

Audit Committee

In accordance with the Regulation on the Auditing Committee of the Board of Directors of JSC IDGC of the North-West, approved by the Board of Directors on August 27, 2012 (Minutes No. 109/7), the main purpose of the Auditing Committee is to ensure effective participation of the Board of Directors in monitoring financial and economic activities of the Company.

Starting from January 01, 2014, the Auditing Committee consisted of six person (the number of members is determined by the Board of Directors on July 22, 2013, Minutes No.130/1). By the resolution of the Board of Directors of April 16, 2014 (Minutes No.151/22), the number of members in the Auditing Committee of the Board of Directors of JSC IDGC of the North-West is defined in the amount of five people. After the adoption by the Board of Directors on July 18, 2014 (Minutes No. 160/2) of a relevant decision, the Auditing Committee consists of six persons.

The acting members of the Auditing Committee are headed by a non-executive director, a member of the Board of Directors, Marina A. Lavrova, the Head of Department for Economic Planning in Subsidiaries and Affiliates, Department of Economic Planning and Budgeting of JSC Russian Grids. The composition of the Auditing Committee includes an independent director with a considerable experience and expertise in the preparation, analysis, evaluation and audit of accounting (financial) statements, Tatiana P. Dronova, Deputy General Director for Strategy and Development of CJSC Energy Union Investment Holding.

In 2014, the Auditing Committee held 14 meetings, including one meeting in person.

The meetings addressed issues of monitoring over the functioning and improvement of internal control and risk management systems.

On the basis of recommendations from the Committee, the Board of Directors (resolution of August 14, 2014, Minutes No. 2) defined priority areas of activity, such as improving the system of internal control and risk management, development of the internal audit function. Following the review, the following documents we recommended for approval by the Board of Directors as internal documents:

- New version of Internal Control Policy of JSC IDGC of the North-West;
- New version of Risk Management Policy of JSC IDGC of the North-West;
- Auditor of JSC IDGC of the North-West.

In addition, for the purpose of organization of a risk management system, the following documents were approved and recommended for approval:

- Register of Key Operational Risks of the Company and Register of Operational Risks of Main Business Processes of the Company with assigned owners (resolution of September 25, 2014, Minutes No. 3);
- Register of Operational Risks of Other Business Processes of the Company with assigned owners (resolution of December 25, 2014, Minutes No.7).

In addition to the above, in reviewing the issues of monitoring and improving the functioning of the internal control and risk management systems:

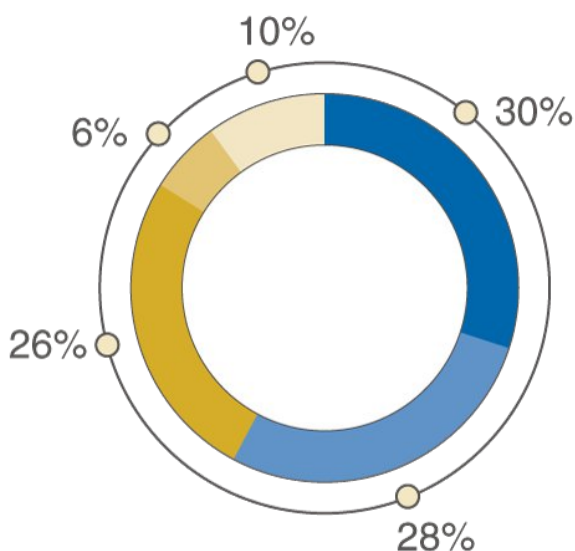
- the Committee reviewed quarterly reports of the Company's Internal Audit and Risk Management Department on the implementation of the work plan, on the basis of which recommendations were given to the General Director (resolutions of March 12, 2014, Minutes No. 8; of May 12, 2014, Minutes No.12; of August 14, 2014, Minutes No. 2; of November 24, 2014, Minutes No.5);
- the Commission reviewed the Report on the Company's key risks in 2013 (resolution of April 04, 2014, Minutes No. 9) and the Report on the audit of assessment of the efficiency of JSC IDGC of the North-West to manage accounts receivable for 2013 (resolution of August 08, 2014, Minutes No.2);
- the Commission reviewed the report of the Sole Executive Body on the key risks of the Company in the 1st half of 2014 (resolution of September 25, 2014, Minutes No.3);
- the Committee reviewed the report of the internal auditor on the effectiveness of internal control and risk management systems of the Company in 2013, determined the level of maturity, made recommendations to the General Director on the development and improvement of the internal control and risk management systems (resolution of May 12, 2014, Minutes No.12);
- the Committee approved and recommended for approval the Regulations on the Internal Audit and Control of JSC IDGC of the North-West (decision of September 25, 2014, Minutes No.3).

In 2014, among the other significant issues, the Auditing Commission of the Board of Directors reviewed the following:

- Control over completeness, accuracy, and reliability of the issuer's financial statements;
- The Committee considered and took into account comments from the external auditor on the main issues of the Company's accounting (financial) statements for 2013 and interim financial statements for 2014 prepared under RAS and IFRS (resolution of April 04, 2014, Minutes No.9; of April 23, 2014, Minutes No.10; of May 12, 2014, Minutes No.12; of December 25, 2014, Minutes No.7);
- The Commission considered and took into account the Company's accounting (financial) statements for 2013 and interim financial statements for 2014 prepared under RAS and IFRS (resolution of April 04, 2014, Minutes No.10; of April 30, 2014, Minutes No.11; of May 12, 2014, Minutes No.12; of July 31, 2014, Minutes No.1; of August 14, 2014, Minutes No.2; of October 30, 2014, Minutes No. 4; of November 24, 2014, Minutes No.5);

- The Commission took note of the significant aspects of the Company's accounting policies and planned changes for 2015 (resolution of December 25, 2014, Minutes No.7);
- Control over the selection of an external auditor, evaluation of its performance:
 - The Committee approved the auditor's opinion on the accounting (financial) statements of the Company for 2013 prepared under RAS; recommended Ernst and Young LLC for approval by the Annual General Shareholders' Meeting as the Company's auditor for the audit of financial statements for 2014 under RAS and audit of the consolidated financial statements under IFRS (resolution of April 23, 2014, Minutes No.10);
 - the Commission agreed the main terms and conditions for procurement procedures in respect of selecting an external auditor and executing an agreement for compulsory annual audit of the Company's statements for 2015-2017, and recommended to the Company to perform procurement procedures in respect of selecting an external auditor and executing an agreement for compulsory annual audit of the Company's statements for 2015-2017 by participating in a centralized open competitive tender to be organized by JSC Russian Grids (resolution of December 25, 2014, Minutes No. 7);
- Monitoring compliance with the legislation on the control over the insider information:
 - the Commission reviewed quarterly reports on the implementation of measures to comply with the legislation requirements on the control over insider information in the Company (resolution of March 12, 2014, Minutes No. 8; of May 12, 2014, Minutes No.12; of August 14, 2014, Minutes No.2; of November 24, 2014, Minutes No.5).

The structure of issues addressed in 2014 by the Auditing Committee



- 30% Statutory financial statements
- 28% Risk and insider information management
- 26% Selection of an external auditor and performance assessment
- 6% Internal audit items
- 10% Miscellaneous
- 28% Internal audit items