

Business Plan Fulfillment

Analysis of fulfillment of the Company's business plan for 2014

Indicator	2014, RUB million		Deviation	
	target	actual	absolute, RUB million	relative, %
Total revenue	43,769	44,262	493	1
Electricity transmission revenue	32,295	32,759	464	1
Electricity transmission revenue according to accounting statements	30,970	31,343	373	1
TC revenue	826	882	56	7
Electricity resale revenue	9,674	9,601	-73	-1
Electricity and capacity resale revenue according to accounting statements	11,000	11,017	17	0.2
Revenue from other activities	974	1,020	46	5
Total net cost	39,837	40,030	193	1
Purchased power for loss compensation	4,294	4,341	47	1
Purchased power for sale	6,073	6,037	-36	-1
Raw and other materials	1,723	1,753	30	2
Production works and services	1,107	1,041	-66	-6
Services of JSC FGC UPS	8,442	8,439	-3	-0.1
Services of distribution grid companies	4,041	4,045	4	0.1
Labor costs with deductions	8,232	8,489	257	3
Other expenses	5,925	5,885	-40	-1
Total gross profit	3,932	4,232	300	8
Commercial expenses	503	487	-16	-3
Management expenses	810	853	43	5
Profit (loss) on sales	2,620	2,892	272	10
Interest receivable	222	237	15	7
Interest payable	1,480	1,395	-85	-6
Income from participation in other organizations	0	2	2	100
Miscellaneous earnings	3,021	3,396	375	12
Miscellaneous costs	3,116	5,659	2,543	82
Profit (loss) before tax	1,267	-529	-1,796	-142
Profit taxation	436	91	-345	-79
Net profit	831	-620	-1,451	-175

In 2014, the total revenue of JSC IDGC of the North-West amounted to RUB 44,262 million, which is RUB 493 million or 1.1% greater than the target. In addition:

- the actual revenue of the Company for the rendered electricity transfer services in 2014 (including the 'internal turnovers') amounted to RUB 32,759 million, which is RUB 464 million or 1.4% greater than the target;

- the actual revenue of the Company for the rendered electricity transfer services in 2014 (not including the 'internal turnovers') amounted to RUB 31,343 million, which is RUB 373 million or 1.2% greater than the target.

The revenue from grid connection services was RUB 56 million or 6.8% greater than the target; the excess of the target was mainly due to the revenue increase at Komienergo branch by RUB 90 million (closing of contracts for grid connection of 110/6 Yarvozh substation, closing of contract with JSC Vorkutaugol) and Novgorodenergo for RUB 28 million (JSC Druzhba Main Pipelines and the Administration of the Ministry of Interior of Russia in the Novgorod Region). At the same time, the revenue at Arkhenergo branch decreased by RUB 57 million in comparison with the target.

The revenue from electricity sales was RUB 17 million greater than the target (according to accounting statements) or 0.2%, which is due to the increase of electricity sales at Kolenergo branch.

The revenue from other activities increased by RUB 46 million or 4.7%, which is due to the increase of revenue from transfer of electricity facilities (Vologdaenergo branch, contract with JSC Yamalgazinvest, + RUB 42 million) in comparison with the target, and the increase of the amount of services of operating and technical maintenance and repair of electric grid equipment.

Total actual net cost for 2014 amounted to RUB 4,030 million, which is more than the target level by RUB 193 million, or 0.5%. The greatest increase of expenses is noted in the following items:

- The increase of the actual cost of TGC services as compared to the target amounted to RUB 4 million or 0.1%, which is due to the insignificant increase of actual deliveries to TGC grids at Arkhenergo, Pskovenergo, and Kolenergo.
- The costs of purchased energy to compensate losses increase by RUB 47 million (1.1%). Most of the excessive consumption was at the branches of Novgorodenergo (RUB 56 million) due to the increase of the actual losses, and Komienergo (RUB 37 million) due to the translation of the purchase price deviations on the wholesale market of JSC Komi Energy Sales Company.
- In payroll with allowances, the increase of RUB 257 million or 3.1% was provided by Arkhenergo, Vologdaenergo, Kolenergo, and Pskovenergo that paid overtime at automatic reserve switch-on, bonus for preparations for the fall and winter season, and severance pay at staff cuts.
- In the costs in the Materials item, there was an increase of 30 million or 1.7%. The biggest increase of costs in this item occurred at Kolenergo with RUB 17 million (of which RUB 15 million was excessive costs of materials for operation; the cost increase was compensated by cost reduction in other services related to production) and Komienergo with RUB 16 million (of which RUB 13 million was the increase of the costs of materials for repair; the cost increase was compensated by reduction of the costs of services of repair contractors).

At the same time, there were savings on the cost items entitled Purchased electricity for sale, Jobs and services related to production, and miscellaneous costs.

The actual gross profit amounted to RUB 4,232 million, which is RUB 300 million greater than the target.

The selling costs of JSC IDGC of the North-West in 2014 amounted to RUB 487 million while the target was RUB 503 million; the savings amounted to RUB 16 or 3.2%. These savings were achieved by the sales departments mainly in the Materials and Payroll items.

The increase of management costs in comparison with the 2014 target amounted to RUB 43 million or 5.3%, which is due to higher costs in payroll with allowances (RUB 28 million); the exceeding of the planned amounts is due to an objective inability to provide leave during preparations for the fall and winter period, development of the 2015-2019 business plan, and, consequently, classification unused leave in the form of regular salaries as costs).

There was also an increase of management costs of property lease (+ RUB 6 million), traveling and representation services (+ RUB 5 million), transport services (+ RUB 2 million), and legal services (+ RUB 2 million).

The balance of miscellaneous earnings and costs amounted to — RUB 3,421 million, in particular:

- interest receivable, RUB 237 million, which is RUB 15 million or 6.8% greater than the target;
- interest payable amounted to RUB 1,395 million, the savings amounted to RUB 85 million (5.7%).

The increase of miscellaneous earnings amounted to RUB 375 million (12.4%) and was due to the following cost items:

- Budget subsidies: an increase of RUB 38 million was primarily due to the increase of income at Komienergo by RUB 26 million in the form of budget subsidies for purchase of backup power supply source in replacement of the ones that were sent to the southern regions of Russia. There was also a significant increase of income in this item at Arkhenergo (+ RUB 10 million) and Pskovenergo (+ RUB 10 million).
- Penalties and default interest: in increase of RUB 250 million. The increase of earnings in this item is due to the following factors:
 - at Arkhenergo branch, the earnings increased by RUB 57 million due to the increase of interest received for use of other parties' cash on resolution of courts (including RUB 50 million from JSC Arkhangelsk Sales Company and RUB 6 million from payee TGC);
 - at Vologdaenergo branch, the earnings exceeding amounted to RUB 117 million (including JSC Vologda Sales Company, RUB 51 million; Regional Electric and Heating Grids, RUB 4 million; PJSC Severstal, RUB 38 million; Firma Servisgazavtomatika, RUB 11 million);
 - at Kolenergo branch, the earnings exceeding amounted to 55 million including earnings from capacity customers for breach of contract conditions, RUB 6 million, earnings on default interest for late payment of electricity bills, RUB 48 million;
 - at Karelenegergo branch, the earnings increased by RUB 17 million including interest on the case with JSC SUAL in the amount of RUB 8 million).
- In the profit of part years identified in the reported year, the earnings increase of 161 million was due to the following:
 - profit increase at Vologdaenergo branch by RUB 21 million due to removal of excess depreciation for 2010-2013 in the amount of RUB 6 million and RUB 13 million of VAT on a lost trial with JSC Severstal;
 - profit increase at Karelenegergo branch by RUB 98 million; the extra profit was due to the posting of identified facts of no-contract consumption

of electricity (including Heat Supply MUE, RUB 62 million, Kalamsky Vodokanal MUE, 2 million, administration of the Sosnovets rural municipal, RUB 9 million, other counterparties, RUB 25 million);

- exceeding of earnings at Kolenergo branch amounted to RUB 6 million, which was mainly due to the recalculation for 2013 on electricity sales in the amount of RUB 4 million and specification of the VAT calculation in the amount of RUB 1 million;
 - exceeding of earnings at Komienenergo branch amounted to 16 million, primarily due to the adjustment for electricity transfer services with Oboronenergosbyt and Komi Energy Sales Company.
- In replenishment of provisions, there was an earnings increase of RUB 121 million, with the greatest deviations recorded in the following branches:
- Vologdaenergo in the 12 months of 2014 replenished its bad debt provisions for JSC Severstal in the amount of RUB 513 million, and RUSENERGOSBYT LLC in the amount of RUB 37 million;
 - at Karelenenergo branch, in the 12 months of 2014 the bad debt provision was replenished for JSC Karelian Energy Sales Company for an amount of RUB 202 million. Karelenenergo also replenished the provision for estimated liabilities in the amount of RUB 52 million on the case No. A26-1889/2013 with JSC Karelian Energy Sales Company;
 - due to the expected payments from Forest Industry Combine LLC, the Komienenergo by the actual amount of 2014 replenished its bad debt provision for the amount of RUB 11 million. In addition, Komienenergo replenished its bad debt provision for Heating Company LLC for the amount of RUB 8 million and Water Supply and Sewage Systems LLC for the amount of RUB 114 million.

Other miscellaneous earnings decreased by RUB 200 million as compared to the target. This reduction is due to changes in accounting according to the auditor's recommendation to provide summary presentations of earnings and costs posted due to the same event. The Company made adjustments to its financial result statement for specifying the presentation of earnings and costs under contracts of assignment of claim rights after the payment date in the part where they should be presented in the summary form. There were no deviations in the balanced value of earnings and costs under contracts of assignment.

The increase of miscellaneous costs amounted to RUB 2,543 million (81.6%) and was provided for by the following cost items:

- Sale and retirement of miscellaneous assets, an increase by RUB 22 million;
- Losses of past years recognized in the reported period, an increase by RUB 122 million. The cost increase mainly occurred at the following branches:
 - Vologdaenergo, RUB 86 million (actually recognized losses on a lost case against JSC Severstal for May 2013);
 - Kolenergo, RUB 12 million; (recalculations of electricity sales in 2013);
 - Komienenergo, RUB 21 million. (JSC Oboronenergo, Northern branch: adjustment of electricity transfer services for 2012).
- Costs of compensation of incurred losses, an increase by RUB 15 million;
- In allowances to provisions, the cost increase amounted to RUB 2,607 million, in particular:
 - The deviations in bad debt provision, the cost increase amounted to RUB 935 million;
 - costs of establishment of other provisions, RUB 1,665 million;
 - costs of provisions on court claims, RUB 7 million.

The amounts of established provisions were due to the following reasons:

- at Arkhenergo branch, the provision as at 31.12.2014 amounted to RUB 45 million, in particular:
 - debt of Housing and Utility Company SMUE, RUB 21 million;
 - debt of Gorvodokanal, RUB 6 million;
 - debt of JSC Arkhangelsk Sales Company, 3 million;
 - debt of JSC Northern Forestry Partnership — Forest Plant No. 3, RUB 2 million.

At Vologdaenergo branch, as at 01.01.2015, bad debt provisions were established for RUB 1,000 million as follows:

- bad debt provision on disagreements with PJSC Severstal regarding the amount of rendered services for an amount of RUB 981 million under electricity transfer service contract dated 05.05.2008 No. B311-09/0004. The disagreements are due to unresolved issues in the following three areas:
 - determination of capacity;
 - balancing of electricity backflows;
 - accounting of amounts of transfer of electricity generated by PJSC Severstal from facilities of PJSC Severstal to the Station No. 1,2 power lines owned by JSC IDGC of the North-West;

- bad debt provision on debts of TSK Nadeyevo LLC (RUB 4 million), Kharovskaya Electric and Heating Grid municipal enterprise LLC (RUB 3 million), JSC Yermakovo Poultry Factory (RUB 5 million), and Ovoshchnoy agricultural and vegetable company (RUB 4 million).

In addition, at Vologdaenergo branch, an estimated liabilities provision was established for the amount of claims of JSC Vologda Sales Company for payment of RUB 1 million as unjustified profit and state duty.

At Kareleenergo branch, the amount of provisions established as at 31.12.2014 amounted to 386 million, in particular:

- bad debt of SK Tesla LLC, RUB 151 million;
- bad debt of Suojarvi Cardboard LLC, RUB 78 million;
- bad debt of InterErgo Energy Sales Company LLC, RUB 46 million;
- bad debt of Heat Supply MUE, RUB 74 million;
- other counterparties, RUB 37 million

At Kolenergo branch, as at 31.12.2014 the bad debt provision amounted to RUB 261 million including the debt of JSC Kolenergosbyt on electricity transfer services in the amount of RUB 213 million, the debt of JSC Teplovodosnabzhenie in the amount of RUB 6 million, the debt of the counterparty entitled A.O. and O.B. Taranov, 10 rubles, the debt of other counterparties on electricity transfer services, RUB 30 million; and the debt on business from electricity sales, RUB 12 million (legal entities and individual entrepreneurs).

At Komienenergo branch, the established provisions amounted to RUB 69 million (the provision as at 31.12.2014 was RUB 52 million):

- the provision on liabilities of Water Supply and Sewage Systems LLC on payment of electricity transfer services amounted to RUB 14 million;
- a bad debt provision on liabilities of Teplovodokanal on payment of electricity transfer services was established in the amount of RUB 13 million;
- liabilities of Gorzhilfond LLC, RUB 9 million;
- liabilities of Hot Water Boiler Facility LLC, RUB 4 million;
- liabilities of CJSC Eurasian Energy Company, RUB 5 million;
- other counterparties, RUB 7 million.

At Novgorodenergo branch, pursuant to a protocol of liability inventory No. 1 dated 22.01.2015, a provision was established as at 31.12.2014 in the amount of RUB 349 million including the following:

- for JSC Novgorodoblenergosbyt, RUB 311 million;
- for Energosbyt production association under power supply contracts with Novzhilkommunservis housing and utility company, a municipal enterprise, a limited liability company, and other counterparties, RUB 36 million.

Establishment of a provision for impairment of financial investments in the amount of RUB 1,665 million. This provision was established on the grounds of discovery of signs of impairment of deposits of JSC IDGC of the North-West with the St. Petersburg Shareholder Commercial Bank Tavrichesky.

- Non-recoverable VAT, RUB 10 million;
- Charity costs: the growth of RUB 12 million was due to the holding of the Valaam Festival of Orthodox Singing and financial aid to self-defense competitions.

At the same time, other miscellaneous costs were RUB 227 million less than the target, which, similarly to miscellaneous earnings, is primarily explained by change of the accounting of contracts of claim right assignment. There were no deviations of the net value of earnings and costs under assignment contracts.

On the results of the reported period, the loss amounted to RUB (-620) million, the impairment of the financial result in comparison with the actual amount of 2013 amounted to — RUB 1,451 million or 175%.