

Board of Directors' Report

Priority areas of the Company's activity are ensuring maximum efficiency, attracting investments and fulfillment of legal and social obligations. In this situation, the Board of Directors provides leadership in achieving strategic objectives. The Board of Directors determines the ways, means and mechanisms for the implementation of set tasks. In the process of creation and implementation of the Company's development strategy, the Board of Directors pays special attention to maintaining a balance between risk and profit.

For the purpose of setting up and organizing internal business processes, in 2014 the Board of Directors reviewed and approved the Company's internal documents, such as Procurement Policy; Policy of Innovative Development, Energy Supply and Efficiency; Standard of Technical Policy. Electric power metering systems with remote data collection in the wholesale and retail electricity markets; Regulations on technical policy in the area of telecommunications; Standard of the JSC IDGC of the North-West for bills transactions of the third parties; Regulation for placement of temporary free funds. Changes are introduced to the following current documents: Regulations on investment activities; Regulations on insurance coverage of the Company; VOLS-VL Standards of the Company. Terms and Definitions; VOLS-VL. Terms for Laying OL; VOLS-VL. Terms for Laying. OL.

In order to ensure sustainable development, the Company approved the following long-term plans and programs: adjusted Energy saving and energy efficiency programme of the Company for 2014 and forecast for 2015-2019; Schedule for development of production asset management system in the Company for 2014-2015, Road map for implementation of the Company's Strategy in the field of information technology, automation and telecommunications for the period 2014-2016; a comprehensive programme of JSC IDGC of the North-West to reduce risks of injury to personnel and third parties at the electric grid facilities for the period 2014-2017; reviewed a draft investment programme for 2014 and the period 2015-2019; a decision on registration of commercial papers; approved prospectus of commercial papers. The Board of Directors uses the principles of regularity and efficiency to oversee the implementation of approved programmes and plans, and studies reports on their execution.

One of the areas to reduce costs and achieve efficiency is the optimization of technological consumption (losses) of electricity during transmission. In 2014, the Board of Directors paid close attention to the procedure of planning and supervision of the implementation of such an important indicator of the Company's performance. Based on the 2014 year end results, the Company's loss indicator of the electricity supplied to the grid is lower than the approved planned target.

Non-observance of payment discipline by consumers is a serious problem of power grid companies under current circumstances, the result of which is a significant size of accounts receivable. In order to manage the Company's activities for the purpose of financial stabilization, the Board of Directors conducts effective monitoring of receivables and approves quarterly Schedule of activities of JSC IDGC of the North-West to reduce outstanding receivables. As the result of monitoring of the adequacy of planned measures and implementation of approved activities by the Company's management is the stabilization of the level of outstanding receivables and a significant reduction of disputed debt (by 26%).

Ensuring reliable and quality supply of consumers is one of the Company's key priorities. Evaluation of efficiency of the complex of organizational and technical measures aimed at the preparation of the electric grid complex to the period of maximum loads and difficult weather conditions, volume of work performed, as well as timing is set by the Board of Directors in the review of report on the results of the Company's preparation for the autumn-winter period of 2014-2015.

In 2014, the Board of Directors paid much attention to the building of an effective system of internal control, audit and risk management. The Company made efforts to improve the internal control and risk management systems and develop an internal audit function. Within the priority areas, the Board of Directors approved the following internal documents of the Company in 2014: Internal audit policy, 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. Also in 2014, the Board of Directors approved the Registry of key operational risks of the Company, assigned owners of the risks and reviewed a Report on the key risks of JSC IDGC of the North-West for 2013.

Achievement of objectives is impossible without improving the system of remuneration of managers with regard to the results of financial and business activity, assessment of the effectiveness of the Company's current management. Under the current system of motivation for the management, the Board of Directors approved the target values of annual and quarterly key performance indicators for the General Director and the senior managers of the Company for 2014, and reviewed and approved quarterly reports on their implementation.

In 2014, the Board of Directors focused on the above matters and made decisions on various activities of the Company.

With regard to strategic objectives, long-term plans and programmes

- The Board identified as a priority the following areas of activity:
 - providing energy infrastructure availability and maintaining grid connection quality of the Company.
 - improvement of internal control and risk management system, development of the internal audit function.
 - Handling accounts receivable for electricity transmission services rendered
 - Equipment, material, and system certification in the Company's facilities
- The Board approved the following long-term plans and programmes:
 - Complex programme for the reduction of risks of injury to personnel and third parties at the Company's electric grid facilities for the period 2014-2017;
 - Road map for the implementation of the Company's strategy in the area of information technology, automation and telecommunications for the period 2014 — 2016;

- Energy Saving and Energy Efficiency Increase Programs for 2014 and the forecast for 2015-2019.
- Schedule for the development of production asset management system of JSC IDGC of the North-West for 2014-2015.
- Internal Documents of the Company were approved:
 - Internal Audit Policy;
 - 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;
 - approval of the Personnel and Social policy of the Company;
 - Policy of JSC Russian Grids for interaction with the society, consumers and the authorities, as an internal document of the Company;
 - Regulation for placement of temporary free funds of JSC IDGC of the North-West;
 - Standard of JSC IDGC of the North-West for bills transactions of the third parties;
 - Policy of Innovative Development, Energy Supply and Efficiency;
 - Standard on Public Technological and Price Audit of Investment Projects (not available in public domain);
 - Standard of Technical Policy. Electric power metering systems with remote data collection in the wholesale and retail electricity markets;
 - Regulations on technical policy in the area of telecommunications;
 - Project of the Company's communication system.
- The Board introduced changes to the following existing documents of the Company:
 - Regulations on insurance coverage of the Company for 2013-2015.
 - Regulations on investment activity of JSC IDGC of the North-West.
 - Documents of JSC Russian Grids were approved as the Company's internal documents:
 - JSC Russian Grids' procurement policy;
 - Anti-corruption policy of JSC Russian Grids, subsidiaries, and affiliates of JSC Russian Grids.

With regard to financial, business and investment operations

- The Board approved adjusted plans for the reporting year and plans for the coming year:
 - adjusted business plan of the Company that includes investment program for 2014 and forecast for 2015-2018;
 - business plan of the Company that includes investment program for 2015 and considers forecasts for 2016-2019;
 - Insurance coverage programme for 2015;
 - Plan for procurement of goods, works and services for the Company's needs for 2015;
 - Non-state pension provision programme for the Company's employees for 2015.
- The Board regularly reviewed and approved the Company's reports, operating plans and programmes.

With regard to corporate governance (the Company and its subsidiaries)

- The Board made a decision to call the Annual and Extraordinary General Meetings of the Company's Shareholders, as well as decisions related to their preparation and conduct;
- The Board approved Plan for the Board of Directors for 2014-2015;
- The Board defined the size and composition of Committees of the Company's Board of Directors;
- The Board approved new versions of the Regulations on the Personnel and Remuneration Committee and Reliability Committee of the Board of Directors of the Company;
- The Board reviewed the report on the performance of the Company's Auditing Commission in the 2013-2014 corporate year;
- The Board reviewed quarterly reports of the General Director, Chairman of the Management Board on the Company's activities, including a report on the implementation of resolutions of the Board of Directors and Management Board;
- 7 matters of corporate governance of subsidiaries and dependent entities;

With regard to ensuring effectiveness of the Company's internal control and audit

- The Board approved the target values of annual and quarterly key performance indicators for the General Director and Senior managers of the Company for 2014, as well as their adjustment, and quarterly reports on the implementation of the target values of key performance indicators by the

General Director and Senior Managers of the Company;

- The Board of Directors approved the Registry of key operational risks of the Company, assigned owners of the risks and reviewed a Report on the key risks of JSC IDGC of the North-West for 2013.
- The Board reviewed the Report of the internal auditor on the Efficiency of internal control and risk management in JSC IDGC of the North-West in 2013.

With regard to personnel policy and appointments

- The structure of executive body of JSC IDGC of the North-West was approved.
- The Board approved a new list of positions, candidates within the competence of the Board of Directors of the Company;
- The Board approved a list of positions for top managers of JSC IDGC of the North-West (effective from October 01, 2014);
- The Board of Directors early terminated the powers of the Company's General Director and the employment contract, and appointed Acting General Director of the Company, subsequently elected as General Director;
- The Board of Directors made preliminary approval of changes in the collective agreement of JSC IDGC of the North-West;
- The Board of Directors made decisions on the election and termination of powers of the members of the Management Board, gave encouragement to the General Director in connection with the awarding of an honorary diploma;
- The Board approved personal composition of the Central Procurement Body of the Company — Central Tender Committee;
- The Board of Directors pre-approved the draft Collective Agreement of JSC IDGC of the North-West for 2015.