ensuring uninterrupted power supply to consumers.

The total sum of investments planned in the investment program of the Company's JSC for 2011 relating to the facilities under the Agreements was RUR1,008,065 mln, actually were developed RUR968,43 mln or 96% of the plan. For 2011 there were introduced 148,47 MVA and 88,74 km, in terms of money – RUR981,30 mln.

Branch/IDGC	Date of Agreement	Application of cable overhead lines, RUR million		Capacity input				Input in Circulating Funds, RUR million	
				MVA		km			
				target	actual	target	actual	target	actual
Vologdaenergo	19.02.2008	798,07	351,35	40,00	80,00	63,00	42,26	593,07	415,02
Kolenergo	09.11.2007	1 784,00	209,77	296,00	65,32	83,00	1,87	1 740,00	194,01
Komienergo	29.04.2008	617,80	407,31	12,60	3,15	135,20	44,62	617,60	372,27
IDGC of the North-West		3 199,87	968,43	348,60	148,47	281,20	88,74	2 950,67	981,30

It should be noted that the Agreements approved by the regions have more extensive plans than those included in the investment program. Time displacement of realization and exclusion of the objects of Agreements from the branches' investment programs are connected with the fact that the Administrations of constituent entities do not provide allocation of funds for implementation of measures stipulated in the programs of priority order measures for construction and reconstruction of electric network facilities in full.

Besides the consumers refuses from connection to electric networks and the works by facilities financed at the expense of charge for technological connection are not executed.

Taking all the foregoing into account, the Agreements made need to be corrected.

During 2011 the Agreements for development of the electric complex in the regions were signed in the Vologda Region (28.03.2011), the Novgorod Region (28.03.2011) and in the Republic of Karelia (26.07.2011). The mentioned Agreements are signed by JSC Holding IDGC of the North-West and the Governments (Administrations) of these regions. The Agreements represent framework contracts without any obligations for performance of measures determined in the long-term investment programs of the branches of JSC IDGC of the North-West.



## GEORGIY TURLOV

DEPUTY DIRECTOR GENERAL FOR TECHNICAL ISSUES – CHIEF ENGINEER OF THE COMPANY

”*Summing up the results of work in 2011 first of all I would like to mention that we have fulfilled our main task and prevented system failures in the work of network infrastructure by provision of reliable electric power supply to consumers.*

*Timely and qualitative engineering service and repair of electric complex facilities of the Company enabled their maintenance in normal operating conditions meeting all the technical requirements. Repair program for 2011 is fulfilled by physical parameters, in some positions with excess of the planned parameters. Excess fulfilment by physical parameters became possible due to the economy of fixed assets as a result of tendering procedures and the subsequent fulfilment of additional amount of works on separate parameters of the repair program. At the planned expenses of 2011 according to the approved repair program of JSC IDGC of the North-West RUR1,565.9 mln the actual expenses amounted to RUR1,608.9 mln or 103% of the plan. The main task for 2012 in relation to repair and operating activities is absolute fulfilment of the necessary volume of works for engineering service and the planned physical volumes of repair works by the electric network facilities of the Company.*

*In 2011 the Company took a number of measures oriented to the development of the plant assets management system: structural subdivisions responsible for implementation and operation of the management system for electric network facilities are established, the work on equipment record is started. In 2012 it is planned to carry out implementation of software and data support on the basis of which the plant assets management system will be realized. The planned expenses for 2012 will make up RUR20 mln. As a result of executed works it is planned to complete acquisition of data (statistical, dynamic) on equipment and consumers, perform calculation of the index for equipment condition and its failure after-effects, and, as consequence, the analysis of all the data, develop the production program for repair and replacement of equipment for 2013 taking into account reliability assessment and evaluation of failure after-effects of the network equipment.*

*In order to improve key performance indicators of production business processes and achieve leading positions in electric power industry in the regions of presence the Innovative Development Program for 2011-2016 was approved by the Resolution of the Board of Directors of JSC IDGC of the North-West.*

*Currently, the innovative activity of the Company is directed to the pursuance of research and investigations for creating innovative products and for this purpose the collaboration with the institutions of higher education, with scientific organizations and innovation small and medium business companies is being developed.*

## REPAIR ACTIVITIES

**IDGC OF THE NORTH-WEST IS SERVICING****167 216,4 km OF OVERHEAD****POWER TRANSMISSION LINES****7924,1 km OF CABLE POWER****TRANSMISSION LINES****1 144 SUBSTATIONS****WITH THE VOLTAGE FROM 35 kV AND THE  
INSTALLED CAPACITY****OF POWER TRANSFORMERS EQUALING TO  
18003 MVA**

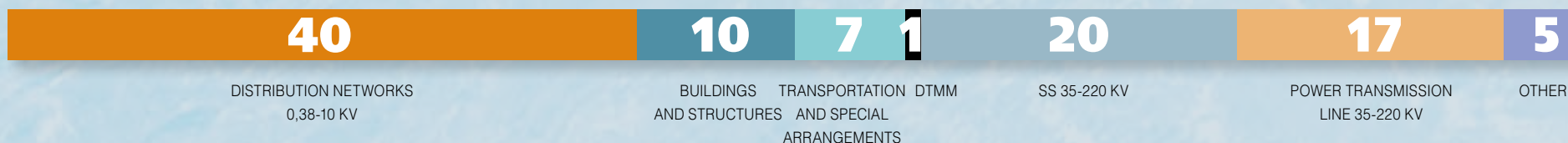
In 2011 the following was repaired in physical terms:

- Repair of 35-110 kV OL – 2232,6 km (103% of the target);
- Repair of lines 0,4-20 kV – 5624,0 km (102 % of the plan);
- Repair of substations 35-150 kV – 46 units (100 % of the plan);
- 35-110 kV OL sites cleared – 7632,8 Ha (111% of the target);
- 6-20 kV OL sites cleared – 6361,2 Ha (120% of the target).

Total costs of electric networks capital repair in 2011 amounted to RUR1,608.9 mln, including:

- Repair of PTL 35-150 kV – RUR107,5 mln;
- Repair of equipment of substations 35-150 kV – RUR349,6 mln;
- Repair of electrical networks 0,4-20 kV – RUR662,9 mln;
- 35-150 kV OL sites cleared – RUR106,7 mln;
- 6-20 kV OL sites cleared – RUR92,4 mln;
- Other repairs – RUR289,8 mln.

## SHARE OF COSTS OF REPAIR BY EQUIPMENT GROUPS



## INFORMATION TECHNOLOGIES AND COMMUNICATIONS

The key task of the organizational and methodological work on formation and use of IT resources is to ensure IDGC of the North-West has affordable and high-quality IT services. The automation level can be assessed based on the range of tasks as high, based on the total level of tasks used as medium (automation of key business processes).

The works have been carried out in accordance with the regulating documents, integrated in the Quality Management System.

Important stage in the activity of Information Technologies Department is approval of the organization standard STO 01.03.02-2011 "Organizing IT-Activities". Availability of this standard increased manageability, efficiency and transparency of operations of IT-structures.

## DEVELOPMENT OF IT INFRASTRUCTURE

As of 01.01.2012 IDGC of the North-West had 7,202 portable computers (PCs, notebooks, PDA) and 649 servers

Key principles of CE configuration is to provide a failsafe and high performance work of the system used, safety and information protection insurance, use of the unified informational space of the Company.

Change in the CE quantitative composition and qualitative content thereof is provided in the table.

### THE COMPANY'S COMPUTER EQUIPMENT (CE) STATUS

IDGC of the North-West	Quantity		To be replaced
	at the beginning of 2011	at the end of 2011	
<b>PC, working stations</b>	6 782	7 202	1 538
<b>Server equipment</b>	603	649	146

A significant surplus of server equipment has been demonstrated as compared to the previous periods, which is first of all due to the Company's development within the operational structure and growth of centralized projects volume. Renewal and extension of CE fleet has been speeding up as compared to the previous periods.

The key trend shown in the development of computing technologies and server equipment is unification thereof. Measures, which allowed preparing of centralized purchase of computer equipment and servers within the whole Company, were implemented during the reporting period.

## DEVELOPMENT OF TELECOMMUNICATION MEANS

### PROVISION OF 35-220 KV SUBSTATIONS WITH DIGITAL COMMUNICATION CHANNELS AS OF 31.12.2011 (PCS):

Branch/IDGC of the North-West	110-220 kV SS			35 kV SS		
	Total number	Provision with DCC	Provision with DCC in 2011	Total number	Provision with DCC	Provision with DCC in 2011
<b>Arkhenergo</b>	87	14	3	76	3	0
<b>Vologdaenergo</b>	88	42	8	124	12	4
<b>Karelenergo</b>	54	7	0	95	2	0
<b>Kolenergo</b>	81	39	3	47	6	0
<b>Komienergo</b>	90	34	11	107	11	2
<b>Novgorodenergo</b>	74	38	4	60	5	1
<b>Pskovenergo</b>	100	22	2	70	1	1
<b>IDGC of the North-West</b>	574	196	31	579	40	8

## PROVISION OF SUBSTATIONS WITH COMMUNICATION CHANNELS

The use of digital channels in communication systems permits to eliminate the necessity of implementing the expensive process of modulation and demodulation of binary signals in intelligence link equipment. The terminal equipment of digital channel generating systems enables the input of digital signals into transmission system without transformation and this considerably increases reliability of operation.

Provision of substations with digital communication channels (DCC) makes it possible to extend their observability and controllability. Transfer of constructed fiber optic communication lines (FOCL) into commercial operation enables considerable increase in the total number of substations equipped with DCC.

For the reporting period about 40 substations are equipped with DCC.

## CONSTRUCTION OF FOCL

The main advantages of using fiber optics are as follows:

- Wider transmission band (from 100 MHz to 1 GHz) than by copper wiring (from 3 to 2 MHz);
- Electrical interference immunity, absence of “ground loops”;
- Low loss at signal transmission, signal attenuation is about 1.5 dB / km (for coaxial cable RG59 – 30 dB / km for the signal 10 mGz);
- Does not cause electrical interference in surrounding cables or other fiber optic cables;
- Increase of transmission range;
- High quality of transmitted signal.

In recent years a considerable increase in construction volume of FOCL-OL and total length of lines is observed.

During the reporting period the construction was mainly performed at the expense of outside investors for the right of passage. At the expense of outside investors more than 700 km of FOCL was built in 2011.

The Company carries out the works on acceptance of FOCL for commercial operation and sourcing investors for acquisition and installation of terminal equipment by the facilities of JSC IDGC of the North-West.

### VOLUMES OF FOCL-OL CONSTRUCTION IN THE COMPANY SUBSIDIARIES (KM)

Branch/IDGC of the North-West	Total FOCL length	FOCL built in 2010	FOCL built in 2011
Arkhenenergo	1 080	684	396
Vologdaenergo <sup>28</sup>	74	68	6
Vologdaenergo	674	551	123
Karelenergo	652	119	47
Kolenergo <sup>28</sup>	360	0	0
Komienergo	25	0	0
Novgorodenergo	796	33	10
Pskovenergo	1 363	311	161

## APCS DEVELOPMENT

### DEVELOPMENT OF SUBSTATIONS' AUTOMATICS

#### CONDITION OF TELEAUTOMATICS OF 35-220 KV AS OF 31.12.2011 (PCS.):

Branch/IDGC of the North-West	110-220 kV SS			35 kV SS		
	Total number	Teleauto-mated, total	Teleauto-mated in 2010	Total number	Teleauto-mated, total	Teleauto-mated in 2010
Arkhenenergo	87	65	2	78	42	0
Vologdaenergo	87	81	5	124	94	5
Karelenergo	54	50	2	95	60	1
Kolenergo	73	69	0	48	36	1
Komienergo	90	62	1	107	42	1
Novgorodenergo	74	74	8	60	60	1
Pskovenergo	100	90	2	70	51	3
<b>IDGC of the North-West</b>	<b>565</b>	<b>491</b>	<b>20</b>	<b>582</b>	<b>385</b>	<b>12</b>

The share of teleautomatic substations is being constantly increased in the Company. 32 substations were teleautomatized in 2011. Teleautomation is usually performed during reconstruction of substations and construction of new sites.

<sup>28</sup> Construction of VOK on their own.



## DEVELOPMENT OF NETWORK MANAGEMENT CENTERS

Branch	Fulfilment of Operational Functions as of 01.01.2010	OIC
Arkhenenergo	from 2009	OIC KOTMI NT
Vologdaenergo	no	OIC Sistel
Karelenenergo	24-hour duty with fulfilment of operational functions	OIC KOTMI NT
Kolenergo	no	DDCS 2
Komienergo	from 2009	OIC Dispatcher
Novgorodenergo	from 2010	ENMAC (GE)
Pskovenergo	from 2004	DDCS 2

In 2011 the following projects for creation/modernization of NCCs of JSC IDGC of the North-West were executed:

- Creation of NMC in JSC Novgorodenergo, 3rd stage: delivery of software and hardware complex (SHC) ENMAC-DPA/GIS, commissioning;
- SHC for NMC JSC Komienergo (1-2 start-up complexes – arrangement of main and backup intelligence links from SS Zhesart and the power system of SS Pechorsky to NMC of JSC Komienergo)
- Execution of design works “Reconstruction of NMC of Kolenergo branch” (in compliance with the requirements to NMC of DGC);
- Purchase of 2 licenses PO “KOTMI” Arkhenenergo;
- Implementation of dispatch operative-information complex in DZ-4 of PO JUKES Karelenenergo;
- Performance of works in Pskovenergo for installation of dispatcher panels: DP DZ No. 3 JUES – Nevel (1 pcs.), DP PO SES – Pskov (1 pcs.), DP in Ostrovskoy zone DZ No. 3 ZES – Ostrov (2 pcs.); DP in Pytalovsky zone DZ No. 3 ZES – Pytalovo (1 pcs.);
- Installation of OIC “Contact” in DP DZ No. 3 PZJUES and in DZ of Pytalovsky zone DZ No. 3 PO ZES Pskovenergo.

## DEVELOPMENT OF ELECTRICITY METERING SYSTEMS

According to the Program for development of electricity metering systems in the retail electricity market in distribution networks of JSC IDGC of the North-West the following works on installation / modernization and automation of information-measuring complexes have been performed:

- Vologdaenergo – 190 metering points within the limits of balance pertain with multi-apartment residential houses.
- Karelenenergo – 212 remote panels for accounting within the limits of balance pertain with consumers-individuals.
- Komienergo installed 1,667 remote panels for accounting within the limits of balance pertain with consumers-individuals.
- Novgorodenergo – 655 metering points for individuals and legal entities.
- Pskovenergo – installed / modernized 3,826 accounting devices.

The project on creation of accounting system in REM is carried out for 115 points at 34 sites.

The results expected from implementation of such measures consist in acquisition of accurate information on the volumes of transmitted electric energy and reduction of electric energy loss in the networks of JSC IDGC of the North-West.

## DEVELOPMENT OF THE CORPORATE INFORMATION MANAGEMENT SYSTEM (CIMS)

During the reporting period the activity on maintenance of license fitness of the general purpose software use and unification thereof was carried out in accordance with the plan. The reporting period was characterized by a significant growth of the share of centralized projects, implemented under the general system automation project. The works have been carried out in accordance with the regulatory documents, integrated in the Quality Management System.

Coverage of business processes described in QMS by main automation systems is given below.

By now the Company succeeded to switch to the unified CIM system of ATR Energo Accounting and Tax Reporting based on 1S Enterprise 8.2. platform. The system of salary automated calculation AIS Personnel Management has been put into commercial operation. The automated system of consumers’ technological connection process management (ASCTCPM) has been put into commercial operation.

The Holding’s initiation of the development of IT development strategies, as well as partial financial sequestering suspended implementation of a number of scheduled projects aimed at CIMS development. The development of IT development strategy, not completed in 2011, is an important milestone of stable IT development.

QMS business processes	Automation systems	Centralization
<b>U1. Strategic and operational management</b>	Document flow, office applications, electronic reporting via Internet. IS consultant. Business Studio 3 business modelling system	Partial
<b>U2. Corporate governance</b>	1C: Accounting 8.1. Office applications, document flow	Partial
<b>U3. Economic and financial management</b>	CIS of ATR on the basis of 1C 8.1. 1C: Accounting 8.1. Office applications, client bank. EIIS DIP	Yes
<b>DFD "Grossmeister"</b>	Yes	Her
<b>U4. Quality management</b>	Office applications	No
<b>U5. Human Resources management</b>	1C: Personnel management	Yes
<b>B1. Marketing</b>	Document flow. Office applications	Partial
<b>B2. Technological connection</b>	In-house developed software	Yes
<b>B3. Networks development planning</b>	Office applications	No
<b>B4. Development and implementation of the investment program</b>	Office applications	No
<b>B5. Operational and technological management (OTM)</b>	In-house developed software. Modus complex. RastrWin software. AWP of RPAE. control of dispatcher communication, log of ACS and DTMM equipment failures, dispatcher's application. ENMAC General Electric (USA) software to solve tasks at the level of the system control center's dispatcher, automated work place of the relay protection and automation service "BRIZ". Modus complex	Partial
<b>B6. Fulfilment of transmission services</b>	RAP – standard. TKZ-3000, AWP of RPAE BRIZ, PC Kosmos, DTSS 3. AIS Omnis-Utilities, power flow accounting. UMS enforce. 1C: Enterprise 8.2. A-zero. Alpha-Center. Software of own development.	Partial
	Partial	Yes
<b>B7. Repair and maintenance</b>	PC EnergoAudit, own developments. Albatros. PC Grand budget; own developments based on 1C: Enterprise 8.2. PC "A0". KodeksStroyExpert.	Partial
<b>O1. Legal support</b>	IS Consultant. KodeksStroyEkspert, etc.	Yes
<b>O2. Logistics Assistance</b>	CIMS Procurement, b2b-energo. TPS-Electra. 1C: Enterprise 8.2. "Parus: Procurement, Warehouse Management".	Partial
<b>O3. IT infrastructure support</b>	1C: Accounting 8.1. Office applications, accounting of computer equipment, technical support line. Hardware Inspector	Partial

## IT ORGANIZATION AND MANAGEMENT

In order to improve the effective management system and make it compliant with the requirements of international standard ISO 9001:2000, detailed business processes of the Company's IT subdivisions were developed in the Company. The Deputy Director General, the Company's Chief Engineer, controls business processes of the IT subdivisions.

Based on the analysis of business processes during the reporting period, new standard STO 01.03.02 – 2011. Organization Standard. Quality Management System. IT Activity Organization for IT activity management was developed, approved and issued in JSC IDGC of the North-West.

The work on implementation of the Standard's provisions has been currently carried out.

Business processes are regulated in accordance with the following documents:

- STO 01.03.02 - 2011. Organization Standard. Quality Management System. IT Activity Organization;
- Information technologies technical policy of JSC IDGC of the North-West, approved by the first Deputy Director General, the Technical Director, of JSC IDGC of the North-West of 14.05.2007;
- Resolution on Informatization, Automation and Telecommunications Committee of JSC IDGC of the North-West approved by Order of Director General No. 36R of 09.12.2011.
- Provision on the Information Technologies Department.
- Provision on divisions of the Information Technologies Department.



## MAIN RESULTS OF THE REPORTING PERIOD

### THE COMPANY'S IT EXPENSES STRUCTURE

Description	Expenses for 2011, RUR mln (including VAT)			
	for development		for support	
	target	actual	target	actual
Telecommunication services	54,52	67,77	103,94	134,26
Computer equipment (CE)	52,39	49,38	19,70	22,49
Telecommunication and network equipment	62,35	59,98	27,00	27,40
Software – licenses:	7,83	8,09	53,94	52,05
Office software	2,07	1,97	5,24	5,15
General system software	2,14	2,11	43,55	41,62
Specialized applications	3,62	4,01	5,15	5,29
Automated management systems:	43,16	42,99	47,08	44,97
Document flow	1,10	1,09	2,45	2,54
Technological management	36,90	36,79	8,86	8,33
Services and customers	2,89	2,89	7,98	7,69
Maintenance and repairs	0,25	0,24	8,17	8,32
Purchases	0,12	0,12	5,88	5,84
Accounting and tax reporting	1,91	1,87	13,75	12,25
Accounting of electric power	8,53	8,30	1,14	1,12
Other systems	67,98	76,41	14,17	13,85
<b>Total</b>	<b>296,76</b>	<b>312,93</b>	<b>266,98</b>	<b>296,13</b>
Target	563,73			
Actual	609,06			

In the reporting period total IT expenses increase by 24% as compared to 2010 and exceeded pre-crisis indices. Increase of funds, allocated to maintenance of hardware and software structure was also seen during the period specified. Significant funds are spent on telecommunication and communication means.

## KEY ACHIEVEMENTS IN IT IMPROVEMENT AREA

- Centralized purchase of equipment within the Company was carried out;
- The share of centralized project increased, allowing saving funds, spent for implementation thereof.
- In 2011 commercial operation of CIS of ATR Energo was performed. The system was switched to the basis of IC: Enterprise 8.2. Currently, all subdivisions work on the basis of unified distributed data base on the platform IC: Enterprise 8.2. Automated data exchange between the base installed at the executive body of JSC IDGC of the North-West and informational bases of the Subsidiaries is carried out every day.
- With regard to accounting and tax reporting (CIS of ATR) the following has been carried out:
  - » full automation of RAS accounting operations;
  - » communication with other information systems applied for automation of process, data on which are required for accounting and tax reporting;
  - » record keeping based on the unified regulatory reference information;
  - » current control of correctness of economic transactions reflection in accordance with the requirements of legislation, Accounting Policy and internal accounting standards, as well as of completeness of the informational base;
  - » change and improvement of the automated accounting system due to the changes of requirements set to accounting and reporting, as well as terms of conduction of financial and economic activity.
- In 2011 the works on development and modification of the system of automated salary calculation at AIS Personnel Management were performed.
- The second stage of ACS IFRS was developed and implemented.

- The system of fixed assets accounting in accordance with the International Financial Reporting Standards (IFRS) has been developed and applied.
- The development of the second stage of Automated System of Consumers' Technological Connection (AS CTC) is being carried out providing the complete integration with the system CIS of ATR. All documents for technological connection of consumers to electric networks in branches are executed via CIS of ATR. The work of all production departments, including DZs, is carried out in the branch's unified informational base through terminal access. Claims and suggestions accounting blocks and additional services of Automated System of Consumers' Technological Connection program implementation are realized. For the period of 2011 functionality of Automated System of Consumers' Technological Connection is considerably extended, new version of the system on the platform 1C: Enterprise 8.2 is developed. This system is operated and supported in all branches of the Company.
- Development and introduction of automatic control system of motor transport work management (ACS MTWM) unified for the whole Company into commercial operation was carried out.
- In 2011 the modernization of IT infrastructure in the part of constructing fail-safe cluster solution for operation of data bases of the enterprise.

## IT INFRASTRUCTURE DEVELOPMENT PERSPECTIVES

- Key tasks of the development of CIMS to be automated in 2012 are as follows:
- Completion of elaboration of the Company's IT development concept together with the Holding;
- Modernization and development of CE fleet;
- Creation of the IT infrastructure management system;
- Creation of the informational safety system.
- With regard to CIMS:
- Development and implementation of the unified system NSI;
- Development and implementation of AMS – automated plant assets and M&R management system;
- Development and implementation of ACSIA – automated control system for investment activities.

MAIN 2012 APCS PROJECTS IN THE BRANCHES OF JSC IDGC OF THE NORTH-WEST ARE AS FOLLOWS:

### VOLOGDAENERGO:

- Modernization of operative-information complex at the dispatcher panel of Vytorgsky DZ;

### KOLENERGO:

- Technical re-equipment of SS 21, SS 21A SS with implementation of ACS of TP;
- Reconstruction of NMC of Kolenergo branch (in compliance with the requirements of NMC DGC);
- Construction of FOCL OL at the site of HPP12-SS20;

### NOVGORODENERGO:

- Modernization of communication equipment in SS IPG;
- Arrangement of ADCS in SS VPG, SS BPG.

### PSKOVENERGO:

- Modernization of ADCS No. 3 SS ZPG;
- Modernization of ADCS (dispatcher panel NMC).



## DMITRY BUKATA

DEPUTY DIRECTOR GENERAL FOR LOGISTICS AND MATERIAL SUPPORT

”

*Influential monetary assets savings come from the bidding management system in JSC IDGC of the North-West. In 2011 we reduced the expenses for work, equipment and materials purchasing by more than RUR1.25 bln or 10.0% of the annual purchase plan.*

*In 2011 the purchase of goods, works and services for the Company's needs was oriented to the support of maximum effective production activity through creating optimal competitive environment and providing transparent purchasing activity without any additional risks for the Company.*

*It should be noted that the number of competitive purchasing procedures to be performed increases 1.5-2 times from year to year. In connection with such growth dynamics it is necessary to carry out the work on improvement of the organizational structure of the Company related to the purchasing activity and continue the course towards centralization of purchases for the needs of JSC IDGC of the North-West.*

*The main tasks for 2012 in the sphere of purchasing activity definitely will be: increase of effectiveness from performance of purchasing procedures, works and services for the needs of the Company without quality degradation; achievement of intended key performance indicators.*

*Rather serious appears the work on accomplishment of the President's instruction for cost cutting by 10% during three-year period. The accomplishment of this task requires the analysis of activity for the last 2-3 years both in terms of evaluation of the market and its tendencies as well as in terms of analysis of purchasing structure, their substantiation and sufficiency.*

*In order to achieve the maximum efficiency from purchasing activity it is necessary to develop normative and regulatory base of JSC IDGC of the North-West, considerably to increase the automation level of the business process "Purchasing activity", extend implementation of new instruments for performance of competitive procedures, including stock bidding and open price tenders*

## PURCHASING

### MAIN PROVISIONS OF THE COMPANY'S PURCHASING POLICY

The Purchasing Policy of the Company approved by the decision of the Board of Directors on 18.07.2008 is directed at ensuring of target and efficient spending of the Company's monetary funds, as well as receipt of economically feasible costs (market prices for products) and prevention of possible misuse by purchasing personnel.

The Company's purchasing activity is carried out in accordance with the Regulation on the procedure of regulated purchases of goods, works, services for the needs of

JSC IDGC of the North-West as amended (the Regulation) approved by the decision of the Company's Board of Directors on 28.12.2011. The Regulation is posted on the website of JSC IDGC of the North-West <http://www.mrsksevzap.ru/> in the section Purchasing Activity Management. The document is developed in full compliance with the statutory wording of the Federal law N 223 On purchasing goods, works and services by separate types of legal entities of 18.07.2011 (came into effect from 01.01.2012).

New version of the Regulation improves informational support of the Company's purchasing activity. According to the terms of the Regulation on the website of the Company

apart from announcements and notifications there is complete purchasing documentation, including minutes drawn up in the course of purchasing procedure as well as all the changes inserted into documentation.

As mandatory requirement for purchases for the amount of more than RUR25 mln, including VAT, JSC IDGC of the North-West introduces the procedure of repeated bidding. Experts suppose that this measure will strengthen competition and contribute to the cost cutting. Alteration of regulated purchases cost limit to RUR500 thous., including VAT (earlier without VAT), will increase the number of purchases coming within the purview of the Regulation as amended.

Introduction of new version of the Regulation will contribute to saving in the course of purchasing activity with the purpose of accomplishment of the President's instruction for cost cutting by 10% during three-year period.

According to the text of the Regulation starting from 01.01.2012 the volume of purchases using electronic trading floor (ETF) shall make up not less than 95% of the total AIPP in terms of value. Specified requirement is not applied to conventionally continued purchases the list of which is defined in the art. 1.2.4 of the Regulation on controlled procedures for goods, works and services purchases for the needs of JSC IDGC of the North-West.

The Regulation on the permanent Central Tender Committee of JSC IDGC of the North-West ensuring the development and implementation of a unified policy of goods, works and services purchases for the Company's needs, the activity of which is aimed at ensuring the highest economic efficiency, was approved by the Company's Board of Directors on 12.11.2008.

The sphere of actions of the Central purchasing authority – Central Tender Committee (hereinafter referred to as CTC) whose manning shall be approved by the Company's Board of Directors includes acceptance of carrying out the purchases of products as well as control and coordination of the Company's purchasing activities.



#### REGULATION OF THE PURCHASING ACTIVITIES OF THE COMPANY::

- is carried out by application of mandatory procedures to be complied with by the purchasing personnel for each purchase with the cost of over RUR500,000 (without VAT) (these procedures can be also applied for lower priced purchases, when deemed to be reasonable). The Company cannot divide up purchases to make regulations inapplicable thereto;
- is based on the system approach, which stipulates that the Company should have the regulation environment, established of the organizational structure of purchase management and control, trained purchasing personnel, organized purchase infrastructure;
- ensures compliance with the corporate integrity of purchase rules;
- sets authorities and responsibilities of purchasing personnel;
- is based on a reasonable use of special methods for strengthening of market rules for each particular purchase.

To carry out planning and operational management of the purchasing activity, Management Department for Tender Procedures, the Logistic Assistance Department and for Material Support are formed in the Company, which carries out the following functions:

- development of purchasing activity methodology documents;
- ensuring of operation of the central tender committee working on a permanent basis;
- implementation of the Company's purchase procedures;
- monitoring of the Company's purchasing activity performance;
- conduction of expertise of the Company's documents for compliance thereof with effective purchasing activity standards;
- conduction of checks of the company's branches' purchasing activity;
- participation in purchase, tender and expert committees of the Company and committees of external Organizers of purchases for the Company's need;
- participation in the work of committees for review of complaints filed by purchasing activity participants against the activity of purchase and tender committees of the Company.

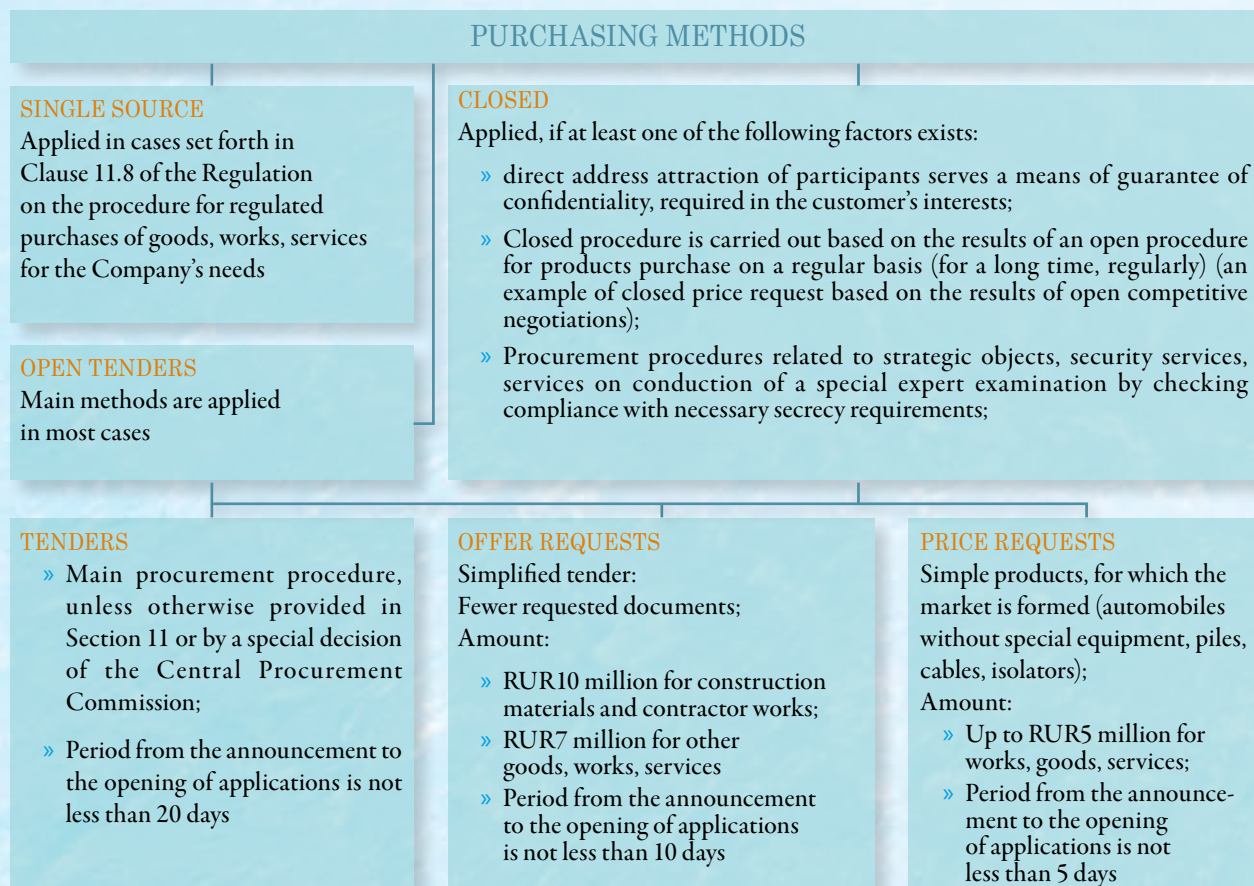
TO CARRY OUT PLANNING AND OPERATIONAL MANAGEMENT OF THE PURCHASING ACTIVITY IN IDGC OF THE NORTH-WEST, SEPARATE STRUCTURAL SUBDIVISIONS INVOLVED IN GOODS, WORKS, SERVICES PURCHASE, WERE FORMED:

#### IN THE EXECUTIVE AUTHORITY:

- Management Department for Tender Procedures;
- Logistic Assistance Department and Material Support

#### IN THE BRANCHES:

- Arkhenergo branch - Logistic Assistance Department and Material Support;
- Vologdaenergo branch - Logistic Assistance Department and Material Support;
- Karelenergo branch - Logistic Assistance Department and Material Support;
- Kolenergo branch - Logistic Assistance Department and Material Support;
- Komienergo branch - Logistic Assistance Department and Material Support;
- Novgorodenergo branch - Logistic Assistance Department and Material Support;
- Pskovenergo branch - Logistic Assistance Department and Material Support.



### CONVENTIONALLY CONTINUED PURCHASES:

- Purchases of electric energy transmission services of JSC FGC UPS;
- Purchases of housing and utilities services for the Company's needs;
- Purchase of electric energy for the purpose of network loss compensation;
- Lease of land plots and premises (long-term);
- Other purchases of goods, works and services at the rates / prices regulated by the legislation of the Russian Federation.

### E-COMMERCE APPLICATION DESCRIPTION

- In accordance with the Regulation, the Company may use any purchasing methods with the use of virtual electronic trading platforms in the international computer network Internet for performance thereof (during the whole time or at certain stages).
- For the purpose of e-commerce IDGC of the North-West uses the information analytical and trade operational system "Market of Products, Services and Technologies for the Electric Power Industry" at <http://www.b2b-energo.ru>, the system of informational support at <http://www.tzselektra.ru>, trading platform of JSC the Company at <http://www.b2b-mrsk.ru>, trading platform of the Russian Federation Government (<http://www.zakupki.gov.ru>); trading platform of the Savings Bank of Russia (<http://www.sberbank.ru>) (approved by the decision of the Board of Directors on 26.02.2010) Regulated purchases, analysis of the purchased products market are carried out based on them.
- 57% of purchases of the total quantity of competitive procedures were carried out in the Company with the use of the electronic platform in general in 2011.
- Low percentage of tender holding based on the electronic trading platform is due to the following factors:
  - high tariffs for tender participants, leading to more failed procedures;
  - absence of tender participants or presence of one participant only (significant part of tenders was not held at electronic platforms due to this reason);
  - insufficiently developed communication infrastructure in the territory of several branches, which prevents from wide application of a possibility to attract external organizations (among registered users) to perform repair and construction works and supply of small batches of goods with regard to product line groups;
  - no access to Internet and no qualified specialists to take part in electronic tenders by regional organizations not wishing to divert cash assets for system service payment and having weak motivation due to the absence of competitors
- adjustment of main production programs, which causes urgent unregulated purchases

## THE PROCEDURE OF FORMATION AND IMPLEMENTATION OF THE ANNUAL INTEGRATED PURCHASING PROGRAM

In accordance with the Regulation, the procedure of purchase planning and development of the annual integrated purchasing program shall be established based on the regulatory document on AIPP.

AIPP is the action plan for announcement of purchasing procedures and planned summation for performed purchasing procedures in the planned calendar year. AIPP is aimed at determining the volumes and value of purchases, forecast date of their announcement and summation. AIPP shall be coordinated within the procedure of preparation of decision for the Board of Directors and approved by the Company's Board of Directors.

AIPP is formed based on the Company's budget and the programs determining production and economic operations of the Company.

AIPP is published on the Company's website and additional Internet resource <http://www.b2b-energo.ru>. by activity types and without statement of scheduled (limit) prices as well as correction of AIPP within fifteen days upon approval thereof by the Company's Board of Directors.

AIPP is implemented by arrangement and scheduled purchasing in accordance with the terms, methods and volumes set forth in AIPP. AIPP for 2011 was approved by the decision of the Company's Board of Directors on 18.05.2011

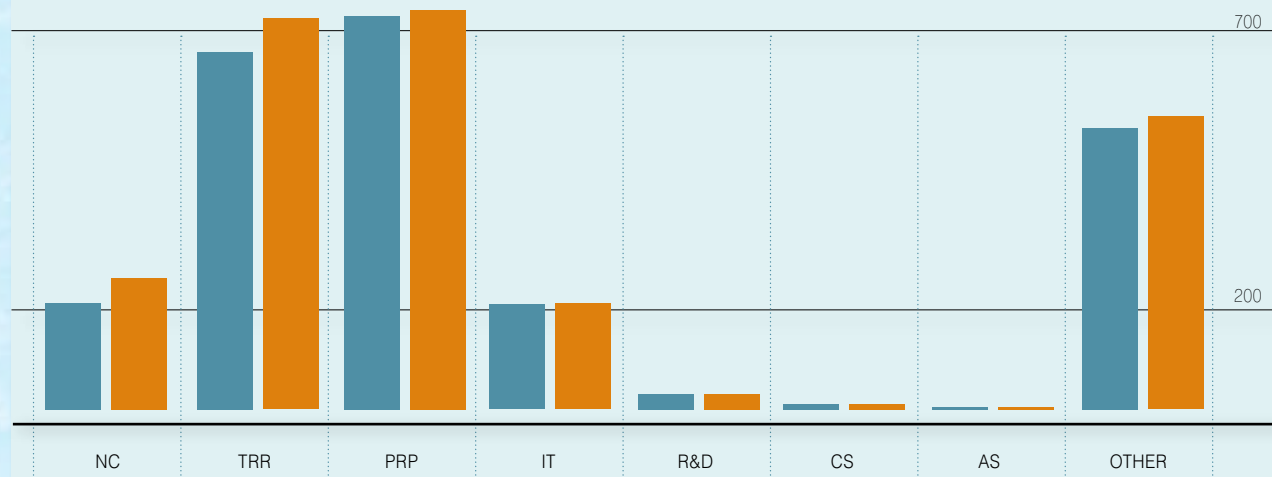
## ANNUAL REPORTING OF JSC IDGC OF THE NORTH-WEST ON PURCHASING ACTIVITIES BY ACTIVITY TYPES AND PURCHASING METHODS

Implementation of the annual integrated purchasing program, comparison of target and actual indicators (by purchasing methods), (RUR thous., including VAT)

Purchasing Method	2011		2011 target		2011 actual	
	Target	Actual	volume share (in % per year)	purchase quantity (in pcs)	volume share (in % per year)	purchase quantity (in pcs)
Open tender	8 221 977	6 614 214	100	844	80	775
Closed tender	189 039	186 943	100	14	99	15
Open request for prices	176 029	331 699	100	140	188	169
Closed request for prices	114 008	140 334	100	47	123	66
Open request for proposals	2 080 743	2 370 637	100	649	114	738
Closed request for proposals	6 561	5 544	100	2	85	4
Open competitive dialogue	1 561 421	1 486 076	100	226	95	245
Closed competitive dialogue	0	0	0	0	0	0
Single source	26 568 880	26 027 458	100	479	98	494
Single source (by the results of failed open procedures)	0	270 185	0	0	0	45
<b>Total (purchasing volume)</b>	<b>38 918 657</b>	<b>37 433 091</b>	<b>100</b>	<b>2 401</b>	<b>96</b>	<b>2 551</b>
<b>including</b>						
Open purchase procedures	11 862 970	10 705 908	100	1 875	90	1 927
Attraction of third-party organizations	0	0	0	0	0	0
Use of ETP (% of the total amount of competitors' purchases)	9 761 373	8 223 088	100	1 247	84	1 163

## IMPLEMENTATION OF THE 2011 ANNUAL INTEGRATED PURCHASING PROGRAM, COMPARISON OF TARGET AND ACTUAL INDICATORS (BY ACTIVITY TYPES).

COMPARISON OF TARGET AND ACTUAL INDICATORS BY QUANTITY OF PURCHASES (WITH THE ACCOUNT OF BRANCHES, PCS).



### TOTAL

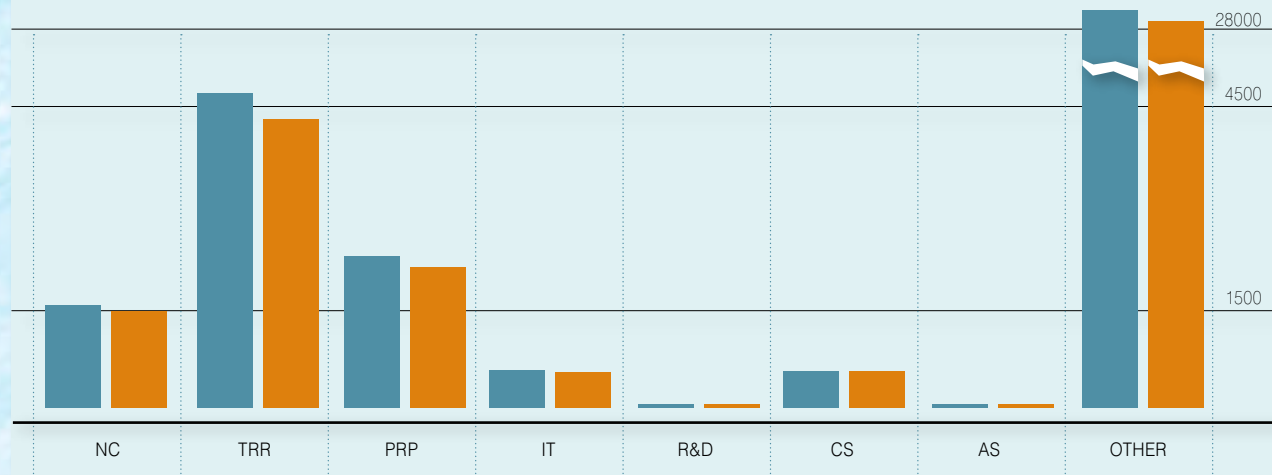
TARGET – 2 401 pcs.

ACTUAL – 2 551 pcs.

TARGET – RUR 38 919 million (including VAT).

ACTUAL – RUR 37 433 million (including VAT).

COMPARISON OF TARGET AND ACTUAL INDICATORS BY THE AMOUNT (WITH THE ACCOUNT OF BRANCHES, RUR MLN).



### CLASSIFICATION OF ACTIVITY TYPES:

NC – New construction;

TRR – Technical re-equipment and reconstruction;

PRP – Power repair production;

IT – Information technologies;

R&D – research and development;

CS – consulting services;

AS – appraisal services;

Other – other services.



## INFORMATION ON KEY INDICATORS OF AIPP FOR 2012

The list and purchase volume for the Company's AIPP project for 2012 has been currently at the stage of formation and approval in accordance with the financing volume, stipulated by the Company's business plan for 2012.

Approximate AIPP indicators for 2012 are 861 purchases in the amount of RUR6,869,273 thous. (including VAT), including:

- Executive body of IDGC of the North-West - 57 purchases in the amount of RUR1,973,824 thous. (including VAT) subsidiaries:
- Arkhenergo branch – 97 purchases in the amount of RUR555,466 thous. (including VAT)
- Vologdaenergo branch – 143 purchases in the amount of RUR901,519 thous. (including VAT)
- Karelenergo branch – 59 purchases in the amount of RUR393,085 thous. (including VAT)
- Kolenergo branch – 48 purchases in the amount of RUR216,453 thous. (including VAT)
- Komienergo branch – 206 purchases in the amount of RUR1,302,661 thous. (including VAT)
- Novgorodenergo branch – 143 purchases in the amount of RUR545,063 thous. (including VAT)
- Pskovenergo branch - 108 purchases in the amount of RUR981,202 thous. (including VAT).

Information on the Company's purchasing activity is posted on the websites of the Company, including branches, and on the website of information analytical and trade operational system "Market of Products, Services and Technologies for Electric Power Industry" <http://www.b2b-energo.ru>, <http://www.b2b-mrsk.ru>.

## QUALITY POLICY

Политика в области качества МРСК Северо-Запада  
The Quality Policy of JSC DGC of the North-West is a set of the Company's basic management principles applied in its day-to-day activity on implementing the processes of electric energy transmission and technological connection for ensuring the functional efficiency of the distribution electric network complex, its improvement and constant quality improvement of the services to be provided. The availability of such basic management principles has determined the area of the Company's development and serves as a basis for drawing up both medium-term and long-term development plans.

The Quality Policy documentary fixes the priorities and value navigators the Company follows with regard to all of its stakeholders (consumers, employees, suppliers, company, etc.) resting on the mentioned basic management principles.

The Quality Policy is documentary determined by the Order of the Company's Director General in 2008, regularly evaluated for constant suitability and is updated, so its basic concepts and provisions operate as an element of the Company's strategic planning.

The Quality Policy<sup>30</sup> is brought to the whole Company's personnel's knowledge as well as interpreted for its objectives and tasks ensuring its actual understanding and effective application on each level of the Company's management.

The main priority-oriented objective of JSC IDGC of the North-West activity in the field of the Quality Policy defines the formation of an effective distribution electric network complex and permanent quality improvement of the provided services where quality is understood as reliability and uninterrupted operation of power supply under observance of all the technical requirements with maintenance of a high customer service level.

Achievement of the priority-oriented objective is provided in the Company by the development, implementation and improvement of modern and effective management system in compliance with the requirements of international management standards.

The Quality Policy consolidates the following main principles for providing activity efficiency and quality of rendered services:

- » constant determination and fulfilment of consumers' requirements, improvement of quality of service thereof;
- » constant improvement of the Quality Management System of the Company by application of modern management methods;
- » strict distribution and regulation of responsibilities and authorities within the Company;
- » optimization of production and management processes;
- » constant improvement of personnel's qualification and creation of favorable conditions for each employee's participation in the Company's activity;
- » the best feasible use of the Company's resources;
- » development of long-term, stable and mutually beneficial partnership relations with suppliers;
- » making of management decisions based on the constant analysis of the Company's performance results;
- » keeping of corporate values at a high level.

The principles established by the Quality Policy are realized through carrying out a set of actions for the Company's management development:

- constant determination and fulfilment of consumers' requirements, improvement of quality of service thereof by creation and operation of centralized system of consumers' services.

The operation of the centralized system of consumers' services is achieved based on implementation of a set of normative-technical requirements effective in the Company to be established by the developed and approved regulatory and technical documents: standard of the organization Analysis and Estimation of Consumers' Satisfaction, standard of the

<sup>30</sup> Comprehensive text of the Quality Policy of JSC IDGC of the North-West is available on the website at the link: <http://www.mrsksevzap.ru>

## QUALITY POLICY

organization System of Centralized Consumers' Services and other documents determining and establishing the rules and procedures of interaction with the customers for all areas of the Company's and Branches' activities.

The main objective of the performing customer-oriented approach is formation of service consumers' loyalty to organization through qualitative servicing and satisfaction of needs in the short-term and long-term perspectives.

The system of centralized consumers' services is based on operation of specially developed organizational elements on all levels of the management structure (subdivision of executive personnel's interaction with the customers – subdivision of the branches' administrative personnel interaction with the customers – customer service centers), as well as vesting operating subdivisions with the corresponding functions.

- constant improvement of the Quality Management System of the Company by application of modern management methods:

In order to implement the main principles and management benchmarks set forth in the Quality Policy of the Company, there is the Quality Management System (QMS) implemented and maintained in the Company, which is conformed by successful certification auditing of the Company in 2009 under supervision of Certification Association Russkiy Registr.

During 2010-2011 the conditions for improvement of the organization's activity and its business processes have been provided using the planning procedures, monitoring, control and analysis of the Company's operation and its business processes (monitoring of the business processes, internal audits, etc.). Under the development of the Company's Quality Management System and implementation of the Company's Quality Policy principles, key activity areas of the Company in 2010 were:

- » design and implementation of QMS-based modern management systems in the Company (risk management, ecological management, occupational safety and

personal health management) with the purpose of their following implementation.

- » standardization, implementation of unified corporate documented procedures of organization and conduction of the Company's activity;
- » optimization and unification of the Company's organizational structure, improvement and unification of organizational and functional structure, regulation of the processes and procedures based on the complex approach with the account of rational functional links establishment and development of efficient interaction at all management levels and blocks of the Company;
- » arrangement of employees' training involving learning of modern principles and methods of organization and conduction of the activity in accordance with the requirements of the QMS effective in the Company;
- » development of a unified informational and consulting system of the Company's provision with necessary internal and external regulatory and technical documents, creation of a unified information space with regard to normative and methodological support of the Company's activity;
- » improvement of the system of target planning, monitoring, analysis and assessment of the performance results;
- » organization and maintenance of the system of the internal audit and control of effective management system of the Company; carrying out of monitoring, control and analysis of the Company's business processes performance, components of the management system and the system in general on a permanent basis;
- strict distribution and regulation of responsibilities and authorities within the Company.

During 2011 JSC IDGS of the North-West implemented the following works on optimization and unification of the Company's organizational structures:

- » standard requirements to the organizational structures of executive personnel and the branches of JSC IDGC of the North-West directed to optimization of management structure and centralization of functions executed by them are developed, approved and implemented;
- » unified structures of executive personnel and the Company's branches are developed and approved on the basis of the standard requirements which provide architecture of vertically-integrated company;
- » works for designing standard structures of the branches' Production departments based on the requirements to architecture of vertically-integrated company, optimization of the functional structure and implementation of process activity model are executed;
- » optimized functional structure of JSC IDGC of the North-West establishing unified requirements to distribution of tasks and functions for each control level and section excluding their excessiveness and repeatability is implemented;

- optimization of production and management processes:

On the basis of the Company's monitoring, analysis and estimation data in 2010-2011 a set of actions was realized (correcting and preventative measures) for optimization of the Company's business processes operation and achievement of their conformity with the specified requirements.

Besides, during 2010-2011 the Company implemented the following programs:

- » cost saving,
- » optimization of electric energy loss,
- » automation of particular business processes (Human Resources Management),

that allows to say about performance of system measures for optimization business processes operation in the Company.

- constant improvement of personnel's qualification and creation of favorable conditions for each employee's participation in the Company's activity:

The staff development processes are carried out in the Company on the planned and systematic basis achieved through performance of demand estimate for training and raising of the employees' qualification in the organization, annual generation of training programs for personnel of JSC IDGC of the North-West based on such estimation and their implementation at all levels of the Company's organizational hierarchy. The corresponding procedures are regulated by the set of internal normative and technical documents of the Company.

- the best feasible use of the Company's resources:

Corporate procedures for purchasing goods, works and services establishing assembly of criteria for estimation and selection, methods of their application, data recording, decision making and interaction with suppliers for purchasing goods, works and services for the Company's needs that enable providing economic costs for acquisition of necessary resources having the optimal characteristics for application in the Company's activity were developed, implemented and regulated by the correspondent local normative acts.

Besides JSC IDGC of the North-West realizes and perfects the corporate procedures of human resource management: personnel selection, staff development, career planning, reserves management by which effective application of the Company's human resources is achieved on the basis of the employees' potential and abilities, their constant development and arrangement of conditions for releasing the personnel's concealed possibilities and its improvement.

- development of long-term, stable and mutually beneficial partnership relations with suppliers:

The requirements established by the Company for procedures of suppliers selection and development of partnership relations with them determine partners assessment and selection criteria as well as the instruments, methods and measures of interaction that provide the building of partnership relations with suppliers based on their ability to fulfill contractual obligations in compliance with the

established requirements as well as improve their own processes and procedures for optimization of cooperation with JSC IDGC of the North-West.

- making management decisions based on the constant analysis of the Company's performance results:

Procedures for monitoring and activity effectiveness evaluation are established and applied in JSC IDGC of the North-West based on:

- » analysis of the system of the Company's business processes performance indicators,
- » internal auditing of QMS,
- » products quality data analysis,
- » data analysis of the consumers' satisfaction related to the quality of services,
- » the Company's management and human capital assets evaluation,
- » implementation of the certification procedures.

The results of such data analysis are reflected in the corresponding reports regarding the results of the Company's activity and the management guiding decisions.

- keeping of corporate values at a high level.

Keeping of the organizational corporate culture at a high level is provided through distribution and application of unified corporate standards for the employees' ethics and business behavior of JSC IDGC of the North-West.

Together with this, high corporate values are formed in the Company by applying and developing different types of employees' involvement and self-identification in the Company.

This is achieved by the development of the corporate internal communications system providing generation and operation of the unified internal information environment of the organization involving each employee's activity. Among

the measures of internal communications system in the organization there are: corporate mass media, poster panels, corporate information portal and others.

Therewith, the system of corporate events, professional competitions, trainings and teaching functions as supporting mechanism of the high corporate culture. It should be specially noted that social and cultural measures are performed in the Company, including implementation of such socially and community significant projects as "Save Forest Energy" and "Power Industry of the Future".

The employees' status in the Company, their social protection and benefits are fixed in the Collective Agreement effective in the Company. This together with the other events and campaigns directed to formation of internal organizational environment and personnel retention provides the high corporate culture in the Company.

In the uninterrupted implementation of main principles of the Company's Quality Policy and functioning in its QMS development and management advantages achieved thereby, the Company's management sees a possibility to reach a number of basic objectives of the Company's activity:

- » improvement of reliability and safety of consumers' power supply.
- » development of the production potential by applying hidden reserves of the Company and cost optimization.
- » increase of capitalization and growth of the Company's profit.

The priority direction of the development of the management system effective in the Company in 2012 should become the implementation of the risk management system based on the existing management system as well as development of an integrated quality management system, combining various components of the management system.

## SECTION 6.

# INVESTMENT ACTIVITIES AND INNOVATION ACTIVITIES



*The shells of cowries (especially *Monetaria moneta*) were used for centuries as a currency in Africa. Huge amounts of Maldivian cowries were introduced into Africa by western nations during the period of slave trade. The Ghanaian unit of currency known as the Ghanaian cedi was named after cowry shells. Starting over three thousand years ago, cowry shells, or copies of the shells, were used as Chinese currency. They were also used as means of exchange in India. The Classical Chinese character for money originated as a stylized drawing of a cowrie shell. Words and characters concerning money, property or wealth usually has this as a radical.*



## SERGEY TITOV

DEPUTY DIRECTOR GENERAL FOR CAPITAL CONSTRUCTION

” *In 1012 among the main tasks of the investment unit and the capital construction unit shall first of all be the issue related to the methods of the most effective spending the appropriated funds in today’s more stringent tariff conditions. We shall provide not only application of funds, but also input power. This enables us to say that today we are constructing not for construction itself.*

*Another task consists in more intensive participation and involvement of the related subdivisions in determination of the capital investments effectiveness. It is necessary to make elaboration more thorough and, what is the most important, use such calculations not only when developing the investment program, but also for analysis of the actual facility load effectiveness. The effectiveness by planning should correspond to the actual one and the responsibility thereof shall be imposed on everybody who provides information at the stage of planning. We are facing the task of extending the application range of our calculations to all core organization*

*departments. In 2012 we shall take a meaningful step in solving this issue.*

*We are expecting a more stringent development of technical questions for implementation of privileged technological connection. We shall follow the Regulation of the Government, but we should do this effectively. Now technological connection is one of the basic cost drivers, and how to perform it in the most optimal way is the subject of constant work.*

*We will continue the work on strengthening the role of technical construction supervision for providing the best quality of facilities to be erected and reconstructed. Effective construction technical supervision enables operative tracking execution state of each project, including the most important ones, which are 22 at the moment. The budgeted value of the major projects of JSC IDGC of the North-West for 2012-2017 is estimated for RUR9.8 bln. In a word, there will be enough work both for us and for our building contractors.*

## INDICATORS FOR INVESTMENT ACTIVITIES

The investment program of JSC IDGC of the North-West for 2011 was approved by the Board of Directors on 21.12.2010 as part of the Company's business plan for 2011. According to the results of the tariff campaign 2011 as well as the results of the Company's investment activity in 2010 there emerged a necessity to adjust the investment program.

The adjusted investment program of JSC IDGC of the North-West as compared to the results achieved in 2010 made it possible to ensure capital investments growth by 91% to RUR5,170 mln (excluding VAT), increase of transformer capacity input by 81% to 540.21 MVA and of power transmission lines by 66% to 1,485.30 km.

### COST AND PHYSICAL PARAMETERS OF THE INVESTMENT ACTIVITIES IN 2011

Branch/IDGC	Develop-ment RUR mln, without VAT	Circulating Funds Input RUR mln, without VAT	Financing RUR mln, without VAT	Capacity input		Capacity gain	
				MVA	km	MVA	km
Arkhenargo	667,02	508,80	670,31	71,19	120,18	30,71	47,45
Vologdaenergo	1 307,96	1 333,15	1 483,51	122,76	329,71	76,06	163,77
Karelenergo	342,09	309,92	511,58	17,66	165,64	14,35	105,03
Kolenergo	314,17	328,63	205,53	160,48	16,93	27,22	15,06
Komienergo	868,11	834,99	1 053,07	21,41	218,60	17,86	117,19
Novgorodenergo	758,10	634,77	762,51	109,55	251,79	44,42	70,07
Pskovenergo	880,21	771,03	981,08	37,17	382,45	33,0	259,35
Executive office	32,66	32,66	37,94	0,00	0,00	0,00	0,00
<b>IDGC of the North-West</b>	<b>5 170,32</b>	<b>4 753,95</b>	<b>5 705,53</b>	<b>540,21</b>	<b>1 485,30</b>	<b>243,61</b>	<b>777,92</b>

### CAPITAL INVESTMENT DYNAMICS IN 2009-2011

Branch/IDGC	2009	2010	2011
Arkhenargo	212,98	140,10	667,02
Vologdaenergo	378,56	684,01	1 307,96
Karelenergo	110,52	370,98	342,09
Kolenergo	203,91	110,71	314,17
Komienergo	594,93	523,58	868,11
Novgorodenergo	848,70	369,68	758,10
Pskovenergo	348,59	487,51	880,21
Executive office	21,31	19,19	32,66
<b>IDGC of the North-West</b>	<b>2 719,50</b>	<b>2 705,76</b>	<b>5 170,32</b>

The investment volume during the crisis of 2009 and 2010 was not high and amounted to RUR2.7 bln annually.

In 2011 the post-crisis recovery and considerable growth of amount of works executed as part of carrying out the consumers' technological connection increased the total volume of capital investments of JSC IDGC of the North-West almost twice as compared to 2010 and it amounted to RUR5,170 bln.

### CAPITAL INVESTMENT DYNAMICS

**2009 2719,50**

**2010 2705,76**

**2011 5170,32**

**The total volume of capital investments is RUR 5,170 million**

## TRENDS AND STRUCTURE OF CAPITAL INVESTMENTS

Target volumes of investments of JSC IDGC of the North-West are accomplished according to the investment patterns.

In 2011 75% of the total investment volumes were directed to the technical re-equipment and reconstruction of the network complex in order to reduce wear-out percent of primary equipment and execute the works on the consumers' technological connection.

Notwithstanding the fact that the equity contribution directed to new construction and enlargement was reduced by 4% as compared to 2010 (24% in 2011 against 28% in 2010), the investment volume in absolute terms increased in 2011 more than one and a half times and amounted to RUR1240981 mln.

AS COMPARED TO 2010, THE INVESTMENT VOLUME FOR TR&R INCREASED TWICE.

**DURING THE IMPLEMENTATION OF THE INVESTMENT POLICY REFLECTED IN THE INVESTMENT PROGRAM, THE FOLLOWING FACILITIES WERE PUT INTO SERVICE AFTER RECONSTRUCTION IN 2011:**

### IN JSC ARKHENERGO BRANCH

In December the reconstruction of SS-102A in the city Mirny was completed which supplies the only cosmodrome in our country – Plesetsk, as well as housing buildings.

During the reconstruction, power transformers 16 MVA were replaced by the transformers 25 MVA, the following modern equipment was installed: vacuum circuit breakers 6 and 35 kV, sulfur hexafluoride circuit breakers 110 kV, microprocessing protections.

Execution of works for reconstruction of substation enabled technical feasibility to connect to the electric networks the electric installations of 2 microdistricts of the city Mirny, boiler-house No. 5 and two single-circuit OL-35 kV for connection of SS-9A 35/6 kV with power demand 10330 kW.

Fixed assets amounted to RUR200,946 mln, transformer power supply 50 MVA.

### IN JSC VOLOGDAENERGO BRANCH:

In the third quarter the works on reconstruction of PTL-110 kV Zaovrazhie-Veliky Ustyug with tapping on the substation Krasavino, section – tapping on SS-110 kV Krasavino of the district of Veliky Ustyug, were completed.

Performance of reconstruction for tapping from the line Zaovrazhie-Veliky Ustyug was conditioned by the necessity to increase its capacity and by expiration of the rated service life of the line. After handling of works the PTL is able to support the maximum load up to 64 MVA. The reconstruction enhanced the reliability of the lines 110 kV from coordinating SS 110 kV GT CHP Krasavino.

Introduction of new PTL into service makes an opportunity for further development of the district of Veliky Ustyug and the Vologda Region, provides reliable electric power supply of the social sphere of the city Krazavino and neighboring country settlements. Besides, through the new line the Vologdaenergo branch can provide electric power transmission to the large manufacturing outfits of Krasavino – “Krasavinsky Kirpichny Zavod”, “Premium Les” in the quantity necessary for them.

Fixed assets amounted to RUR31,989 mln, power input in physical terms is 4,742 km.

Works on reconstruction of OL 35 kV Belousovo – Annensky Most in the Vytegorsky district of the Vologda Region are completed with the fixed assets amounting to RUR107,326 mln and the length of 42,178 km.

During the reconstruction, the works on replacement of existing supports, suspended and tension insulation and binding fittings along the whole route of the length 42,178 km were executed by the overhead line Belousovo – Annensky Most. The power transmission line is constructed with reinforced-concrete intermediate and metal anchor supports. Totally there are more than 200 supports by the facility.

Implementation of the project is necessary for linking the electric lines of the Vytorgsky district with the power supply system of the Region on the voltage 110 kV, enhancement of electric power supply reliability of six sluices of the Vytorgsky district for hydraulic works of the Volga-Baltic Waterway, Belorucheisk's mine group JSC Severstal, timber processing as well as replacement of morally and physically obsolete equipment of the facility.

In the fourth quarter of 2011 the works on reconstruction of SS 110/10 kV Iskra were performed.

Replacement of worn out equipment (the year of introduction into service is 1974) by modern high-technology equipment enables reduction of operating costs, increase of the network capacity, considerable enhancement of the object reliability and electric energy quality level.

The increase of transformer power of substation as well as construction of new DS-10 kV dismantle presently existing restrictions for technological connection of new consumers and give an opportunity to develop the infrastructure of the northern part of Cherepovets city.

Fixed assets amounted to RUR307,695 mln, in physical terms – 80,0 MVA and 0,08 km.

Reconstruction of SS 110/35/10 kV Antushevo is completed.

Implementation of the project Reconstruction of SS 110/35/10 kV Antushevo of the Vologda Region with replacement of morally and physically obsolete equipment was necessary for reliability enhancement of consumers electric power supply and bringing electric installations to conformity to the requirements of normative and technical documentation, rules for electrical equipment installations and the Regulation on Technical Policy in the Distributive Network Complex.

This SS is the only possible power supply for five transformer substations 35/10 kV: Artyushino, N. Mondoma, Andozero, Shola, Nikonovskaya. One power transformer 110/35/10 kV was installed at the site. Before the reconstruction in case of emergencies by the transformer half of the consumers of the Belozersky district were without power supply.

Fixed assets amounted to RUR207,090 mln, input power – 12,6 MVA.

#### IN JSC KOLENERGO BRANCH:

In December 2011 reconstruction of substation 35/6 kV SS-388 in Murmansk was completed.

First of all, reconstruction was due to the necessity to increase the installed capacity of the substation in connection with the great number of requests for power supply from the newly constructed facilities in the Rost district of Murmansk city. With this objective in view 10 MVA transformers were replaced at the substation by new transformers with the capacity of 16 MVA each. In addition, for providing reliable and uninterrupted electric power supply the circuit breakers 35 and 6 kV were replaced at the substation by new modern types.

Fixed assets amounted to RUR31,849 mln, input power – 32 MVA.

#### IN JSC KOMIENERGO BRANCH:

In May 2011 reconstruction of OL 110 kV No. 177 Mikun – Yedva (section Vozhskaya – Yedva) was completed. The necessity of the project implementation was connected with unacceptable for further operating state of wooden supports which required replacement.

The works were executed by LLC Mekhanizirovannaya Kolonna No. 24.

Implementation of the project enabled reliability enhancement of electric power supply for the consumers of the Udorsky district RK, reduction of repair and operating costs for OL 110 kV No. 177 Mikun – Yedva, reduction of expenses associated with undersupply of energy during emergency outage of OL, decrease in risk of complaints presentation from the consumers' for the damages during emergency outages.

Fixed assets amounted to RUR84,580 mln, input power – 33,836 km.

#### JSC NOVGORODENERGO BRANCH:

In December 2011 the reconstruction of SS 110/6 kV Antonovo where the input transformer power made 80 MVA was completed.

Substation Antonovo supplies the responsible industrial consumers, population and the corresponding infrastructure (child-care facilities, schools, hospitals, trade enterprises, catering facilities, etc.) of right-bank part of Veliky Novgorod through CDS -6 kV and urban electric networks. The substation was closed for technological connection from March 2010 since it worked at the limit of its output load.

The investment project was carried out in order to replace the existing power transformers by new ones with greater power for providing reliable electric energy supply for the consumers of Veliky Novgorod and feasibility for technological connection of new consumers.

Fixed assets amounted to RUR58,774 mln, input power – 80 MVA.

In 2011 the construction and erection works on reconstruction of SS Parfino were started. The reconstruction of SS 110/10/6 kV Parfino is performed in compliance with the Plan of the Development of 35-110 kV Electric Networks in the Novgorod Region till 2015 elaborated by the branch JSC North-West Power Engineering Center Sevzapenergosetproject – Zapadseenergosetproject.

After completing the reconstruction of SS 110/10/6 kV Parfino the quality and reliability of electric power supply for socially meaningful facilities and population of Parfino and the Parfino district, including the consumers of the first reliability category: sewage disposal plants, boiler-houses, SPS (sewage pumping stations), will be improved. In perspective there will also appear a feasibility to connect additional powers both for existing and newly connected consumers.

The estimated project cost is RUR337,627 mln. In 2011 the following works were executed: equipment purchase contracts are made; benchmark plan for reconstruction is developed; enclosure is constructed; division of networks; disassembly – assembly of 10 kV overhead lines; equipment foundations for the first line are made; 16 MVA transformer is installed; leading out the cable line 6, 10 kV as well as communications networks from the build-in area; arrangement of access communications; arrangement of groundsills for SCB and KRUM; assembly of SCB; arrangement of cable channels. In the results of executed works the allocation amounted to RUR63,146 mln. The facility is planned to be introduced in Q4 of 2012.

#### IN JSC PSKOVENERGO BRANCH:

In the third quarter of 2011 execution of the third start-up facility under the investment project Reconstruction of ODS-110 kV SS No. 53 is finished.

The works on substation reconstruction have been started already in 2008. Reconstruction of the open distributive system 110 kV, ground loop, cable communications, voltage transformers 110 kV were performed. Step-by-step the oil circuit breakers MKP 110 were replaced by modern, compact and reliable dead tank sulfur hexafluoride circuit breakers of the firm Siemens. Altogether 17 sulfur hexafluoride circuit breakers were installed.

All the new connections are equipped with microprocessing relay-protection equipment and emergency control schemes instead of obsolete electromechanical devices, the HF communication equipment is updated, automated control system of technological processes (ACS of TP) is assembled. As the final result it will considerably increase efficiency and accurateness of the personnel's actions through usage of more perfect methods and algorithms of information representation.



Historically this main substation is the backbone element of Pskovenergo electric networks and the power source for the most part of Pskov as well as Pskovsky, Pechorsky, Plyussky, Strugokrasnensky and Gdovsky districts. In the regional center besides the residential communities its consumers are industrial enterprises. At the regional center, in addition to residential neighborhoods, its customers included a number of industrial enterprises, facilities of Municipal Enterprise Gorvodokanal, Municipal Enterprise Pskov Heating Networks, and urban medical center

Fixed assets for the third start-up complex amounted to RUR72,919 mln.

In 2011 the works on reconstruction of DS-1 in Velikie Luki were started. In accordance with the operating results of the Anti-Recessionary Commission under the Administration of the Pskov Region there is a decision made in 2010 for liquidation of GDP CHP in Velikie Luki. In order to provide the required reliability for consumers' electric energy supply and to exclude power transit through GDP CHP it is necessary to execute switching the electric energy consumers directly to distribution networks of 1 DZ PD Yuzhnie PP.

For performance of such measures it is necessary to execute disassembly of existing equipment in DS-1, reconstruct the construction part of DS, install new equipment (26 linear cells of the type KSO-298 MSM Volzhanka with vacuum circuit breakers of the type VVST, 4 cells VT, 4 cells SV, 2 cells TSV), switch the cable lines leading from GDP CHP to DS-1 with the total length of 4,000 meters. In 2011 the works on carrying over CL-6 kV from the build-in area of the DS building, earth works on arrangement of DS foundation were performed; foundation plate for DS was assembled; assembly of the cells in the quantity of 28 pcs. was made; ground loop for DS was executed. In the results of executed works the allocation amounted to RUR64.441 mln. Introduction of the fixed assets is planned to be done in Q3 of 2012.

#### PUT INTO OPERATION AFTER THE NEW CONSTRUCTION:

##### IN JSC VOLOGDAENERGO BRANCH:

The construction of DS 110 kV for connection of HRSG 110 kV of the Vologodskaya CHPP to the Vologdaenergo electrical networks with introduction of fixed assets – RUR156.022 mln.

The project objective is to connect and distribute new generating capacities of the Vologodskaya CHPP in connection with the construction of combined cycle gas turbine (CCGT).

110 kV DC building to transmit the power from the Vologodskaya CHPP was directly related to the JSC TGC-2's adoption of long-term strategic development plans, in order to increase the electric power sale market at the maximum level of consumers' heat supply.

Implementation of the project in full will create optimal environment for transmission of electric power by the unit CCGT-110 to be installed at the Vologodskaya CHPP in 2010-2012.

##### IN JSC KOLENERGO BRANCH:

Construction of OL-150 kV OL-195, OL-196 for the supply of SS 150/35/6 kV "Oleniy Ruchey" mining and concentrating complex being realized within the execution of technological connection of CJSC North-West Phosphorus Company is completed.

Totally, according to the request the North-West Phosphorus Company needs 38 MW of power for electric energy supply of the future mining-and-processing integrated works Oleniy Ruchey in the Murmansk Region perspective up to 66 MW in 2018.

Fixed assets amounted to RUR75,618 mln, in physical terms introduced 14,81 km.

##### IN JSC KOMIENERGO BRANCH:

In June 2011 the works on the facility Construction of Introduction for OL 35 kV SS 220/35/6 kV Promyslovaya – SS 35/6 kV Bagan, SS 35/6 kV North Bagan with enlargement of SS 220/35/6 Promyslovaya were completed.

As a result of this project implementation the following works were performed:

- » OL 35 kV with the length 4,04 km is constructed;
- » SS 220/35/6 kV Promyslovaya is reconstructed.

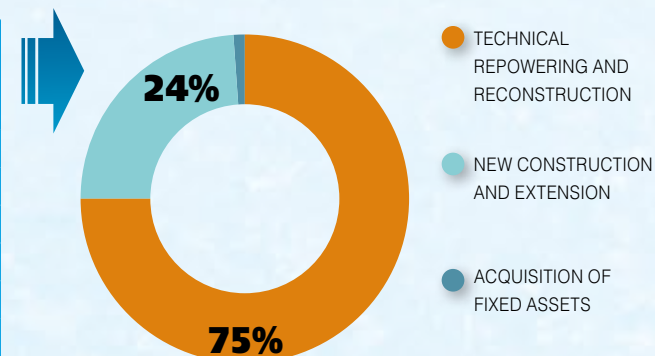
Implementation of the project Construction of Introduction for OL 35 kV SS 220/35/6 kV Promyslovaya – SS 35/6 kV Bagan, SS 35/6 kV North Bagan with enlargement of SS 220/35/6 Promyslovaya enabled operating costs reduction, raise of the consumers' electric energy reliability, increase in revenues at the expense of connection of the new consumer – LLC RN Severnaya Neft to the electrical networks of the branch of JSC IDGC of the North-West Komienergo.

Fixed assets amounted to RUR143,896 mln, 4,04 km.

In total in 2011, for the purpose of facilities' construction and reconstruction in 2012 and in the future periods JSC IDGC of the North-West carried out design and survey works amounting to RUR260,562 mln.

## THE STRUCTURE OF CAPITAL INVESTMENTS IN 2011, MLN RUR, without VAT

Branch/IDGC	Total development capital expenditure	Technical re-equipment and reconstruction	New construction	Acquisition of fixed assets
Arkhenenergo	667,02	515,11	151,88	0,03
Vologdaenergo	1 307,96	967,47	340,5	0
Karelenenergo	342,09	262,89	66,53	12,67
Kolenergo	314,17	297,49	16,68	0
Komienergo	868,11	544,08	316,17	7,86
Novgorodenergo	758,1	633,28	119,11	5,7
Pskovenergo	880,21	604,74	230,11	45,36
Executive office	32,66	32,66	0	0
<b>IDGC of the North-West</b>	<b>5 170,32</b>	<b>3 857,72</b>	<b>1 240,98</b>	<b>71,62</b>



## INVESTMENT PROGRAM FINANCING SOURCES

In 2011 IDGC of the North-West implemented the investment program using the following funding sources:  
RUR mln, excluding VAT

		IDGC of the North-West
<b>Investment sources, total</b>		<b>5 170,3</b>
<b>Own sources of funding</b>	Reporting year amortization	2 692,1
	Unused amortization of previous years	
	Unused profit of previous years	
	Reporting year profit for use in the investment program of the reporting year including:	313,6
	Payment for technological connection	313,6
	Additional emission	
	Other own sources of financing	437,5
<b>External sources of funding</b>	Budgetary funds (federal. municipal)	
	Borrowed funds (loan interest)	1 285,1
	Payment for technological connection	434,7
	Other sources of external financing, including equity participation in the construction due to other sources	7,2

The sources of funding for capital investments were primarily the Company's own funds - 67%. Volume of the borrowed funds for investments in 2011 amounted to 25%.

## INNOVATIVE DEVELOPMENT

In 2011 the process of the innovative activity and implementation of innovations in the Company was at its development stage. The organizational issues were solved, sources of financing for the innovation projects and data bases for potential innovation projects were formed and basic partners for carrying out the innovative activity were determined.

In July 2011 the Regulation on Innovative activity of JSC IDGC of the North-West was developed and approved by the Order.

In order to form the effective mechanism for implementation of the innovation cycle providing favourable conditions for creation and promotion of high-technology equipment and advanced techniques on the constantly renewable basis, taking into account the decisions of the Commission under the President of the Russian Federation for Modernization and Technological Development of the National Economy, decisions of the Government Commission for High Technologies and Innovations, the Program of Innovative Development of JSC IDGC of the North-West for 2011-2016 (hereinafter referred to as the Program) was formulated.

The Program of Innovative Development of JSC IDGC of the North-West for 2011-2016 was approved by the Company's Board of Directors on 27.07.2011.



Areas and measures within the areas	Action	Measurement unit	Target	Actual
<b>Organization of performance of research and development and technological works (R&amp;D)</b>				
<b>An R&amp;D plan of JSC IDGC of the North-West is elaborated for 2011</b>	1.1.1. R&D applications were analyzed	pcs.	17	17
<b>Organization and control over execution of the R&amp;D plan for 2011</b>	1.2.1. Terms of reference for fulfilment of R&D in 2011 were prepared and sent to JSC IDGC Holding for approval	pcs.	6	6
	1.2.2. Approval of terms of reference at JSC IDGC Holding for fulfilment of R&D in 2011	pcs.	6	4
	1.2.3. Tender documentation for competitive negotiations to enter into R&D contracts was prepared	pcs.	4	4
	1.2.4. Contracts for execution of the R&D plan for 2011 were made as to:	pcs.	11	4
	– Development of a set of resource saving measures to enhance energy efficiency of the electric grid complex of JSC IDGC of the North-West (Pskovenergo)	RUR million	6,49	6,49
	– Implementation of measures to detect causes of accidental failures at “Arkhangelsk-1.2” 110 kv OL using Linetroll-like meters (Arkhenergo)	RUR million	0,2	0,2
	– Development of project documentation for the reduction of maximum allowed pollutant emissions by Mezenskaya Diesel Power Plant (Arkhenergo);	RUR million	0,6	0,2
	– Development of a concept of the digital substation of the distribution grid company and standard terms of reference for design of the digital substation;	RUR million	0,296	
	– Development of the method for the efficient management of electric grid reliability based on statistical analysis of retrospective information on operation of electric equipment of JSC IDGC of the North-West (mathematical analysis of statistical data) for the needs of JSC IDGC of the North-West.	RUR million	1,0	
<b>Formation of the system of management of innovative activities of JSC IDGC of the North-West</b>	2.1.1. Suggestions related to the formation of the organizational structure of management of the Company’s innovative activities were prepared and sent to JSC IDGC Holding.			
	2.1.2. Provision on Innovative Activities of JSC IDGC of the North-West was prepared and approved by the order of JSC IDGC of the North-West			
<b>Implementation of innovative services commercialization mechanisms</b>	3.1.1. Suggestions from research and development organizations, higher educational institutions, etc., related to R&D and innovative developments were analyzed.	pcs.		60
<b>Development of the electric grid equipment renovation program at JSC IDGC of the North-West</b>	4.1.1. The electric grid equipment renovation program at JSC IDGC of the North-West was adjusted.			
<b>Improvement of technologies and electric grid components</b>	4.2.1. Works on improvement of isolation at “Zaostrovie” 35/10 kv SS No. 18 and “Furniture Factory” 35/10 kv SS No. 69	RUR million	0,53	0,36
<b>Improvement of the energy saving system and execution of energy saving and energy efficiency enhancement programs, creation of conditions for the development and implementation of innovative technologies</b>	5.1.1. The program of energy saving and energy efficiency enhancement at JSC IDGC of the North-West was developed and approved by the Board of Directors			

Areas and measures within the areas	Action	Measurement unit	Target	Actual
Participation in the production and other activity of JSC IDGC Holding related to the ensuring of compliance with the requirements of the environmental protection legislation (hereinafter referred to as EP)	6.1.1. The program on the environmental policy implementation for 2011-2012 was developed			
Production and environmental control, including control over elimination of revealed violations under the system of internal technical control	6.2.1. Programs of production and environmental control were developed at the Company's branches; in case any violations are revealed measures for elimination thereof are developed.			
Implementation of measures to increase customer-orientation of JSC IDGC of the North-West	7.1.1. Standard Analysis and Assessment of Consumers' Satisfaction was developed and approved in the Company			
	7.1.2. Customer Section was created on the website of JSC IDGC of the North-West, containing information on the service territory and services rendered, fixed tariffs and prices for services rendered.			
Making partnership contracts (agreements) with domestic and foreign higher educational institutions Development of programs jointly with partner higher educational institutions.	8.1.1. Partnership contracts (agreements) with Russian higher educational institutions were made.	pcs.		30
	8.2.1. A branch of the Chair of the Murmansk State Technical University was opened on the basis of the Training Center of Kolenergo branch of JSC IDGC of the North-West			
	8.2.2. Attraction of higher educational institutions to the fulfilment of R&D projects (State Educational Institution Saint Petersburg State Polytechnical University, Federal Budgetary Educational Institution of Higher Professional Education "Volzhskaya State Water Transport Academy")			2
Activities related to training and advanced training of supervisors and specialists of JSC IDGC of the North-West	9.1.1. Training of supervisors and specialists, involved in implementation of the innovative activities of JSC IDGC of the North-West	people		2
	9.1.2. Advanced training of the Company's employees at higher educational institutions	people/RUR million	1116/18,4	515/7,3
	9.1.3. Retraining of employees at higher educational institutions	people/RUR million	19/2,4	8/1,25
Arrangement of interaction in the field of exchange of scientific and technical information	10.1.1. The work on development of agreements under cooperation in the field of exchange of scientific and technical information is being carried out.			
Interaction with small and medium innovative companies	10.2.1. Innovative projects suggested by small and medium innovative companies are monitored and analyzed.			
	10.2.2. Attraction of small and medium companies to the implementation of R&D projects in 2011 (LLC "EMA", LLC "NAVI LTD", LLC "Center of Static Technologies").	pcs.		3



Selection of R&D projects was aimed at achieving the Company's objectives. For example, in Arkhenergo branch for indication of emergency section OL – 110 kV Arkhangelsk 1,2 the works on optimization of identifying the reasons for OL emergency outages were carried out with the involvement of contracting organization LLC Navy LTD. In accordance with the investigation results of OL-110 kV Arkhangelsk 1,2 the sensors Linetroll of the firm NorTroll (Norway) were selected and installed. The variants for reduction of pollutant concentration in emissions from the Mezenskaya DPP were developed.

Scope of works:

- optional variants for reduction of nitrogen dioxide concentration at the boundary of dwelling zone to the standard values with regard to the existing equipment of the Mezenskaya DPP;
- the most perspective and effective variant is selected and approved;
- detailed working out of technical decisions and measures for implementation of the selected variant in existing conditions is carried out (adjustment of fuel equipment of engines was proposed);
- the measure for reduction of nitrogen dioxide concentration in exhaust gases of three diesel generators of the Mezenskaya DPP is taken;
- the efficiency of reduction of nitrogen dioxide concentration in exhaust gases of diesel generators after the measure is implemented was estimated;
- the report for optional variants of reduction of nitrogen dioxide concentration in exhaust gases of diesel generators was drawn up.

In approved Program of Innovative Development of JSC IDGC of the North-West the expenses for financing R&D were put in the Company's business plan for 2011 in the amount of 2% of the volume of its own proceeds (RUR235210 thous.). After adjustment of the business plan in September 2011 the expenses for financing R&D amounted to RUR91,66 mln.

In 2011 the arrangement of works on accomplishment of the plan for research and development (R&D) was planned to the amount of RUR66,8 mln.

R&D plan for 2011 included eleven projects, among which:

- relating to five projects the work contracts were made with the total amount of RUR10,23 mln (including VAT), four projects among them are made for the total amount of RUR7,513 mln (exclusive of VAT), one project is planned to be fulfilled in Q1 2012, advance is paid in the amount of RUR0,2 mln.
- in relation to four R&D projects tender documentation was prepared and competitive negotiations were carried on, for one project among them the competitive negotiations were accomplished and a contract for R&D was made, for three other projects the participants' offers were defined as essentially unacceptable to the conditions of competitive negotiations and were found unaccomplished.
- for the section of research and technical documentation – the competitive negotiations are held by JSC Holding IDGC, 4 works to the amount of RUR 16,97 mln were determined for JSC IDGC of the North-West. Financing of operations and formation of contracts for research and technical documentation are shifted to 2012.

#### LIST OF NEW EQUIPMENT AND MATERIALS, NEW TECHNOLOGIES IMPLEMENTED DURING MODERNIZATION, TECHNICAL UPGRADE AND RECONSTRUCTION

In 2011 under reconstruction of facilities the works on replacement of worn out equipment with considerable physical wear for the modern equipment with improved technical characteristics and high grade of manufacture were continued.

#### THUS, IN JSC VOLOGDAENERGO BRANCH:

During the reconstruction of the section OL 110 kV Centralnaya-1,2 with the length of 2,8 km the aluminum composite reinforced wire ACCR manufactured by the American firm 3M was used, which is capable to transmit two or three times more power as compared to the usual steel reinforced aluminum cable of the same section. The ACCR wire has less mass, more resistance, higher temperature stability and sag resistance as compared to the existing analogues; this wire has higher corrosion resistance, increased endurance strength and is harmless for the environment. DG 10 kV for SS 35/10 kV Ida is made on the basis of ABB equipment of Safe Plus type. SafePlus is a full-pressure system with the stainless steel container which contains all the conducting parts and switching devices. The hermetic steel container with electronegative gas under slight over pressure provides the high level of the personnel's reliability and safety, and minimum maintenance requirements.

During the reconstruction of SS 110 kV Iskra the multifunctional counters of electric energy KIPP-2M were used. These counters are designed for application as a device for uniform measuring, energy metering, remote signaling and telecontrol over high-voltage cells of all the voltage classes as well as for measuring of basic electric energy quality indices. Under the reconstruction of SS 110 kV Iskra for protection of buildings and structures from lightning strokes and overvoltage in supply mains were used faceted conic lightning arresters (FCLA) of sheet products which are produced on the basis of lighting poles. The advantages of such lightning arresters are:

- » long operation life;
- » aesthetic appearance;
- » possibility of combination of lightning arresters with lighting fittings.

## IN THE BRANCH JSC KARELENERGO:

- Retransmitter Vertex-700 is installed for providing the dispatcher of DZ-4 of electric networks Yuzhnie, dispatcher of NMC KareleNERgo, dispatcher of the Karelian RDO with telecommunication on the state of SS-76 Avdevo and connection with the remote brigades.
- Operative-information complex KOTMI was implemented in DZ-4 of PD YuKES.

Operative-information controlling complex is a SCADA system (Supervisory Control And Data Acquisition) providing:

- » Creation of AWP dispatcher;
- » Data reception and control of processing methods;
- » Interlevel data communication in the controlling system;
- » Development of actual reports and resulting documents.

The ground-fault neutralizer ASR and resistor NER were assembled for neutral ground in the network 35 kV at SS-78 Velikaya Guba.

New technologies under new construction, modernization, technical upgrade and reconstruction were implemented. The most significant among them:

## IN JSC ARKHENERGO BRANCH:

The system of insulation reinforcement for the voltage 10 kV was tested at SS 35/10 kV No. 18 Zaostrovie and SS 35/10 kV No. 69 Furniture Factory of PD Electric Networks of Arkhangelsk using easy-to-install insulating materials of the firm Raychem. The works were carried out by the specialists of JSC Baltic Cable Company. Application of this insulation system enables providing the protection against the breakdown in case of emergency bus interruption and prevents the breakdown of insulators from contamination. The decision on dissemination of this experience was made.

At OL-110 kV Dvina-1 the technology of laser scanning of OL and evaluation of wire conditions was applied. Investigation of OL using this technology was carried out by CJSC Opten Limited. In accordance with the investigation results the defects to be eliminated were identified; later the purchase of an OL temperature monitoring system and its application in all the branches are planned.

On 30.12.2011 the Federal Service for Intellectual Property accepted the petition from JSC IDGC of the North-West for issue of utility patent Disconnecter of High Voltage. Development prototypes of the disconnecter with integrated earth lead not requiring the blockage with the main cutters were produced. .

## ACTIVITY OF SCIENTIFIC AND TECHNICAL COUNCIL

The Scientific and Technical Council functions in JSC IDGC of the North-West for the purpose of improvement of technical activity, conduct of unified technical policy, determination of strategic orientations for development of electric network complex. The work of STC is built based on the Regulation on the Company's Scientific and Technical Council. The Regulation on the Company's Scientific and Technical Council and its composition are approved by the Order No. 86 r of 22.04.2010 given by the Deputy Director General, the Company's Chief Engineer.

In 2011 the representatives of firm manufacturing electrical equipment and service suppliers (Co. Ltd. Togliatti Transformator, LLC Electrocomplect, LLC EnstoRus, LLC Baltic Cable Company, JSC Altrrans, Minsk Electrical Engineering Plant named after V.I. Kozlov, LLC RC Linvit, CJSC Pitercom-Networks MS / Consulting Group, PD Eltehnika, LLC Tavrida Electric SPb, CJSC AZM Stroydormash, LLC Pozhtehnika, LLC Enelt.Com, LLC NovAK, LLC Opora, LLC Energoosnova), the representatives

of the St. Petersburg State Polytechnic University, Novosibirsk Electrotechnical State University took part in the work of STC as invitees.

STC carries out its work on the basis of the plan approved quarterly. In 2011 four meeting were held with the frequency once a quarter, 35 questions were considered, the most vital among them are:

- » adoption of standard for periodic engineering certification of electric network equipment, industrial buildings and structures;
- » main principles underlying the basis of the Company's standard Assignment of Facilities of JSC IDGC of the North-West to Temporary Restricted Use for Arrangement of Fiber Optic Communication Lines of Outside Investors;

- » main principles set up for elaboration of territorial development schemes 6-20 kV, 35-220 kV;
- » new types of equipment;
- » change of operation mode for network neutral 6-35 kV;
- » program of the Company's innovative development for the period till 2015.

In 2011 in all the branches of the Company technical councils functioned under the chairmanship of the chief engineers of branches.

## SECTION 7.

# INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT



*Atlantic goliath grouper.*  
They may reach extremely large sizes, growing to lengths of 8.2 feet (2.5 m) and can weigh as much as 800 pounds (363 kg). The world record for a hook and line-captured specimen is 680 pounds (309 kg), caught off Fernandina Beach, Florida, in 1961.[2] They are usually around 400 pounds when mature. Considered of fine food quality, jewfish were a highly sought after quarry for fishermen of all types. The jewfish's inquisitive and generally fearless nature makes it a relatively easy prey for spear fishermen. They also tend to spawn in large aggregations, returning like clockwork to the same locations, making them particularly vulnerable to mass harvesting.

## BASIC DOCUMENTS REGULATING THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Ensuring the effectiveness and continuous improvement of internal control and risk management systems is one of the priorities of IDGC of the North-West. Development of internal control and risk management is aimed to ensure the reasonable confidence in achieving the strategic goals of the Company, save the assets and investment attractiveness, maintain management efficiency and ensure the uninterrupted energy supply to customers and energy efficiency of production activity.

The main local regulations governing the internal control and risk management system are as follows: The Internal Control Policy and Risk Management Policy of the Company (approved by the resolution of the Board of Directors of 23.06.2010), Regulations on internal control procedures of IDGC of the North-West (approved by the resolution of the Board of Directors on 17.12.2008), as well as other local regulations of the Company.

## PARTICIPANTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM AND RESPONSIBILITY DELINEATION

### PARTICIPANTS OF THE RISK MANAGEMENT SYSTEM

Director General (Management Board) of the Company is responsible for the effective risk management. The Branch Directors are responsible for the effective risk management at lower levels of the Company management.

Heads of Departments at all management levels are responsible for timely identification, risk assessment, development and implementation of the activities, and risk monitoring.

Risk management function coordinators (SRM coordinators) at all management levels are responsible for methodological support and coordination (timely information gathering) of all risk management processes, as well as full and timely provision of information on the risks of all interested parties (including the Management Board, the Board of Directors).

Audit Committee (Board of Directors) provides the supervision of the risk management effectiveness.

### PARTICIPANTS OF THE INTERNAL CONTROL SYSTEM

The Board of Directors determines the internal control policy and evaluates the effectiveness of internal control procedures.

The Audit Committee of the Board of the Company makes the overall assessment of the Company's internal control procedures effectiveness (also on the basis of the Company's subdivisions' reports and records, authorized to carry out the internal control/audit).

Director General of the Company is responsible for the internal control procedures functioning.

Direct assessment of the adequacy, sufficiency and efficiency of internal control procedures, as well as monitoring compliance with internal control procedures is implemented by a separate structural unit of the executive body of the Company, i.e. by a subdivision of the Company authorized to carry out the internal control/audit.

For the purposes of the Company's financial and economic activity system-based control, the internal control procedures is implemented by a subdivision of the Company authorized to carry out the internal control/audit, in collaboration with other bodies and subdivisions of the Company.

Internal control over the financial and economic activity of the Company is assigned to the Internal Audit and Risk Management Department.

**THE BOARD OF DIRECTORS DETERMINES THE INTERNAL CONTROL POLICY AND EVALUATES THE EFFECTIVENESS OF INTERNAL CONTROL PROCEDURES..**





## IMPROVEMENT OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

In order to improve the internal control and risk management processes in 2011, the Company continued the work on implementation of an integrated internal control and risk management system which is defined to standardize the control environment and risk assessment of key business processes of the Company, as well as implementation of risk management processes. The principal direction of risk management and internal control system development was identified as the transition from exclusively audit nature of the control procedures to a three-type control combination: audit, current and preventive control. According to the results of efforts to improve the risk management and internal control system the Regulations on the control environment and the Company's core business processes risks: Commercial Accounting and Implementation of Services for Electric Energy Transmission, Purchasing Management, Operation Activity, Implementation of Services for Technological Connection, as well as methodic recommendations for risk management were designed and approved. Quarterly updating of the key risks registry is carried out.

## COMPANY STRATEGY FOR INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Risk management is regarded as one of the most important elements of strategic management and internal control. The Company started establishing the integrated risk management and internal control system. Under this system it is planned to support the effective information exchange required for the operational and strategic risk management between the Board of Directors, executive bodies and all functional units.

## STRATEGIC RISKS AND EXTERNAL ENVIRONMENT RISKS

### СТРАНОВЫЕ И РЕГИОНАЛЬНЫЕ РИСКИ

COUNTRY AND REGIONAL RISKS INCLUDE:

- Downside risks of the actual electricity consumption by end consumers, due to macroeconomic factors by reason for lowering product demand in the world and domestic markets as a result of crisis (for example, in the oil, gas and metal markets), implementing energy efficiency programs, transition to alternative energy sources, consumers' building of own generation, electricity networks, electricity consumption reduction due to the changes in weather or climatic conditions.

THE COMPANY'S ACTIVITIES FOR RISK MINIMIZATION ARE AS FOLLOWS:

- » permanent control of the electricity consumption;
- » forming and providing tariff proposals for productive supply in accordance with the consumers' demands to the regulatory agencies;
- » working with consumers to agree the target figures of electricity productive supply to be included in a contract for the next year in the amount of applications.
- The risk of accidents at power plants due to adverse natural phenomena (hurricane winds, heavy snow, ice-covered ground, low temperatures) relating to the geographic and climatic features of the North-West region of the country.

THE COMPANY'S ACTIVITIES FOR RISK MINIMIZATION ARE AS FOLLOWS::

- » designing power assets, taking into account the peculiarities of the regional climate and geography;
- » carrying out electrical distribution units' complex insurance protection from natural disasters.

In general, the Company believes it unlikely that the Company's activity and fulfilment of its obligations will be significantly affected by country and regional risks in the midterm prospect.

## REGULATORY RISKS

### RISKS OF THE TARIFF REGULATION

- Risks of non-recognition by regional agencies of the Company's full expenditures included in the tariff for electric energy transmission, which may be caused by limiting the growth of the electricity tariff fixed at the federal level. This risk entails the impossibility of total compensation of JSC IDGC of the North-West economically reasonable expenses and limitation of the equity investment amount in the development of the electric grid.

The Company's activities for risk minimization are as follows:

- » cooperating with regional bodies of tariff regulation for establishment of economically sound tariffs which compensate for all expenses of the Company and ensure the implementation of the investment program to the necessary extent;
- » implementing the balanced policy on the costs formation.
- Risks of revenue reduction from the process of technological connection due to the significant increase in the number of privileged consumers and the value of a connected power compared to the planned ones, due to changes in the legislation at the federal level.

A revenue reduction risk due to decreasing volumes of connecting power in the consumers' applications for technological connection as a result of crisis or the increasing tariff for technological connection.

The Company's activities for risk minimization are as follows:

- » monitoring the applications for technological connection;
- » forming a technological connection forecast with the purpose to predict the applications' volume and the following year company commitments;
- » monitoring federal and regional development programs;
- » performing the program improving consumer confidence in the Company by explaining the whole process of technological connection (information at the official site);
- » creating a Customer Service Centre.

Risk of non-controllable prices change in the electric power and capacity wholesale market upwards exceeding the value built into the tariff for indemnification of losses of the electric power by a regulating body.

- The Company's activities for risk minimization are as follows:
  - » timely appealing to the regulatory body for inclusion in the rate of falling costs due to increased prices in the WMEP.
  - » control of bills for sales organizations in order not allow the overestimation of the value and losses cost;
  - » identifying and eliminating the freelance consumption;
  - » implementing the plan for transmission loss enhancement measures;
  - » the probability of such risks remains high.

### RISKS ASSOCIATED WITH INDUSTRIAL REGULATION

- Downside risks of the service scope resulting from the termination (discontinuation) of the equipment rental related to UNPG network under last mile contracts with JSC FGC UES which may arise from changes in regulatory and legislative framework.

The Company's activities for risk minimization are as follows:

- » control of compliance with JSC FGC UES contractual obligations, and timely provision of documentation to the prolongation of the last mile lease;
- » monitoring the state of the contractual campaign for extending the lease agreement with JSC FGC UES;
- » monitoring the electricity balance and analysis of the actual prevailing energy losses and efficiency of electric supply with and without consideration of consumers attached to the equipment leased under last mile contracts with JSC FGC UES.
- Risks of resource lack (human and financial) to meet the requirements of Federal Law No. 261-FZ on Energy Saving and Energy efficiency Increase and Amending Certain Legislative Acts of the Russian Federation, which are expressed in setting excessive requirements for installation (replacement) of energy metering devices in the energy efficiency enhancement programs approved by the federal and regional executive authorities.



The Company's activities for risk minimization are as follows:

- » applications monitoring and prognoses on intercom replacement (installation) in order to forecast the volume of applications and obligations of the company's network for the following year;
  - » preventive development of energy efficiency enhancement programs;
  - » coordination of programs with the regional governments;
  - » advanced training of technical personnel to reduce the metering device installation terms.
- Risks of significant growth in overdue accounts receivables and growth of uncollectible receivables for electric energy transmission services associated with disagreements with consumers on the use of branch-specific legislation in terms of payments for electric energy transmission services. Overdue receivable for electric energy transmission services have the greatest unit weight in the structure of the Company's accounts receivable and have the greatest impact on its financial results. Moreover, the impact of this risk shows itself in the need to attract credit resources in connection with the shortfall of funds from contractors, in a tough schedule of payments to the Company's suppliers, payroll, taxes and other payments.

The Company's activities for risk minimization are as follows:

- » ongoing analysis of disagreement causes during the coordination of the transmitted electricity volume;
- » developing the short-term action plans to eliminate the causes of conflict with customers;
- » developing the action plan-schedule to reduce accounts receivable for electric energy transmission services and control over its execution;
- » gaining judicial practice and creating positive precedents in the events where a consumer wrongfully litigates its ownership of delivery points (e.g. denial of public utilities' performers to fix the electricity amount consumed by common house needs or determined by common house accounting unit).

### RISKS ASSOCIATED WITH ANTIMONOPOLY REGULATION

Risks of the antimonopoly legislation violation recognition in terms of provision of electric energy transmission services, and in the provision of technological connection services.

The Company's activities for risk minimization are as follows:

- » timely processing the consumers' applications and complaints;
- » enforcing strict regulations and control for timely disclosure of information in accordance with the laws of the Russian Federation;
- » existence of an internal regulation defining the activities performed by each structural unit.

## FINANCIAL RISKS

### CURRENCY AND INTEREST RATE RISKS

- Risks of higher interest rates for the use of actually involved and newly attracted credit resources.

As a result of the ongoing global economic crisis there is instability in capital and credit markets in a number of the most economically developed countries. Several major international financial institutions are in the state of bankruptcy, takeover by other financial institutions and/or receive financial support from the state.

Despite the measures taken or to be taken by the Russian government to stabilize the situation due to the volatility in world capital and credit markets, including the Russian Federation, there is an economic uncertainty about the credit availability and cost both for the Group and its counterparties. Economic uncertainties may persist in the near future.

Since for the implementation of its core business IDGC of the North-West provides the debt financing, there are risks of higher interest rates for use of actually involved and newly attracted credit resources.

The Company's activities for risk minimization are as follows:

- » diversifying the credit portfolio by creditor banks;
- » creating a free credit limit under the credit agreements signed in more than one bank;
- » signing credit agreements which stipulate the right of early repayment without forfeit penalty commonly used by the Company if the bank begins to unduly raise the interest rate.

Currency risks connected with upward changes in the major world currency rate and influence on the financial condition of the Company are assessed as negligible. To reduce the risk

of world currencies appreciation influence, the Company considers the possibility of replacing foreign manufacture equipment used in some investment and repair projects for analogs produced in Russia.

### INFLATION RISKS

Inflation's negative impact on the financial and economic activity of the Company may be expressed in the receivable devaluation with a significant delay or default of payment, increase in prices for accessories, equipment and other inventory used by the Company in its activity.

The Company's activities for risk minimization are as follows:

- » working with regulators in setting tariffs for the next year to account the inflationary cost increases in the tariff;
- » making tender procurements of materials and services.
- » optimize costs through the development and implementation of the cost management program;
- » optimizing the accounts receivable management;
- » Increasing the turnover of circulating assets.

The probability of negative consequences for the Company during the fulfilment of the relevant measures is estimated as low.

### RISKS CONNECTED WITH NON-PERFORMANCE OF OBLIGATIONS BY COUNTERPARTIES

The presence of unscrupulous vendors in the market, specific character of purchased products, short fulfilment time can lead to the realization of the risks associated with the failure by suppliers of goods (works, services) to perform their obligations and hence the accounts receivables growth.

The Company's key measures to reduce these risks are aimed at minimizing the advance payments under contracts with suppliers, maintaining the register of unscrupulous vendors by continuous monitoring of the timing and cost of the planning and conduct of procurement procedures.

### RISKS OF DEFAULT IN INVESTEEES COMMISSIONING

These risks are part of the financial risks and can be caused by faulty mistakes in planning the investment program, agreement terms delay and individual development program approval in various authorities, long delays in obtaining land, obtaining building permits, consumer rejection of technological connection.

The Company takes all measures to minimize the risks associated with the investment activity aimed at compliance with the rules of the investment programs approval and rules for control over investment programs implementation by the Ministry of Energy of the Russian Federation. The system of investment programs realization and financing control, including the weekly control is in effect. Local regulations on capital construction and investment program planning are developed. The measures aimed at timely material support and time and quality observances of contracting organizations are performed. .

### OPERATIONAL AND TECHNOLOGICAL RISKS

Impact on the development pace of the Company's power grid facilities may have a risk of raising the prices for equipment, materials and contracting organizations' services used by the Company in its activities by their suppliers and contractors.

The Company's activity to minimize the risks is aimed at maintaining the competitive environment in the works and services procurement area:

- » establishing the KPIs that increase the transparency of procurement, control of grounding of unregulated procurement part increase;
- » controlling the compliance with the number of procedures carried out in various ways in the planned values;
- » developing technical specifications drafts for design and survey works, installation and construction works, works of operational and repair activities on the basis of standard technical specifications;
- » expert groups and Procurement Commission control the time limits for expert evaluation of the procurement participants' applications (offers).

Risks concerned with the equipment ageing and fixed assets depreciation, the possibility of adverse changes in the industry, operation of the equipment with maximum deviation from standard technical requirements, operational personnel errors, omissions dispatch schedule and discipline. These factors can lead to risks of ensuring safe operation of industrial facilities and, consequently, the violation of legislation in the field of industrial and fire safety, risk of consumers' power supply system violation resulting from the accidents at substations and network sections, risks of injury of third persons and Company's personnel.

The Company's activities for risk minimization are as follows:

- » reconstruction of working network facilities;
- » modernization;
- » development of networks to improve redundancy in emergency situations;
- » insurance of property, hazardous facilities, vehicles, liability insurance, staff from accidents and diseases, as well as medical insurance, pre-certification training of employees operating the equipment;
- » constant control of the equipment condition and compliance with operation rules for power plants, equipment, buildings and structures operation;
- » analysis of the causes and background of emerging risk events, advanced training and certification of workers;
- » expanded program of injury prevention of third parties (placing preventive materials in the media, carrying out preventive cognitive-game measures in children's recreational institutions, safety lessons in educational institutions, broadcasting of videos about child injury and electrical accident prevention, production of visual propaganda materials about the danger of unassisted interference in the work of the electric power plant equipment, etc.).

Risks associated with the staff ageing, outflow of professional personnel, absence of competent personnel in the remote territories, disease incidence and industrial injuries.

The Company's activities for risk minimization are as follows:

- » Arrangement of advanced training for employees,
- » Performance of preventive work on elimination of industrial injuries,
- » Development of the system for the work with youth: creation of external and internal personnel reserve of young specialists,
- » Providing social security of the employees within the Collective Agreement,
- » Organization of works on disease prevention and healthy lifestyle promotion,
- » Development of training programs for junior technical executives,
- » Control of staffing level.

Risks connected with disruptions in the work of information systems due to faults that imply the suspension of functional divisions users, whose work is provided by IS data, loss of information stored in databases, including management (accounting, tax accounting) databases. These risks are estimated by the Company to be insignificant.

The Company's activities for risk minimization are as follows:

- » organizing the backup power supply of IS server hardware;
- » organizing the backup intelligence link;
- » implementing the fault-tolerant system software;
- » organizing Service desk in the Company's subdivisions;
- » implementing the imposition and platform control equipment;
- » organizing the data centre for industrial air-conditioning systems;
- » organizing the data back-up measure;
- » organizing the virus protection.

## INVESTMENT RISKS

Risks associated with investment activities caused by appreciation of works in the process of construction due to changes in requirements of supervisory authorities to technical and architectural concepts and compensation for appreciation of the cost of materials leads to the increase in the Company's expenses for construction and reconstruction of facilities.

In order to minimize the risks the Company exercises control over the quality and timely execution of design and survey work, effects control over performance of construction and erection works after approval of the project and obtaining the construction license.

## COMPLIANCE RISKS

Legal risks are typical for IDGC of the North-West as well as for any other business entity carrying out activities in the territory of the Russian Federation. First of all, the legal risks due to the specifics of the current legislation, its changes, the ambiguity in interpretation of regulations, presence of conflicting court rulings on similar issues.

Legal risks connected with the ambiguous interpretation of the tax and levy legislation, probability of changes in the order, rates, terms of tax accrual and payment, changes in the legislation on joint stock companies and corporate governance are not essential for JSC IDGC of the North-West.

Constant monitoring of changes in the legislation and judicial practice allows us to plan the financial and business activities taking into account such changes.

The accounting service in conjunction with the legal support service work in the field of tax base calculating methodology and their compliance with the applicable laws is under control. Preliminary legal examination of corporate procedures, operations and transactions of the Company is carried out.

# SECTION 8. ENVIRONMENT PROTECTION

*Bottlenose dolphins are the most common and well-known members of the family Delphinidae, the family of oceanic dolphins. They inhabit warm and temperate seas worldwide. Bottlenose dolphins live in groups typically of 10-30 members, called pods, but group size varies from single individuals up to more than 1,000. Their diet consists mainly of forage fish. Dolphins often work as a team to harvest fish schools, but they also hunt individually.*

## ENVIRONMENTAL PERFORMANCE INDICATORS

	Measurement unit	Quantity
<b>Gross polluting emissions into the atmosphere, including:</b>	ton	359,00
<b>solid, of them:</b>	ton	10,67
solid fuel ashes	ton	0,38
<b>gas and liquid, of them:</b>	ton	347,95
sulphur dioxide	ton	26,49
carbon oxide	ton	127,22
nitrogen oxide (in terms of NO <sub>2</sub> )	ton	145,88
hydrocarbons (without volatile organic components)	ton	4,41
volatile organic components	ton	43,95
benzapyrene	ton	0,00003
<b>Hazardous substances caught and neutralized, including:</b>	ton	5,32
solid	ton	5,32
<b>Collection and extraction of water, including:</b>	thous. m <sup>3</sup>	245,51
from surface sources	thous. m <sup>3</sup>	65,74
from underground sources	thous. m <sup>3</sup>	48,33
from other sources	thous. m <sup>3</sup>	131,44

The main amount of pollutant emissions comes from diesel power stations.

## WASTE DISPOSAL

### DYNAMICS OF PRODUCTION WASTE FORMATION AMOUNTS

Waste hazard class	2009	2010	2011
1 class	27,3	5,8	8,2
2 class	11,6	7,9	17,8
3 class	208,8	217,7	163,4
4 class	3 727,9	6 118,4	6 363,1
5 class	6575,6	6 743,9	2 789,2
<b>Total</b>	<b>10 551,2</b>	<b>13 093,7</b>	<b>9 341,7</b>

The main amount of the formed waste is the waste of fourth and fifth hazard class.

In order to reduce environmental impact the part of waste with the 1-4 class of hazard is not sent to disposal but transferred to specialized organizations for recycling and neutralization.

**THE BULK OF CONSUMED WATER IS UTILIZED FOR DRINKING NEEDS - 70 % FOR PRODUCTION NEEDS - 30 %**

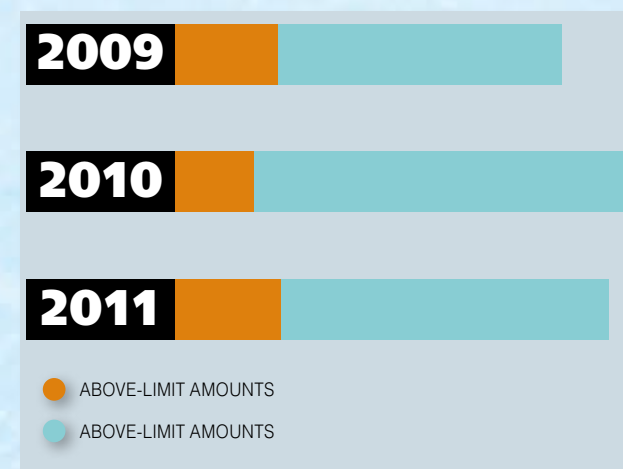
In 2011 payments for negative environmental impact increased by RUR506.4 thous. as compared to 2010

Excessive payments for negative environmental impact are conditioned by a number of reasons:

- absence of permits, licenses, approvals (draft standards of waste generation and limits for its disposal) in Karelnenergo, Komienergo, Novgorodenergo, Pskovenergo branches. After receipt of license for the activities of collection, use, neutralization, transportation and disposal of waste with the I – IV class of hazard in July, 2011 the projects were developed and are submitted for reconsideration (after performed adaptation and correction) to the Administration of Rosprirodnadzor (Federal Service for Supervision of Natural Resource Usage);
- excess of fixed limits for air pollutant emissions;
- excess of fixed limit for waste disposal.

## DYNAMICS OF PAYMENTS FOR NEGATIVE ENVIRONMENTAL IMPACT RUR THOUS.

Item	2009	2010	2011
<b>Total, including</b>	9 665,7	11 488,0	10 981,6
Acceptable amounts	2 681,0	1 971,5	2 724,0
Above-limit amounts	7 225,5	9 516,5	8 257,6
<b>Discharge to bodies of water, including</b>	135,8	130,8	124,1
Acceptable amounts	116,9	116,9	123,2
Above-limit amounts	18,9	13,9	0,9
<b>Discharge in the air, including</b>	1 621,4	1 311,9	263,9
Acceptable amounts	144,6	156,9	141,8
Above-limit amounts	1 476,8	1 155,0	122,1
<b>Waste disposal, including</b>	8 149,3	10 045,3	10 593,6
Acceptable amounts	2 419,6	1 697,7	2459
Above-limit amounts	5 729,7	8 347,6	8134,6



## DYNAMICS OF ENVIRONMENTAL COSTS RUR THOUS.

	2009	2010	2011
<b>Current cost of environment protection</b>	9 665,7	10 486,8	11 151,1
Water resources conservation	4 114,8	5 374,0	5 721,8
Outside air protection	215,5	622,2	593,5
Environment protection (land resources) from production and consumption waste	5 054,4	4 018,9	4 710,8
Land restoration	281,0	471,7	125,0

The increase in current expenses for environment protection in 2011 by RUR664.4 thous. is explained by the implementation of a set of actions for protection of air and water ponds, protection and efficient use of lands, impact mitigation of physical factors on the environment.

## INFORMATION ON CONDUCTION OF ENVIRONMENTAL AUDIT

In 2011 within the industrial environmental monitoring system internal environmental audits were held in the production departments of the branches of JSC IDGC of the North-West: Arkhenergo, Vologdaenergo, Komienergo, Novgorodenergo and Pskovenergo by efforts of trained specialists.

During the internal audit several Environmental law violations were detected. On the basis of the Auditor reports activities directed to elimination of these violations are developed and implemented.



## QUALIFICATION OF ECOLOGICAL PERSONNEL

In 2011 employees of JSC IDGC of the North-West were trained in the following programs:

- Providing environmental safety by the managers and specialists of general economic management systems;
- Vocational training for the access to work with hazardous wastes;
- Environment protection. Software tools of the series Ekolog;
- Academic training program Integrated Management System in Compliance with the Requirements of ISO 18001:2008, ISO 14001:2004, OHSAS 18001:2007 and GOST 12.0.230-2007.

## APPLICATION OF ADVANCED TECHNOLOGIES AND SOLUTIONS

Modern equipment installed in the framework of network modernization and removal of outdated equipment from work allows to reduce the negative environmental impact during transportation and distribution of electric energy.

Replacement of oil circuit breakers by sulfur hexafluoride and vacuum breakers is one of the mainstays in application of new equipment in the branches. Sulfur hexafluoride and vacuum circuit breakers as opposed to oil ones have higher reliability characteristics, error-free running time, productive life, higher engineering performance and are easy to operate. Due to absence of oil they are fire-safe. And under conditions of no sulfur hexafluoride leakages they are ecologically sound.

The project for reconstruction of sewage disposal plants for rainwater disposal in RPB of production department Velsk electric networks is developed. Implementation of this project according to the long-term investment program of

Arkhenergo branch is planned for 2013. Planned ecological effect from implementation of this project is exclusion of pollutants discharge above permitted standards with rainwater from the territory of RPB into the pond of commercial fishing importance.

Branches of JSC IDGC of the North-West carried out technical arrangements for protection of animals including birds: installation of antibird devices, hedgehogs and screens.

JSC Novgorodenergo branch performed replacement of filter medium for LWTP (local waste treatment plants) of rainwater, cleaning of oil-recovery system, mud boxes and wells of rainwater disposal, repair and cleaning of ducts from LWTP to the Velgia River. Such actions reduce the content of suspended matters and oil products in discharged rainwater.

The main part of the project Construction of Structure Complex for Prevention of Land Pollution in the District of Mezenskaya DPP was realized to prevent prevalence of land pollution by oil in the district of Mezenskaya DPP, liquidation of existing contamination and recovery of contaminated lands in the territory of fuel and lubricant storage of the Mezanskaya DPP. In 2011 the construction and erection works on creation of rain removal system were executed, necessary equipment was delivered for performance of the complex operation. The project provides application of soil and ground water clean-up technology using BAC preparations.

Project for replacement of diesel-generator sets with expired motor capacity at the Mezenskaya DPP was developed. For newly installed diesel-generator sets it is designed to use catalyst exhaust control systems. Declared by the manufacturer efficiency of decontamination from soot, NO<sub>x</sub>, CO, CnHm on application of this system makes up 70-85%.

In 2011 JSC Pskovenergo branch put into operation the sewage disposal plants in the territory of training practice base (Pechorsky district, natural boundary Velie) and developed the program of routine observations for water body to which the discharge is carried out.

## TOP-PRIORITY ENVIRONMENTAL TARGETS

According to the approved Program for implementation of environmental policy the top-priority objectives of JSC IDGC of the North-West in the field of environment protection consist in providing the reduction of negative environmental impact and evaluation of environmental activity for the purpose of its improvement.

The primary goals for 2010-2012 in the field of environment protection are:

- Minimization of environment pollution by the processed oil products by due repair of oil-receiving devices, replacement of oil-filled equipment by SF<sub>6</sub> or vacuum counterpart;
- Completion of erection works for the project Construction of Structure Complex for Prevention of Land Pollution in the District of Mezenskaya DPP and performance of seasonal field operations for clean-up of contaminated lands and ground water from oil products;
- Development and approval of projects for sanitary protection zones of artesian wells used for water supply of the branches' facilities;
- Execution of construction and erection works on replacement of diesel-generator set at the Mezenskaya DPP with installation of the catalyst exhaust control system.

As strategic environmental targets for the period till 2013 there are improvement of controlling system in the field of environment protection and nature management, environmental auditing for integrated assessment of environmental activity and development of actions for its improvement.

## SECTION 9.

# PREVENTION OF EMERGENCY SITUATIONS AT THE FACILITIES OF THE DISTRIBUTIVE ELECTRIC NETWORK COMPLEX



*The red lionfish (Pterois volitans) is a venomous coral reef fish in the family Scorpaenidae, order Scorpaeniformes. P. volitans is native to the Indo-Pacific region, but has become a huge invasive problem in the Caribbean Sea and along the East Coast of the United States, along with a similar species, Pterois miles. Red lionfish are clad in white stripes alternated with red, maroon, or brown. Adults can grow as large as 17 inches (43 cm) in length while juveniles may be shorter than 1 inch (2.5 cm). It has large, venomous spines that protrude from the body like a mane, giving it the common name of the lionfish. The venomous spines make the fish inedible or deter most potential predators. Lionfish reproduce monthly and are able to quickly disperse during their larval stage for expansion of their invasive region.*



In 2011 there were no man-caused emergency situations and natural emergency situations subject to statistical recording in compliance with the classification determined by the Regulation of the Government of the Russian Federation No. 304 of 21.05.2007 On Classification of Emergency Situations of Technogenic and Natural Character and the Order of EMERCOM of Russia No. 329 of 08.07.2004 On Confirmation of Criteria for Information on Emergency Situations.

## NATURAL EMERGENCY SITUATION

The climate pattern of the North-West Federal District is defined by the geographical location in high latitudes, its long mileage both from the north to the south and from the west to the east.

For the territory of the North-West the following emergency situations are typical:

- hurricane (squally) winds;
- low air temperatures, snowfalls with adhesion of wet snow to the wires in winter;
- spring floods (waterlogging by the territories during flood period);
- forest fires.

In 2011 natural hazards were observed during the period of spring flood in March-April in the territories of the Pskov, Novgorod and Arkhangelsk Regions. Due to a high tidal wave in the rivers flowing near the population centres there were waterloggings of the Company's facilities (substations) and in the adjacent territories. During the period from May to September, 2011 the same territories underwent thunderheads with the gusts from 22 m/s and higher which led to the complex technological disturbances. These disturbances were removed by operative (mobile) brigades at the stated time.

Taking into account the geographical features of the Region, forest areas and climatic conditions during spring-summer period there are prerequisites for fire hazardous environment in the territory of the Company's servicing: mainly in

Arkhangelsk, Vologda, Pskov, Novgorod Regions, in the Republic of Karelia, the Komi Republic and primarily in hard-to-reach areas. Considering the creating environment in the constituent territories of the Region additional preventive measures are promptly taken for avoidance of forest fire development and suppression..

## MAN-CAUSED EMERGENCY SITUATIONS

Considerable deterioration of electric network equipment both at JSC IDGC of the North-West and in the territorial network organizations constitutes a threat for ensuring stability of electric energy supply for economic entities and population in the serviced territories.

In order to minimize possible damage from hazard phenomena occurring in nature and technosphere, the Company timely conducts practice training for personnel's actions in emergency situations and for prevention and liquidation of possible accidents and emergencies. For this purpose in the Company:

- operations centers for prevention and liquidation of complex technological disturbances during the work of electric network complex are created and functioning;
- mobile divisions (36 brigades) are created and ready for operations on prevention and liquidation of emergency situations (independently);
- stock of reserve electric energy supply sources (91 units) is formed and ready-to-use;
- contracts (agreements) for interaction with the government and local authorities, divisions of EMERCOM of the Russian Federation, other entities of electric power industry, contracting organizations, etc. during liquidation of complex technological disturbances are made (119 contracts).

Training of the Company's managerial human resources and specialists in the accounting period was carried out in compliance with the Regulation of the Government of the Russian Federation No. 547 of 04.09.2003 On Population Training in the Field of Protection against Emergency Situations of Natural and Technogenic Character as well

as in accordance with the approved training programs of Training Centers, civil preparedness courses, in organization departments.

Plans for training (retraining) of the managerial human resources, specialists of the functional subsystem (element) of the uniform national system for prevention and liquidation of emergency situations (hereinafter referred to as RSChS) are accomplished in full.

The Company constantly improves training resource base: purchases training literature, visual aids.

Teaching and training of the managerial human resources and RSChS was carried out in compliance with the approved plans:

- managerial human resources – though the method of autonomous work with the normative documents, study of the corresponding spheres of action, personal participation in training sessions, exercises, maneuvers and other planned events;
- command personnel – according to 20-hour program;
- active staff of subdivisions – according to 20-hour program;
- workers and employees not including into subdivisions – according to 14-hour program.

Training of the managerial human resources of emergency response and mobile brigades was performed in the course of joint exercise with the Regional headquarters for provision of electric energy supply safety, territorial executive agencies and local authorities, housing and utilities infrastructure organizations, subdivisions of EMERCOM of Russia, the Ministry of Internal Affairs, the Ministry of Defence of the Russian Federation, contracting organizations, consumers.

The conducted exercises and training demonstrated high standard of professional knowledge of the Company's managerial and command personnel, management bodies in preparation of materials and making reasoned decisions for liquidation of possible emergency situations; the staff of freelance emergency rescue teams (FERT) have high preparedness and ability to the actions under ES.

According to the results of the year the heads of the Company's organizational departments are awarded the Medals of Merit and the Medals For Commonwealth for the Sake of Rescue by the Order of the Minister of EMERCOM of the Russian Federation for the merits in development and successful support of RSChS, accomplishment of objectives for prevention and liquidation of emergency situations.

Heads of Administration of the North-West constituent entities awarded the heads of the Company's organizational departments with cups, diplomas and certificates of honour for results obtained in the sphere of civil preparedness, protection of population and territories from emergency situations and providing fire safety in 2011.

In compliance with Federal Law No. 28-FZ of 12.02.1998 On Civil Defence and the Regulation of the Government of the Russian Federation No. 1340 of 10.11.1996 On Procedure of Creation and Utilization of Material Resources Reserves for Liquidation of Emergency Situations of Natural and Technogenic Character the Company formed the reserve of material and financial resources.

Material and technical base with storehouses, depots and open platforms, containers sufficient for acceptance, storage and keeping of material resources designated for liquidation of emergency situations and industrial needs is created in JSC IDGC of the North-West. Formation of emergency stock is performed through purchases of materials and equipment, transfer of materials specified in the project during reconstruction or new construction of facilities as well as reutilization of dismantled equipment. Annual inventory of emergency stock is carried out. The actions for liquidation of emergency situations are financed from the Company's financial reserves with further execution of necessary documentation and reimbursement of material damage to insurance company according to the contracts signed.

Principal directions and actions in the system of measures for support and increase of the Company's electric network complex stability in conditions of emergency situations in 2011 were:

- Reconstruction and construction of electric network complex facilities, including OL-10-0,4 kV; CL-10-0,4 kV; transformers of SS;

- Development of systems for notification, control and informing about emergency situations;
- Accumulation of individual respiratory and skin protection equipment;
- Arrangement of medical supervision and control over the personnel's health status;
- Fire precaution measures;
- Physical security of facilities, technical security and maintenance of protective services.
- Training of the managerial human resources to work in emergency situations and instructing the staff about safety performance and operational procedure when emergency situation occurs.
- Acquisition of new high capacity special engineering equipment.

## DYNAMICS OF TECHNOLOGICAL DISTURBANCES

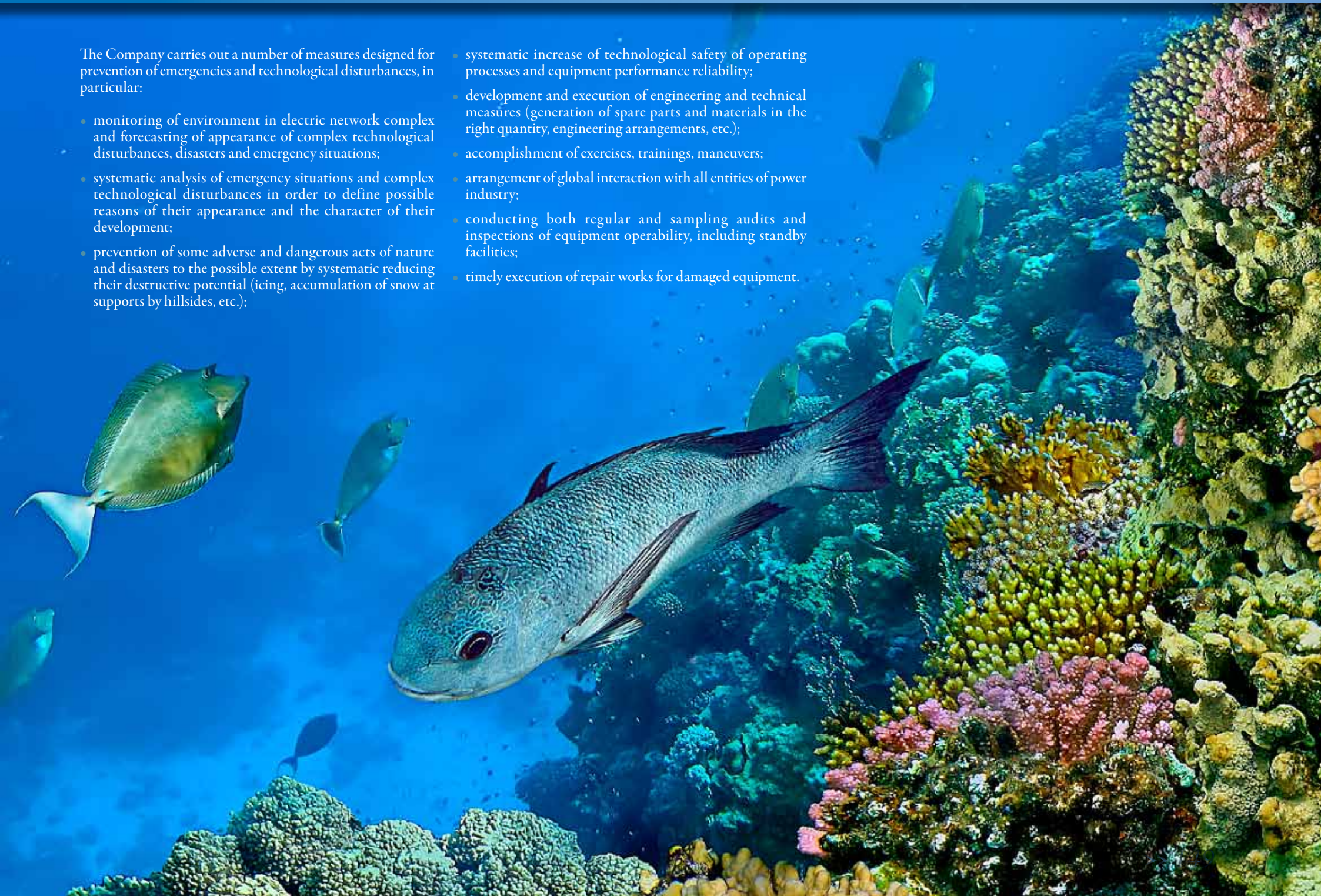
	2009	2010	2011
<b>Number of accidents, including:</b>	3 997	6 168	6 732
<b>impact of natural disasters</b>	1 168	2 005	2 022
<b>Impact of unauthorized persons and organizations</b>	385	497	551
<b>Lost electric energy, thous. kWh</b>	1 766,61	2 882,83	2 344,79
<b>Electric supply interruption, hour</b>	32 765,54	54 829,59	50 887,24
<b>Economic damage, RUR thous.</b>	38 490,71	212 404,26 <sup>31</sup>	48 313,17

During 2011 at facilities of JSC IDGC of the North-West 6 732 technological disturbances having led to the total undersupply of energy to consumers in the volume 2 344,79 kWh were accounted and investigated. The most part of technological disturbances occurred in the following branches: Arkhenergo, Vologdaenergo, Karelenegero, Novgorodenergo and Pskovenergo. The absolute majority of technological disturbances, including the most critical emergencies, and the most part of cases when the consumers became cut off from electric energy supply were caused by natural disasters, in particular hurricane heavy showers with thunderstorms, adhesion of snow to the wires, icing, falls of trees, etc., as well as the influence of outside persons and organizations.


<sup>31</sup> Economic damage caused to the Company in 2010 due to natural disasters was the most significant for the recent year. Cyclones with storm winds affected the Vologda and Pskov Regions and the Republic of Karelia.

The Company carries out a number of measures designed for prevention of emergencies and technological disturbances, in particular:

- monitoring of environment in electric network complex and forecasting of appearance of complex technological disturbances, disasters and emergency situations;
- systematic analysis of emergency situations and complex technological disturbances in order to define possible reasons of their appearance and the character of their development;
- prevention of some adverse and dangerous acts of nature and disasters to the possible extent by systematic reducing their destructive potential (icing, accumulation of snow at supports by hillsides, etc.);
- systematic increase of technological safety of operating processes and equipment performance reliability;
- development and execution of engineering and technical measures (generation of spare parts and materials in the right quantity, engineering arrangements, etc.);
- accomplishment of exercises, trainings, maneuvers;
- arrangement of global interaction with all entities of power industry;
- conducting both regular and sampling audits and inspections of equipment operability, including standby facilities;
- timely execution of repair works for damaged equipment.



# SECTION 10. HR POLICY AND SOCIAL PARTNERSHIP



*Medusa Jellyfish are the major non-polyp form of individuals of the phylum Cnidaria. They are typified as free-swimming marine animals consisting of a gelatinous umbrella-shaped bell and trailing tentacles. The bell can pulsate for locomotion, while the stinging tentacles are used to capture prey. Jellyfish are found in every ocean, from the surface to the deep sea. A few jellyfish inhabit freshwater. Large, often colorful, jellyfish are common in coastal zones worldwide. Jellyfish have roamed the seas for at least 500 million years, and possibly 700 million years or more, making them the oldest multi-organ animal.*



## ASLAN CHEKHOEV

DEPUTY DIRECTOR GENERAL, HEAD OF THE BODIES OF JSC IDGC OF THE NORTH-WEST

“*Today JSC IDGC of the North-West has more than 15 thousand employees, thus implementation of the social policy is one of the Company's most important priorities.*

*The social policy of the Company includes such areas as employees' social protection, care of pensioners – veterans of the power industry and young specialists, securing vacations and rehabilitation of employees, staff development.*

*The main line of the social policy is effective social safety net that contributes to attraction of qualified specialist to the Company, reduces fluctuation of personnel and serves as one of the foundations of successful production operation.*

*In the course of implementation of the social policy the Company's top-management productively interacts with the Shop-Floor Union Organizations (SFUO) and the Board of the SFUO Representatives, in particular solving consolidated tasks for information support of the team, arrangement of social and sport activities. The unified Collective Agreement is in effect in the Company firstly having come into operation in 2009 that puts into life the social partnership system.*

*Sport and leisure events give the employees an additional opportunity to obtain experience of positive informal socializing and contribute to the formation of team spirit and loyalty to the Company.*

*Great attention is given to nonworking pensioners– veterans of the power enterprises of the North-West. For them holiday corporate events are organized, material assistance is paid, funds for sanatorium-and-spa treatment are allocated, awarding and payments for anniversary dates are carried out.*

*A set of actions focused on attraction of young specialists, use of potential of power engineering rising generation is realized in the Company. The Company's management backs professional and social initiatives of the Youth Council paying special attention to formation of personnel reserve of young specialists.*

*Putting up the capital in staff development the Company stabilizes the team, increases the safety and security of the employees' professional activity, provides reasonable combination of procedures for renewal and preservation of highly qualified staff.*

*Acknowledging its responsibility before the government, the Company and the employees of the JSC IDGC of the North-West the Company's management gives considerable attention to solving the social tasks for development of labor productivity, optimization of production processes, stability and sustained development of the Company in the long-term perspective, formation and keeping of the Company's positive image and first of all – raising of the employees' living standards.*

## MAIN PRINCIPLES AND PURPOSES OF HR POLICY

The specific nature of IDGC of the North-West activity determines a special value of human potential for the Company's development. Only highly qualified employees motivated to diligent, high-quality performance of their duties, initiative and innovations can provide successful implementation of the Company's strategy.

The main purpose of the IDGC of the North-West HR Policy is to create the personnel management system, where the Company could have the stable status of preferable employer in the opinion of people that are ready and capable to bring maximum profit to it. Therefore the Company's HR Policy is based on the following principles:

- Combinations of processes of keeping, renewal and maintaining optimum quantitative and qualitative structure of the personnel capable of achieving current and perspective goals;
- Organization of uniform personnel record and personnel documentation for the compliance with labor legislation;
- Forming effective system of personnel's moral and material motivation;
- Forming and implementing effective social policy of the Company;
- Organization of personnel injury prevention and health preservation system;
- Organizations of effective system of preparation, retraining and continuing education for the Company's personnel.

In order to implement these principles during 2011 the Company carried out systematic work aimed at attraction and keeping professional employees, creation of effective motivation system, comfortable working conditions and opportunities for professional growth and development.

In order to fulfill work in the specified areas and to achieve the set goals the Company developed and the Board of directors approved on 31.08.2010 the Program of keeping and development of IDGC of the North-West human resources. The program is developed with account of development areas of distributive network complex, characteristics of Northwest

region, dynamics of social and economic development; it contains the schedule of activities for five years' perspective - till 2014 inclusive.

The main directions of the Program of human resource retention, replenishment and development are:

- Defining the special category of employees, retention of which has key value for the Company;
- Developing and implementing the activities on youthification of the Company's personnel, in particular the personnel of industrial divisions (workers and engineering and technical specialists);
- Strengthening cooperation with leading Russian educational institutions of higher, secondary and extended professional education with the emphasis on power engineering-oriented educational institutions and faculties;
- Development of personnel preparation, training and retraining system in the area of wide use of regional educational centers and introduction of flexible educational technologies;
- Improvement of motivation system, development of social partnership system;
- Strengthening the work with personnel reserve;
- Strengthening the work on psycho-physiological labor safety provision for operating personnel activity.

This work resulted in: the increased filling of shortage specialty vacancies, improvement of personnel educational level, significant decrease of personnel turnover.

Constant methodical support and control, coordination of personnel divisions' work of the branches allowed to provide full compliance with all labor legislation requirements and to retain qualified personnel.

The complete fulfilment of all conditions of the first Collective agreement for 2010 – 2011, uniform for all Company's branches, was a significant result of the work.

## PERSONNEL NUMBER AND STRUCTURE

### DATA ON AVERAGE NUMBER OF PERSONNEL

During the period from 2009 till 2011 there was some growth of the average number of personnel, which is connected mainly with the acceptance of electric power accounting functions, employment of the corresponding personnel, and with filling the vacancies. The slight reduction of average number of personnel in 2011 is connected with the measures taken to optimize the Company's organizational structure.

Staffing level is 97,9%; the active turnover level remains stable and does not exceed 5%.





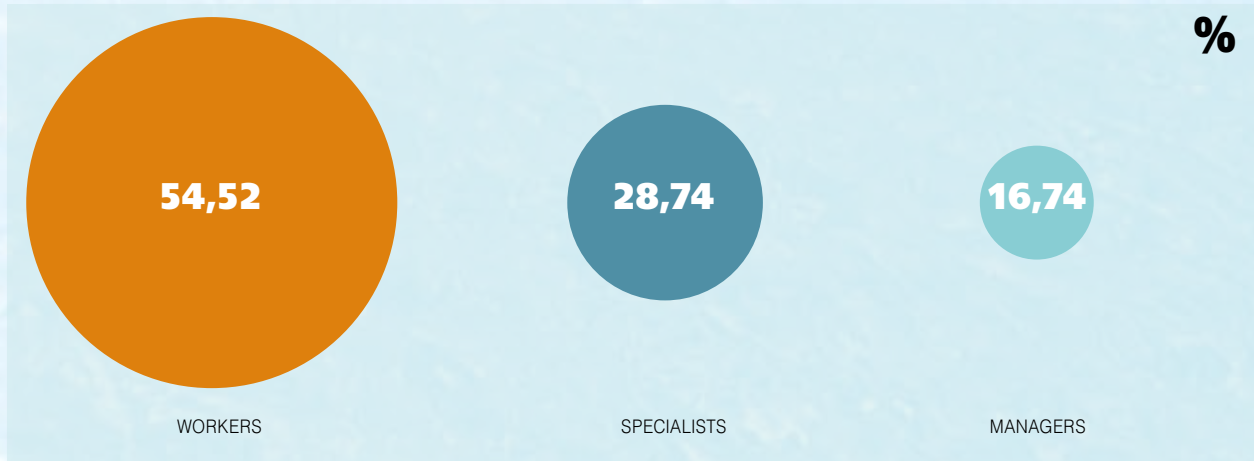


### DYNAMICS OF THE AVERAGE NUMBER OF PERSONNEL BY THE SUBSIDIARIES FOR THREE YEARS

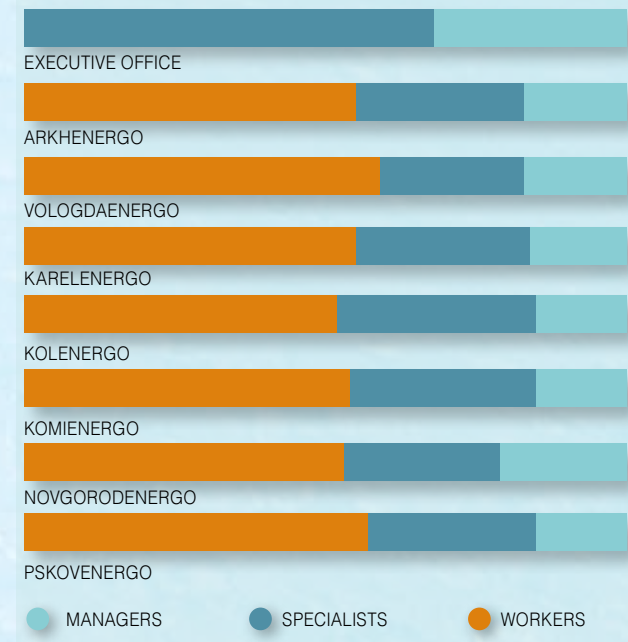
Personnel structure by categories remains unchanged and balanced for the last three years allowing the accomplishment of the Company's tasks.

Reduction in the number of the management employees is caused by the optimization of the organizational structure.

Personnel distribution by categories at the Company's branches is quite even.

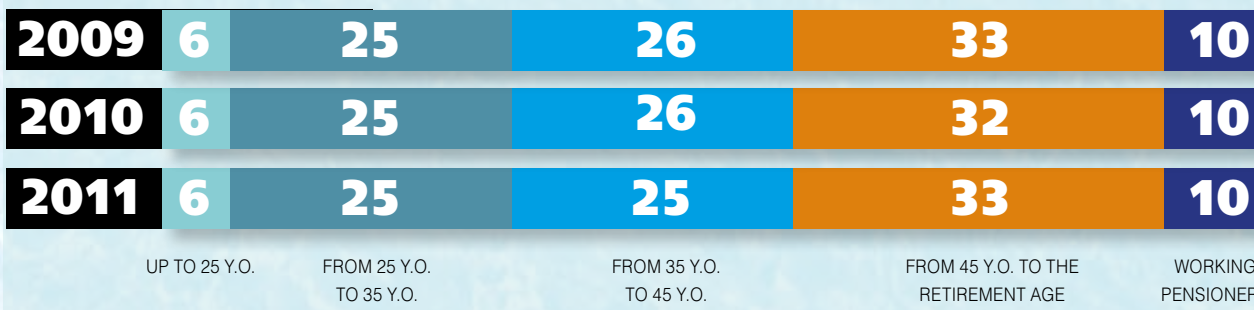


### SUMMARY OF DATA BY 2011



### AGE COMPOSITION OF THE COMPANY EMPLOYEES

#### DYNAMICS OF PERSONNEL STRUCTURE BY AGE



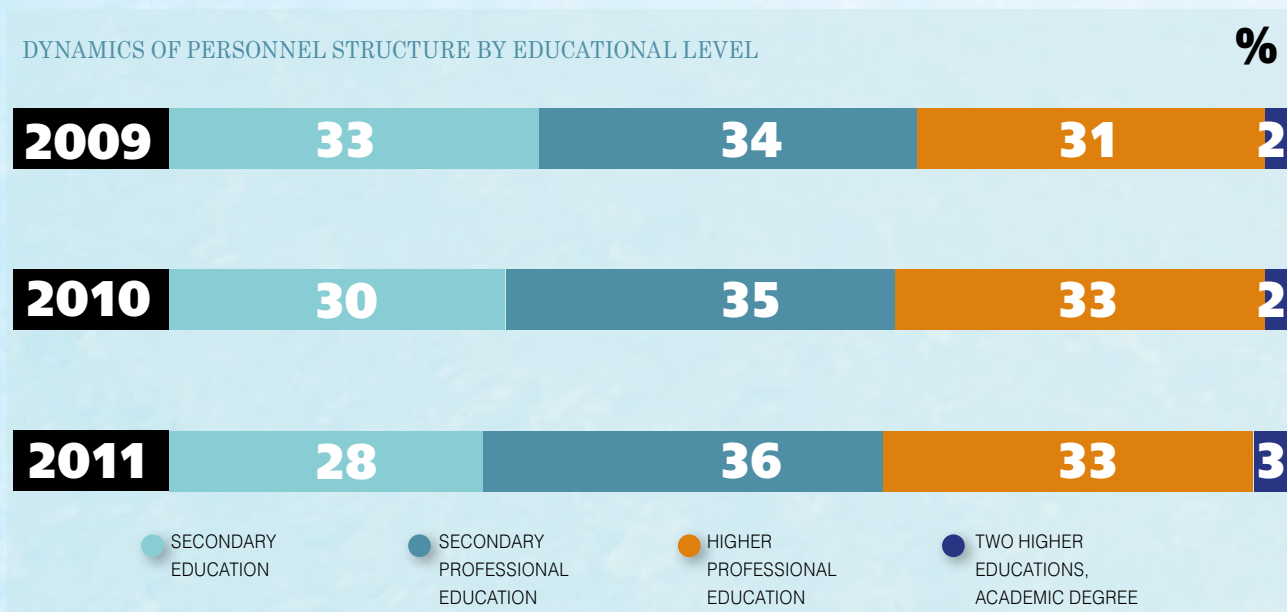
The age structure of IDGC of the North-West employees is characterized by a high number of employees at the most productive age for professional activity. The share of employees from 25 till 45 years of age amounts to 51% of the total number of employees.

Ratio of the employees by age categories in the Company has been stable for the last three years and it remained close to optimum, which provides necessary professional qualification of staff and continuity, natural staff turnover, and allows organizing the effective program for mentoring and training on the job.

The number of employees of a pension age (about 10 %) is connected with the presence of the branches in structure of the Society located in the Far North and equal territories, where retirement age is lower than in the rest of Russia.

80 activities were carried out in 2011 to attract and secure young qualified employees and specialists at the enterprises of power supply network complex: information meetings of power supply enterprises' management with graduates of schools and professional educational institutions, open houses, etc. About two thousand school and university students of the region participated in them. The Regulation on mentoring is successfully implemented as the Appendix to the Collective agreement of IDGC of the North-West, and more than 500 young employees are included in the reserve structure to fill managerial vacant posts.

## THE COMPANY'S PERSONNEL DISTRIBUTED BY QUALIFICATION



During the previous three years there has been a tendency towards increase in the share of employees with higher professional (two higher) education and vocational secondary. Improvement of qualitative characteristics of the personnel in this area is connected with the increased productivity of qualified personnel search and recruitment for the available vacancies and organization of workers' receiving professional training on the job.

## PERSONNEL TRAINING AND DEVELOPMENT

The Company's staff development, retraining and advanced vocational training are carried out according to the Regulation on organization of staff development, retraining and advanced vocational training in the Company, approved by the Order of 21.08.2009, Procedure of working with personnel in JSC IDGC of the North-West, Program of human resources support and development in JSC IDGC of the North-West in 2010-2015.

Training of managers and specialists according to the Regulation on organization of staff development, retraining and advanced vocational training is carried out by topics that correspond the business-tasks and the Company's technical policy, according to the instructions of supervising authorities and is aimed at the increase of power supply system reliability, of operation level and of network and substation equipment repair quality.

The Company's employees are trained in the following areas:

- Advanced vocational training of managers, workers and specialists in the educational centers and in advanced vocational training institutions;
- Managers and specialists' participation in topical workshops;
- Preparation of workers for new position;
- Workers' training in secondary profession (allied trade, as a rule);
- Training of technical engineering personnel in the specialties of Rostekhnadzor and Russian bureau of motor vehicles;
- workers receiving higher and secondary professional education.



Personnel training is carried out off-job in reputed educational institutions that have the necessary license and state accreditation:

- FSAEI FVE Petersburg Power Engineering Institute of Professional Development, Saint Petersburg;
- Institute of Professional Development of Public Administration, Moscow;
- Vologda State Technical University;
- Institute of Professional Development and Personnel Retraining of Ivanovo State Power Engineering University;
- Pomor State University named after M.V. Lomonosov, Arkhangelsk;
- Ukhta State Technical University;
- Syktyvkar State University
- PEIEC Energetik, Vologda;
- NANEO EC Energetik, Kirov;
- Agro-industrial schools, etc.

Given the growth of absolute values in the number of employees participating in training events and the value of training costs, the unit training costs decrease.

In compliance with the approved Plan for 2011, 16,447 employees of JSC IDGC of the North-West took part in training events. 10,676 people passed pre-examination preparation (knowledge assessment in the field of industrial standards and norms). Training was arranged both at workplaces and in licensed training centers.

DATA ON THE SCOPE OF EDUCATIONAL SERVICES PROVIDED TO THE COMPANY DURING THE REPORTING YEAR BY TRAINING CENTERS WHOSE FOUNDER IS THE COMPANY

Name of the Educational Center	Number of employees, people	Number of educational activities	Total cost of providing educational services, thousand RUR
<b>Private Educational Institution Educational center Energetic, Vologda</b>	1 520	158	7 012,67
<b>Educational center of Kolenergo Branch of JSC IDGC of the North-West</b>	327	18	
<b>Total</b>	1 847	176	7 012,67

Due to the deficiency of working personnel (electrical engineers, electro-mechanics) in the remote (rural) areas, primary vocational training of newly-employed workers and preparation of succession candidates for foreman jobs is organized at the secondary educational institutions.

For the purpose of specialists training in the field of power industry, a branch of the chair Power Industry and Transport of the Murmansk Technical State University was established on the basis of JSC Kolenergo branch; the work of this chair made it possible to improve and optimize the academic activity for professions 140211 Electric Energy Supply and 140106 Power Supply of Enterprises as well as to train competitive specialists and adapt their training for the needs of the branch.

In 2011 new methods and activities were applied in order to reduce training costs and at the same time to train the personnel that requires it. Among them are:

- Organization of training on the job, with onsite visits of instructors of educational institutions under contracts;
- Expansion of technical training opportunities, inclusion of the most pressing issues in the curriculum;
- Reduction of training terms due to the self-study and distance education.

It has become a good tradition to include the material covered at the professional development courses and workshops in the technical and economic training curriculum for the interested personnel.

When contacting new educational institutions, where the employees are set for training, the surveys are conducted with the purpose of defining further work prospects. Namely: training quality, availability and relevancy of the presented material, training and living conditions. The same methods are used for the employees that are sent for training at educational institutions and centers for the first time.

In 2011 the teams of the Company's branches took part in the regional professional skill competitions: dispatchers of operating departments and operation and maintenance personnel of the distributive electric energy networks of JSC IDGC of the North-West. For the first time the professional skill competitions for the accounting departments' personnel of JSC IDGC of the North-West were arranged for the title of Best Accountant of JSC IDGC of the North-West in 2011.

Annual on-site technical and economic training in production department is also aimed at professional development of the personnel. It is conducted without the performance of the main functions according to the orders and on the basis of approved lesson plans. At year-end 2011 it covered approximately 85 % of the total number of the personnel.

The Company conducts constant work on re-equipment of classrooms and practice, on purchase and installation of modern equipment and software. Analysis of training efficiency is carried out. New modern forms and methods of presentation the material are developed and implemented, modern interactive multimedia systems are actively used. Setting up uniform information base - electronic library is planned.

## WORKING WITH PERSONNEL RESERVE

Work with personnel reserve is carried out according to Regulations on working with personnel reserve for executive positions, approved by the order of IDGC of the North-West of 15.10.2008

Personnel reserve is a specially formed group of qualified and perspective managers and specialists possessing necessary for promotion professional skills and managerial qualities as well as potential to development and positively recommended themselves in the occupied positions.

The reserve of managerial human resources in JSC IDGC of the North-West is generated for:

- increase of management efficiency of the Company's activity and the activity of its organization departments;
- promotion of the most competent and trained employees to the superior positions;
- operative staff recruitment for vacated and newly introducing positions or replacement of employees incapable to provide management by the trained chiefs;
- temporary substitution of officials with administrative and legal functions in the periods of their absence;

- increase of the employees' motivation to professional and career advancement, to development of their managerial responsibility and independence in management decision making;
- providing succession of managerial experience through renewal of the Company's executive personnel and optimal combining young, perspective and more experienced employees in top-management;
- reduction of the adaptation time when appointing a reserved employee for a higher managerial position;
- prevention of mistakes, hastiness, subjectivity in the selection, arrangement and education of chiefs and specialists, candidates for the higher positions in the Company.

In compliance with the Regulation the nomenclature of managerial reserve of the Company's Executive Bodies, Branches and production departments is developed including the positions:

- management positions by the area of activity,
- managers and deputies of structural divisions,
- managers of sectors, production laboratories,
- senior foremen, foremen and civil defense executives.

By selection of candidates for the managerial human resources reserve as the main criteria for each candidate were considered:

- knowledge and experience;
- professional efficiency;
- personal traits.

As of the end of 2011, the Company's managerial reserve includes 1,562 people. All the employees included in the composition of managerial human resources reserve of the branches and executive bodies of the Company are qualified and perspective specialists possessing the necessary professional skills and managerial qualities, high potential to development, necessary record of service and experience. Besides, these employees positively recommended themselves in the occupied positions.

For the employees included in the list of the managerial human resources reserve the actions for development of their

management competence are carried out. In 2011 part of reserved personnel underwent extension courses training, participated in counseling seminars (out of service training) on the issues actual for their line of activity. All the reserved employees included in managerial reserves monthly took part in technical and engineering training, were occupied with self-preparation. The main types of training for managerial human resources reserve members in 2011 were: self-preparation, participation in training events arranged by the staff employees of JSC IDGC of the North-West, discharge of duty within the reserved position in the periods of absence of the active chiefs, participation in business games and trainings.

The Regulation on Personnel Reserve of Young Specialists was approved by the Order on 29.06.2011. The objectives of reserving young specialists are: creation of opportunity for professional advancement and career development of the Company's young specialists, contributing to the increase of professional qualification and managerial competence of the Company's young specialists, providing the Company with highly skilled and effective specialists and managers, timely and qualitative staff recruitment for vacated and newly introducing positions in the Company.

For definition of competence development level of young specialists aspiring to be included in the youth personnel reserve and determination of the most effective ways of competence development the following evaluation actions were performed:

- psychologic testing;
- business games.

Initially 306 employees from among young specialists of JSC IDGC of the North-West presented documents for participation in the project: employees of the executive bodies – 15 people, employees of the branches – 291 people.

According to the results of evaluation actions the personnel commissions of the branches came to decision to enroll 217 candidates into the reserve of the branches. 60 people were enrolled into personnel reserve of the Companies executive bodies.

For the reserved workers the targeted positions were defined and the mentors from among highly professional employees



of JSC IDGC of the North-West were selected that can assist the reserved employees in acquisition of knowledge, skills and experiences which are required at the relevant position.

Currently individual development plans (IDP) are being elaborated for the young specialists that are members of the youth personnel reserve. The majority of developing actions planned in IDP suppose the acquisition of necessary knowledge, skills and experiences by reserved employees in the process of production activity – at the workplace or in the design work.

The responsibility for execution of individual development plans is charged to reserved employees themselves. Apart from the mentors they will receive the assistance in realizing the planned actions from the employees of the Company's personnel departments.

## SOCIAL ACCOUNTABILITY

The key issue of human resources management is implementation of effective social policy of the enterprise.

Realizing its responsibility before the state, the society and the employees of IDGC of the North-West, the Company's management pays much attention to social aspects of its activity, which significantly influence the effectiveness of the employees' work, contribute to the development of labor productivity, production optimization, stabilization and sustainable development of the company in long-term perspective, to improvement of the employees' quality of life, and positive image of the company.

Effective social security system implemented in the Company promotes the attraction of qualified specialists to the company, reduces staff turnover and becomes one of the foundations of successful industrial activity.

By investing material resources in the staff development and by actively using indirect motivation tools the Company stabilizes the team, increases employees and retirees' social security, forms positive public image, provides reasonable combination of highly skilled personnel' renewal and retention processes.

The complex program Organization of social policy development in 2010-2011 is developed in IDGC of the North-West. The list of the Company's social policy implementation areas is broad and includes issues of non-state pension provision; medical insurance, provision of recreation and health improvement of employees, care for pensioners - veterans of AO-energo, and for young specialists, activities for formation and development of corporate culture.

The main principles of social policy implementation are the following:

- **Targeting** - orientation first of all on the groups of workers, on whom the effective fulfilment of production tasks, the achievement of the goals of the North-West network complex and the least protected layers of employees depend;
- **Relevance** – correspondence of the granted privileges with pressing needs of concrete groups of employees, individual approach;
- **Competence** - granting social support in various areas of activity;
- **Openness** - open discussion of developing social positions and availability of the information on the existing privileges and guarantees;
- **Productivity** - constant monitoring and evaluation of the efficiency of action motivating factors.

In the existing conditions of intense competition in the labor market in the regions of presence, considering the difficulty of keeping the team against the background of overcoming the consequences of financial and economic crisis and peculiarities of tariff regulation, special attention in 2011 was given to the development of the social aspect of productive relations.

Social policy of IDGC of the North-West in 2011 was focused on:

- Maintenance of social stability and development of social partnership in conditions of reorganization;
- Provision of social security for the personnel, their family members and veterans of power industry in conditions of the general financial and economic crisis;
- Development of corporate culture with the purpose of motivating the personnel to fulfill the company's mission and solve current problems;

- Creating stable favorable socially-psychological climate in the team;
- Providing positive public image of the Company.
- Social policy of IDGC of the North-West in 2011 was carried out in the framework of the Collective agreement of the Company for 2009-2011. There were no violations of the Collective agreement provisions in the reporting year.

The Company's social policy in 2011 was developed in complex regarding maintenance of social package, i.e. a package of benefits, compensations and privileges for the company's personnel, their family members and veterans of power industry, which is distributed by several target areas:

- Disease prevention and health improvement of employees and their children

Voluntary health insurance (hereinafter referred to as VHI) and health and accident insurance (hereinafter referred to as HAI) of the Company's employees was carried out according to the Regulation on providing insurance protection of IDGC of the North-West (approved by Resolution of the Board of Directors of 13.11.2009) and Insurance protection program of IDGC of the North-West for 2011 (approved by Resolution of the Board of Directors of 13.03.2011).

Insurance of employees in 2011 under VHI was carried out by JSC AlfaStrakhovanie, insurance under HAI was carried out by LLC Rosgosstrakh.

One of the main components of the employees' health improvement, healthy lifestyle promotion and disease prevention is granting the Company's employees of opportunities of involvement in physical training and sports, conducting competitions and sports celebrations, participation in sports competitions and tournaments. During 2011 in the framework of the social policy development program about 200 sports activities were held with participation of about 5.9 thousand employees. The Company's team took 7th place in the Winter Games of JSC IDGC Holding, and 9th place in the summer games.

With the goal of children's health improvement though full or partial use of the Company's funds employees' children of workers visited holiday centers of the country, vacation hotels and health resorts of Anapa, Sochi and Tuapse during the reporting year.

- Social support of nonworking pensioners and pensioners retiring from the Company

Company's social accountability documented in the Collective agreement provides expenses for material support of former employees of JSC IDGC of the North-West, who received one-time material aid on Victory Day, Elderly Day and personal anniversaries during the reporting year; relatives of pensioners-veterans were reimbursed for the expenses on ceremonial services.

Apart from financial aid paid to retirees there were held different cultural events in each Subsidiary of the Company. In order to promote social and public support of veterans of power industry, according to the order of Director General the Company there was held a corporate holiday "Day of the elderly people – veterans of JSC IDGC of the North-West" on each last day of the quarter.

The Veterans Coordinating Council was established in JSC IDGC of the North-West. The veterans willingly meet with the youth, participate in the actions organized by the Company / IDGC Holding (historic and memorial action Victory Banner Relay Race -2011, All-Russian ecological action Distributive Electric Network Complex for Environment Protection, corporate mentoring movement, development of dynastic labor succession, creation of corporate museums and historic rooms, maintenance of historic records and references, International Relay Race From Motherland of Heroic Deeds – to Motherland of a Hero, etc.).

The Company's employees participated in festive actions devoted to the celebration of the 66th anniversary of the Great Victory and Lifting of the Siege of Leningrad, carried out acquisition of materials for writing the Company's chronicle (recollections of the oldest employees, photo materials), topical meetings (meetings of veterans with young employees and students) were held in all branches.

- Target social payments, privileges and compensations to the Company's employees

This component of the personnel social package of IDGC of the North-West provides a number of target monetary payments and compensations to the personnel according to the applicable norms of the collective agreement operating in 2011, the most essential of which are: One-time material aid before vacation;

- Compensation of traveling expenses within the territory of the Russian Federation for the employees and their dependents, working in the Far North regions and the districts equated to them to a place of their vacation and back;
- 50 % e discount for the household electric energy consumption;
- Payments to the employees at birth of a child, registration of marriage, death of relatives;
- One-time payment to the employees retiring after the establishment of labor pension.
- Implementation of the of Non-state pension provision program

Non-state pension provision program for the employees of IDGC of the North-West (hereinafter - Program) for 2011 is approved by the Company's Board of directors on 24.12.2010. The main purpose of the Program is providing worthy living standard of the Company's employees at pension age, and creating the conditions for effective solving of personnel issued, such as decrease of staff turnover and keeping the employees in the power supply system. During 2011 the Company continued cooperation with Non-state pension fund of electric power industry (hereinafter referred to as electric power industry NPF) in the framework of employees' non-state pension provision program implementation in four areas:

- Corporate plan (financed by the Company), including the Supporting program;
- Parity plan (financed by the Company and employee);

- Co-financing program (financed by the employee, the Company and the State);

- Transfer of the funded part of the state pension to NPF.

In the framework of the approved Program in 2011 the Co-financing program was implemented in accord with Federal law dated 30.04.2008 No. 56-FZ on additional insurance payments to funded part of labor pension and state support of pension assets' formation with participation of 245 employees.

During 2011 non-state pension was received by 3 664 people from among the retirees.

- Conducting cultural events and educational campaigns

During the reporting year there were held 346 thematic public functions and more than 60 excursions for the employees with participation of more than 24 thousand people, 41 exhibitions of creative works of power engineers and their children, 126 activities aimed at attraction and securing young qualified workers and specialists at the enterprises of the electric network complex - about three thousand high school and university students of the region as well as young employees of the Company participated in them - totally about 800 activities aimed at further development of the corporate culture, involving 33 thous. persons. The Company's team participated in the First All-Russian Contest of the Funny and Inventive for power engineers of the distributive network complex. In December, 2011 according to the results of creative contests in the Company's branches the Gala Concert of the power engineers' creative work took place in Veliky Novgorod for the prize of JSC IDGC of the North-West. On the initiative and with the active participation of the Youth Council the lessons for electrical safety were given in children's homes as well as congratulation of their pupils with the New Year.

- Development of social partnership system

In 2011 the Company effectively built relations with the Primary trade-union organizations (PTUO) and PTUO



representatives' council, solving shared problems of information supply of the group, of cultural and sports events organization, fulfilment of the uniform collective agreement and uniform position on labor remuneration of the employees. One of the most important tasks solved by the parties of social partnership in 2011 was development and coordination of the project for the Collective Agreement of JSC IDGC of the North-West for 2012 which was completed by joint signing of the document by the parties on 07.02.2012. There were no violations of the collective agreement terms in the reporting year.

74% (10 681 people) of the Company's employees are the members of shop-floor union organizations.

## OCCUPATIONAL SAFETY

### INDICATORS OF OCCUPATIONAL TRAUMATISM AND PROFESSIONAL DISEASE INCIDENCE

Organization of labor and control of occupational safety observance, prevention of occupational traumatism are carried out in all branches of IDGC of the North-West according to the Regulation on occupational safety control system.

#### INDICATORS OF OCCUPATIONAL TRAUMATISM

	Indicator	Arkhen-energo	Vologda-energo	Karel-energo	Kol-energo	Komi-energo	Novgorod-energo	Pskov-energo
2009	Total number of injured	1	1	1	2	2	0	0
	Including lethal injuries	1	0	0	1	0	0	0
	Fr	0,47	0,38	0,78	1,75	0,67	0,00	0,00
	Lifr	0,47	0,00	0,00	0,87	0,00	0,00	0,00
2010	Total number of injured	3	1	3	0	1	4	2
	Including lethal injuries	0	1	0	0	1	1	0
	Fr	1,31	0,36	2,21	0,00	0,33	2,54	0,84
	Lifr	0,00	0,36	0,00	0,00	0,33	0,63	0,00
2011	Total number of injured	2	4	5	0	0	2	3
	Including lethal injuries	0	0	0	0	0	0	0
	Fr	0,86	1,44	3,72	0,00	0,00	1,26	1,25
	Lifr	0,00	0,00	0,00	0,00	0,00	0,00	0,00

where:

Fr is Frequency rate of total injuries (number of accidents per 1000 employees).

Lifr Frequency rate of lethal injuries (number of lethal accidents per 1,000 employees).

In 2009 7 industrial accidents were registered, among them 2 accidents with lethal outcome (Arkhenegero, Kolenergo) and 3 accidents (2 accidents in Komienegero and Vologdaenergo) referred to the category of severe. Totally 7 people suffered as a result of accidents.

In 2010 14 industrial accidents were registered, among them 3 with lethal outcome (Novgorodenergo, Vologdaenergo, Komienegero) and 2 accidents referred to the category of severe (Karelenegero, Arkhenegero). Totally 14 people suffered as a result of accidents.

In 2011 14 industrial accidents were registered: 16 people were injured, among them 2 accidents were with severe outcome (Vologdaenergo, Arkhenegero).

In 2011 there were no fatal and electrical accidents.

The coefficient of general accident frequency increased from 0.94 in 2010 to 1.086 in 2011. The coefficient of fatal accident frequency decreased from 0.20 in 2010 to 0 in 2011.

During the period from 2009 to 2011 there were no cases of occupational diseases registered.

Analyzing the data one can conclude that the structure of expenses and their size are stable. This may be due to the fact that labor expenses are planned. Some fluctuations are caused by the conclusion of agreements at more favorable price according to the results tender procedures and purchase of sets of special clothing resistance to the influence of electric arc with double wear life.

## OCCUPATIONAL SAFETY EXPENSES

Branch/IDGC	Spent for occupational safety activities, RUR mln	В ТОМ ЧИСЛЕ:			
		по предупреждению несчастных случаев	по предупреждению заболеваний на производстве	по общему улучшению условий труда	на обеспечение работников средствами индивидуальной защиты
<b>Arkhenegero</b>					
2009	22,8	1,7	2,0	1,6	17,5
2010	24,3	1,6	2,7	1,5	18,5
2011	28,3	2,6	3,7	2,3	19,7
<b>Vologdaenergo</b>					
2009	35,8	1,7	2,5	1,2	30,4
2010	38,1	1,0	4,4	1,3	31,4
2011	43,5	0,9	5,0	1,0	36,6
<b>Karelenegero</b>					
2009	23,6	0,6	6,7	0,2	16,1
2010	22,9	1,5	7,0	0,4	14,0
2011	26,3	0,6	7,5	0,2	18,0
<b>Kolenergo</b>					
2009	16,6	4,1	1,6	2,1	8,8
2010	18,0	0,5	7,7	0,3	9,5
2011	18,8	0,4	6,7	1,6	10,1
<b>Novgorodenergo</b>					
2009	54,7	8,9	5,0	2,2	38,6
2010	43,7	5,1	9,0	1,2	28,4
2011	42,5	6,1	8,3	2,5	25,6
<b>Pskovenergo</b>					
2009	36,7	3,3	3,1	4,6	25,7
2010	33,0	2,1	4,1	3,6	23,2
2011	42,3	5,3	5,4	5,4	26,2
<b>Executive office IDGC</b>					
2009	21,7	3,6	2,0	2,6	13,5
2010	26,9	4,6	3,0	5,3	14,0
2011	39,4	5,4	4,7	4,0	25,3
<b>ИА МРСК</b>					
2009	0,09	0,09	0	0	0
2010	0,23	0,23	0	0	0
2011	0	0	0	0	0
<b>IDGC of the North-West</b>					
2009	211,9	23,9	22,9	14,5	150,6
2010	207,1	16,5	38,0	13,6	139,0
2011	241,1	21,3	41,3	17,0	161,5

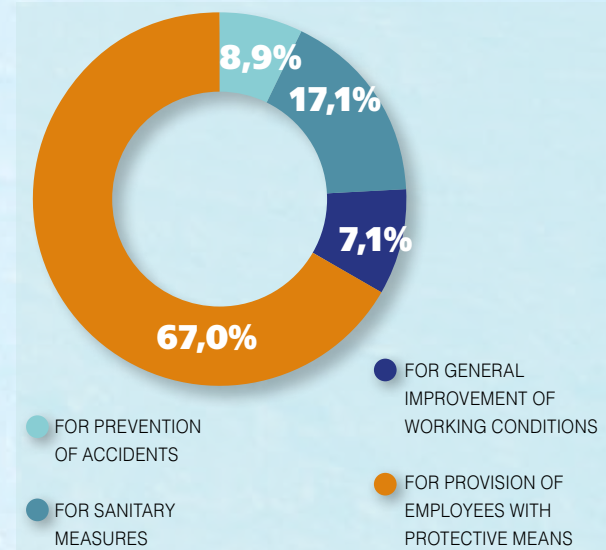




OCCUPATIONAL SAFETY EXPENSES PER ONE EMPLOYEE,

	Expenses, RUR thous.		
	2009	2010	2011
Arkhenenergo	10,4	10,6	12,2
Vologdaenergo	13,7	13,7	15,6
Karelenenergo	18,3	17,0	19,6
Kolenergo	14,4	15,4	16,1
Komienergo	18,2	14,3	14,7
Novgorodenergo	24,6	20,9	26,6
Pskovenergo	9,2	11,2	16,4
Average for IDGC of the North-West (RUR thous./person)	15,5	14,7	17,3

DISTRIBUTION OF OCCUPATIONAL SAFETY EXPENSES IN 2011



PROVISION OF SPECIAL CLOTHING FOR THE PERSONNEL

Branch/IDGC	Number of employees to provide with clothing resistant to the electric arc thermal action, people.	Actual number of employee provided with clothing resistant to the electric arc action, people.	Including summer clothing, people.	Including winter clothing, people.	Number of employees not provided with winter or summer sets	Percentage of clothing supply, %	Percentage of summer clothing supply, %	Percentage of winter clothing supply, %
Arkhenenergo	1 089	893	979	893	88 (by new standards)	82,0	109,6	100,0
Vologdaenergo	1 343	1 282	1 284	1 282	9 (newly employed), 51 (by new standards)	95,4	100,1	100,0
Karelenenergo	726	726	726	726	0	100,0	100,0	100,0
Kolenergo	502	502	502	502	0	100,0	100,0	100,0
Komienergo	1 145	1145	1 145	1 145	0	100,0	100,0	100,0
Novgorodenergo	833	833	833	833	0	100,0	100,0	100,0
Pskovenergo	1 227	1 116	1 116	1 117	97 (35 of them newly employed)	90,9	100,0	100,1
IDGC of the North-West	6 865	6 497	6 585	6 498	44 (newly employed), 201 (by new standards)	94,6	101,3	100,0

## ASSESSMENT OF WORKPLACES

Assessment of workplaces by labor conditions is carried out according to the requirements of regulatory documents regulating labor conditions at workplaces.

Assessment of workplaces by labor conditions allows to:

- Receive the real picture of labor conditions at workplaces;
- Establish reasonable additional payments to the employees for harmful and (or) arduous labor conditions according to the results of instrumental gaugings of harmful production factors;
- Establish the account of workplaces with favorable labor conditions;
- According to the results of assessment of workplaces to provide work clothes where necessary according to the working conditions;
- Accounting of workplaces with privileged pension coverage;
- Get the opportunity of discount to the insurance tariff for compulsory social insurance from industrial accidents and occupational diseases.

### DATA OF ASSESSMENT FOR 2011

Branch/IDGC	Assessment carried out in 2011. WP	Actual amount of financing, RUR mln.	Assessing organization
Arkhenenergo	506	0,7	
Vologdaenergo			Assessment of work places did not take place in 2011.
Kareleenergo			
Kolenergo	308	0,2	CJSC Klin institute of occupational safety OLS-komplekt
Komienergo	92	0,2	LLC "Center of Attestation and Certification"
Novgorodenergo	131	0,3	LLC Novtrudkonsultatsiya
Pskovenergo Executive office			Assessment of work places did not take place in 2011.
IDGC of the North-West	1037	1,4	

### ARKHENERGO BRANCH

Assessment of workplaces by labor conditions is completed in 2011 in production department Arkhangelsk Electric Networks and Plesetsk Electric Networks. The results of assessment of workplaces are directed to the State Labor Inspection of the Arkhangelsk Region and the Nenets Autonomous District.

### VOLOGDAENERGO BRANCH

Assessment of workplaces by labor conditions is completed in 2007. In 2010 Assessment of workplaces by labor conditions was carried out at the executive office of the Branch. The results of assessment of workplaces are recorded by the state authority for expertise of labor conditions and entered in the state register of constituent entity of the Federation at the registration office of the branch.

### KARELENERGO BRANCH

Planned assessment of workplaces was carried out in 2008-2009. The assessment was executed by CJSC Butam (St. Petersburg). In October, 2010 the assessment of 29 newly created workplaces was conducted at PD South-Karelian Electric Networks. In 2011 the assessment of workplaces was not performed.

### KOLENERGO BRANCH

Assessment of workplaces in the branch is conducted in accordance with established frequency. The results of assessment of workplaces in 2008-2010 are entered in the Register of Workplaces by Labor Conditions of the Murmansk Region. In 2011 the assessment of workplaces at production department Central Electric Networks is started.



## KOMIENERGO BRANCH

Assessment of workplaces in the branch is conducted in accordance with established frequency. In 2011 unplanned assessment of 48 workplaces by labor conditions at production department Pechora Electric Networks has been started and repeatedly of 44 workplaces at production department Central Electric Networks after completion of planned actions for bringing the workplaces to conformity in compliance with the current standards and rules.

## NOVGORODENERGO BRANCH

Assessment of workplaces by labor conditions was carried out in 2006-2008. In 2011 the assessment of newly created workplaces was completed. Action plan for 2012 has been developed for the reduction of harmful factors to sanitary standards.

## PSKOVENERGO BRANCH

Assessment of workplaces by labor conditions was completed in 2009. Quality of conducting the assessment of workplaces is estimated by the Central State Administration for Social Development of the Pskov Region. In 2011 the assessment of workplaces in the Pskovenergo branch was not performed.

Subsequent to the results of workplaces assessment by labor conditions plans of activities for labor conditions and health improvement are being developed and affirmed

Performance of the planned activities to decrease the injury risks of third persons in the IDGC of the North-West responsibility zone for 2010-2012, including activities for prevention of child traumatism, third parties' traumatism and prevention of contracting organizations employees' traumatism.

## THE MAIN COMPANY'S ACTIVITY TRENDS AIMED AT IMPROVEMENT OF OCCUPATIONAL SAFETY

- Implementation of the Policy in the field of occupational safety key principles.
- Conducting work with the personnel.
- Providing safety of technological processes and safe equipment operation according to the requirements of the applicable law and regulations on labor safety.
- Information support in the area of labor safety.
- Organizational and technical provision of the activities for reduction of industrial injuries:
  - » Conducting medical examinations;
  - » Conducting analysis of disease rate by personnel categories;
  - » Carrying out personnel examinations at the occupational pathology centers;
  - » Carrying out assessment of workplaces by labor conditions, developing activities to bring the workplaces to conformity with requirements according to the assessment results; measures to bring the workplaces to conformity with the applicable standards and regulations;
  - » Implementing constant control and compliance audit of labor conditions and occupational safety;
  - » Timely provision of special clothes, special footwear and others individual safety means, communication equipment, first-aid kits, medicine, milk or other equivalent food products, washing and neutralizing agents for the personnel;

## EMPLOYEES' HEALTH CARE AND PSYCHO PHYSIOLOGICAL LIFE SAFETY ORGANIZATION

In the main areas of activity on the employees' health care with the purpose of providing Company's personnel psycho-physiological reliability the performance of following activities is provided:

- Conducting pre-trip and pre-shift examination of psycho-physiologic condition and fitness for work of operating, operating-maintenance, maintenance, administrative personnel and drivers. The pre-shift admission control was organized and provided to employees, the official categories (professions) of which are a subject to pre-shift admission control according to local statutory acts (drivers and administrative-technical, operating, operating-maintenance and maintenance personnel, carrying out official duties in functioning electrical installations and assignment and order jobs), among them the dispatchers are provided 100 % conducting of pre-shift admission control. In the remote workplaces of the employees subject to pre-shift admission control the state of health is examined during unscheduled inspections of workplaces. In 2011 451 employees were suspended from work on medical grounds, 12 of them had symptoms of alcohol intoxication.
- 100 % complete preliminary medical examination at employment. In 2011 regular medical examination of 8,061 employees was carried out. 1,053 were sent for the follow-up examination. All instructions of medical commissions are accomplished. According to the results of medical examinations at the expense of SIF (Social Insurance Fund) 86 employees were sent to sanatoriums and preventive clinics. 2,542 employees were vaccinated against tick-borne encephalitis.
- Specialists of PRS conducted simulator training for techniques of medical first aid to injured in accidents, intensive care skills and immediate medical treatment.
- Conducting inspections of workplaces together with subsidiaries' labor protection and production departments' reliability service. The inspection program in the area of personnel psycho-physiological reliability provision includes the following issues: inspection of the employees' current state of health, their going through pre-shift admission control, sanitary conditions, employees' equipment and use of specialized clothing and footwear. During the reporting year there were held 684 spot checks.
- Performance of planned psychophysiological examinations of the personnel according to approved schedule and at the requests of the management.
- Performance of social-psychological investigation of relations among the members of repair brigades. Such investigation enables determination of main problems arising in the teams and, as a consequence, development of corrective measures for optimization of psychological climate and achievement of necessary conditions for effective and reliable operation of repair brigades. According to the results of repair brigades' examinations analytical reports are prepared for the management where the problems of a particular team and recommendations for their elimination are defined.
- Arrangement and carrying out of actions aimed at recovering the human functional status. For this purpose trainings are developed and performed in the Company.

With the purpose of strengthening the psycho-physiological provision of personnel occupational safety the following activities are planned:

- Continued work on conducting primary in-depth psychological examination, including the one with the use of PDS Psychodiagnostic system software (version 4.1).
- Organization of scheduled, current psychological examinations of operating and operating-maintenance personnel according to schedule.
- Organization of spot checks of the personnel's health condition during work shift.
- Conducting assessment of personnel reserve.
- Organization of formation (updating) of individual development plans for succession candidates.
- Organization of trainings for occupational safety and health protection skills on development for the personnel.
- Participation in preparation of teams for participation in professional skill competitions.
- Organization of pre-shift admission to workplace for all administrative-technical, operating, operating-maintenance, maintenance and driving personnel.
- Organization and control of contracts with medical institutions on rendering medical services.
- Organization and control of scheduled medical inspection for employees

## SECTION 11.

# PUBLIC RELATIONS, RELATIONS WITH THE GOVERNMENT AUTHORITIES, INTERNATIONAL COOPERATION, CONGRESS AND EXHIBITION ACTIVITY

### *Delphinus delphis*

*The short-beaked common dolphin is a medium sized dolphin, smaller than the more widely-known bottlenose dolphin. Adults range between 1.6 and 2 metres (5.2 and 6.6 ft), long, and can weigh between 70 and 235 kilograms (150 and 520 lb), although a range between 70 and 110 kilograms (150 and 240 lb) is more common. Males are generally longer and heavier. The color pattern on the body is unusual. The back is dark and the belly is white, while on each side is an hourglass pattern colored light grey, yellow or gold in front and dirty grey in back. It has a long, thin rostrum with 50–60 small, sharp, interlocking teeth on each side of each jaw.*

Within the implementation of the unified reputation policy of JSC IDGC Holding aimed at expanding the Company's publicity capital, JSC IDGC of the North-West carries out work in the following areas: public relations, interaction with mass media, congress and exhibition activity and international cooperation. The main tasks are formation and keeping of the Company's positive image and business standing in public space and mass media, reputation risk management, informational support of the Company's activity and mass media monitoring, first person public relations, promotion of corporate symbols and control of its observance, information support of activities of social, patriotic, historic and memorial orientation.

## PUBLIC RELATIONS

JSC IDGC of the North-West is a socially responsible and customer-oriented company. The Company's policy in this area is actively positioned inside public space by means of information openness, accessibility, operability and information actuality. The work is carried out in close cooperation with sectoral departments providing development of relation model. The Company interacts with different target audiences: government authorities, business community, consumers, public organizations, religious affiliations, trade unions, youth organizations and movements.

For enhancement of transparency and accessibility of information for all the target audiences in 2011 interactive portal for the customers Internet-Reception was arranged on the corporate site of the Company (<http://clients.mrsksevzap.ru/>), where detailed information on the Company's services is represented, opportunity of feedback is provided, interactive multimedia reference book for energy efficiency is included, developed by the employees of public relations department that do not have any analogues in the branch.

In 2011 the reference book for energy efficiency was marked by two professional awards: winner of the Minenergo's competition KonTEKst (in the nomination Energy Efficiency and Energy Saving), winner of the prize in the sphere of public relations development RuPoR (in nomination Best Student's Project).

For maintenance of feedback with the customers at the corporate site of JSC IDGC of the North-West and at the sites of the Company's branches there is a functioning hot line Switch on the Light. Twenty-four-hour channel provides operational communications with consumers in case of mass outages.

JSC IDGC of the North-West develops relations with scientific community through the department Safety Problems of FEC, AVN. The employee of the public relations department Ph.D. Maxim Golikov functions as press secretary of the scientific division. Altogether 4 employees of JSC IDGC of the North-West are in the composition of the scientific division. The Company actively participates in promotion and carrying out of the First All-Russian Youth Contest of Science-Intensive Innovative Concepts and Projects "Power Industry of the Future" initiated by JSC IDGC Holding. For informational support of the contest interactive portal was specially developed ([http://www.mrsksevzap.ru/news/prproject/future\\_energy](http://www.mrsksevzap.ru/news/prproject/future_energy)).

Due to powerful information support it became possible to involve scientists, post-graduates, lecturers and students of 30 higher educational institutions to participation in innovative activity of JSC IDGC of the North-West. Many works were carried out by mixed creative teams – young specialists of network branches and scientific community of higher educational institutions. JSC IDGC of the North-West received more than 120 applications for participation in the contest, 14 among them were recommended for participation at the federal stage, one is declared as the winner of the All-Russian contest Energy of the Future.

For the purpose of public relations development JSC IDGC of the North-West signed the Cooperative Agreement with the Interregional Department of the Ministry of Energy on NWFD, Opora Russia, DOSAAF (Voluntary Society for Cooperation with the Army, Aviation, and Fleet), EMERCOM, Agreements with the Russian Orthodox Church, public organization Petersburg's Parents and other public organizations are being prepared to be signed.

Drawing of attention of public at large and the Company's personnel to participation in social, historic and memorial campaigns carried out under the auspices of JSC IDGC Holding is a further important element of the work for formation of positive image and business standing of the Company. Arrangement of All-Russian campaign Electric Network Complex for Environment Protection in JSC IDGC of the North-West performed on the initiative of JSC IDGC Holding was fully rested on the Public Relations Department of executive bodies and the Company's branches. For promotion of campaign and involvement of the team and public at large to participation a special interactive portal Save Forest Energy (<http://www.mrsksevzap.ru/news/prproject/energy>) was arranged at the corporate site. Within the campaign 140 actions are held, more than 17,5 thous. trees and

bushes are planted. The representative of regulatory bodies, public, youth, ecological organizations, veterans' community and mass media took part in the campaign.

The Save Forest Energy project received 3 professional awards: winner of the International Contest PROBA-IPRA GWA 2011 (in nomination Best Social PR-Project, winner of the prize in the sphere of public relations development RuPoR (in nomination Best PR-Project), winner of the I Contest of the Minenergo of the Russian Federation KonTEKst.

Historic and memorial campaigns Victory Banner Relay Race and From Motherland of Heroic Deeds – to Motherland of a Hero carried out on the initiative of JSC IDGC Holding permanently causing broad public response and support are of great significance for formation of the Company's positive image. For popularization of projects a special section is opened at the corporate site describing all the events performed within the campaigns ([http://www.mrsksevzap.ru/news/prproject/znamya\\_pobedy](http://www.mrsksevzap.ru/news/prproject/znamya_pobedy)).

In 2011 Victory Banner copies were delivered to the Treptower Park (Berlin) and to the Reichstag by the members of the joint delegation of JSC IDGC Holding under auspices of the Director for Information Policy and Communications A.E. Uzhanov. Composition of the delegation included a group of workers of the Pskovenergo branch of JSC IDGC of the North-West.

Within improvement and development of public relations and accumulation of target audience audiences the great educational work is carried out among children, pedagogical community, social movement Petersburg's Parents within the program Be Friends with Electricity are actively involved to the campaigns aimed at accidents prevention.

In 2011 voluntary youth movement the members of which organize interactive lessons for electrical safety among inmates of children's homes and boarding schools became to evolve. Specially for the program Be Friends with Electricity methodical film Secret of Yellow Triangle recommended by educational establishments as a teacher edition for the schools of NWFD was prepared in the branch Pskovenergo of JSC IDGC of the North-West.

From 2010 by efforts of the public relations department's specialists the corporate newspaper Your Safety – YS, completely devoted to the issues of labor and industrial safety, is published in the Company.

In 2011 JSC IDGC of the North-West became the first winner of the prize For the Promotion of Efficient and Safe Power within the contest The Organization of High Social Efficiency of Electric Power Industry established by RaEl (the Association of Energy Sector Employers) and the All-Russian Electrical Trades Union for implementation of the projects for publication of the only newspaper among the companies of FEC Your Safety and performance of interactive lessons for electrical safety among children by the efforts of volunteers. The drafter of the project Be Friends with Electricity Natalya Dragunova is denominated for the prize Expert of the Year established by the magazine Expert of the North-West in the nomination Patronage and Charity.

The attention of public at large including government authorities was drawn to the All-Russian completion for professional skills of JSC IDGC Holding's operation and maintenance personnel carried out from 5th to 9th of September, 2011 on the basis of the Vologdaenergo branch of JSC IDGC of the North-West. Special site for operative and comprehensive informational coverage of the competition (<http://www.hmrsk-profi2011.ru/>) was arranged. During the month the site was visited by more than 300 thousand users.

This site became the winner of the International Contest for Public Relations Development PROBA-IPRA GWA 2011 (in nomination Best Online Platform), the winner of the prize for public relations development RuPoR (in nomination Best PR Campaign on the Internet), the winner of Contest of the Minenergo of the Russian Federation KonTEKst (in nomination Work with Youth and Personnel Reserve Development).



## RELATIONS WITH GOVERNMENT AUTHORITIES

In 2011 signing of cooperation agreements with the Heads of constituent entities of NWFED was arranged. In March, 2011 such agreement was signed with the Vologda Region, in June – with the Novgorod Region, in July – with the Government of the Republic of Karelia. Regularly the top-managers meet the heads of the regions, business and political elite. The Company's employees participate in elections of delegates for local legislative authorities. The chiefs of public relations departments of the branches Vologdaenergo and Novgorodenergo of JSC IDGC of the North-West function as assistant deputies in regional assemblies - directors of the branches.

Business contacts with press services of constituent entities' government authorities being in the JSC IDGC of the North-West area of responsibility, embassy of NWFED, EMERCOM are gained and maintained. Already 5 years in the Pskov Region together with the regional office of EMERCOM the Pskovenergo branch of JSC IDGC of the North-West actively participates in the joint project Me and Fire Safety for accidents prevention among children. The project involves 100% of children from initial classes of all schools in the Pskov Region, more than 25 thous.

During several years in the Pskov Region there were no fire development accidents caused by the despicence of children in this age category as well as children electrical accidents at the facilities of Pskovenergo of JSC IDGC of the North-West. The project is supported by the State Administration of Education of the Pskov Region.

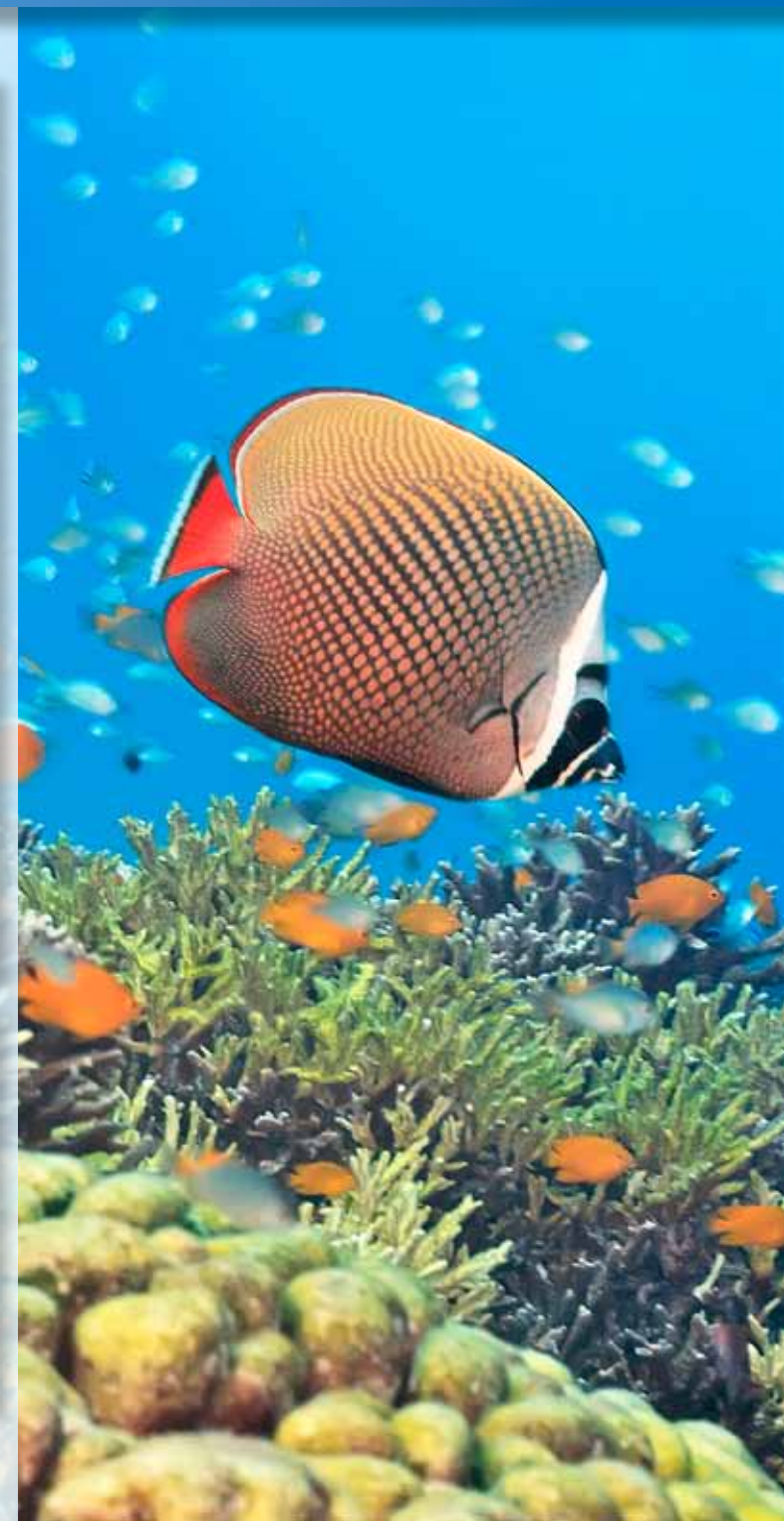
The Company attaches importance to information transparence of activities for different areas, including interaction with the government authorities. Meetings of the Company's management with the heads of the regions, its participation in events of Minenergo, embassy of the President in NWFED are regularly highlighted in mass media. Information support of participation of the Company's top-managers in conferences, meetings with investors and business trips is arranged.

Information corresponding to the legislative regulations on disclosure of information by the entities of wholesale and retail market of electricity is regularly directed to the Federal Tariff Service and the Federal Antimonopoly Service of Russia as well as to the regional administrations. In accordance with the Resolution of the Government of the Russian Federation No. 24 of 21.01.2004 on Establishment of Standards of Information Disclosure by the Entities of Wholesale and Retail Electric Capacity Markets the information materials are posted on the website of JSC IDGC of the North-West within the special section Standard of Information Disclosure.

## INTERNATIONAL COOPERATION

Much work for development of international cooperation is carried out in the Company. Within the common plan for congress and exhibition activity of JSC IDGC Holding the participation and speeches of the Company's top-managers in international conferences, seminars, scientific and practical conferences and exhibitions are organized. JSC IDGC of the North-West arranges meetings with foreign delegations, the Company's chiefs and specialists visit production sites of the leading manufacturers of equipment for FEC. In 2001 the delegation of JSC IDGC of the North-West visited Germany, France, Finland, Japan, China, Austria, Estonia and USA.

In October, 2011 on the joint delegation of JSC IDGC Holding the group of managers, specialists and workers of JSC IDGC of the North-West visited a professional competition of electricians in Kansas City (USA).





## INTERACTION WITH MASS MEDIA

During 2011 10,719 publications were issued by mass media relating to the activity of JSC IDGC of the North-West (content analysis data of independent research and information agency Integrum). The considerable part is associated with the reasons initiated by the Company's press service, republication of press releases. About 98% of materials are of positive or neutral character. The target audience influenced by the data made up about 4 mln. people, economic effect exceeded RUR120.7 mln (PR index).

According to the data of Medialogia, the corporate website of JSC IDGC of the North-West by traffic and efficiency is included in TOP-5 among all the companies of JSC IDGC Holding and in TOP-10 among all the companies of FEC of Russia. The priority-oriented topics of the information support of the Company's activity are: investment and repair programs, interaction with shareholders, preparedness for emergency response, the Company's law-enforcement practice in upholding of its interests in courts of different jurisdictions, corporate events.

The partners of JSC IDGC of the North-West are: leading business publications and information agencies: IA Interfax North-West, RIA News, RBC (RosBusinessConsulting), magazines: Expert North-West, LEP, Electric Energy: Transmission and Distribution, Energoexpert, Business Russia, Electro-Info, Competition and Market, New Opportunities, Energopolis, Trends. Events. Markets, News of Electrotechnology, newspapers Industrial Weekly, Power Engineering and Industry of Russia, Power Industry.

JSC IDGC of the North-West issues common newspaper Your Safety-YS and corporate newspapers in 5 branches:

## CONGRESS AND EXHIBITION ACTIVITY

Congress and exhibition activity of JSC IDGC of the North-West is carried out within the common plan of JSC IDGC Holding. In 2011 this line was actively developed. The Company's representatives function as permanent participants of the leading exhibitions both in Russia and abroad, the Company's management and specialists addresses big energy forums.

In 2011 representatives of JSC IDGC of the North-West visited more than 20 exhibitions and conferences. Among them there are such significant events as the Forum Russia-2011 Troika Dialog (Moscow), investment conference Renaissance Capital (Moscow), St. Petersburg International Economic Forum (St. Petersburg), World Exhibition for Labor Protection (Dusseldorf). The Company's top-managers addressed as speakers the Russian and international conferences, among them there are A. Smith Conference (London-Moscow), II International Forum Renewable Energy, Ecology, Housing and Utilities (St. Petersburg), BIOT 2011 (Labor Security and Safety) (Moscow), took part in training sessions organized by JSC IDGC Holding on the issues of energy saving and efficiency (Berlin).

Congress and exhibition activity in the territory of presence of JSC IDGC of the North-West receives new content and interpretation. The representatives of the Company's branches take part in events where power industry questions play the leading role. In 2011 the representatives of Karelenergo branch first participated in the International Forum Renewable Energy, Ecology, Housing and Utilities arranged in Petrozavodsk. The report for prospects of electric network development was rendered at the annual conference Intellectual Potential of Power Industry in Kola (Murmansk). The speech of Kolenergo's specialists within the Russian-British seminar Strategy for Energy Efficiency Upgrading aroused a lot of interest in business circles.

For two years in succession JSC IDGC of the North-West takes part in the International Exhibition Electric Networks of Russia as part of the joint display case of JSC IDGC Holding. The Company's employees annually function as a member of the single press-center of JSC IDGC Holding providing broad information support of the joint display case's work, participate in arrangement of special actions within the exhibition.

Corporate Presentation day (CPD) being quarterly organized starting from 2008 is a significant event in the congress and exhibition activity of JSC IDGC of the North-West. The CPD was visited by more than 800 specialists, representatives of more than 250 companies from Russia and 17 countries of the world presenting innovative technologies and equipment.

There is a special information and reference section Exhibitions and Conferences on the corporate website of JSC IDGC of the North-West, where not only the main events in the sphere of congress and exhibition activity carried out under the direction of JSC IDGC Holding are represented but also the following materials: presentations, reports, catalogues of exhibitions, photo galleries ([http://cpd.mrsksevzap.ru/Konferencii\\_i\\_vystavki](http://cpd.mrsksevzap.ru/Konferencii_i_vystavki)).

Support of Region (Arkhenergo), Powerman of Polar Region (Kolenergo), Herald of Pskovenergo (Pskovenergo), News of Karelenergo (Karelenergo), Powerman of the Komi Republic, electronic journal Clear Heads. Bright Events. The first book about the history of electric network complex of the North-West

Energy of Good is published. In 2011 the contest among the public relations department for the Best Corporate Edition of JSC IDGC of the North-West was arranged for the first time. Komienergo branch became the winner for the book about energy efficiency Economic Energy.

## REFERENCE INFORMATION

### 1. COMPANY INFORMATION:

#### FULL NAME:

Open Joint-Stock Company Interregional  
Distribution Grid Company of the North-West

#### ABBREVIATED NAME:

JSC IDGC of the North-West;

#### LEGAL ADDRESS:

Sobornaya st., 31, Gatchina,  
Leningrad region, 188300, Russia,

#### POSTAL ADDRESS:

5A Voronezhskaya st.,  
Saint Petersburg, 191119, Russia,

#### PHONES, FAX, E-MAIL:

Phone +7 (812) 305-10-00, fax +7 (812) 305-10-98

post@mrsksevzap.ru

#### INTERNET ADDRESS:

www.mrsksevzap.ru

#### BANK DETAILS:

TIN (taxpayer's identification number) 7802312751,  
RRC (registration reason code) 470550001, PSRN  
(primary state registration number) 1047855175785

RNNBO (Russian national nomenclator of  
businesses and organizations) 74824610

Setl. account 40702810539000005887 with subsidiary Operation  
Department JSC Bank VTB in Saint Petersburg, Saint Petersburg

Corr. account 30101810200000000704

BIC (Bank Identification Code) 044030704

### 2. REGISTRAR OF JSC IDGC OF THE NORTH-WEST:

#### FULL NAME:

Open Joint-stock Company Registrator R.O.S.T.

#### ABBREVIATED NAME:

JSC Registrator R.O.S.T.

#### LOCATION:

bld. 13, 18 Stromynka st., Moscow, 107996

#### POSTAL ADDRESS:

PO Box 9, 18 Stromynka st., Moscow, 107996

#### PHONES:

+7 (495) 771-73-38, +7 (495) 771-73-39

#### INTERNET ADDRESS:

<http://www.rrost.com/>

#### BANK DETAILS:

TIN 7726030449, RRC 771801001, BIC 044525700, setl. account  
40701810700001401238 with CJSC Raiffeisenbank Austria,  
Moscow, corr. account 30101810200000000700

### 3. TRANSFER AGENTS OF JSC IDGC OF THE NORTH-WEST:

#### SIDOROV ALEXEY SERGEEVICH

Leading specialist of Property Management Department of JSC  
IDGC of the North-West's branch Arkhenergo

(8182) 676-345

#### PETROCHENKO ALEXANDER VALENTINOVICH

Legal counsel of Property Management Department of JSC IDGC  
of the North-West's branch Vologdaenergo

(8172) 790-268

#### ZENOVA YULIA VLADISLAVOVNA

Director of Property Management Department of Legal Support of  
JSC IDGC of the North-West's branch Kareleenergo

(8142) 791-756

#### MIKOVA NATALIA EVGENEVNA

Leading specialist of Property Management Department of JSC  
IDGC of the North-West's branch Komienergo

(8212) 283-322

#### KOROLEVA ELENA ALEXANDROVNA

Economist for book-keeping, 1st category, Property Management  
Department of JSC IDGC of the North-West's branch Kolenergo

(81553) 688-07

#### GALKINA IRINA STEPANOVNA

Head of Property Management Department of JSC IDGC of the  
North-West's branch Novgorodenergo

(8162) 984-312

#### PETROVA ELENA VASILIEVNA

Deputy Director of Property Management Department of JSC  
IDGC of the North-West's branch Pskovenergo

(8112) 59-73-28



#### 4. AUDITOR OF JSC IDGC OF THE NORTH-WEST:

**FULL NAME:**

Closed joint-stock company KPMG

**ABBREVIATED NAME:**

CJSC KPMG

**LOCATION:**

Block C, 10, Presnenskaya shore front, Moscow, 123317

**POSTAL ADDRESS:**

Block C, 10, Presnenskaya shore front, Moscow, 123317

**PHONES:**

Phone:(495) 937-44-77 Fax: (495) 937-44-99

**INTERNET ADDRESS:**

<http://www.kpmg.ru/>

**E-MAIL:**

[moscow@kpmg.ru](mailto:moscow@kpmg.ru)

**FULL NAME:**

North-West Regional Center CJSC KPMG:

**LOCATION:**

69-71 A, Marata st., Saint-Petersbourg, 191119

**POSTAL ADDRESS:**

69-71 A, Marata st., Saint-Petersbourg, 191119

**PHONES:**

Phone: (812) 313-73-00 Fax: (812) 313-73-01

**E-MAIL:**

[stp@kpmg.ru](mailto:stp@kpmg.ru)

## GLOSSARY

**AIS** - Automated Information Systems

**AIEPAS** - Automated Informative Electric Power Accounting System

**ASCTCPM** - Automated System of Consumers' technological connection process management

**AWP** - Automated Working Place

**ADCS** - Automated Dispatch Control System

**UMS** - Utility Metering Systems

**ACS** - Automated Control System

**AS CTC** - Automated System of Consumers' Technological Connection

**APCS** - Automatic Process Control System

**ACSA** - Automated Control System for Investment Activities

**ACS MTWM** - Automatic Control System of Motor Transport Work Management

**MA** - Management Apparatus

**ESC** - Energy Stock Company

**CB** - Capacitor Banks

**OL** - Overhead (Power Transmission) Line

**FOCL** - Fiber Optic Communication Line

**DG** - Director General

**AIPP** - Annual Integrated Purchasing Program

**CD** - Civil Defence

**AGMS** - Annual General Shareholder's Meeting

**HPP** - Hydroelectric Power Plant

**S&A** - Subsidiaries and affiliates

**VHI** - Voluntary Health Insurance

**DC** - Dispatch Center

**DPP** - Diesel Power Plant

**UNPG** - Unified National Power Grid

**UPS (IPS)** - Unified (Integrated) Power System of Russia

**HUS** - Housing and Utilities Sector

**MICEX** - Moscow Interbank Currency Exchange

**IT** - Information Technologies

**IPR** - Investment Program

**IS** - Information Systems

**ISO** - International Organization for Standardization

**TEP** - Technical Engineering Personnel

**CI** - Capital Investment

**CIM TA** - Corporate Information System of Tax Accounting

**CIMS** - Corporate Information Management System

**CL** - Cable Line

**Corporate Code of Conduct** - Corporate Code of Conduct, approved at the session of the Government of the Russian Federation on 28.11.2001 and recommended for use according to Regulation of FCSM of the Russian Federation No. 421/r dated 04.04.2002

**CPD** - Corporate Presentation day

**CPC** - Corporate Personal Computer

**KPI** - Key Performance Indicators

**CS** - Consulting Services

**LSDP** - Local Sewage Disposal Plant

**PTL** - Power Transmission Line

**IDGC** - Interregional Distribution Grid Company

**IFRS** - International Financial Reporting Standards

**Pro** - Procurement

**MUE** - Municipal Unitary Enterprise

**EMERCOM** - Ministry of the Russian Federation for Civil Defense, Emergency Management and Natural Disasters Response

**IPG** - Intersystem Power Grid

**FERT** - Freelance Emergency Rescue Teams

**EGR** - Essential Gross Revenues

**VAT** - Value Added Tax

**R&D** - Research and Development

**NP ACR** - Non-Commercial Partnership Audit Chamber of Russia

**NPF** - Non-State Pension Fund

**HAI** - Health and Accident Insurance

**NC** - New Construction

**STC** - Scientific and Technical Council

**JSC RTS** - JSC Stock Exchange Russian Trading System

**Company** - JSC IDGC of the North-West

**OIC** - Operative-Information Complex

**OR** - The October Railway

**AWP** - Autumn and Winter Period

**ODS** - Open Distributive System

**WMEP** - Wholesale Market for Electricity and Power

**FC** - Fixed Capital

**PSQ** - Professional Skills and Qualities

**DSW** - Design and Survey Work

**PC** - Personal Computer

**EMEG** - Enterprises of Main Electric Grid

**PD** - Production Department

**S/W** - Software

**PD BPG** - Production Department Borovichi Power Grid

**PD VPG** - Production Department Valday Power Grid

**PD WPG** - Production Department Western Power Grid

**PD IPG** - Production Department Ilmen Power Grid

**SS** - Substation

**SFUO** - Shop-Floor Union Organization

**CMP** - Costs Management Program

**PPDEPMS** - Program of Perspective Development of Electric Power Metering Systems

**PC** - Personal Computer

**DE** - Deferred Expenses

**RDO** - Regional Dispatching Office

**REM** - Retail Electricity Market

**DGC, subordinate company** - Distributing grid company, the functioning of which is the responsibility of JSC IDGC of the North-West

**RSPP** - Russian Union of Industrialists and Entrepreneurs

**RTS** - Russian Trading System



**DZ** - Distribution Zone  
**CE** - Computer Equipment  
**DTMM** - Dispatching and Technological Management Means  
**NWFD** - Northwest Federal District  
**PPE** - Personal Protective Equipment  
**SIW** - Self-Supporting Insulated Wire  
**MM** - Mass media  
**QMS** - Quality Management System  
**PRS** - Personnel Reliability Service  
**SRPE** - System of Relay Protection of Equipment  
**AMS** - Automated Plant Assets Management System  
**SRM** - System of Risk Management  
**TBS** - Tariff and Balance Solution  
**TGC** - Territorial Generating Company  
**TC** - Technological Connection  
**TS** - Transformer Substation  
**TR&R** - Technical Repowering and Reconstruction  
**M&R** - Maintenance and Repair  
**TNO** - Territorial Network Organization  
**FEC** - Fuel and Energy Complex  
**TPP** - Thermal Power Plant  
**AS** - Appraisal services  
**PS** - Productive Services  
**NPS** - Non-Productive Services  
**FSSD** - Federal Security Service Directorate  
**SE** - Stock Exchange  
**FL** - Federal Law  
**FCSM** - Federal Commission for the Securities Market  
**SF** - Salary Fund  
**FGC** - Federal Grid Company  
**FTS** - Federal Tariff Service  
**FFMS** - Federal Financial Markets Service

**ES** - Emergency Situations  
**DCC** - Digital Communication Channel  
**CTC** - Central Tender Committee  
**DPC** - Data Processing Center  
**CSC** - Customer Service Center  
**NMC** - Network Management Center  
**ERP** - Energy Repair Production  
**PG** - Power grid  
**EBITDA** - Earnings before Interest, Taxation, Depreciation & Amortization  
**RAB** - Return on Invested Capital Method  
**ROE** - Return on Equity

## MEASUREMENT UNITS

**A** - ampere. Electric current intensity unit  
**Ha** - hectare. Area unit  
**Gcal** - gigacalorie. Thermal energy unit  
**Gcal/hour** - gigacalorie /hour. Thermal power unit  
**Kb/s., Mb/s., Mbaud** - kilobit/sec., megabit/sec., megabaud. Information transmission rate unit  
**kV** - kilovolt. Voltage unit  
**kVA, MVA** - kilovolt-ampere, megavolt-ampere. Electric power unit  
**kWh** - Kilowatt-hour. Electric energy unit  
**kW, MW** - kilowatt, megawatt. Electric active power unit  
**khz** - kilohertz. Frequency unit  
**kVAr** - kilovolt-ampere. Reactive power unit  
**km** - kilometer. Length unit  
**thous. cub. m** - thousand cubic meters. Volume unit



JSC «IDGC of the North-West»  
Postal Address: 196247, St. Petersburg,  
Constitution Square, 3 «A»  
Phone Number: (812) 305-10-00

[WWW.MRSKSEVZAP.RU](http://WWW.MRSKSEVZAP.RU)