KEGOC ANNUAL REPORT 2014

KEGOC, 2014
KEY PERFORMANCE INDICATORS
OPERATIONAL INDICATORS

Transformer capacity, MVA

as on 31 December 2014	**36,244.55**
as on 31 December 2013	35,875.05
as on 31 December 2012	35,535.65

Line length 35-1150 kV, circuit (ckt) km

as on 31 December 2014	**24,893.53**
as on 31/12/2013	24,533.03
as on 31 December 2012	24,427.74

Net electricity delivered to the grid with allowance for electricity of the neighbouring states transmitted through the grid, million kWh

in 2014	**(42,812.8)**
in 2013	(43,460.3)
in 2012	(46,244.9)

Technological losses of electricity for transmission in the network (excluding Kyrgyz transit) (million kWh)

in 2014	**(2,576.1)**
in 2013	(2,387.4)
in 2012	(2,645.0)

Technological losses of electricity for transmission in the network (excluding Kyrgyz transit) (% of electricity delivered into the network)

in 2014	**(6.02)**
in 2013	(5.49)
in 2012	(5.72)

Electricity transmission, million kWh

in 2014	**(40,236.7)**
in 2013	(41,055.4)
in 2012	(43,487.1)

Technical dispatching, million kWh

in 2014	**(85,418.3)**
in 2013	(83,863.4)
in 2012	(83,511.7)

Electricity balancing, million kWh

in 2014	**(160,464.6)**
in 2013	(153,521.4)
in 2012	(152,908.9)

KEY FINANCIAL INDICATORS

Operating income KZT, million

in 2014	**93,519.8**
in 2013	73,811.7
in 2012	65,855.2

Net income, KZT, million

in 2014	**8,616.0**
in 2013	-14,500.3
in 2012	6,941.0

EBITDA*, KZT, million

as on 31 December 2014	**24,804**
as on 31 December 2013	20,202
as on 31 December 2012	17,862

Total value of assets, KZT, million

as on 31 December 2014	**549,928.04**
as on 31 December 2013	367,321.73
as on 31 December 2012	232,404.84

Borrowed capital, KZT, million

as on 31 December 2014	**107,596.41**
as on 31 December 2013	92,541.27
as on 31 December 2012	80,808.81

Equity , KZT, million

as on 31 December 2014	**359,777.47**
as on 31 December 2013	221,181.46
as on 31/12/2012	126,560.04

** EBITDA is calculated as operating income less operating expenses excluding depreciation.*

Any information concerning the plans referred to in this Annual Report, is forward-looking and reflect the current views of KEGOC with respect to future events and is exposed to certain risks, uncertainties and assumptions relating to the business, financial condition, operating results, growth strategy and liquidity KEGOC.

ABOUT COMPANY

Kazakhstan Electricity Grid Operating Company (KEGOC) joint-stock company operates the National Power Grid (NPG) of Kazakhstan and is the System Operator of the Unified Power System of the country.

KEGOC was established as a joint-stock company (JSC) on 28 September 1996 in accordance with decree of the Government of Kazakhstan No. 1188 On Certain Measures to Restructure Kazakhstan Power System Management. Until 2006 all KEGOC's shares were owned by the Government. In 2006 state share (100%) was transferred to Samruk JSC (the Kazakhstan holding company for management of public assets) as a payment for the placed shares. In 2008 Samruk-Kazyna JSC (the sovereign wealth fund) was established through merger of Kazyna JSC (the sustainable development fund) and Samruk. Samruk-Kazyna became a legal successor of Samruk.

On 18 December 2014 under the Programme for public offering of shares of subsidiaries and affiliates of Samruk-Kazyna Sovereign Welfare Fund on the stock market (approved by decree No.1027 of the Government of Kazakhstan dated 8 September 2011 and hereinafter referred to as People's IPO Programme), KEGOC conducted an initial public offering of common shares of the Company on the Kazakhstan stock market through subscription. The number of the ordinary shares of KEGOC in the Kazakhstan securities market is 25,999,999 (twenty five million nine hundred ninety-nine thousand nine hundred ninety-nine). The price of one ordinary share of KEGOC was 505 (five hundred and five) tenge.

Registered address: 59 Tauyelsizdik Ave, Astana, Kazakhstan

The main services are as follows:

- electricity transmission in the interregional networks;
- technical dispatching of the electricity supply and consumption in the grid;
- balancing of electricity production and consumption services.

The above mentioned services fall under the sphere of natural monopoly; and thus KEGOC operations shall be regulated by the Law of the Republic of Kazakhstan On natural monopolies.

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Letter from the Chairman of KEGOC's Board of Directors

The reporting year for KEGOC became one of the most iconic in the history of its existence.

KEGOC gained public status, becoming the second company of Samruk-Kazyna group successfully placing its shares on the Kazakhstan Stock Exchange (KASE) under the People's IPO programme. The results of the placement met the expectations of the shareholder. The total number of KEGOC's shares purchased under subscription was 41,997 with the total amount of more than 16.6 billion tenge, while the maximum amount of placement has been identified as 13.1 billion tenge. Thus, the demand exceeded offer by 27%. On 19 December 2014 the secondary trading of the ordinary KEGOC's shares started on KASE.

The Ministry of Energy of Kazakhstan with its order No.61 dated 17 October 2014 confirmed the status of KEGOC as the System Operator of the Unified Power System of Kazakhstan.

The main asset of KEGOC is the National Power Grid consisting of 24.9 thousand km of 35-1150 kV electricity transmission lines and 77 electrical substations with 36.24 GVA of installed transformer capacity. They ensure the cross-border electric power flows, transmit electric power from power plants and connect the regional power companies with the bulk consumers. The company employs more than 4.7 thousand people. The Board of Directors approved the Development strategy of information and telecommunication complex, to identify the main development areas of the complex until 2019.

The company consistently demonstrates a high level of compliance with corporate governance principles: accountability, fairness, transparency and responsibility. The company has efficient corporate governance system in place. The members of KEGOC's Board of Directors regularly review strategic, operational and commercial issues, and their decisions are successfully implemented by the Company's management. As a result of the quality diagnostics the corporate governance level in KEGOC reached 78.1%. This score is a combined impact of three components - "Structure", "Processes", "Transparency" with the following respective values: "Structure" - 68.3%, "Processes" - 77.4%, "Transparency" - 86.0%.

The high rating of social stability of the company demonstrates favourable social situation and successful social policy it has in place. According to the Centre for Social Partnership with Samruk-Kazyna the index of social stability of KEGOC is 77%, which is above average.

On behalf of the Board of Directors of I would like to thank all the staff of KEGOC for the smooth and efficient operation, which allows you to successfully ensure the reliability of electricity supply, electric grid modernization and improvement of corporate governance.

Chairman of the Board of Directors of KEGOC **Kuanysh Bektemirov**

Letter from the Chairman of KEGOC's Management Board

2014 was full of important events that will remain in the history of KEGOC.

The most important of them is the Address of the President of the Republic of Kazakhstan, Nursultan Nazarbayev to the nation: "Nurly Zhol - Path to the Future", which gives a clear mandate to construct 500 kV power transmission line Ekibastuz - Semey - Ust-Kamenogorsk and then Semey-Aktogai - Taldykorgan - Alma". These two high-voltage lines are the components of a large-scale project for construction of 500 kV transit going from the North through the East to the South of Kazakhstan.

A landmark event was the IPO of KEGOC on the Kazakhstan Stock Exchange (KASE). The company became the second in Samruk-Kazyna group of companies to place the shares under the People's IPO programme. The success of the IPO is apparent with the demand exceeding the offer by 27%. The company raised more than 13 billion tenge.

KEGOC has effectively improved the management of the business and is successfully implementing an investment program for the development of the National Power Grid. We have completed the scheduled work under the Kazakhstan Electricity Transmission Rehabilitation Project, Phase II, and the construction of 500 kV OHTL YuKGRES - Alma, which was finished ahead of the schedule under the Alma Electricity Transmission Project.

Despite some external negative impact, the Company has maintained its stability and continued the balanced operations in delivering its basic functions. By the end of 2014 the company maintained stability and gained 8.6 billion tenge of profit.

In 2014, with the growth of generation and consumption, the amount of services in transmission of electricity decreased by 2% compared to 2013 and amounted to 40.24 billion kWh. At the same time there was a growth in technical dispatching services: 85.42 TWh; and electricity demand and supply balancing services: 160.46 billion kWh, which is higher than the previous year by 1.9% and 4.5%, respectively.

As part of the commitment to ensure the smooth operation of the National Power Grid the Company has completed the repair campaign in a timely manner and was certified for operation in winter season 2014 - 2015.

KEGOC's human resources management is governed by the Corporate Governance Code, Integrated Management System, HR policy, Rules for labour payment and bonus payment to KEGOC's employees. As a result KEGOC became the winner of Senim 2014 Republican Contest in 'The best national company-employer' nomination.

In 2014, the company confirmed its high level of corporate governance at 78.1%. PWC experts noted such strengths of corporate governance as: significant shareholder support; well-balanced and qualified members of the Board of Directors; availability of the key documents governing the system of corporate governance; clear division of responsibilities between the shareholders, the Board of Directors and the Management Board of the Company.

In addition, the Company has successfully passed the certification audit in under the international standards for quality management systems (ISO 9001: 2008), environmental management systems (ISO 14001: 2004) and management systems of professional health and safety (OHSAS 18001: 2007).

Following an audit of the business reputation the Company scored 7 on the 10 point scale, which is 42.8% higher compared to 2013.

Our priorities for the coming years shall remain: timely and effective implementation of the major industrial projects aimed at providing reliable and balanced energy supply to all regions of the country.

To improve the efficiency of investment and operations, we will develop and implement a business transformation program, which should include the simultaneous change of processes, technologies and key competencies of the employees of the Company.

As you can see, we have a great and responsible work ahead of us. The management of KEGOC hopes for support the staff in all endeavours. Because the implementation of these plans will provide our employees with permanent job, and give their families confidence in their future.

Chairman of the Management Board of KEGOC **Bakytzhan Kazhiyev**

KEY EVENTS IN 2014

31 January	The Company concluded a material transaction on long-term procurement of work package with Promstroy-Energo LLP, including turn-key construction project for construction of 500 kV OHTL Shulbinsk HPP (Semey) – Aktogay – Taldykorgan – Alma.
27 March	Bakytzhan Kazhiyev, the Chairman of the Management Board of KEGOC, met with the employees of the company's head office to report on the results of operations in 2013 and plans for the coming year.
11 April	KEGOC was recognised as the best national employer in Senim 2014 Contest.
29 April	The annual financial statements and annual report for 2013 were approved
25 April	The 45th meeting of the CIS Electric Power Council took place in the city of Baku
21-23 May	Participation in the VII Astana Economic Forum and the World Anti-Crisis Conference II in Astana
21-23 May	Participation in the World Energy Leaders Summit (WELS) World Energy Council under VII Astana Economic Forum
11 June	KEGOC released the first unique industry business guide - 'Corporate Social Responsibility for power companies: improving efficiency of the business'.
19 June	Bakytzhan Kazhiyev, the Chairman of the Management Board of KEGOC and Suk Won Kim, the Chairman of the Management Board of Balkhash Thermal Power Plant signed a long-term contract for procurement of services associated with maintaining readiness of electric power generating units of the Balkhash thermal power plant, in the residency of the President of Kazakhstan, in the presence of the two presidents: Nursultan Nazarbayev for the Republic of Kazakhstan and Park Geun-hye for the Republic of Korea, as a part of the official visit of the Korean President in Kazakhstan.
2 July	During the national teleconference held in the framework of the Government's report on the progress of implementation of the National Industry Accelerated Development programme titled: 'New Industrialization: the results of H1 2014' the President of the Republic of Kazakhstan, Nursultan Nazarbayev, gave a kick start to the implementation of a large-scale project 500 kV North-East-South electricity transmission project
21 May	Completion of the project: 'Construction of the office building of KEGOC'.
18 September	Publication of the operational and financial performance results for H1 2014
21 October	Members of the Board of Directors and Management Board had a meeting with the members of the Company's talent pool
28-30 October	Participation in the 13th Kazakhstan International Exhibition and Forum - Power Kazakhstan, Almaty
24 October	The 46th meeting of the CIS Electric Power Council
3-4 quarter	An independent assessment of the corporate governance level in KEGOC
29 October	Participation in the IX Eurasian Forum hosted by KAZENERGY, Astana
19-20 November	Participation in the IX meeting of the Republican power engineer conference

	hosted by the Kazakhstan Electric Power Association, Astana

MARKET OVERVIEW

State Regulation and Structure of Power Industry in Kazakhstan

The Unified Power System (UPS) of Kazakhstan is a combination f power plants, transmission lines and substations, providing reliable and quality power supply to consumers in the country.

The main policymaker in electric power industry is the **Government of Kazakhstan.**

The Ministry of Energy of Kazakhstan is the public authority to manage the industry.

Supervision and control of the industry is in the hands of the public authority for state energy supervision and control: **the Committee of nuclear and energy supervision and control under the Ministry of Energy of Kazakhstan.**

The Committee for Regulation of the Natural Monopolies and Protection of Competition under the Ministry of National Economy of Kazakhstan is the public authority to manage protection of competition and restrict monopolistic activity on the relevant commodity markets; control and regulate the state monopoly activities, and, to the extent provided by law, to mange the cross-sectoral coordination; regulate and control the natural monopolies and regulated markets, including control and regulation of energy and power utilities in accordance with the Law of the Republic of Kazakhstan "On Electricity" and other special executive, approval and control functions.

Samruk-Kazyna Sovereign Wealth Fund is the public holding company owning and managing the national companies (including KEGOC) in various spheres of economy, including electric power industry, telecommunications, transport and national development institutes. KEGOC» is a subsidiary of Samruk-Kazyna.

Electric Power Industry of Kazakhstan has the following sectors:

- Electricity generation;
- Electricity transmission;
- Electricity supply;
- Electricity consumption;
- Other activities in the sphere of the electric power industry.

Electricity Generation Sector

In Kazakhstan electricity is produced by 102 power plants of different forms of ownership. As of 1 January 2015, the total installed capacity of the power plants in Kazakhstan is 20,844.2 MW; and the available capacity is 16,645.4 MW.

The power plants include power plants of national importance, power plants within industrial complexes, and power plants of regional importance.

The power plants of national importance are the large thermal power plants generating electricity for consumers in the wholesale electricity market of Kazakhstan, including high capacity hydraulic power plants, which additionally are used to control the load profile in the UPS of Kazakhstan.

The power plants of industrial importance are the combined heat power plants (CHPP) which supply heat and electric power to large industrial enterprises and nearby populated areas.

The power plants of regional importance are the CHPPs integrated with the territories, supplying electricity through the networks of regional electricity network companies and power transmission organisations and heat to the towns nearby.

Electricity Transmission Sector

Electrical networks of Kazakhstan include 0.4 – 1150 kV substations, switchgears and connecting power lines used for transmission and (or) distribution of electricity.

The backbone grid in Kazakhstan UPS is ***the National Power Grid (NPG)*** providing electric connections between the regions of the country and power systems of the neighbouring countries (Russia, the Kyrgyz Republic and the Republic of Uzbekistan) and enables the power plants to supply electricity and deliver it to the wholesale consumers. ***KEGOC*** owns 220 kV and higher voltage substations, switchgears, interregional and/or interstate transmission lines being a part of the NPG including lines used for connection of the power plants.

Regional power networks provide electrical connections within regions and power transmission to retail consumers. The regional electric networks belongs to and are being operated by the regional electric network companies (REC).

Power transmission organizations transfer electricity using their own or user's power networks (rent, lease, trust management and other types of use) based on the contracts with the wholesale and retail market consumers or energy supplying organizations.

Electricity Supply Sector

The power supply sector in the electricity market of Kazakhstan include power supply organisations, which purchase electricity directly from power generators or at the centralized auctions and further sell it to the end retail consumers. Some of power supply organisations are the 'guaranteed suppliers' of electricity.

Other Activities in Power Industry

For the purpose of construction and commissioning of power facilities, individual installations and special repair services the electricity market entities engage ***construction and installation organizations and special repair enterprises***.

Research and design institutes, such as **KazNIPIEnergoprom, Energy KazNIPIITES, Kazselenergoproyekt Institute, KazNIIenergetiki named after Chokin, and Kazakhstan institute of industry development** are engaged for research and development assignments in energy sector; marketing studies and forecasting; addressing the challenges of adopting new energy-efficient and environmentally friendly technologies for power generation and supply. **.**

Kazakhstan Electricity Association of Legal Entities Association members are the energy producing organizations and consumers – the participants of the Kazakhstan wholesale electricity market.

The main objectives of the Association are:

– to support all organizations whose operations are associated with the electric power industry;

– to participate in the development of the Government programmes, laws and regulations relating to the electric power sector;

– to support and protect its members when the interests of the industry depend on decisions of the Government, judicial and other bodies.

KazEnergy is a voluntary non-profit association established to create favourable conditions for dynamic and sustainable development of oil and gas and energy industry in Kazakhstan.

Goals of the association:

– protect the rights and interests of its members in the public agencies; harmonize the legislation framework;

– create a single information platform for subsoil users, power producers, transporters and consumers of products and services of the energy sector;

– develop and support intra-industry cooperation projects and entrepreneurship at local, regional and international levels;

– spread a positive image of the association, its members and the industry as a whole, at the regional and global level;

– facilitate economic, social, environmental, scientific and technical initiatives in Kazakh society.

The National Chamber of Entrepreneurs (NCE) **of the Republic of Kazakhstan** is a Kazakh non-profit, self-governing organization, established on 09 September http://ru.wikipedia.org/wiki/2013_%D0%B3%D0%BE%D0%B4 2013 by a joint decision of the Government of Kazakhstan and Soyuz Atameken National Economy Chamber

The NCE of Kazakhstan is an alliance of businesses. The Chamber members are the commercial entities registered in Kazakhstan (including banks and banking organizations, national companies and organizations in the national holdings in industrial, agricultural and financial sector); individual entrepreneurs; farms.

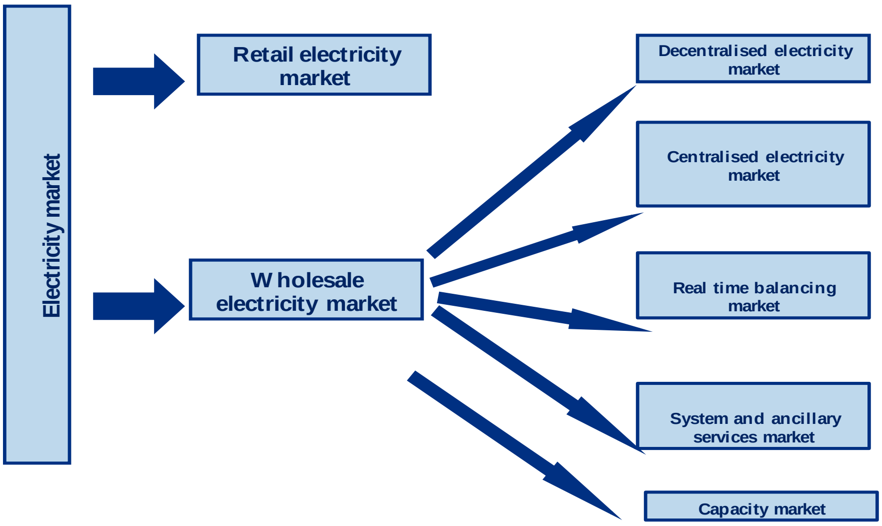
The main objectives of the NCE is to provide favourable legal, economic and social conditions for entrepreneurship and development of mutually beneficial partnership between the business community and public authorities of Kazakhstan; encourage and support the activities of associations of individual entrepreneurs and (or) legal entities in the form of association (union).

Kazakhstan Electric Capacity Reserve Pool (ECR Pool) was established by the participants of Kazakhstan electricity market. The main purpose of the Pool is to provide contract-based capacity reserves to secure uninterrupted power supply to the consumers, founders of the Pool, in case of unforeseen failures of generating capacity and outages of transmission lines in Kazakhstan.

KEGOC is a member of Kazakhstan Electricity Association, KazEnergy Association, NCE and ECR Pool.

On 18 April 2007 the general meeting of the founders established ***Samruk-Energy joint-stock company*** to develop and implement the long-term governmental policy on modernization of existing and commissioning of the new generating capacity.

Kazakhstan Electricity Market



Electricity market has two levels: wholesale and retail.

The System Operator, the regional electric network companies and other entities who owns electric networks shall provide non-discriminatory access to the electricity market for all market participants as prescribed by the state authority who governs the sphere of natural monopolies and regulated markets.

The relations arising out of generation, transmission and consumption in the electric power industry on the electricity or heat market shall be regulated by the relevant contracts.

The functional design of the wholesale electricity market in Kazakhstan includes:

➢ ***Market of decentralized purchase and sale of electricity*** (bilateral contracts of electricity purchase and sale);

➢ ***Centralized electricity market***, which is based on purchase and sale of electricity for short-term (spot-trade), mid-term (week, month) and long-term (quarter, year) period;

➢ ***Real-time balancing market*** operating for physical and subsequent financial settlement of hourly imbalances arising within the operating day between actual and contractual generation and consumption of electricity in the unified power system of Kazakhstan with the reference generation and consumption schedule, approved by the System Operator (currently the market operates in the simulations mode);

- ***System and ancillary service market***, where the System Operator renders the system services and acquires the ancillary services from the Kazakhstan electric power market entities in order to ensure compliance with the state standards established for reliable operation of Kazakhstan UPS and electric power quality.
- ***Capacity market,*** operating to attract investment in the new electrical capacity that is sufficient to meet the demand for electricity and to maintain the forecasted level of the electric capacity in the UPS of Kazakhstan.

Currently, the balancing electricity market in Kazakhstan operates in simulation mode, i.e. without financial settlement (up to 2016 in accordance with the Kazakh Government Decree No.1417 dated 28 December 2013), to develop a mechanism of interaction of the balancing market participants, determine the real magnitude of the imbalance of generation and consumption of electricity in Kazakhstan UPS, clarify the need for regulatory capacity, specify the range of prices for balancing energy.

It is assumed that physical settlement on the balancing market of imbalances will the responsibility of the System Operator of Kazakhstan UPS, and the financial settlement of imbalances will be the responsibility of the Financial Centre. ***The financial centre*** in the balancing electricity market is Energoinform JSC.

The capacity market shall be fully operational in 2016 in accordance with the Law of Kazakhstan 'On Power Industry' as amended on 4 July 2012.

It is assumed that the long-term and short-term capacity market the energy producing organizations shall deliver services associated with maintaining availability of capacity through the centralized trading in the amount not exceeding the certified capacity. To provide capacity availability services the System Operator will buy services at the centralized capacity trading and by contracting with the newly commissioned generators to purchase their services of maintaining readiness of electric power generating units. In accordance with the laws of Kazakhstan of capacity tariff of the system operator will be set by the state agency responsible for management of natural monopolies and regulated markets. The consumers are the obligatory participants of the capacity market as buyers of capacity services, except electric power generating sources of the consumers.

The participants of the wholesale electricity market are:

- Power producing organisations that supply electricity to the wholesale market in the amount of not less than 1 MW of the daily average (baseline) capacity;
- Consumers who buy electricity on the wholesale market in the amount of not less than 1 MW of the daily average (baseline) capacity;
- Power transmission organizations;
- Power supplying organizations that do not have their own electrical networks and buy electricity on the wholesale electricity market with a view to resale it in the amount of not less than 1 MW of the daily average (baseline) capacity;
- The System Operator is KEGOC;
- The operator of the centralized electricity trading is KOREM.

The power producing organisations sell electricity to power supplying organisations and bulk consumers at the wholesale electricity market. Participation in the wholesale market is subject to the availability of access to the national and (or) regional grid and availability of the automated systems for commercial metering and telecommunications for transmission of information to the System Operator.

The Ministry of Energy of Kazakhstan (order No.61 dated 10 November 2014) assigned KEGOC ***the System Operator of UPS of Kazakhstan,*** with the following functions:

- Render electricity transmission system services using the NPG; service the NPG and ensure its operational availability;
- Render centralised operational dispatch control system services to control the operational modes of Kazakhstan UPS including actual energy balance reports and daily electricity production-consumption schedule;
- Ensure reliability of Kazakhstan UPS;

- Render electricity production-consumption balancing system services;
- Effect financial settlement of electricity imbalances;
- Determine the volume, structure and distribution of capacity reserves among power generating organisations and engagement of capacity reserves in Kazakhstan UPS;
- Manage the operation of the real time electricity balancing market, the market of system and ancillary services;
- Interact with power systems of neighbouring states in terms of management and stability of parallel operation modes;
- Provide technical and methodological guidelines for establishment of a unified information system, automated commercial metering system, interconnected relay protection and emergency control automatics for all participants of the wholesale electricity market;
- Ensure equal access conditions to the national power grid for all wholesale electricity market participants;
- Provide the participants of the wholesale electricity market of Kazakhstan with the information except for any commercially sensitive data or any other secret protected by the law;
- Coordinate the dates of the repair windows of the main equipment of power plants, substations, transmission lines, relay protection devices and emergency control automatics, process management systems and ensures their availability;
- Participate in the development of operating modes for the hydropower plants;
- Develop electricity balance forecasts.
- Organize the operation of the capacity market.

The centralized dispatch control of Kazakhstan UPS is performed by KEGOC's branch ***: the National Dispatch Centre of the System Operator (NDC SO).*** The centralized operational and dispatch control in Kazakhstan UPS is organised as direct operational subordination of nine regional dispatch centres (RDCs) to NDC SO; these RDCs are the structural subdivisions of KEGOC branches: Interconnection Electric Networks (MES branches).

The centralized dispatch control in UPS of Kazakhstan includes:

- Management the operation modes of production, transmission and consumption of electricity in UPS of Kazakhstan in line with the contracts for electricity sale, electricity transmission, power control, balancing of electricity generation and consumption;
- Control of interstate power flows;
- Prevention, confinement and elimination of disturbances in the UPS of Kazakhstan;
- Operational control of the capacity reserves in the UPS of Kazakhstan;
- Determination of the structure, principles, locations, volumes and settings of relay protection systems that ensure secure and sustainable operation of the UPS of Kazakhstan.
- Compilation and approval of the daily electricity generation and consumption schedules in the UPS of Kazakhstan;
- Drafting of the actual electricity generation and consumption balance for the wholesale electricity market.

The Market Operator of the centralized electricity trading responsible for the operation of the market organization centralized trading is ***KOREM JSC***. The centralised trade market provides open, non-discriminatory access for the electricity market participants and unbiased current electricity market price signals.

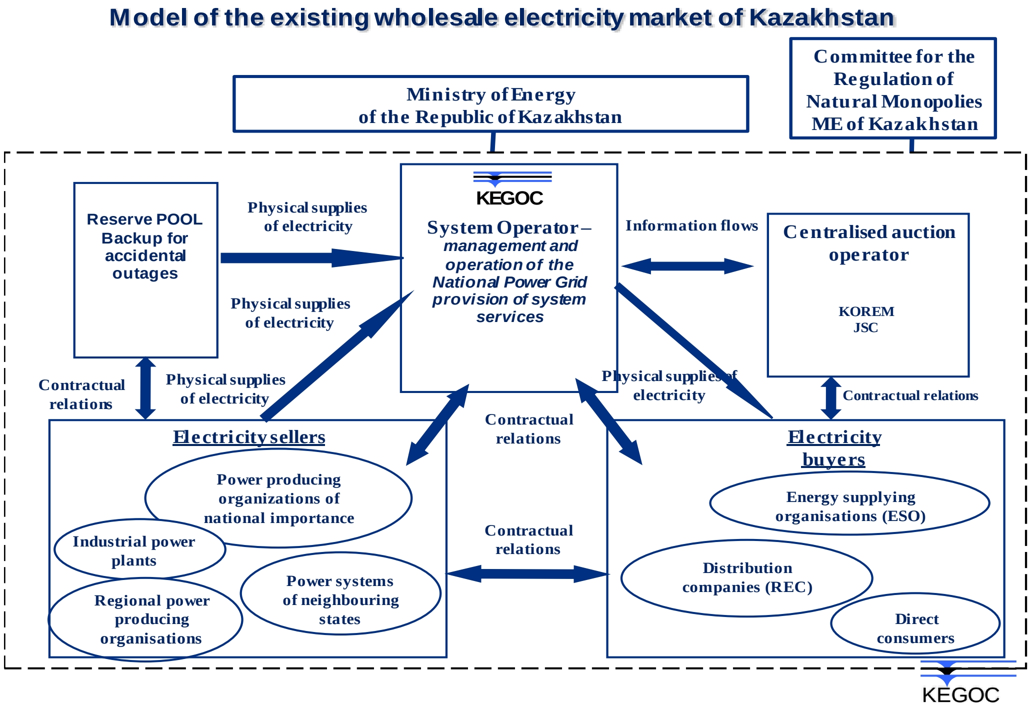
In accordance with Law of the Republic of Kazakhstan 'On Support of Renewable Energy Sources', in 2013 KEGOC established ***Financial Settlement Centre for Support to Renewable Energy Sources LLP***. The main business activity of Financial Settlement Centre for Support to Renewable Energy Sources LLP is to ensure the centralised purchase and sale of the electricity produced by renewable energy facilities and delivered to the electric networks of Kazakhstan UPS.

The power generating and distribution organisations sell electricity to retail consumers at the retail electricity market.

To date Kazakhstan restructured regional energy companies by unbundling them into separate legal entities: regional power plants, regional electricity network companies (RECs), power supplying organization and heat network utilities. The Government completed the privatization of the regional network companies to spin off the function of electricity trade from the core operations, the transmission of electricity, through the creation of power supplying organizations.

The regional electricity network companies and power transmission companies provide non-discriminatory access to the power grids for all market participants in the manner prescribed by the authority. The financial settlements between the retail market participants are based on the electricity supply, purchase and service delivery contracts.

The Model of the Current Wholesale Electricity Market in Kazakhstan

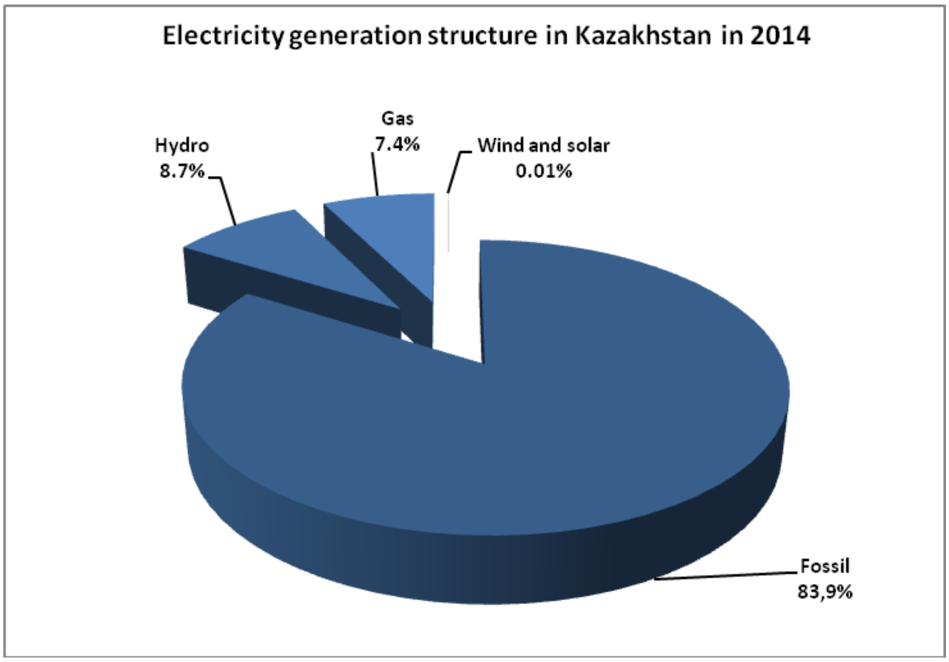


Electricity Balance

Electricity Production

Electricity generation in 2014 in Kazakhstan was 93,935.2 million kWh, including:

Thermal power plants	78,772.9 million kWh
Hydro-power plants	8,235.8 million kWh
Gas-turbine power plants	6,915.9 million kWh
Wind power plants	9.4 million kWh
Solar power plants	1.2 million kWh



Overall electricity production in 2014 as compared to 2013 increased by 1962.5 million kWh or 2.1 %.

The electricity output at steam power plants in Kazakhstan increased by 1150.9 million kWh (1.5 %) which among others was caused by more intense loading of the following power plants:

EEC JSC	- by 1187.9 million kWh or 7.8 %;
Zhambyl GRES	- by 925.9 million kWh or 58.1%;
Ekibastuz GRES-1	- by 604.4 million kWh or 4.5 %;
SevKazEnergo LLP PPCHP-2	- by 129.6 million kWh· or 5.0 %;

Zhambyl GRES power plant in the Zone South of Kazakhstan generated 2520.5 million kWh. In 2014 the plant operated without interruptions with one to three units in operation.

The hydropower production in Kazakhstan compared to 2013 increased by 534.8 million kWh or 6.9 % to 8235.8 million kWh. The profile of Kazakhstan hydropower operations is driven by water balance and hydrological conditions. However, production of HPP of the Zone North of Kazakhstan increased by 949.5 million kWh (19.1 %), while production of HPP of the Zone South of Kazakhstan deceased by 414.7 million kWh (15.2 %).

The hydropower production in Kazakhstan compared to 2013 increased by 270.1 million kWh or 4.1 % to 6915.9 million kWh.

Electricity Consumption

In 2014, the consumption of electricity in Kazakhstan in comparison with 2013 increased by 2020.1 million kWh or 2.3 % to 91660.9 million kWh.

Consumption increased in Zone West of Kazakhstan by 707.6 million kWh (6.9 %) and in Zone South of Kazakhstan by 1233.5 million kWh (6.6 %). Consumption in Zone North was practically the same as compared to the pervious year: the growth of 79.0 million kWh or 0.1%.

Compared to 2013 consumption increased at:

Kazphosphate LLP: by 133.4 million kWh· or 6.7 %;

Aktobe ferrous alloy plant Transnational Company Kazchrome JSC: by 93.7 million kWh or 6.4 %;

Electricity generation decreased at following power plants:

Kazakhstan electrolytic plant: by 583.0 million kWh or 16.1 %;

Kazakhmys Corporation LLP (Zhezkazgan):	by 266.1 million kWh or 17.0 %;
Kazakhmys Corporation LLP (Zhezkazgan):	by 307.5 million kWh or 48.8 %;
Aluminium of Kazakhstan JSC:	by 129.6 million kWh or 12.5 %;

Ust-Kamenogorsk Titanium-Magnesium Plant (UKTMK): by 122.8 million kWh or 21.4 %;

Arcelor Mittal Temirtau JSC:	by 43.5 million kWh or 1.1 %;

KazZink JSC: by 23.4 million kWh· or 0.9 %;

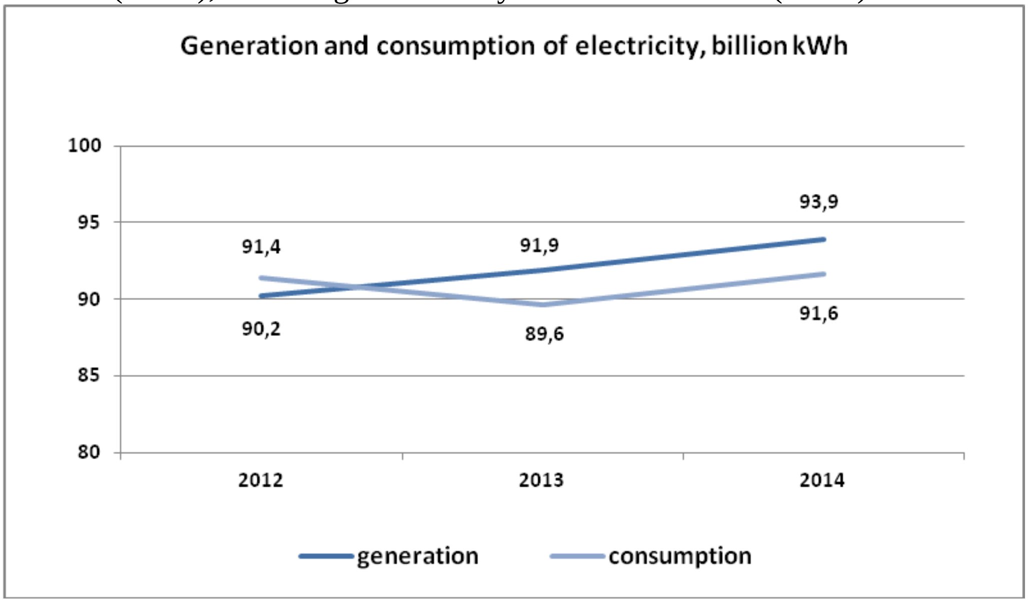
Sokolovsk-Sarbai mining and processing production enterprise JSC:by 77.1 million kWh or 3.2 %;

Aksu ferrous alloy plant Transnational Company Kazchrome JSCby 29.7 million kWh or 0.5 %;

Electricity consumption by zones:

- Kazakhstan: 91660.9 million kWh or 100.0 %
- Zone North 60864.9 million kWh or 66.4 %
- Zone South 19856.1 million kWh or 21.7 %
- Zone West 10939.9 million kWh or 11.9 %

In 2014, as compared to 2013, there have been growth in consumption in Kazakhstan oblasts. The decrease was in Pavlodar oblast: by 541.7 million kWh (3.0 %); in Kostanai oblast: by 107.9 million kWh (1.9 %); Zhezkazgan oblast: by 193.8 million kWh (3.0 %).



Power Flows

In 2014 power generation exceeded consumption by 2274,3 mln. kWh.

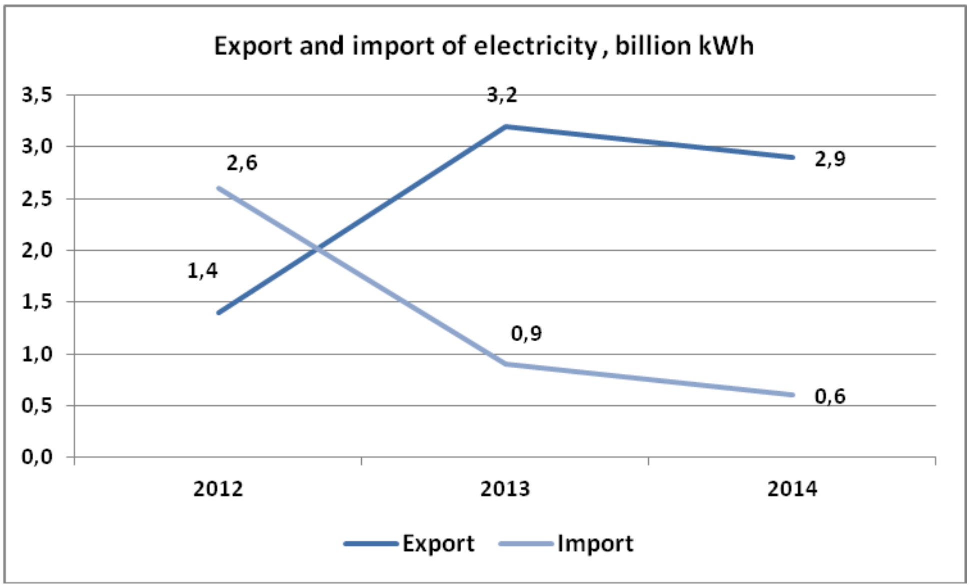
The balance flow of electricity to Russia and in Kazakhstan was 1503.6 million kWh, which is 797.0 million kWh (34.6%) less than in 2013; the purchase of electricity from Russia amounted to 560.7 million kWh, which is above the level of 2013 by 50.7 million kWh or 9.9%. The amount electricity sold to Russia in 2014 was 2064.3 million kWh, which is less than in 2013 by 746.3 million kWh or 26.6%.

In 2014, Uzbek power grid continued unauthorised consumption overloading North-South transmission lines in Kazakhstan and affecting the target values of balance electricity flow between power systems of Kazakhstan and Russia. Unauthorised electricity delivered from KEGOC to Uzbekenergo amounted to 652.029 million kWh (vs. 405.5 million kWh in 2013). In 2014, interrelations between KEGOC and Uzbekenergo were settled with relevant agreements on purchase of the unauthorised amount electricity consumed by Uzbekistan and received from the Kazakhstan UPS and on power control services.

The balance flow in the Central Asian was 770.7 million kWh (vs. 31.3 million kWh in 2013).

In accordance with paragraph 10 about foreign electricity trade barter of the minutes of negotiations between Kazakhstan and Kyrgyz Republic on the accession of the latter to the Customs Union and the Common Economic Space (held in Bishkek on 25-26 July 2014), Kazphosphate LLP, Zhambyl Zharyk Sauda 2030 and Temirzholenergo LLP received electricity from Electric Power Plants JSC (Kyrgyz Republic) under the swap contracts during the irrigation period from 1 to 15 August 2014, which was fully returned back in the second half of August and in September. (In 2013, Kazakhstan imported from Kyrgyzstan 365.6 million kWh of electricity in connection with additional water releases from the Toktogul reservoir (Kyrgyz Republic) in the interests of water users southern Kazakhstan).

To reduce the risk of unstable operation in the power supply system of the southern regions of Kazakhstan, to accumulate water in Toktogul HPP reservoir and in accordance with the agreement of the Supreme Interstate Council dated 7 November, Zambyl GRES power plant (Kazakhstan) and Electric Power Plants (Kyrgyz Republic) signed relevant electricity sale contracts for December with subsequent extension in the coming months. Electricity supplies to Kyrgyzstan began on 1 December equivalent to the gas supply for additional power generation under a contract with KazTransGas JSC. The sale of electricity to Kyrgyzstan amounted to 118.7 million kW · h.



KAZAKHSTAN POWER SECTOR DEVELOPMENT STRATEGY

The Government of Kazakhstan (decree No. 724 dated 28 June 2014) approved the Concept of development of the fuel and energy complex of Kazakhstan until 2030.

The concept of development of the fuel and energy complex of Kazakhstan until 2030 links into a single whole the development of oil and gas, coal, nuclear and electricity industries using the best international practices and the latest trends in the global energy industry.

The concept of the fuel and energy complex (FEC) includes the following tasks:

- ensure energy security of the country by increasing self-sufficiency in resources and FEC products;
- increase geopolitical influence in the region by addressing energy consumption growth in the economies of the region;
- develop the economic potential of the country;
- develop human potential;
- improve safety and reliability of electrical equipment and power facilities;
- intensively develop the fuel and energy sector by utilizing the technologies of the XXI century;
- actively involve renewable energy and alternative energy sources in the energy mix;
- energy and resource conservation, energy efficiency.

KEGOC DEVELOPMENT STRATEGY

The long-term development strategy of KEGOC is based on the Government plans and programmes and defines the key strategic goals and objectives of KEGOC development.

Company's mission is to ensure reliable operation and effective development of Kazakhstan Unified Power System (UPS) in accordance with up-to-date technical, economic, environmental and occupational health and safety requirements.

Vision - by 2025, KEGOC will become a world-class company and the regional centre of expertise in the power industry.

Main strategic goal is to create a competitive company in the global economy.

The main strategic goal is achieved by fulfilling top-level goals:

GOAL 1: Ensure reliable operation of the Kazakhstan National Power Grid (NPG) in accordance with the requirements of the country (NPG RELIABILITY), i.e., ensure the reliability of operation, modernization of the outdated, and quality maintenance and operation of the existing assets.

GOAL 2: Develop the National Power Grid for the growth of the Company's business and in accordance with the needs of the economy of Kazakhstan (NPG DEVELOPMENT) through the construction of new transmission lines and substations to meet the growing electricity demand of the economy and population.

GOAL 3: Improve performance of the Company (EFFICIENCY IMPROVEMENT) through the development and implementation of innovations; introduction of advanced management methods; implementation of plans for energy efficiency.

GOAL 4: Ensure the growth of shareholder's value (ECONOMY AND FINANCE) by optimizing costs, taking an active part in tariff setting process, and by improving the customer service.

GOAL 5: Improve and increase the efficiency of the electricity market in Kazakhstan (MARKET DEVELOPMENT) through the development of the company's functions to organize centralized electricity market and establish the financial settlement centre to support renewable energy, launch the balancing energy market with the implementation of the financial settlement of imbalances of electric energy and launch the capacity market.

GOAL 6: Develop corporate governance and ensure sustainable development (CORPORATE GOVERNANCE AND SUSTAINABILITY). i.e. secure and protect the rights of shareholders, develop professional capacity of the staff, ensure safe working environment, minimize the environmental impact. Being the member and supporting the principles of the UN Global Compact, our Company is aware of its responsibility to society, its employees and to future generations.

GOAL 7: Achieve stable partnership relations with electricity companies of the neighbouring countries (INTERNATIONAL COOPERATION) i.e. cooperation with electric utilities of the neighbouring countries; protecting the interests of the UPS of Kazakhstan in the relationship with the energy of neighbouring countries; assistance in creation of the common energy market of the CIS countries within the framework of ongoing integration process of the Customs Union, the Single Economic Space.

GOAL 1. RELIABILITY OF THE NATIONAL POWER GRID

Geography of Activities

OUTLINE MAP OF 1150-500-220-110 kV ELECTRIC GRIDS OF THE UNIFIED POWER SYSTEM OF KAZAKHSTAN

The main asset of the Company is a National Power Grid comprising 24,893.53 km of 35-1150 kV high voltage electricity transmission lines and 77 electric power substations with the installed transmission capacity of 36,244.55 MVA. They ensure the cross-border electric power flows, transmit electric power from power plants and connect the regional power companies and major consumers.

KEGOC

Branches

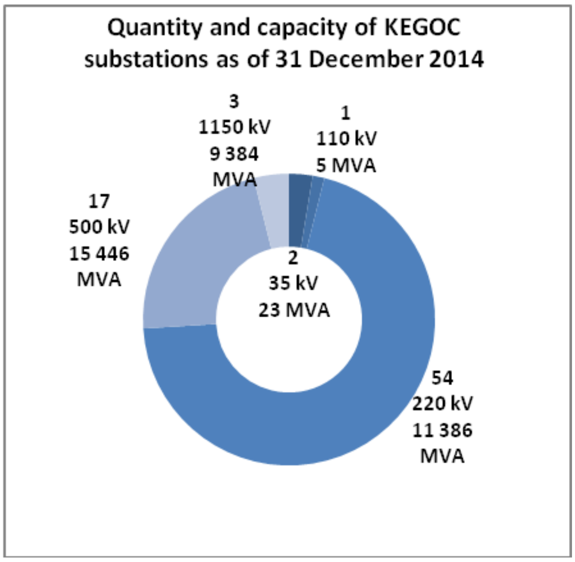
Akmolinskiye MES 10 SS 8137 MVA, 4225 km of OHTL	**Aktyubinskiye MES 7 SS, 2426 MVA, 960 km of OHTL**	**Almatinskiye MES 11 SS, 4229 MVA, 3507 km of OHTL**	**Vostochnye MES 5 SS 3027 MVA, 1044 km of OHTL**	**Zapadnye MES 5 SS 950 MVA, 1681 km of OHTL**	**Sarbaiskiye MES 8 SS, 6820 MVA, 2418 km of OHTL**	**Severnye MES 8 SS, 3521 MVA, 3179 km of OHTL**	**Tsentralnye MES 10 SS, 3742 MVA, 3478 km OHTL**	**Yuzhnye MES 13 SS, 3395 MVA, 4201 km of OHTL**	**NDC SO 9 RDC**

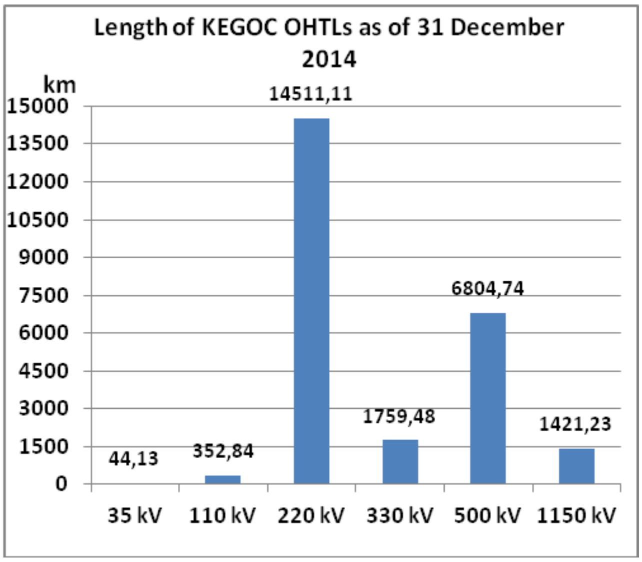
Branches and Affiliates

Representative office in Almaty

EnergoInform 100%	**Batys Transit 20%**	**FSC RES**

Power Network Characteristics





KEGOC substations have in total:

- 271 power transformers and autotransformers of 1150-10 kV (including six transformers on the balance sheet of Batys Transit JSC, one on the balance sheet of PO Kokshe-Tsement LLP, and one on the balance sheet of KCP LLP);
- 171 shunt reactors (9 are on the balance sheet of Batys Transit and one is on the balance sheet of KCP LLP);
- 1,525 phases of 1150-35 kV voltage transformers (including 73 on the balance sheet of third party organisations);
- 3,580 phases of 1150-35 kV current transformers (including 217 on the balance sheet of third party organisations);
- 58,967 pcs of relay protection and automation and emergency automation equipment;
- 30,870 pcs of metering tools;
- 111 storage batteries (including 2 on the balance sheet of Batys Transit);
- 66 compressor units;
- 1,540 circuit breakers (air-blast, oil, SF6, vacuum) (including 91 on the balance sheet of third party organisations);
- 116 devices and tools for the treatment of solid insulation and transformer oil.

In total, there are 308 electricity transmission lines 35-1150 kV with the total length of 24,893.53 km (circuits) on the balance sheet of KEGOC.

Dispatch Control

At the top of the operational dispatch control in the Kazakhstan UPS is the National Dispatch Centre of System Operator which controls nine regional dispatch centres (RDC). These regional centres are included in the organizational structure of the Intersystem Electric Networks (MES) branches of KEGOC and carry out the continuing operational dispatch control over the Kazakhstan UPS:

Akmolinskiy RDC
Aktyubinskiy RDC
Almatinskiy RDC
Vostochny RDC

Zapadny RDC
Kostanaiskiy RDC
Severny RDC
Tsentralny RDC
Yuzhny RDC

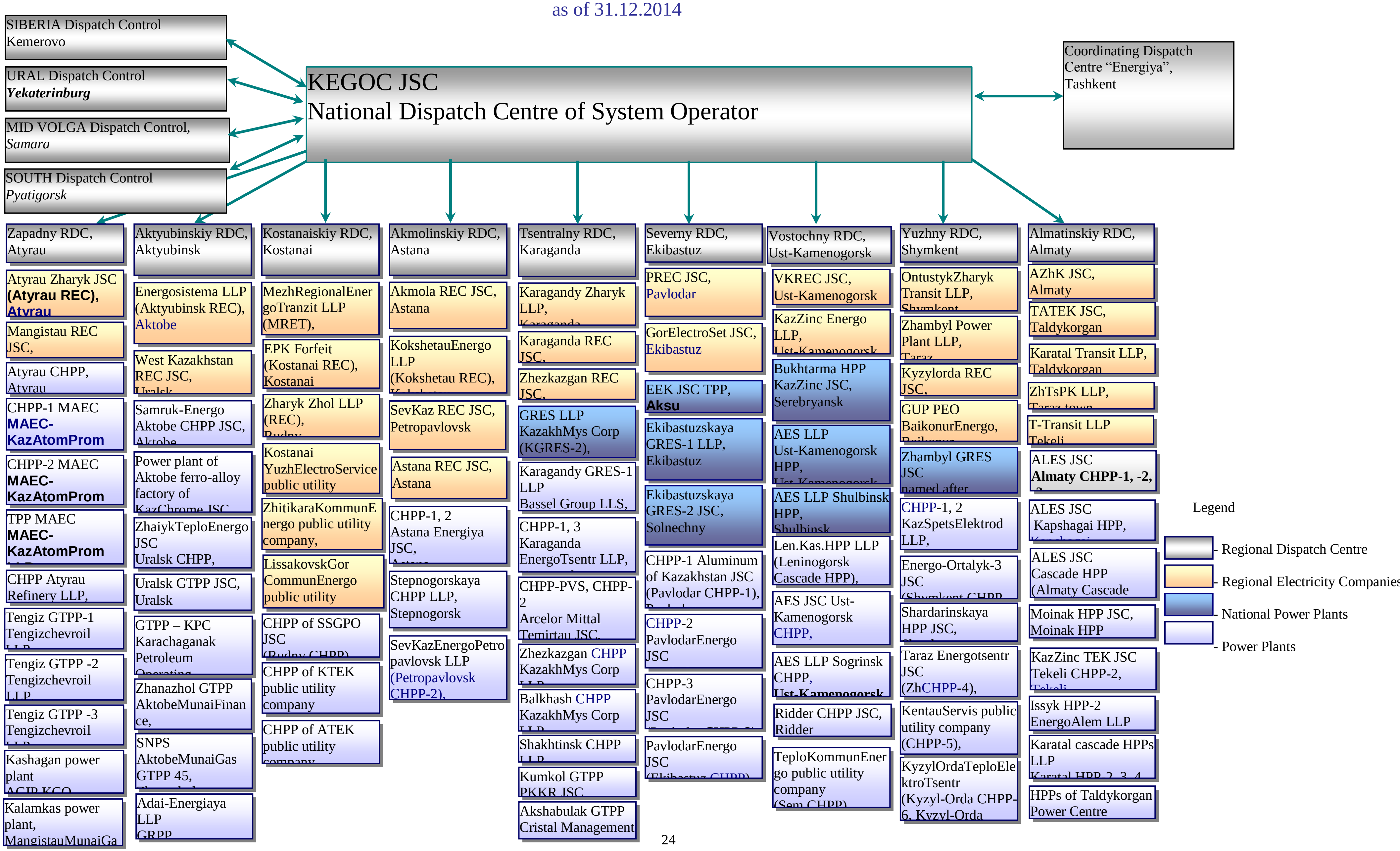
The functions of NDC SO are to:

- Ensure round-the-clock operational dispatch control over the coordinated operation of power plants and the grid through regional dispatch centres;
- Draft and examine technical aspect of the daily schedule of electricity generation/consumption in the UPS of Kazakhstan taking into account the actual condition of power plants' facilities and the grid topology;
- Estimate monthly, quarter and annual capacity and electricity balances in the UPS of Kazakhstan;
- Develop and monitor annual and monthly maintenance schedules for the equipment of power plants, substations and overhead transmission lines (OHTL); review and approve maintenance requests;
- Control the capacity balance between power plants and their direct consumers. Ensure the compliance with the daily load schedule of the wholesale electricity and capacity market participants, including interstate and interregional power flow;
- Develop and implement technical and organisational measures to limit the consumption and to prevent non-contractual consumption and over and above contract consumption, transmission of electric capacity and (or) electricity;
- Introduce electric capacity reserve pool (ECR pool) in case of reduction/loss of capacity, loss of transmission link between consumers and their contractual energy sources;
- Maintain the most reliable topology of Kazakhstan UPS, control the operational topology of lines and power facilities managed by NDC SO dispatcher;
- In case of parallel operation with UES of Russia and IPS of Central Asia: control and manage power flows in accordance with the existing schedules. In case of isolated operation: manage the power frequency in the Kazakhstan UPS.

The NDC SO dispatchers regulate the operation of power plants and electric networks of the Kazakhstan UPS and interconnections in cooperation with the dispatchers of SO UPS (Siberia Dispatch Control, Ural Dispatch Control, Mid-Volga Dispatch Control and Southern Dispatch Control), and the dispatcher of Energiya Coordinating Dispatch Centre.

Structure of Operational Dispatch Control of Kazakhstan Unified Power System

as of 31.12.2014



GOAL 2. NATIONAL POWER GRID DEVELOPMENT

Investment Activity

Taking into account the development prospects of the interregional network and power delivery, the scheduled commissioning of new generating capacities, the Company pursues the active investment policy aimed at the upgrading of the national power grid, the construction of new electric power facilities to meet the consumer needs in electricity in the country, and create the export and transit potential. It should be noted that all the investment projects are also socially oriented.

In 2014, the Company proceeded with the implementation of the following projects:

Kazakhstan Electricity Transmission Rehabilitation Project, Phase II

The aim of the Project is to improve the operation of electricity market, provide for long-term sustainable development of Kazakhstan's economy, ensure effective and stable operation of electrical equipment in market conditions, increase reliability and quality of electricity supply to consumers, improve the technical and environmental safety of high-voltage equipment, reduce the costs of maintenance and repair of equipment, improve the technical level and reliability of the national power grid (NPG) of Kazakhstan. The project provides for the equipment rehabilitation at 55 substations and the construction of 220 kV transmission lines.

Project implementation period: 2010 – 2016.

The project cost: KZT 49.36 billion inclusive of VAT.

The project is financed out of KEGOC’s own funds and out of the funds borrowed from EBRD amounting to EUR 228 million.

Construction and erection works at the rehabilitated substations were completed. All 55 substations were commissioned after the issue of the State Acceptance Certificates.

With regard to stage II of the project - the Company is currently selecting and approving the line route and developing design and estimate documentation for 220 kV OHTL Tulkubas - Burnoye, engineering surveys were completed, the project is under approval with the Gosexpertiza project examination authority.

Alma Electricity Transmission Project

The project goal is to secure the reliable power supply in the Almaty region, deliver power from the first stage of Balkhash TPP (1320 MW), provide the engineering capability for the development of Almaty satellite towns and for the construction of Almaty industrial park.

Project implementation period: 2009-2014.

Project cost: KZT 28.6 billion inclusive of VAT.

The project is financed out of KEGOC’s own funds (including KZT 16.7 billion injection from the government budget in KEGOC authorized capital) and loans of the IBRD to the amount of USD 71.4 million granted under the sovereign guarantee issued by the Government of the Republic of Kazakhstan as a collateral of KEGOC obligations for construction of 500 kV OHTL YuKGRES – Alma.

The project was completed, all facilities were commissioned upon the issue of the State Acceptance Certificates:

- 500 kV OHTL from 500 kV Almaty SS to 500 kV Alma SS (63.367 km);
- cross-connection lines for connection of 220 kV OHTL ACPP-3 - Robot SS and ACPP-3 - Shelek with 500 kV Alma SS (total length 25.942 km);
- 500/220/10 kV Alma SS;
- extension of 500 kV YuKGRES SS;
- 500 kV OHTL YuKGRES SS - Alma SS;
- extension and rehabilitation of 500 kV outdoor switchgear (OSG) at 500/220/10 kV Almaty SS;
- double-circuit 220 kV OHTL Alma - Kensai and 500 kV and 220 kV bays at 500 kV Alma SS.

500 kV OHTL Ekibastuz – Shulbinsk HPP (Semei) – Ust-Kamenogorsk Construction Project

The project goal is to increase transmission capacity in North - East direction, cover deficits in the East Kazakhstan oblast by making it independent of the electricity transported through the Russian network, and ensure delivery of all power generated at Shulbinsk HPP after the Bulak HPP, the counter regulator of Shulbinsk HPP, is put into operation.
Project implementation period: 2011-2017.
Project cost: KZT 43.3 billion inclusive of VAT.
The project is financed out of KEGOC's own funds.
By the moment, 383 metal towers and 130 km of conductors were installed under the construction of 500 kV Semei - Ust-Kamenogors OHTL.
Foundations for equipment were completed, switching equipment is under installation and auxiliary facilities are under construction at the 500 kV Semei SS.
46 metal towers were installed under the construction of 220 kV OHTL Semei-Shulbinsk HPP and under the construction of cross-connection lines to connect 220 kV OHTL with 500 kV Semei SS.

500 kV OHTL Shulbinsk HPP (Semey) - Aktogay - Taldykorgan - Alma Construction Project

The project shall increase the transmission capacity of the national power grid in North-South direction, cover the needs of electrified rail roads, energy intensive facilities of metal mining industry, create conditions for development of the cross-border territories and large scale development of renewable energy potential and strengthen the link with Zone East of the Kazakhstan unified power system.
Project implementation period: 2012-2018.
Project cost: KZT 76.8 billion inclusive of VAT.
The project is financed out of KEGOC's own funds as well as borrowed funds to the amount of KZT 68.3 billion due to issue of long-term bonds.
The selection and agreement of the route as well as engineering survey is under way for the 500 kV OHTL and substations; design estimate documentation for the facilities is under development.

Ossakarovka Transmission Rehabilitation Project

The project goal is to improve the reliability of power supply to Astana consumers and to meet the growing electricity demand of the city and facilities scheduled for the construction within the industrial zone of Astana.
Project implementation period: 2010-2014.
Project cost: KZT 4.058 billion inclusive of VAT.
The project is financed out of KEGOC's own funds, including the funds allocated from the state budget (KZT 2.003 billion) as budget investments and loan proceeds granted by EBRD (USD 12 million).

Two 125 MVA autotransformers were replaced at 500 kV TsGPP SS with the 250 MVA autotransformers under this project.
All construction and installation works for rehabilitation of 220 kV OHTL TsGPP SS - Ossakarovka SS were completed. The facility was commissioned upon the approval by the State Commission in October 2014.

Pavlodar Electricity Transmission Reinforcement Project

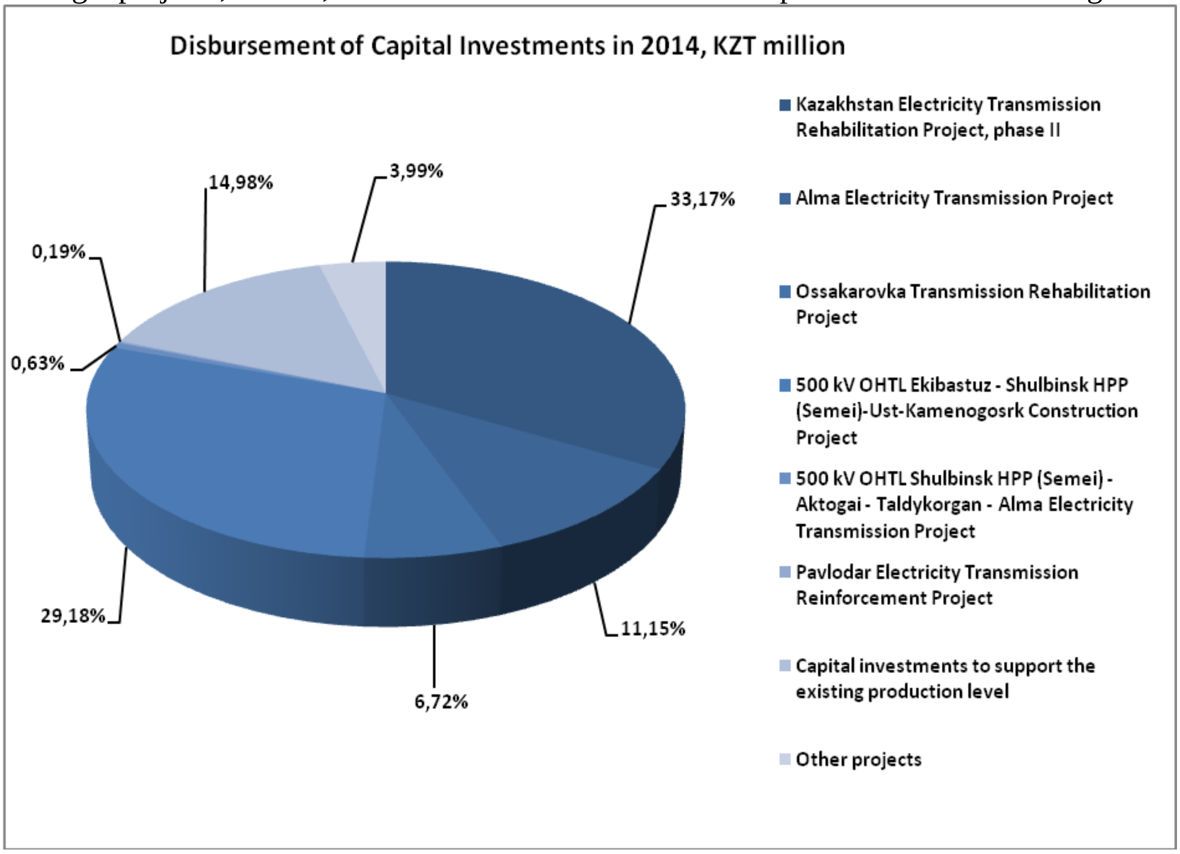
The project goal is to secure the electricity supply to Pavlodar city and electricity transmission from the power plants in Pavlodar to the Kazakhstan UPS.
Project implementation period: 2011-2016.
Project cost: KZT 5.5 billion inclusive of VAT.
The project is financed out of KEGOC's own funds.
EPC contract was signed with TPEP LLP for implementation of the project:

- construction of single-circuit 220 kV OHTL Promyshlennaya SS - EEC JSC (54.1 km);
- upgrade of 110 kV OHTL Pavlodarskaya SS - EEK JSC to 220 kV (21.5 km);
- construction of 220 kV OSG at 110 kV Pavlodarskaya SS;
- rehabilitation and extension of 220 kV OSG at EEC;
- replacement of conventional ground wire for the ground wire cable with optical fibres (OPGW) at 500 kV OHTL GRES-1 - EEC (121.8 km).

Scheduled scope of engineering survey works have been completed, agricultural losses and rental rates for land plots acquired for construction on state owned lands (reserve lands, lands of settlement regions, city, etc.) have been paid to the Government. Currently, the Company is developing design and estimate documentation and completing the formalities to acquire private property rights to the land plots for construction from land owners and land users for a period of construction.

Disbursement of Capital Investments

In 2014, over KZT 26,264 million were spent, including KZT 21,470 million – for major strategic projects, KZT 3,935 million – for renovation and replacement of the existing assets.



Business Outlook

Power industry in the Republic of Kazakhstan is of great importance as the key national industries such as metallurgy and oil and gas production are the highly energy intensive industries. Accordingly, the competitiveness of the production industries in Kazakhstan and the living standards are highly dependent on the reliability and quality of energy supply to consumers.

According to the electricity consumption forecast in Kazakhstan, the consumption will grow in accordance with the dynamic economic growth.

To ensure stable growth of national economy, faster development of the whole electric power industry is required.

To ensure balanced and sustainable growth of the power industry in Kazakhstan with due account for the strategic reasons of the government which shall take into account the necessity in further economic growth, improvement of the living standards and energy security in Kazakhstan, KEGOC plans the following future projects:

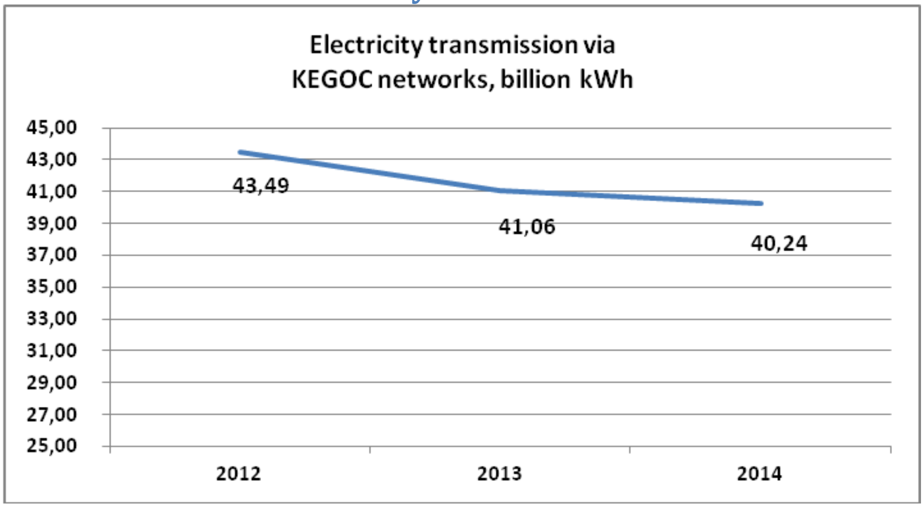
- **Balkhash Electricity Transmission Project** is required to ensure power delivery from Balkhash TPP (1320 MW);
- **Integration of the Power System of the Western Kazakhstan with Kazakhstan UPS**, which shall improve the reliability of power supply to consumers in Zone West of Kazakhstan UPS and integrate Zone West with Kazakhstan UPS with the lines in the territory of Kazakhstan;

- **Construction of 220 kV OHTLs Uralsk – Atyrau and Kulsary – Tengiz** (625 km) is to strengthen electric connections between the oblasts of West Kazakhstan;
- **Torgai Electricity Transmission Project** is required to ensure power delivery from base load power plant of Torgai TPP planned for construction;
- **National Power Grid Rehabilitation Project** is to reproduce technical characteristics and extend the service life of transmission lines.

GOAL 3. EFFICIENCY IMPROVEMENT

KEGOC customers include: power generators, power transmission entities, power suppliers and electric power consumers.

Electricity Transmission

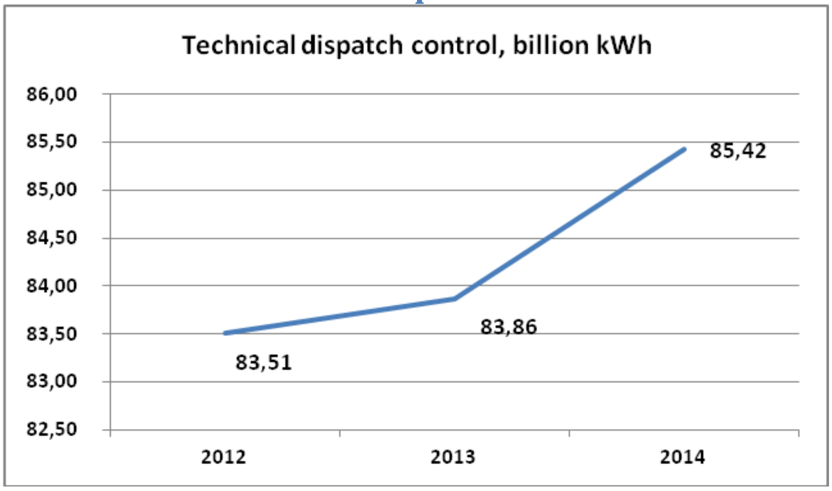


The actual scope of services for transmission of electricity via trans-regional networks in 2014 amounted to 40,236.7 million kWh. Comparing to 2013, it decreased by 818.6 mln. kWh or by 2 %, which is due to decrease in the scope of interstate transit by 1,872.3 mln. kWh or by 36.9 %, and also due to decrease in electricity export to Russia by 589.8 mln. kWh or by 24.1 %. The following entities had the highest rates of decrease: FGC UES - by 1,872.3 million kWh or 36.9 %; KazZink LLP - by 116.45 million kWh or 5.6 %, ArcelorMittal Temirtau - by 115.64 million kWh or 9.5 %, Ust-Kamenogorsk Titanium-Magnesium Plant - by 206.03 million kWh or 35.8 %, Taraz Metallurgical Plant - by 47.98 million kWh or 81.6.%. At the same time consumption by the participants of the wholesale market of Kazakhstan increased by 1.643 billion kWh or by 5%.

In 2014, KEGOC and FGC UES arranged for transmission (transit) of electric power through KEGOC's networks from the Russian Federation through the Republic of Kazakhstan back to the Russian Federation. The scope of services rendered by KEGOC for this transit amounted to 3,208.023 million kWh which is by 1,872.334 million kWh less than in 2013.

Major customers	2014, mln. kWh
TemirZholEnergo LLP	**3,443.128**
Federal Grid Company of Unified Energy System (FGC UES) OJSC	**3,208.023**
AlmatyEnergoSbyt LLP	**2,966.502**
Kazphosphate LLP	**2,210.045**
ShygysEnergoTrade LLP	**1,808.837**
KazZinc LLP	**1,595.218**
AstanaEnergoSbyt LLP	**1,206.758**
SSGPO JSC (Sokolov-Sarbai mining and refining company)	**1,148.868**
ArcelorMittal Temirtau JSC	**1,100.935**
Kostanai EnergoCenter LLP	**857.999**

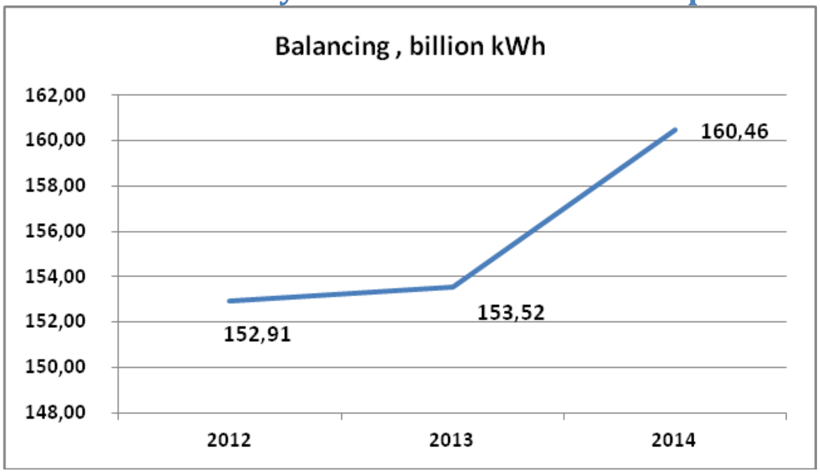
Technical Dispatch Control



The actual volume of services on technical dispatching of electricity supply to the grid and consumption in 2014 was 85,418.3 million kWh. The volume of technical dispatching services increased by 1,555.0 million kWh or by 1.9 % compared to 2013. Such increase was due to the increased generation by power generation entities which was caused by the increased power consumption by the wholesale market participants in Kazakhstan. The following entities had the highest rates of increase: Eurasian Energy Corporation JSC – by 1,135.9 million kWh or 7.9 %; Zhambyl GRES named after Baturov – by 867.9 million kWh or 58.6 %; Karagandy Energocenter LLP – 215.5 million kWh or 7.7 %.

Major customers	2014, mln kWh
Eurasian Energy Corporation JSC	**15,549.939**
Ekibastuz GRES-1 LLP named after Nurzhanov	**13,366.845**
Kazakhmys Energy LLP	**5,142.205**
Ekibastuz GRES-2 Power Station JSC	**4,506.790**
Almaty Power Stations JSC	**4,392.004**
MAEK-KazAtomProm LLP	**4,345.114**
KazZinc LLP	**2,680.783**
SevKazEnergo JSC	**2,361.913**
Aluminium of Kazakhstan JSC	**1,896.289**
Astana-Energiya JSC	**1,844.621**

Management of Electricity Production and Consumption Balancing



The actual balancing of electricity generation and consumption in 2014 amounted to 160,464.6 million kWh. The volume increased by 6,943.3 million kWh or by 4.5 % compared to 2013. Such increase was caused by the increase in the scope of electricity generation and consumption balancing services and by the general increase in electricity generation and consumption at the wholesale market in Kazakhstan.

Major customers	2014, mln kWh
Eurasian Energy Corporation JSC	**24,570.680**
Ekibastuz GRES-1 LLP named after Nurzhanov	**13,367.295**
AlmatyEnergoSbyt LLP	**5,946.660**
ArcelorMittal Temirtau JSC	**5,818.476**
KazZinc LLP	**5,385.865**
Kazakhmys Energy LLP	**5,185.539**
MAEK-KazAtomProm LLP	**5,017.281**
Ekibastuz GRES-2 Power Station JSC	**4,460.781**
Almaty Power Stations JSC	**4,379.978**
ShygysEnergoTrade LLP	**2,669.290**

Reliability and Energy Efficiency Improvement

In 2014, there were 279 emergency outages recorded in the KEGOC electrical grid, in 164 occurrences the stable operation was preserved due to the successful performance of automatic reclosing devices, and in 115 occurrences the outage took place due to unsuccessful automatic reclosure. The total number of emergency outages compared to 2013 decreased by 19 %, the number of occurrences with successful performance of the automatic reclosing devices decreased by 18 %, the number of outages due to unsuccessful actuation of automatic reclosing devices decreased by 21 %.

61 power disturbances were recorded which included class II failures; emergencies and failures of class I were not recorded. The total number of power disturbances as compared to 2013 decreased by 5 %.

The total electric power undersupply in 2014 decreased by 28% and amounted to 315.0 thousand kWh, as compared to 436.3 thousand kWh in 2013.

The technological disturbances distribution by the Company’s branches was as follows:

- Akmolinskiye MES –6 (9.8 %);
- Aktyubinskiye MES –8 (13.1 %);
- Almatinskiye MES –8 (13.1 %);
- Vostochnye MES –5 (8.2 %);
- Zapadnye MES – 4 (6.5 %);
- Sarbaiskiye MES – 6 (9.8 %);
- Severnye MES – 8 (13.1 %);
- Tsentralnye MES – 6 (9.8 %);
- Yuzhnye MES – 10 (16.6 %);

The power disturbances breakdown by reasons was as follows:

- unsatisfactory operational management – 3 (4.9 %);
- design faults – 1 (1.6 %);
- manufacture defects – 8 (13.1 %);
- installation and construction drawbacks – 4 (6.5 %);
- natural hazards – 28 (45.8 %);
- unauthorised persons and third parties – 10 (16.6 %);
- unclassified – 7 (11.5 %);

The physical depreciation and obsolescence of equipment may result in power system disturbances, personal injuries and increase in operational costs. In this connection, in 2014 the Company completed the Kazakhstan Electricity Transmission Rehabilitation Project, Phase II, in other words the replacement of the obsolete equipment at substations.

The power consumption of the Company comprises two components: the technological power consumption (process losses) for transmission which represents the largest share of the Company's power consumption; and the auxiliary consumption.

The most effective, in terms of energy saving, are the measures on reduction of technological consumption of electricity in transmission lines.

It should be understood that technological loss of electric power means the loss of electric power resulting from the physical processes in conductors and electrical equipment which occur during the electricity transmission across transmission lines. Thus, the main goal of planning and introducing the measures on reduction of electric power losses is to bring the actual amounts of technological loss to its optimal level.

The actual process losses in KEGOC networks in 2014 amounted to 2,576.087 million kWh or 6.02 % of electricity transmission to the grid.

Due to the measures on loss reduction implemented in 2014 the decrease in electricity consumption amounted to 4.756 million kWh.

Power saving measures in 2014	Effects, million kWh
Line tripping under low load conditions	0.173
Shutdown of power transformers under low load conditions	4.583
Total for KEGOC	4.756

Electricity Purchase/Sale Activities

Electricity Sale

In 2014, KEGOC and Uzbekenergo formalised the transaction of unscheduled electric power sale to Uzbekistan due to the unauthorised consumption by Uzbek power system of electric power from Kazakhstan UPS. The unscheduled electric power supply to Uzbekistan amounted to 652.029 million kWh.

In 2014, KEGOC sold electric power to INTER RAO UES (Russia) to cover hourly deviations of the actual interstate net power flow balance versus the scheduled one. The volume of electric power to cover the hourly deviations supplied to the Russian Federation amounted to 1,222.224 million kWh.

Purchase of Electricity for the Company's Economic Needs

In 2014, the Company purchased electricity to cover power transmission losses and for auxiliary needs of the NPG.

According to the data on the actual balance of the electricity generation and consumption at the wholesale electricity market in Kazakhstan, the actual volume of the electricity purchased to cover the 2014 process losses amounted to 2,576.940 million kWh and cost KZT 20,681.110 million (exclusive of VAT).

In 2014 the volume of the electricity purchased to cover the losses increased by 189.511 million kWh as compared to 2013. The transmission losses costs increased by KZT 3,083.967 million or by 17.52 % as compared to 2013 (2,387.428 million kWh at KZT 17,597.143 million, exclusive of VAT). Such increase in costs resulted from the increase in electricity tariffs by KEGOC's suppliers (by 8.9 % on average). The actual tariffs growth reflects the annual growth of the cap tariffs established for the groups of power generating entities approved by the Government Regulation of the Republic of Kazakhstan.

In 2014, KEGOC purchased electric power from INTER RAO UES (the Russian Federation) to cover hourly deviations of the actual interstate net power flow balance versus the scheduled one. Receipt of the electricity from Russia was 1,271.202 million kWh under the contract.

In 2014, KEGOC and INTER RAO UES arranged for transmission of the electricity from the Russian Federation to the Republic of Kazakhstan to cover the transmission losses in Mynkul-Valikhanovo power region. Actual volume of the electricity purchase was 7.510 million kWh.

In addition, there was a purchase of the electricity for economic needs of MES branches in the volume of 32.651 million kWh, which is 3.450 kWh less than in 2013. The purchase of the electricity for economic needs increased by KZT 48.240 million exclusive of VAT compared to 2013. Such increase in consumption reflected the increase in the electricity tariffs for the electricity purchased from KEGOC's suppliers (suppliers in the North Kazakhstan and MAEK-KazAtomProm LLP).

Consumer Satisfaction

In order to improve the quality of the services provided, KEGOC conducted a questionnaire survey on 2014 performance results to assess consumer satisfaction.

The average annual score of consumer satisfaction in 2014, particularly the satisfaction with the KEGOC's personnel performance, reliability of provided business and technical information, efficiency of customers' requests processing, quality of services, and the quality of RDC operation with respect to operational dispatch management was 4.45 out of five. The minimal 2014 target score of consumer satisfaction with system services was 4.45.

Innovation Activity

Innovations

In the longer term the innovative technological development is one of the main factors of competitiveness of any company, as it ensures the improvement of efficiency and reliability of services rendered by it.

In 2014, the Company implemented the following projects in accordance with KEGOC's list of innovative projects for 2012-2014:

Item No.	Name	Brief Description
1	Application of reactive shunt compensation system	At 500 kV Shymkent SS a reactive shunt compensation system (RSCS) was installed and commissioned based on the controlled shunt reactor with a set of 220 kV shunt capacitors for real-time improvement of the quality of electricity and enhancement of the grid energy efficiency. Installation of RSCS at 500 kV Shymkent SS allowed to abandon the use of the cooling pond, hydrogen facilities, continuous monitoring of the rotary parts, bearing vibration and etc. required for synchronous capacitors, as well as allowed for the end users to benefit from the introduced innovations (including economic benefits).
2	Foundations with above-ground anchoring assemblies for the guy wires of suspension towers.	In 2013, an invention patent was obtained for this project. The new design allows to make above-the-ground anchoring assemblies for guy wire of suspension towers at 1150 kV lines; this will reduce the corrosion of metal parts of the anchoring assemblies comparing to their underground installation and will simplify their inspection. In 2014, 76 foundations were replaced at 1150 kV OHTLs in three KEGOC branches.
3	High capacity composite conductors	To decrease capital expenditures and increase OHTLs transmission capacity, under the contract with KEC International for the Ossakarovka Electricity Transmission Project, this innovative technological solution - GTACSR 293/37 increased transmission capacity composite conductor - was introduced. The manufacturer is J-Power Systems (Japan). After installation of the composite conductors the following advantages were gained as compared to ACSR conductors: - better transmission capacity (approx. 1.5-2 times higher) as compared to common conductors with the same section diameter, and better mechanical and structural behaviour; - rehabilitation of the line without the replacement of towers, use of existing fittings during installation, which reduced the capital expenditures for the project; - significant reduction of aerodynamic factor at the maximum wind speed; - resolving the icing and snow adhering problem, its self-removal from the

conductor due to smooth surface and improved torsional stiffness of the conductor;
- reduced magnitude and probability of conductor's galloping due to rigid core;
- increased service life of conductors - 50 years (the service life of ACSR conductors is 45 years).

Research & Development

In 2014, jointly with Almaty University of Power Engineering and Telecommunications, the Company continued its work on preparation of the terms of reference for a pilot project: "WAMS-based Adaptive System to Control Kazakhstan NPG Operation Modes".

Wide area measurement system (WAMS) is a tool of visualisation of electricity generation and transmission parameters with 20 millisecond resolution. Synchronized vector measurements at the rate of the process allow for high precision real-time monitoring of the changes in the grid parameters.

Relevant surveys were conducted to study the proposed introduction of WAMS-based adaptive system to control Kazakhstan NPG operation modes in order to utilise the maximum of transmission capacity and preserve the steady-state stability and issue of controls. A distinctive feature of the system is that the control of the steady state is done based on the reference angle (δ) between Ekibastuz and Almaty power regions.

Preliminary assessment of the steady state at the North-South transit shows that the control of the power flow via North-South transit with measurement of the angle between 1150 kV Ekibastuzskaya SS and Almaty SS allows for preserving the stability with the minor change of the angular difference and the increased maximum transmission capacity at the transit line.

During the preparation of the terms of reference the experience of WAMS application by a number of European system operators was studied, including TEIAS (Turkey), Swiss Grid (Switzerland), Energinet (Denmark), and Elering (Estonia), where WAMS were used on the basis of the equipment and software of such well-known manufacturers as GE, ABB, Alstom, Parma, Elpros and other.

At the meeting of KEGOC's Scientific and Technical Council the draft terms of reference were approved as well as the pilot project implementation.

Pursuant to the Memorandum of cooperation between Samruk-Kazyna and Nazarbayev University, the works were conducted to arrange for implementation of the Corona Losses Mitigation project. The project goal is to assess the equipment capabilities and economic feasibility of the corona losses mitigation project at the electrical networks of the Company. The execution of a contract for the project with NURIS is scheduled for the beginning of 2015, and contract completion is scheduled for 2016.

Rationalization Activity

In 2014, the Company's employees provided 43 applications with rationalization proposals; 16 of them were acknowledged as rational according to decisions of the Innovation and Technology Development Committee under the STC of KEGOC. As compared to 2013 (52 applications), the total quantity of applications decreased, and the number of rationalization applications increased in 2014 (as compared to 2013 - 13 rationalization proposals).

In 2014 at the national contest of rationalization proposals INNOVATOR.KZ, KEGOC became a finalist and won in nomination - The Best System of Support for Innovators at Enterprises; and its rationalization proposal on 'Reactor Relocation' (co-authors - Ye. Mussatayev, I. Parafiyev, Yu. Sukhoplyuyev, N. Apish, I. Shchepetkova, Almatinskiye MES) was in the list of the best seven finalists nominated to The Best Innovative Solution of the Year award. A film was made about the finalists and shown on Astana TV channel.

Also in 2014, KEGOC held the contest 'The Best Rationalizator 2013' which was won by:

the first place - O. Tomashevich, A. Kharchenko, A. Shevtsov (Sarbaiskiye MES);

the second place - P. Naumov (Sarbaiskiye MES);

the third place - V. Kim, S. Chervov, B. Aitimbetov (NDC SO).

In 2014, the authors of rationalisation proposals and the winners of the contest 'The best rationalization proposal' were paid material remuneration to the total amount of KZT 1.680 million.

Scientific and Technical Council

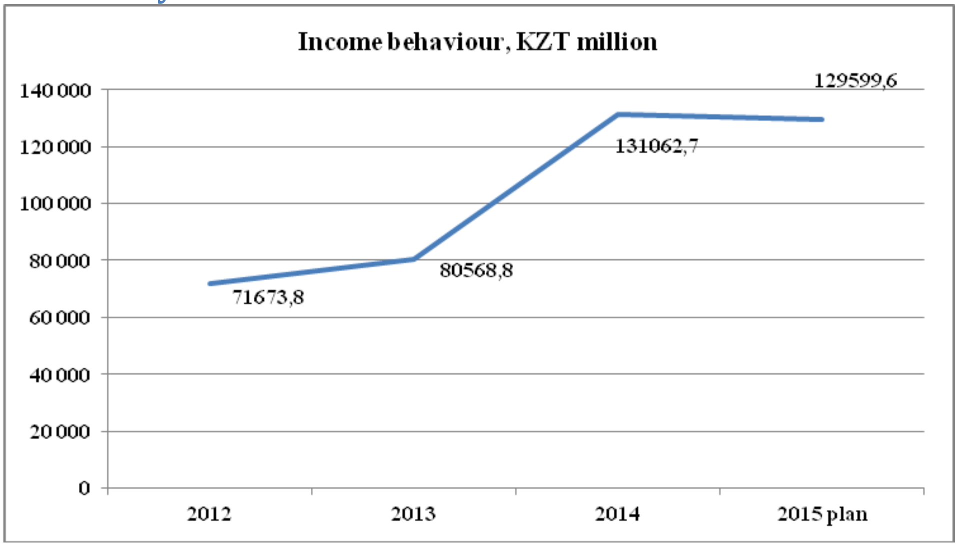
The KEGOC's Scientific and Technical Council (STC) operates on a permanent basis. The STC is a working body of KEGOC established to take decisions on the following issues: development of KEGOC, implementation of the Innovation and Technology Development Strategy, development and arrangement for introduction of new methods and technologies in projects for new construction, rehabilitation, technical upgrade of grid facilities, improvement of the NPG operation modes, increase in Kazakh content in KEGOC procurement aimed to enhance the reliability and efficient operation of the NPG and reduce its operational costs, development of domestic scientific and production potential. In 2014, the STC held three meetings, where about 10 issues were reviewed.

In addition, the Innovation and Technology Development Committee operates on a permanent basis under the STC at KEGOC. This Committee is a permanently operating working body and its main objective is to review and prepare conclusions on the information proposed for review by the STC, take decisions on rationalisation proposals of the Company's employees.

In 2014, the Committee held five meetings and preliminary reviewed the issues subject to consideration by the STC of KEGOC, including decisions made on the rationalization proposals.

GOAL 4. ECONOMY AND FINANCE

Analysis of the Financial and Economic Indicators



Consolidated income of the Company in 2014 amounted to KZT 131,062.7 million, which exceeded the expected income by 4.8 % or by KZT 6,006.8 million. At the same time the operating revenue was less than expected by 2.8 % or KZT 2,641.7 million.

The regulated services revenue exceeded the expected level by KZT 1,522.7 million or by 2.0% which was caused by the increase in the scope of services rendered by KZT 1385.0 million and tariff growth by KZT 137.7 million.

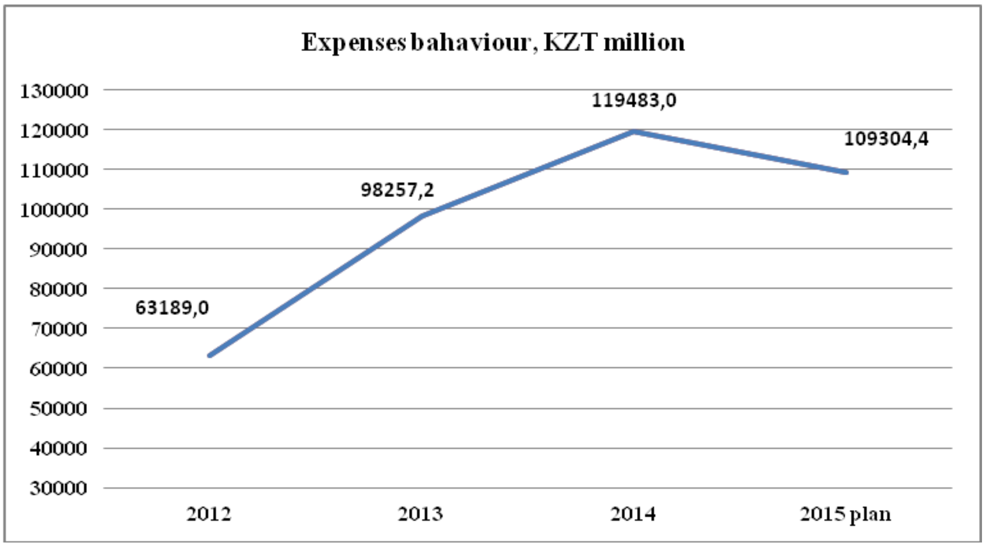
The revenue from the sale of the purchased electricity was less than expected by KZT 2,222.8 million due to decrease in the scope of sales, the revenue from the sale of electricity to compensate deviations of the actual hourly amounts of interstate electricity balance trade was less than expected by KZT 1,732.9 million due to decrease in the scope of purchase (KZT 1,311.2 million) and weighed average price as compared to the expected level (KZT 421.7 million).

Other 2014 revenues totalled KZT 37,542.9 million, which is higher than expected by KZT 8,648.5 million and was mainly caused by the growth in actual foreign exchange gain as compared to the expected level by KZT 9,266.7 million; at the same time there is a decrease by KZT 1,139.9 million due to a failure to sell the old office building of KEGOC's Executive Administration.

Compared to 2013 the revenue increased by 62.7 % or by KZT 50,493.9 million, including operating revenue increase by 26.7 % or by KZT 19,708.0 million. The growth of the revenue from the regulated services by KZT 15,816.0 million was mainly caused by the raised tariffs. Thus, due to the raised tariffs the revenue increased by KZT 15,606.7 million; due to increased scope of services rendered, the revenue increased by KZT 209.3 million.

Additionally, as compared to 2013 the revenue from the sale of purchased electricity grew by KZT 3,807.5 million due to the increase in the scope of services rendered.

As compared to 2013, other revenues grew four times or by KZT 30,785.9 million mainly due to growth of the foreign exchange gain by KZT 13,512.9 million, reversal of impairment loss of PPE by KZT 15,834.0 million, and revenue from the gratuitously transferred equipment by KZT 1,586.9 million.



Total consolidated expenditures in 2014 amounted to KZT 119,483.0 million as compared to the expected KZT 118,154.2 million, thus increased by 1.1%. Thus, the cost of sales of services in the reported period amounted to KZT 74,216.3 million or 96.4% of the planned cost. Decrease by KZT 2,765.4 million was mainly caused by the decrease in the actual expenditures for purchase of electricity from the power grid of the Russian Federation to compensate for imbalances by KZT 2,013.5 million; for purchased electricity by KZT 1,440.5 million; for electricity process consumption by KZT 446.3, as compared to the planned ones. At the same time the depreciation costs exceeded the planned level by KZT 2,984.9 million due to PPE revaluation.

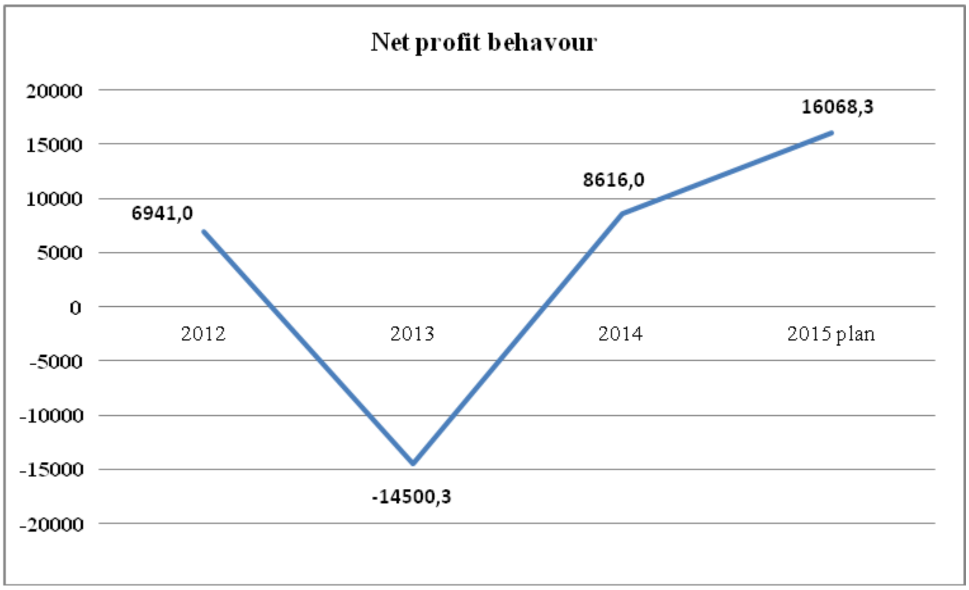
Compared to 2013, the cost of sales grew by KZT 18,642.0 million or 34 % which was mainly caused by the increase in depreciation and amortisation costs (KZT 10,239.4 million); costs for compensation for the electricity process consumption (KZT 3,005.5 million); costs for services for purchased electricity (KZT 2,188.7 million); costs for purchase of electricity to compensate for hourly deviations of the actual interstate net power flow balance versus the scheduled one (KZT 1,810.8 million); and payroll expenses for operating personnel (KZT 1,241.9 million).

General and administrative expenses in 2014 amounted to KZT 13,381.0 million and exceeded the plan by 8.7%. The planned level was exceeded by KZT 1,029.0 million which was mainly caused by KZT 547.7 million in the provisions for accounts receivable (UzbekEnergo), and KZT 933.3 million in property tax.

Increase in the general and administrative expenditures by 208% or by KZT 6,958.1 million as compared to 2013 was caused by the increase in the following costs: KZT 3,392.7million in property tax; KZT 2,854.5 million in provisions; KZT 265.4 million in PPE and intangibles amortisation.

Other 2014 expenditures totalled KZT 27,388.1 million, which is higher than expected by KZT 2,432.9 million (9.7%) and was mainly caused by the growth in actual foreign exchange loss as compared to the expected level by KZT 2,859.5 million; at the same time there is a decrease in expenditures by KZT 477.4 million due to a failure to sell the old office building of KEGOC's Executive Administration.

As compared to 2013, other expenditures decreased by KZT 6,696.3 million. The decrease was mainly caused by the decrease in the costs for PPE depreciation by KZT 25,075.2 million. And the foreign exchange loss increased by KZT 18,342.8 million.



According to the 2014 results, the Company's net profit amounted to KZT 8,616.0 million, which is by KZT 23,116.3 million higher than in 2013.

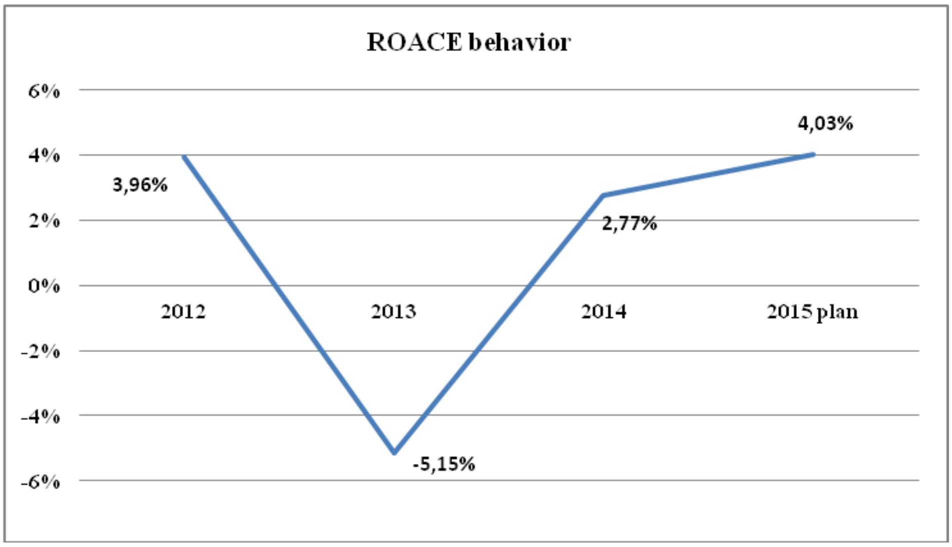
In 2015, the expected income is KZT 129,599.6 million, including KZT 128,313.7 million operating revenue and KZT 1,286.0 million other revenue. Expenditures amount to KZT 109,304.4 million, including KZT 90,670 million of sale costs, and KZT 14,110.3 million of general and administrative costs. Total profit expected in 2015 amounts to KZT 16,068.3 million.

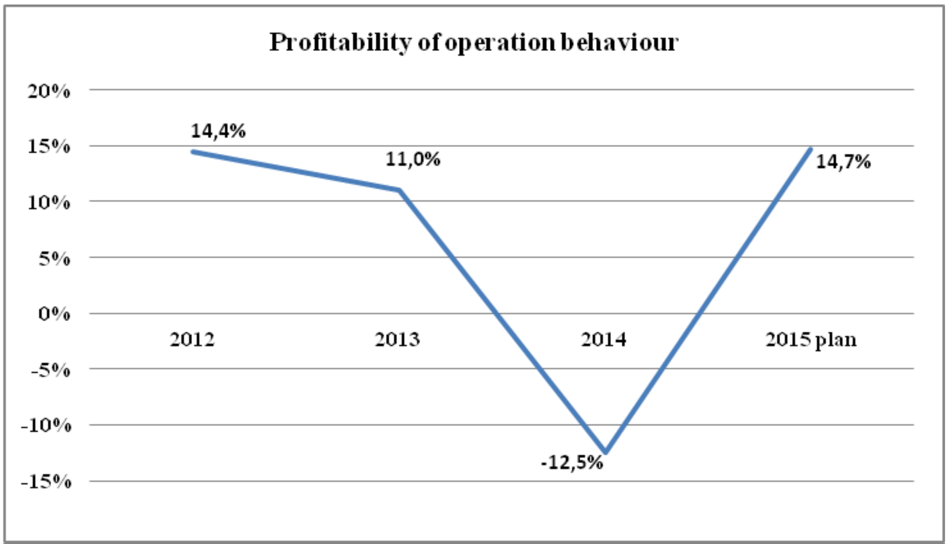
A significant growth of profit in 2014 by KZT 3,654.5 million or by 74% as compared to the expected level had a positive effect on ROACE and Profitability of Operations ratios.

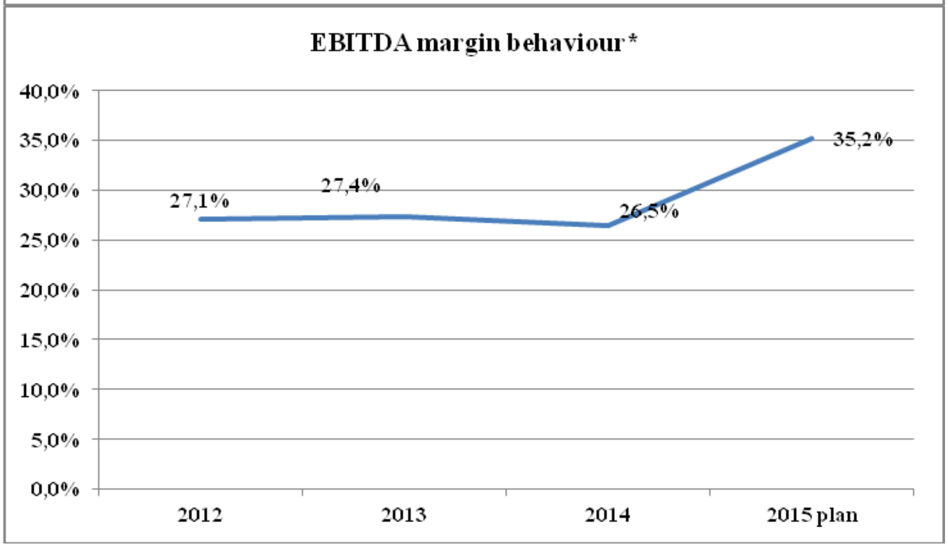
Growth of profit was mainly caused by the decrease in the losses due to tenge exchange rate adjustment by KZT 6,407.2 million as compared to the expected level.

As a result of the loss amounting to KZT 14,500.3 million in 2013 due to revaluation of PPE as ‘Constructions’, such the Profitability of Operations and ROACE ratios were negative.

Improvement of these indicators in 2014 was caused by the second revaluation of PPE as ‘Constructions’ which entailed a revenue from recoverable impairment loss of Constructions (with due account of the losses from the PPE reduced value) in the amount of KZT 14,252.9 million. The increase in the total income of the Company by 63 % also had a positive effect.







EBITDA margin was calculated as earnings before interest, tax, depreciation and amortisation to operating revenue. As compared to the previous year the EBITDA margin changes for the worth. Such change for the worth is due to excessive rate of growth of the Company's expenditures which has a negative impact on EBITDA. Increase in EDITDA margin ratio as compared to the planned level in 2014 is correlated with the growth of EBITDA by 10.2 % along with the reduced operating revenue by 2.7 %. The increase in EBITDA margin was mainly influenced by the decrease in the cost of sale of services by 3.6 % or by KZT 2,765.4 million due to reduced costs:

- for purchase of electricity from the power grid of the Russian Federation to compensate for imbalances by KZT 2,013.5 million;
- for electricity purchase by KZT 1,440.5 million;
- for compensation for technological losses by KZT 387.5 million.

Tariff Policy

KEGOC operations are governed by the Law of the Republic of Kazakhstan On Natural Monopolies and Regulated Markets through:

- approval of cap tariff;
- approval of tariffs for regulated services;
- approval of temporary tariff reduction factor.

From the moment of its establishment, KEGOC has been consistently improving the tariff policy of regulated services, and playing an active role in activities of relative organisations to improve the tariff policy.

Since 2005, KEGOC shall submit, on an annual basis, applications to the Agency for Regulation of Natural Monopolies (ARNM) seeking approval (revision) of tariffs for regulated services falling under the sphere of natural monopoly. In 2013, in accordance with the Law of the Republic of Kazakhstan On Natural Monopolies and Regulated Markets and Rules for approval of cap tariffs (prices, rates and levies) and tariffs for regulated services (goods, works) of natural monopolies, KEGOC addressed to the ARNM with request for approving cap tariff and tariffs for regulated services.

On 17 September 2013, by order of the ARNM No. 285-ОД in accordance with the procedure established by the law, the cap tariff and tariffs for KEGOC regulated services were approved for mid-term period from 1 November 2013 to 31 October 2015. On 16 May 2014 the ARNM issued Order No. 105-ОД to approve the cap tariff and tariffs for regulated services for electricity transmission via the grid, technical dispatch control of electricity supply to the grid and consumption, and electricity generation and consumption balancing, as an extraordinary control, and the tariffs became effective on the date of the decision on KEGOC initial public offering and will be effective till 31 October 2015.

On 3 October 2014, KEGOC Board of Directors (Minutes No. 9) made a decision on public offering of KEGOC's ordinary shares pursuant to Government Regulation No. 1027 dated 8 September 2011 'On approval of the Programme for public offering of shares of subsidiaries and affiliates of Samruk-Kazyna Sovereign Wealth Fund on the stock market'.

In this connection, the cap tariff for regulated services became effective on 1 November 2014 and is effective at the present.

Name	Cap tariffs				
	since 01 October 2012	since 01 November 2013	% to tariff since 01 October 2012	since 01 November 2014	% to tariff since 01 November 2013
Electricity transmission, tenge per kWh	**1.113**	**1.305**	**17.3**	**1.954**	**49.7**
Technical dispatch control of the electricity supply to the grid and electricity consumption, tenge per kWh	**0.128**	**0.134**	**4.7**	**0.182**	**35.8**
Management of the electricity production and consumption balancing, tenge per kWh	**0.041**	**0.060**	**46.3**	**0.083**	**38.3**

The existing procedures provide for using of the temporary tariff reduction factors given the increasing scope of services for the electricity transmission and technical dispatching of the electricity supply to the grid and the electricity consumption. KEGOC provides the electricity transmission services to Ekibastuz GRES-1 LLP at preferential tariff (10% of the existing tariff) approved by the joint order of the Agency for Regulation of Natural Monopolies and the Ministry of energy and mineral resources in 2000 for 15 years. In addition, KEGOC provided the electricity to Kazphosphate LLP at the tariff with a temporary reduction factor (from 1 March to 31 December 2014 - 0.99 and from 1 September to 30 September 2014 - 0.58), and for Aluminium of Kazakhstan JSC (from 1 June to 31 December 2014 - 0.50) in accordance with the orders of ARNM.

The Company annually arrange public hearings to report its activities with respect to regulated services (goods, work) to strengthen the protection of consumers' rights, ensure transparency of activities for consumers and other interested parties. The main principles of conducting the annual reporting hearings are to ensure publicity and transparency of the Company's activities and preserve the balance of consumer interests.

GOAL 5. MARKET DEVELOPMENT

In order to improve and enhance the efficiency of the energy market in the Republic of Kazakhstan, in 2013, KEGOC established Financial Settlement Centre for Support to Renewable Energy Sources LLP. The main business activity of Financial Settlement Centre for Support to Renewable Energy Sources LLP is to ensure the centralised purchase and sale of the electricity produced by renewable energy facilities and delivered to the electric networks of Kazakhstan UPS.

The Programme for development of Kazakhstan electric power industry for 2010-2014 provides for implementation of the objective to improve market environment, including by creating a capacity market, which shall ensure that development of the new generating capacities are supported by adequate investment in due time. The capacity market shall be fully operational in 2016 in accordance with Law of Kazakhstan No.25-V dated 4 July 2012.

GOAL 6. CORPORATE GOVERNANCE AND SUSTAINABILITY

KEGOC considers corporate governance as the means to enhance the Company's performance, strengthen its reputation and reduce the cost of attracted capital.

The Corporate Governance Code determines the fundamental principles of the KEGOC corporate governance.

Information on Compliance with the Principles of KEGOC Corporate Governance Code in 2014

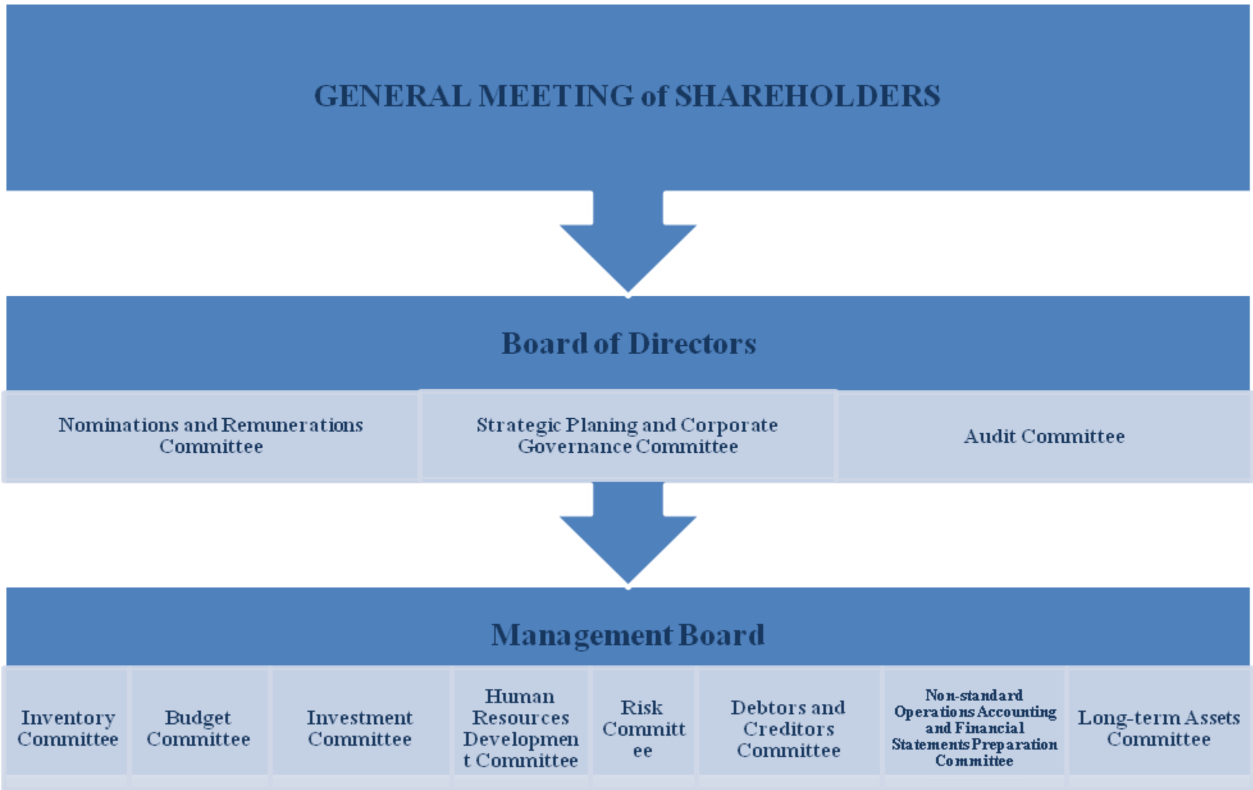
Item No.	Principles of KEGOC's Corporate Governance Code	Compliance/ Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the principles
1.1	**Protection of the rights and interests of shareholders**	**Compliance**	The Company's corporate governance is based on the principle of protecting and respecting the shareholders rights and legitimate interests and shall contribute to the Company's efficient operations, including growth of the Company's assets and support to its financial stability and profitability.
			The shareholders rights are set in KEGOC's Charter and comply with the Laws of the Republic of Kazakhstan 'On Joint Stock Companies'.
			KEGOC's Charter provides for procedure of obtaining the information regarding the activity of the Company by the shareholders and that affecting their interests.
1.2 (1)	**Principles of the Board of Directors' Operation**	**Compliance**	The Board of Directors' operation is based on the principles of observance of legal rights and implementation of the interests of the shareholders and KEGOC JSC to the maximum extent, and soundness, efficiency, activeness, good faith, honesty, responsibility and accuracy.
			Directors shall act efficiently, being fully informed, with good faith and in the interests of the shareholders and KEGOC JSC.
			Annually, the Board of Directors discloses information on its operation in KEGOC's Annual Report.
			Each member of the Board of Directors has one vote. Decisions of the Board of Directors shall be made based on the simple majority of votes of the members of the Board of Directors attending the meeting. The Chairman of the Board of Directors and the Chairman of the Management Board is not one and the same person.
			The responsibilities of the Chairman of the Board of Directors and the Chairman of the Management Board shall be clearly segregated and set in the Charter.
			Competences of the Board of Directors and the Management Board shall be clearly segregated and stated in the Charter and the Code.
			Article 25 of KEGOC's Charter describes the functions of the Chairman of the Board of Directors: to provide organisational management of the Board of Directors' operation; convoke the meeting of the Board of Directors; act as a chairman thereof; arrange keeping of the minutes of meeting. Additionally the Chairman shall be held responsible for: governance of the Board of Directors; its efficient operation in all spheres of the Chairman's responsibilities; efficient communication with the shareholders; proper dialogue with the shareholders; timely obtaining of adequate and clear information by the Directors; efficient contribution of Directors to the activity of the Board of Directors and good relations between Directors and the Management Board; provision of newly elected Directors with the induction programmes.
			KEGOC Board of Directors consists of six directors, and three of them are independent directors. Independence criteria are set out in the Laws, Charter and Regulation on KEGOC Board of Directors.
			The Company applies the system of performance assessment of the Board of Directors, its Committees and each Director. In 2014, performance self-assessment was made through questionnaire survey.
1.2 (2)	**Principles of the**	**Compliance**	The Management Board is a collegial executive body of KEGOC. The Management Board is headed by the Chairman.

Item No.	Principles of KEGOC's Corporate Governance Code	Compliance/ Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the principles
	Management Board's Operation		The day-to-day operations of the Company are managed by the Management Board.
			The decisions of the Management Board are based on the simple majority of votes of the members of the Management Board attending the meeting. Each member of the Management Board has one vote.
			In accordance with Article 3 of the Regulation on KEGOC Management Board, the core principles of the Management Board's operation are observance of the shareholders interests, fairness, soundness and regularity. The Management Board shall execute the decisions of the General Meeting and the Board of Directors.
1.3.	**Independence of Company Operations**	**Compliance**	The Company performs its operations independently. In accordance with Article 2 of the Charter, KEGOC JSC is a national company and commercial organisation, being a legal entity under the Laws of the Republic of Kazakhstan and having the main objective to generate net profit from its activity according to the Charter. KEGOC has separately accounted property, bank accounts, round seal with its name, letter-heads and other requisites, and is entitled sui juris to enter into contracts, acquire and exercise property and personal non-property rights and bear obligations, and be a plaintiff, a defendant and a third person in court.
			Transactions and relations between KEGOC and the shareholders shall be implemented under the Laws.
1.4	**Transparency and Objectivity in Disclosure of Information on Company Operations**	**Compliance**	In order to enable reasonable decision-making by the General Meeting and to inform the Concerned Parties about the Company's operations, KEGOC shall ensure timely provide to the shareholders and the Concerned Parties with reliable information about KEGOC, including its financial standing, economic indicators, performance results, and ownership and governance structure. KEGOC regularly informs the Board of Directors and the shareholders of KEGOC operations. The information disclosed on the Company's web-site covers a wide range of issues relating to: corporate governance, results of the Company operation, main corporate documents, information about an auditor, performed transactions, affiliated persons, property structure, main licenses, etc.
			Disclosure of any information by the Company shall be made in compliance with the Laws on commercial and other secret information protected by the Laws and the Rules of protection and preservation of confidential information in KEGOC.
1.5	**Legality and ethics**	**Compliance**	In accordance with Article 2 of the Charter, KEGOC's operations shall be governed by the Constitution and Laws of the Republic of Kazakhstan as well as by the Charter, Corporate Governance Code, and other documents of the Company, generally accepted principles (practices) of business ethics and by the Company's contractual obligations.
			The relationships between the shareholders, members of the Board of Directors and the Management Board shall be built on mutual trust, respect, accountability and control.
1.6	**Efficient dividend policy**	**Compliance**	KEGOC's dividend policy is based on observation of the Laws and Regulation on KEGOC Dividend Policy.
			KEGOC approved the Regulation on Dividend Policy which is based on the balance of interests of the Company and the shareholders in determining the amount of dividend payments, on the increase in the investment prospects of the Company and its capitalization, on the respect and strict observance of the rights of the shareholders, as provided for by the laws of the Republic of Kazakhstan.

Item No.	Principles of KEGOC's Corporate Governance Code	Compliance/ Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the principles
			Regulation on KEGOC Dividend Policy is placed on http://www.kegoc.kz/corporate/documents
1.7	**Efficient HR policy**	**Compliance**	The Company's labour relationships are regulated by the Collective Labour Agreement, Labour and Remuneration Payment Rules, Rules for rendering social support, incentives and recognition of KEGOC employees. All rights and obligations of the employer and employees are also indicated in employment contracts.
			The fundamental principles of KEGOC HR policy include: long-term relations; compliance of the employees' qualifications with the job description and the current position; knowledge and experience succession, emphasis on education of employees; remuneration and promotion according to their merits and achieved results in their work.
			Recruitment procedure in the Company is exercised in accordance with KEGOC rules of competitive selection for filling of vacancies.
1.8	**Environmental protection**	**Compliance**	Environmental responsibility is a key principle of KEGOC Environmental Policy.
			A number of documents specifying the environmental policy were developed in KEGOC: the Environmental Policy, the Environmental Management System Guidelines, and the Standard on Management of Environmental Management System Planning. KEGOC's Standard on wastes management and Guidelines on Assessment and analysis of environmental aspects, hazards and risks allow KEGOC to manage the environmental impacts from the company's operation.
1.9	**Policy on the regulation of corporate conflicts and conflicts of interest**	**Compliance**	In 2013 the Board of Directors appointed the Ombudsman and approved the Ombudsman Regulations. The main tasks and functions of Ombudsman are: to ensure the observance of the Code by the bodies, officials and employees of the Company, and if necessary, to clarify its provisions, to participate in dispute settlement between employees and officials, etc. The Ombudsman shall be entitled to ask for and get materials (information) in the established manner from employees, officials, Head of Internal Audit Service as necessary for clarification in performing the tasks and functions of the Ombudsman.
			In accordance with KEGOC Business Ethics Code, employees and officials shall be governed by the Laws, the Charter, the Codes and other internal documents during implementation of their obligations, shall assume responsibility for execution of professional functions reasonably and in good faith with due care and prudence to the benefit of the Company and the shareholders, avoiding conflicts. In accordance with the Corporate conflict and Conflict of interest settlement policies, the members of the Board of Directors and the Management Board, and the Company's employees shall ensure that their operations fully comply with the legislative requirements, the Corporate Governance Code, ethical standards and generally accepted standards of business ethics.
			For the purpose to update and improve the procedures for conflict settlement, in 2014, the Board of Directors approved KEGOC's Corporate conflict policy and Conflict of interest settlement policies.
			In accordance with the corporate conflict settlement policy, the main task of the Company's bodies during corporate conflict settlement is to make a legal and reasonable decision that meets the interests of KEGOC. For the purposes of both

Item No.	Principles of KEGOC's Corporate Governance Code	Compliance/ Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the principles
			rights of the shareholders and goodwill of the Company, the conflict settlement shall be performed with direct involvement of a member of the Board of Directors (representative of the Annual General Meeting) by means of the direct negotiations or correspondence exchange, in association with the Ombudsman.
			If it is not possible to settle corporate conflicts through negotiations, they shall be settled in compliance with the Laws and internal documents of KEGOC.
			In accordance with the Corporate conflict settlement policy the Chairman of the Management Board, on behalf of the Company, shall settle corporate conflicts on all the issues, unless settlement of such conflicts relate to the competence of other KEGOC Board of Directors, and shall decide on the procedure for corporate conflicts settlement at his/her own discretion.
			In accordance with the Corporate conflict settlement policy at KEGOC, the Board of Directors shall settle corporate conflicts relating to its competence. When settling Corporate Conflicts, the Ombudsman shall provide the Chairman of the Management Board / the Board of Directors with the maximum of information about the matter of the Corporate Conflict and be a mediator in the Corporate Conflict Settlement.
			In 2014 there were no corporate conflicts in KEGOC.
			In accordance with KEGOC's business ethics code and the Conflict of interest settlement policy, the key to protect the interests of the shareholders and KEGOC and its employees is to prevent conflict of interests. All employees of the Company shall behave in such a way that to prevent situation when a conflict of interest can arise in respect of them (or related persons) or other persons.
			The Conflict of interest settlement policy provides for regulations preventing conflict of interests.
1.10	**Responsibility**	**Compliance**	KEGOC developed a Standard 'Stakeholders Relations Policy'. The basic principles of cooperation with them are as follows: - responsibility; - relation continuity; - feedback from the stakeholders; - accountability; - transparency.
			The procedure of compensation for violation of the concerned parties' rights is stipulated by the laws and the agreements which are strictly observed by KEGOC.
			In accordance with KEGOC's Charter, the shareholders, the Board of Directors shall be entitled to receive any information on KEGOC's operations, including information constituting commercial secrets, to study all documents of the Company pursuant to the Republic of Kazakhstan laws and the internal documents of KEGOC.

Item No.	Principles of KEGOC's Corporate Governance Code	Compliance/ Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the principles
			In accordance with the Rules for receipt, consideration of complaints and appeals to the Audit Committee of KEGOC Board of Directors, the concerned parties shall have the opportunity to inform on illegal and unlawful acts of the bodies, employees and officials of the Company. The Company has a Hot Line service to receive the confidential messages.



Shareholders

Until 19 December 2014, Samruk-Kazyna was a Sole Shareholder of KEGOC. It was established through a merger of Kazyna (Sustainable Development Fund) and Samruk (Kazakhstan Holding Company on Management of the State Assets) in accordance with Decree No. 669 dated 13 October 2008 of the President of the Republic of Kazakhstan On certain measures to ensure competitiveness and sustainability of the national economy, and Resolution No. 962 dated 17 October 2008 of the Government of the Republic of Kazakhstan On measures to implement Decree No. 669 dated 13 October 2008 of the President of the Republic of Kazakhstan.

In accordance with the Law of the Republic of Kazakhstan On Sovereign Wealth Fund, dated 1 February 2012, the Fund's operations are aimed at welfare gain in the Republic of Kazakhstan through increasing the long-term value of the entities owned by the Fund's group, and efficient managing of their assets.

The Government of the Republic of Kazakhstan is a Sole Shareholder of the Fund.

The structure of the Fund's group includes the companies from key economic sectors, including oil and gas, power, transport, telecommunications and other sectors. The operations of the Fund's companies are aimed at increasing the equity value to improve competitiveness and sustainability of the national economy.

On 18 December 2014 under the Programme for public offering of shares of subsidiaries and affiliates of Samruk-Kazyna Sovereign Welfare Fund on the stock market (approved by decree No.1027 of the Government of Kazakhstan dated 8 September 2011 and hereinafter referred to as People's IPO Programme), KEGOC conducted an initial public offering of ordinary shares of the Company on the Kazakhstan stock market through subscription.

The number of the ordinary shares of KEGOC in the Kazakhstan securities market is 25,999,999 (twenty five million nine hundred ninety-nine thousand nine hundred ninety-nine). The price of one ordinary share of KEGOC was 505 (five hundred and five) tenge.

After offering of KEGOC shares on Kazakhstan stock market under People's IPO' programme, Samruk-Kazyna owns 90 % plus one KEGOC share, the remaining 10 % minus one share belong to minority shareholders.

Board of Directors

Composition of KEGOC Board of Directors as of 31 December 2014:

Kuanysh Bektemirov	Managing Director of Samruk-Kazyna JSC, Chairman of the Board of Directors, born in 1970, elected on 08 May 2012, Shares owned in KEGOC or its counterparties: no **Positions:** Chairman of the Board of Directors of Samruk Energy JSC; Chairman of the Board of Directors of Tau-Ken Samruk National Mining Company; Chairman of the Board of Directors of Forum Muider B.V.; Chairman of the Board of Directors of Ekibastuz GRES-2 JSC; Chairman of the Supervisory Board of Ekibastuz GRES-1 LLP; Member of the Board of Directors of KazAtomProm JSC.
Gumarbek Daukeyev	Independent Director President of Almaty University of Energy and Communications, born on 31 July 1948, died on 01 November 2014, elected on 08 May 2012; Shares owned in KEGOC or its counterparties: no Audit Committee, Nomination and Remuneration Committee, Strategic Planning and Corporate Governance Committee; **Positions:** Member of the Board of Directors of Samruk Energy JSC.
Luca Sutera	Independent Director Group Vice President and Chief Financial Officer - Global Power & Water Division, born in 1971, elected on 08 May 2012; Shares owned in KEGOC or its counterparties: no Audit Committee, Nomination and Remuneration Committee, Strategic Planning and Corporate Governance Committee; **Positions:** Member of the Board of Directors of Samruk Energy JSC. Jorf Lasfar Energy Company 5,6 (Abu Dhabi National Energy Company Group) – Morocco; TAQA Energy India Ltd (Abu Dhabi National Energy Company Group) – India.
Anatoliy Spitsyn	Independent Director Director of the Institute for Strategic Studies of Integration Problems of the Eurasian Economic Community, born in 1939, elected on 08 May 2012; Shares owned in KEGOC or its counterparties: no Audit Committee, Nomination and Remuneration Committee, Strategic Planning and Corporate Governance Committee. **Positions:** Member of the Board of Directors of Samruk Energy JSC. KazAtomProm JSC.

Almassadam Satkaliyev Chairman of the Management Board of Samruk Energy JSC, born in 1970, elected on 08 May 2012.
Shares owned in KEGOC or its counterparties: no
Positions:
Member of the Board of Directors of Forum Muider B.V.;
Member of the Board of Directors of Ekibastuz GRES-2 JSC;
Member of the Supervisory Board of Ekibastuz GRES-1 LLP

Bakytzhan Kazhiyev Chairman of the Management Board of KEGOC, born in 1964, elected on 08 May 2012.
Shares owned in KEGOC or its counterparties: no

Gumarbek Daukeyev died on 1 November 2014.
KEGOC's Board of Directors and Management Board bewail the sudden death of decent, competent specialist with immense authority among power engineers both in Kazakhstan and in the CIS, and express condolences to his family and friends.

The Board of Directors includes three independent directors composing 50 % of total members of KEGOC Board of Directors. The directors are deemed independent because they:

- are not, and were not an affiliate of the Company within three years prior to their election to the Board of Directors (except holding the position of an independent director of the Company);
- are not affiliate with respect to KEGOC's affiliates;
- are not subordinated and were not subordinated to officials of KEGOC or its affiliates within three years prior to their election to the Board of Directors;
- are not and were not the auditors of KEGOC within three years prior to their election to the Board of Directors;
- do not participate, and did not participate in the Company's audit as auditors of an audit company within three years prior to their election to the Board of Directors;
- are not state officials.

Members of the Board of Directors	Attendance at the meetings by the members of the Board of Directors in 2014												
	24/ 01/2014	28/02/2014	04/04/2014	22/04/2014	26/05/2014	04/07/2014	29/08/2014	26/09/2014	03/10/2014	31/10/2014	28/11/2014	19/12/2014	%
Kuanysh Bektemirov	+	+	+	+	+	+	+	+	+	+	+	+	100
Gumarbek Daukeyev	+	+	+	+	+	+	+	+	+	+			100
Anatoliy Spitsyn	+	+	+	+	-	+	+	+	+	+	+	+	91.6
Luca Sutera	+	+	+	-	+	+	+	+	+	+	+	+	91.6
Almassadam Satkaliyev	-	+	+	+	+	+	-	+	+	+	+	+	83.3
Bakytzhan Kazhiyev	-	+	+	+	+	-	+	+	+	+	+	+	83.3

In 2014, the Board of Directors held 12 meetings at which 123 issues were reviewed. The major issues are as follows:
<u>Strategic and corporate governance issues:</u>

- Update of KEGOC Long-Term Development Strategy;
- Reports on implementation of KEGOC Long-Term Development Strategy, Investment Programme, large investment projects;
- Progress of KEGOC's preparation for IPO;
- Approval of KEGOC's ordinary shares placement in the stock market and determination of the price, quantity and placement pattern of KEGOC's authorized shares;

- Placement, including quantity of KEGOC placed shares in the limits of authorized shares, method and price of their placement;
- Approval of KEGOC's Development Plan for 2015-2019;
- Preliminary approval of KEGOC Annual report;
- Approval of the Long-term investment master plan for development of KEGOC extending to 2022;
- Resettlement of families residing in the protective area of high voltage transmission lines;
- Report on management of subsidiaries, affiliates and jointly controlled organisations, the influence of the results of their financial and economic activity on KEGOC’s performance indicators.
- Activity Plan of KEGOC Board of Directors, Annual Plan of Internal Audit Service;
- Evaluation of operations of the Company, Board of Directors, Committees of the Board of Directors, certain members of the Management Board, KEGOC Internal Audit Service through questionnaire survey.
- Approval of the Action Plan for KEGOC corporate governance development in 2014;
- Approval of amendments and addenda to KEGOC Charter;
- Approval of change to KEGOC Corporate Governance Code.
- Approval of a new revision of the Induction programme for newly elected members of KEGOC Board of Directors;
- Approval of a new revision of KEGOC Corporate conflict and Conflict of interest settlement policies.

<u>HR policy issues:</u>

- Approval of the organizational structure and the total manning level in the Executive Administration, salary rate schedules and amount of salary for the Chairman and members of the Management Board, employees of the Internal Audit Service and Corporate Secretary;
- Approval of the Rules for provision of sponsorship and/or charity support by KEGOC as revised;
- Approval of changes and amendments to the Rules for business trips of KEGOC employees;
- Remuneration of executive employees following the year results;
- Individual key performance indicators of KEGOC executive employees;
- Review of the motivational key performance indicators of KEGOC's Corporate Secretary for 2014;

<u>Review of transaction issues:</u>

Pursuant to KEGOC's Charter the exclusive competence of the Board of Directors comprises making of decisions on conclusion of large transactions (25% or more from the total amount of balance sheet assets of the Company) and transactions being of interest, excluding those ones which have to be decided by the General Meeting.

Thus, in 2014, it was decided to conclude a large transaction on long-term procurement of work package with Promstroy-Energo LLP, including turn-key ‘Construction of 500 kV OHTL Shulbinsk HPP (Semey) – Aktogay –Taldykorgan – Alma’ project.

Only Independent Directors of KEGOC's Board of Directors can take part in decision making with regard to transactions which the Company is interested in and which are determined as being so by the Laws of the Republic of Kazakhstan. Thus, in 2014 the independent members of the Board of Directors made decisions on the transactions as follows:

- with Batys Transit (by transfer of Feasibility study for ‘Construction of the link between Kazakhstan National Power Grid and main step-down substation-2 for workshop No. 4 at Aktobe Ferroalloy Plant of Kazchrome Branch’ project);
- with Batys Transit (sale and purchase of securities);
- with Batys Transit (rendering of services on electricity generation and consumption balancing in Kazakhstan UPS);

- with Batys Transit (rendering of services on electricity transmission via Batys Transit networks);

The decisions made by the Board of Directors in 2014 contributed to the more efficient development of the Company, the achievement of strategic goals and objectives determined by the Company for short-term, medium-term and long-term periods. The Board of Directors plays an active role in the improvement of the corporate governance in KEGOC, analyses the effectiveness of the internal control mechanisms and the risks management in respect of wide range of business-processes. To further incentivise and motivate the Company's employees, the Board of Directors determines and improves the KEGOC's HR policy.

In accordance with decision of the Board of Directors dated 28 November 2014 (Minutes No. 11) the performance of KEGOC Board of Directors, Committees of the Board of Directors, Management Board, Internal Audit Service and its head, Corporate secretary through questionnaire survey. The complex analysis of key areas of responsibility (hereinafter referred to as the Evaluation) was heard at the meeting of the Board of Directors on 30 January 2014.

The Board of Directors, based on the evaluation findings, took a favourable view of its own work, the work of the Management Board, the Corporate Secretary, and Internal Audit Service and defined the targets to improve its activity:

- Continue the work on business transformation programme, appoint responsible persons for the business transformation programme, approve the programme organisational structure which shall clearly define functions of participants, nominate business transformation chief officers, HR chief officers, IT chief officers and approve the business transformation road maps;
- Continue the work on improvement of corporate governance system, risk management system of the Company;
- Review the current internal regulations for compliance with the requirements of the draft Code of Corporate Governance of Samruk-Kazyna.
- Enhance monitoring of the implementation progress of the Company Development Plan for 2015 -2019, investment projects and Development Strategy.
- As for the Corporate secretary, elaborate, submit the Succession planning programme for the members of the Board of Directors for approval and make an active use of it to constantly support optimal and qualitative membership of the Board of Directors.

Committees of the Board of Directors

The following committees were established in KEGOC to review the most important issues and prepare recommendations to the Board of Directors:

- Audit Committee, Chairman - Luca Sutera;
- Nomination and Remuneration Committee, Chairman - G. Daukeyev;
- Strategic Planning and Corporate Governance Committee, Chairman - A. Spitsyn

In 2014, **the Nomination and Remuneration Committee** held 12 meetings, at which 24 issues were reviewed and recommendations issued to the Board of Directors with respect to 21 issues, including:

- Approval of the organizational structure and the total manning level in the Executive Administration, salary rate schedules and amount of salary for the Chairman and members of the Management Board, employees of the Internal Audit Service and Corporate Secretary;
- Nomination of the Corporate secretary for the Company;
- Remuneration of executive employees following the year results;
- Approval of individual key performance indicators of KEGOC executive employees;
- Review of the motivational key performance indicators of KEGOC's Corporate Secretary for 2014;
- Approval of changes to the Rules for business trips of KEGOC employees;

- Approval of the Rules for labour payment and bonus payment to the executive employees, the employees of the Internal Audit Service, and the Corporate Secretary of KEGOC;
- Approval of a new revision of the Induction programme for newly elected members of KEGOC Board of Directors;
- Assessment of the performance of the Board of Directors, members of the Board of Directors, Management Board, Chairman and members of the Management Board, Internal Audit Service and its Head, and Corporate secretary;

Members of the Nomination and Remuneration Committee	Attendance at the meetings in presentia by the members of the Nomination and Remuneration Committee in 2014												
	24/01/2014	28/02/2014	03/04/2014	22/04/2014	25/05/2014	03/07/2014	28/08/2014	26/09/2014	02/10/2014	30/10/2014	27/11/2014	15/12/2014	%
Gumarbek Daukeyev	+	+	+	+	+	+	+	+	+	+			100
Anatoliy Spitsyn	+	+	+	+	+	+	+	+	+	+	+	+	100
Luca Sutera	+	+	+	+	+	+	+	+	+	+	+	+	100

In 2014, **the Strategic Planning and Corporate Governance Committee** held 12 meetings, at which 24 issues were reviewed, and recommendations were issued to the Board of Directors on 22 issues, including:

- Approval of the Development Plan of KEGOC;
- Approval of the Action Plan for KEGOC corporate governance improvement in 2014;
- Update of the KEGOC Long-term development strategy;
- Updating of the Development Plan of KEGOC;
- Approval of KEGOC Information and Telecommunication System Development Strategy until 2019;
- Approval of the Long-term investment master plan for development of KEGOC extending to 2022;
- Approval of change to KEGOC Corporate Governance Code.

Members of the Strategic Planning and Corporate Governance Committee	Attendance at the meetings in presentia by the members of the Strategic Planning and Corporate Governance Committee in 2014												
	22/01/2014	28/02/2014	03/04/2014	22/04/2014	22/05/2014	04/05/2014	28/08/2014	26/09/2014	02/10/2014	30/10/2014	13/11/2014	27/11/2014	%
Anatoliy Spitsyn	+	+	+	+	+	+	+	+	+	+	+	+	100
Gumarbek Daukeyev	+	+	+	+	+	+	+	+	+	+			100
Luca Sutera	+	+	+	+	+	+	+	+	+	+	+	+	100

In 2014, **the Audit Committee** held 14 meetings, at which 52 issues were reviewed, including:

- Performance of the Internal Audit Service;
- Financial statements;
- Internal control and risk management;
- Internal audit, including personnel issues of the Internal Audit Service, preliminary approval of the changes made in the documents regulating the Internal Audit Service activity;
- External audit including preliminary approval of the increase in the fee of the audit firm rendering its audit services to the Group in 2013 - 2015 due to the increase in the scope of services, and determination of an audit firm to audit the financial statements of Batys Transit for 2014.

Moreover, the Audit Committee members held three meetings with the representatives of Ernst & Young company, which was selected to conduct the audit of 2014 financial statements, and discussed preliminary audit results of KEGOC consolidated statements in accordance with IFRS for 2013, the management letters on the results of the financial statements audit for 2013, audit plan for 2014, and financial statements review results for the 1st quarter 2014 and the 1st half-year 2014.

In 2014, during the meetings the Committee discussed the results of investigations carried out by the Internal Audit Service on the basis of the requests made to the Audit Committee through the Hot Line (electronic register of complaints of the Audit Committee) and provided the respective recommendations to KEGOC's Management Board.

Members of the Audit Committee	Attendance at the meetings in presentia by the members of the Audit Committee in 2014														
	24 January	28 February	03 April	22 April	22 May	26 May	03 July	28 August	26 September	02 October	30 October	3 November	7 November	5 December	%
Luca Sutera	+	+	+	+	+	+	+	+	+	+	+	+	+	+	100
Anatoliy Spitsyn	+	+	+	+	+	+	+	+	+	+	+	+	+	+	100
Gumarbek Daukeyev	+	+	+	+	+	+	+	+	+	+	+				100

The independent members of the Board of Directors shall be remunerated during the period of fulfilment of their duties, and be compensated with regard to the expenses related to the execution of their functions as members of the Board of Directors of the Company. The remuneration of the independent directors of KEGOC includes:

- annual fixed fee;
- additional fee.

The annual fixed fee is paid to an independent director for the fulfilment of his/her duties as a member of the KEGOC Board of Directors in an amount determined in accordance with the laws of the Republic of Kazakhstan. From 01 January 2014 to 31 December 2014, independent members of KEGOC Board of Directors were paid annual fixed fee to the total amount of KZT 15.680 million, including: Gumarbek Daukeyev – KZT 2.550 million, A. Spitsyn and L. Sutera – KZT 6.565 million for each.

The additional fee is paid to the independent members of the Board of Directors for participation in the meetings in presentia of the committees of the Board of Directors. Thus, the total amount of KZT 21.896 million was paid to independent directors for participation in the meetings of the committees of the Board of Directors in presentia, including: Gumarbek Daukeyev – KZT 5.580 million, A. Spitsyn – KZT 9.074 million, and L. Sutera – KZT 7.242 million.

An independent director shall be compensated for the expenses associated with the trip to the meetings of the Board of Directors of KEGOC, committees of the Board of Directors and the meetings initiated by the Chairman of the Board of Directors of KEGOC and/or Chairman of the Management Board of Samruk-Kazyna held beyond the place of permanent residence of an independent director.

In case of early termination of powers of a member of the Board of Directors, the annual fixed fee is adjusted pro rata to the actual number of days of execution of duties by such member of the Board of Directors.

Members of the Board of Directors - representatives of shareholders and Chairman of KEGOC Management Board shall not be paid any fee for membership in KEGOC Board of Directors and Committees of Board of Directors.

Management Board

The day-to-day activities of KEGOC are managed by the Management Board, an executive collegial body, which makes the decisions on the Company business related issues that are beyond the competence of other bodies.

The Management Board acts in accordance with the Laws of the Republic of Kazakhstan On Joint Stock Companies, KEGOC's Charter, Corporate Governance Code and KEGOC Management Board Regulations.

KEGOC's Management Board consists of:

Bakytzhan Kazhiyev, Chairman of KEGOC's Management Board, born in 1964, citizen of the Republic of Kazakhstan.

Education: Graduated from Alma-Ata Power Engineering Institute majoring in Power Systems and Networks and Karaganda State Technical University majoring in Economics.

Experience in the sector is 28 years.

Shares owned in KEGOC or its counterparties: no

Bakytkhan Zhazykbayev, First Deputy Chairman of Management Board, born in 1968, citizen of the Republic of Kazakhstan.

Education: Graduated from Kazakh State Academy of Management majoring in Marketing and Commerce and Toraigyrov Pavlodar State University majoring in Power Systems and Networks.

Experience in the sector is 14 years.

Functions in KEGOC JSC: financial and economic issues, pricing, cooperation with financial institutions, monitoring of contracts execution and fulfilment of liabilities, system services, interaction with power systems and power entities of neighbouring countries, procurement, logistics, operating dispatch and process management, international cooperation, project management.

Shares owned in KEGOC or its counterparties: no

Abat Akmurzin, Deputy Chairman of Management Board - Operations, born in 1958, citizen of the Republic of Kazakhstan.

Education: Graduated from Kazakh Agricultural Institute majoring in Electrification and Rudny Industrial Institute majoring in Economics and Business Management.

Experience in the sector is 34 years.

Functions in KEGOC JSC: repair and maintenance of business assets, operation and rehabilitation of the relay protection, investment programme, technical policy, cooperation with branches, capital construction.

He is a member of the Board of Directors of Batys Transit.

Shares owned in KEGOC or its counterparties: no

Zhanabai Beksary, Deputy Chairman of Management Board - Corporate Governance, born in 1965, citizen of the Republic of Kazakhstan.

Education: Graduated from Voronezh Polytechnic Institute majoring in Power Machinery and in 2003 graduated from Kazakh State Law University majoring in Law.

Experience in the sector is 14 years.

Functions in KEGOC JSC: KEGOC development strategy, corporate governance, cooperation with the rating agencies, risk management system, integrated management system, KEGOC shares offering to the stock market (IPO), remuneration and activity appraisal system, social support, professional training and staff development, HR policy, PR and cooperation with the Government.

He is a member of the Board of Directors of Energoinform JSC.

Shares owned in KEGOC or its counterparties: no

Muktar Bekenov, Managing Director – Branches and Affiliates, born in 1958, citizen of the Republic of Kazakhstan.

Education: Graduated from Alma-Ata Power Engineering Institute majoring in Power Systems and Networks.

Experience in the sector is 34 years.

Functions in KEGOC JSC: branches and affiliates operation, repair and maintenance of business assets, investment programme, development of telecommunication and information technologies.

He is a member of the Board of Directors of Energoinform JSC.

Shares owned in KEGOC or its counterparties: no

Aibek Botabekov, Managing Director - Economics, born in 1976, citizen of the Republic of Kazakhstan.
Education: Graduated from Karagandy State University named after Buketov majoring in International Economic Relations.
Experience in the sector is 17 years.
Functions in KEGOC JSC: financial and economic issues, pricing, cooperation with financial institutions and audit companies, Management Accounting System, relations with shareholders.
Shares owned in KEGOC or its counterparties: no
Kairat Zhakipbayev, Managing Director - Legal Support and Security, born in 1964, citizen of the Republic of Kazakhstan.
Education: Graduated from Kazakh State University named after S. Kirov majoring in Legal Science.
Experience in the sector is 7 years.
Functions in KEGOC JSC: legal issues, economical, technical and information security, documentation record management.
He is a member of the Board of Directors of Energoinform JSC.
Shares owned in KEGOC or its counterparties: no
Askerbek Kuanyshbayev, Managing Director - NPG Development, born in 1955, citizen of the Republic of Kazakhstan.
Education: Graduated from the Alma-Ata Power Engineering Institute majoring in Power Supply of Industrial Enterprises and Cities. Candidate of Economic Science, Associate Professor - Economics.
Experience in the sector is 37 years.
Functions in KEGOC JSC: NPG development, technical policy, cooperation with international organisations, introduction of advanced and efficient technologies, system services, operating dispatch and process management, power flows customs clearance.
He is a member of the Supervisory Council to 'Financial Settlement Centre for Support to Renewable Energy Sources' LLP;
Shares owned in KEGOC or its counterparties: no
Bolat Temirbekov, Managing Director – Technical Supervision and Supply, born in 1964, citizen of the Republic of Kazakhstan.
Education: Graduated from Alma-Ata Power Engineering Institute majoring in Electrical Power Supply and Kazakhstan-Russian University majoring in Economics.
Experience in the sector is 27 years.
Functions in KEGOC JSC: procurement, logistical support, customs support to contracts, sale of non-liquid inventories, service and administrative support.
Shares owned in KEGOC or its counterparties: no

In order to preliminarily review, take collegial decisions and prepare recommendations on the supervised issues to KEGOC Management Board, the Company established the advisory bodies as follows:

Investment Committee,
Risk Committee,
Budget Committee,
Human Resources Development Committee
Debtors and Creditors Committee,
Inventory Committee.

In 2014 KEGOC's Management Board held 25 meetings and reviewed 184 issues, namely:

- Regarding internal regulatory documents (IRDs) of KEGOC:

- 17 IRDs were approved;
- 7 IRDs were agreed and submitted for consideration to the Board of Directors:
- 16 amended IRDs;

- Three decisions were made on the single-source procurement of goods, works and services;
- Decisions were made on a number of issues regarding the internal control and risk management systems operation. KEGOC's Risk Register, Risk Map and also Key Risks Management Action Plan for 2014 were approved.
- Reports on status and actions taken with regard to key risks management are being reviewed on a quarterly basis.

The Management Board preliminarily reviewed and submitted the reports to the Board of Directors:

- Quarterly reports on executed material transactions and non-arm's length transactions.
- Report on the progress of the Management Accounting System introduction for 2013;
- Risk reports;
- Report on the Risk committee performance for 2013;
- Preliminary review of the Progress report on implementation of the action plan for KEGOC corporate governance development in 2014;
- Disclosure reports and reports on KEGOC reputational audit results;
- Report on work results of Human Resources Development Committee for 2013 and approval of Human Resources Development Committee Work plan for 2014;
- Reports on implementation of the Development Plan of KEGOC;
- KEGOC's annual and interim financial statements;
- Report on management of branches, affiliates and jointly-controlled entities, and impact of the financial and economic performance of branches, affiliates and jointly-controlled entities on KEGOC performance indicators;
- Reports on implementation of the investment programme in 2013 including the Report on implementation of major investment projects in 2013;
- Report on implementation of KEGOC's Long-term Development Strategy 2025 in 2013 and implementation of the Comprehensive action plan for KEGOC's Long-term Development Strategy 2025;
- KEGOC Annual Report 2013;
- EnergoInform's financial statements for 2013;
- Reports on implementation of EnergoInform Development Plan;

In 2014, KEGOC Management Board reviewed and submitted a number of issues on subsidiaries and affiliates for review by KEGOC Board of Directors: EnergoInform, Financial Settlement Centre for Support to Renewable Energy Sources LLP, Batys Transit.

In addition, the Management Board considered the issues on provision of the Company’s sponsorship and charity.

The labour payment and bonus payment procedure for KEGOC Management Board members is outlined in the Regulation on KEGOC Management Board as well as the Rules for labour payment and bonus payment to the executive employees, employees of the Internal Audit Service and the Corporate Secretary of KEGOC. Remuneration system for the Chairman and the members of the Management Board includes salary and year-end bonus. Thus, the total salary amounting to KZT 107.56 million was calculated for the members of KEGOC Management Board from 01 January 2014 to 31 December 2014.

A year-end bonus to KEGOC executive employees is paid to the extent of money means provided in the budget of KEGOC upon approval of the results of the financial and economic performance based on the audited financial statements. The bonus is not permanent. The performance of executive employees shall be assessed using the motivational key performance indicators which shall be developed through KEGOC strategic goals cascading by specific indicators on business processes/ areas of KEGOC operations in the form of KPI maps. Right to remuneration for the year-end results shall be owned by executive employees actually worked during the reporting period not less than five (5) months, based on the KPI achievements for the reporting period. Maximum remuneration for the year-end results for executive employees cannot exceed three-fold annual amount of salary. At occurrence of the right to receipt of long-term remuneration, maximum amount of short-term remuneration shall be reduced to one annual official salary. Taking into account these principles, the total amount of remunerations for the year-end results was KZT 164.94 million.

Dividend Policy

The dividend policy of KEGOC is based on the balance of interests of the Company and the shareholders in determining the amount of dividend payments, on the increase of the investment prospects of the Company and its capitalization, on the respect and strict observance of the rights of the shareholders, as provided for by the laws of the Republic of Kazakhstan. The dividends could be paid in case of the availability of net profit of the Company for a reporting period, or retained profits; the absence of restrictions on payment of dividends envisaged by the laws of the Republic of Kazakhstan, and given the resolution of the General Meeting.

The source of dividends shall be net income for appropriate financial year or half-year, or retained profits accrued on the basis of the consolidated financial statements of the Company prepared in accordance with the IFRS. A proposal on allocation of the net income for the fiscal year or half-year, is prepared by the Company’s Board of Directors. The amount allocated for payment of dividends should be at least 40 % of the net income. Decision to pay dividends on ordinary shares based on the results of the year shall be made by the annual general meeting after the Company's annual financial statements are approved. Decision to pay dividends on ordinary shares based on the results of the half-year shall be made by the extraordinary general meeting within three (3) months after the Company's annual financial statements are audited for the corresponding period.

The general meeting, having reviewed proposals of the Board of Directors, at its discretion shall make a decision to pay dividends on ordinary shares, approve a rate of dividends on one ordinary share in the Company, and define a date of dividend payment.

Dividend History

KZT, million

	as per results of 2012	as per results of 2013	as per results of 2014 (plan)
Dividends paid	**2082.31**	**-**	**8,613.80**

In 2014, the Company did not declared nor paid any dividends due to negative value of net profit.

Internal Audit Service (IAS)

KEGOC's IAS was established by the decision of the KEGOC Board of Directors in 2006. As of 31 December 2014 approved number of employees in the IAS is seven and there is one vacant position.

The mission of the Service is to provide necessary support to the Board of Directors and the Management Board of KEGOC in performance of their duties to achieve the strategic objectives of the Company. The main objective of the Service is to provide the Board of Directors with independent and objective information needed to secure efficient management of the Company by applying a system approach to improving the risk management, internal control and corporate governance systems.

Annual audit plan of the Internal Audit Service for 2014 is approved by the decision of KEGOC Board of Directors (Minutes of Meeting No. 1 dated 24 January 2014). In accordance with the annual audit plan of the Internal Audit Service the Service completed 24 audit engagements, they include due diligence of KEGOC branches, financial statements, external audit, procurement of the Company, risk management, budgeting, projects, external affairs, consideration of complaints and appeals. Internal Audit Service in a timely manner submitted audit reports for audited entities, quarterly and annual reports for the Audit Committee and the Board of Directors.

Following the results of the performed audit engagements in 2014, the Service provided the Company with 229 recommendations. Audited entities together with the Service prepared the Corrective Action Plans. Every quarter the Service monitored the execution of the issued recommendations. The purpose of monitoring is to determine if the audit comment was adequately resolved, i.e. if the actions to reduce (prevent) the level of the revealed risks are taken. Following the results of monitoring it was found out that as of 31 December 2014 KEGOC executed 147 recommendations, 82 recommendations are at implementation stage.

Risk Management and Internal Control

Risk management system is successfully implemented in KEGOC. This system is aimed at continuity and stability of the activity by limiting the impact of the external and internal negative factors on KEGOC's activity.

The risk management involves the Board of Directors, the Internal Audit Services, the Management Board, structural subdivisions – the risk owners and the structural subdivision responsible for the risk management.

The main principles of the risk management system are:

- engagement of KEGOC's executives in risk management;
- constant improvement of the risk management system;
- continuity of learning and knowledge sharing by the company employees in risk management sphere;
- transparency and integrity in submitting reports and risk escalation;

Every year the Company carries out risk identification and assessment, and develops measures on risk management. KEGOC in its operations takes into account a wide range of business-related risks in following categories: strategic risks, financial risks, operational risks, and legal risks.

The activities of the Risks Committee which is responsible for the preparation of recommendations to the KEGOC Management Board with regard to the Company's risk management were very productive in 2014. In 2014, the Committee held 7 meetings. Committee's members reviewed the reports on the risk management system, approved the draft internal documents on the risk management, Risk Register and Risk Map as well as Risk Management Action Plan for 2015.

Following are the material risks, which KEGOC incurred in 2014.

- *Currency risk.* Currency risk occurs while fulfilling obligations under loan agreements and partner contracts. This risk is becoming the material risk for KEGOC considering that the Company receives revenues in national currency – tenge, while some of debt obligations are in foreign currencies (US dollar, euro).

To minimize the dependency from fluctuations of currency exchange rate, the Company places money on the deposit accounts in the second-tier banks.

- *Scope of rendered services reduction* - a risk which occurs due to reduction of the scopes of electricity transmission services by the wholesale power market entities of the Republic of Kazakhstan, and also due to reduction of electricity transit from Russian Federation.

This risk management is conducted by adjusting planned indicators.

- *Risk of non-payment for unscheduled electricity consumption and power control services by the grid operators of the IPS of Central Asia.* Breach of contract obligations on payment for electricity and services for power regulation by Uzbekenergo are main causes of this risk occurrence. To eliminate this risk, the Company holds correspondence with Uzbekenergo concerning issues of timely payments and debt redemption for supplied electricity and services for power regulation.

Besides that, the Company works on claim administration of debt redemption by Uzbekenergo on contracts for power control services and unscheduled electric power.

- *Work safety risk.* During the Company activities the personnel is exposed to the accidental risk during operations, as a result of safety regulations violation or occupational diseases. With the view to mitigate such risk in KEGOC the specialists carry out visits and inspections, assessment of working places, technical training of operations and maintenance staff, emergency protection and fire safety trainings, pre-shift medical inspection, instructions, knowledge assessment in terms of safety regulations, lectures and seminars on injuries prevention and accidents in industries.

The internal control system (ICS) is implemented and being operated in the Company, it is based on the Standard 'Internal Control System of KEGOC' (hereinafter referred to as the ICS Standard), and also on the Rules 'Organization and Performance of Works on Internal Control System of KEGOC'. In accordance with the ICS Standard, approved by the Board of Directors of KEGOC (Minutes of Meeting No. 5 dated 26 May 2014), the Board of Directors is responsible for the organisation, monitoring and assessment of the efficiency of the Company's ICS using risk-oriented approach; the Management Board provides development, implementation of ICS internal document approved by the Board of Directors, reliable and efficient operation of ICS, improvement of processes and procedures of internal audit. The ICS provides for a management system developed by the Company, which is able to quickly respond to risk, monitor main and auxiliary business-processes and daily operations, and also inform the appropriate level management about any serious shortcomings and areas for improvement.

In accordance with the Code of Corporate Governance of KEGOC, the Standard 'Internal Audit System of KEGOC', the Board of Director is obliged to conduct at least once a year the assessment (jointly with the Audit Committee and the IAS) of the efficiency of the internal control system (ICS) and report to the General Meeting on such assessment. The assessment covers all types of control, including the financial and operational, control over the observance and efficiency of the risk management system.

In this connection the Board of Directors, the Audit Committee, the ICS reviewed in detail the components on which the system of internal control is based on:

1) control environment;
2) risk assessment;
3) control procedures;
4) information and its transfer;
5) monitoring

The assessment of the ICS is carried out in accordance with the procedure on assessment of the internal control system effectiveness for the branches and associated companies of Samruk-Kazyna. Following the results of the ICS assessment, the level of KEGOC's ICS conformity to the best world practice is 74.70% (in 2013 - 73.33%, growth - 1.37%)

In 2014 the Company developed and approved the Rules for ICS, developed flow diagrams and risks' and controls matrices for 5 business-processes: consolidation of annual financial statement; investment planning; legal support; technical control, occupational safety, and fire safety; revenue and settlements with debtors accounting.

Information Policy

The fundamental principles during implementation of KEGOC HR policy include:

- regularity and timeliness,
- openness and accessibility,
- accuracy and completeness,

- promptness,
- confidentiality,
- balance,
- equal rights for information recipients.

Disclosure of information for shareholders, investors and other stakeholders shall be performed as follows:

- by providing access to information (documents);
- by placing on mass media;
- by posting on corporate web site: www.kegoc.kz;
- by placing on the Company's internal resources (Lotus Notes, Microsoft Outlook, etc.);
- by arranging press-conferences and meetings with information recipients;
- by private transfer of documents and other materials;
- other ways envisaged by the Laws and internal documents of KEGOC.

To realize the rights of shareholders, as well as to ensure operational efficiency and accessibility of data, that are crucial for KEGOC users, in 2014 the Company provided the following:

publications in mass media on operational and financial activities of the Company (press-releases and news at the corporate website, direct e-mails to mass media editors office).

preparation of booklets and reports on the activity of KEGOC;

publications of interviews with management about activity of KEGOC, press-conferences, speeches at conferences and public events, briefings for mass media regarding the implementation of the Head of the State's instructions was held with the assistance of the Central Communications Service under the President of the Republic of Kazakhstan. Mr. B. Kazhiyev, Chairman of the Management Board, took part in the briefing.

development of video-audio clips, video films, photo reportages '45 years at the helm of power system', dedicated to 45th anniversary of creation of National Dispatching Centre of the System Operator, posted on Kazakhstan photo reportages web-site Vox Populi.kz.

Disclosure of any information by the Company shall be made in compliance with the Laws on commercial and other secret information protected by the Laws and the Rules of protection and preservation of confidential information in KEGOC.

Aimed at further development and promotion of the principles of the corporate social responsibility and sustainable development among the companies of the power industry of the Republic of Kazakhstan, KEGOC developed business guide - 'Corporate Social Responsibility for power companies: improving efficiency of the business', which includes best corporate social responsibility practices in the power industry of domestic and foreign companies.

KEGOC carried out large media campaign on covering the initial public offering of shares of the Company on the stock market under the People's IPO programme, including media events with tours to the industrial facilities of the Company, and also meetings with potential investors (road show) in 20 cities of Kazakhstan.

To assess the information transparency in KEGOC, to understand its activity and to reveal the efficiency of the information disclosure processes, in 2014 the independent party carried on a reputational audit (a full assessment of KEGOC's image among the citizens, employees of the Company and external experts by questioning, interviewing the experts from NPF, broker's companies, financial institutions, consumers and participants of the wholesale power market, famous journalists). The results of this assessment represent the favourable impression on the Company's activity and image both among the employees as well as the external experts and population of Kazakhstan. Thus, the Company's profile has raised in comparison with findings of 2013 researches by 42.8% on such indicators as 'Influence', 'Openness and transparency', 'Management awareness', 'Activity awareness', etc.

HR Policy

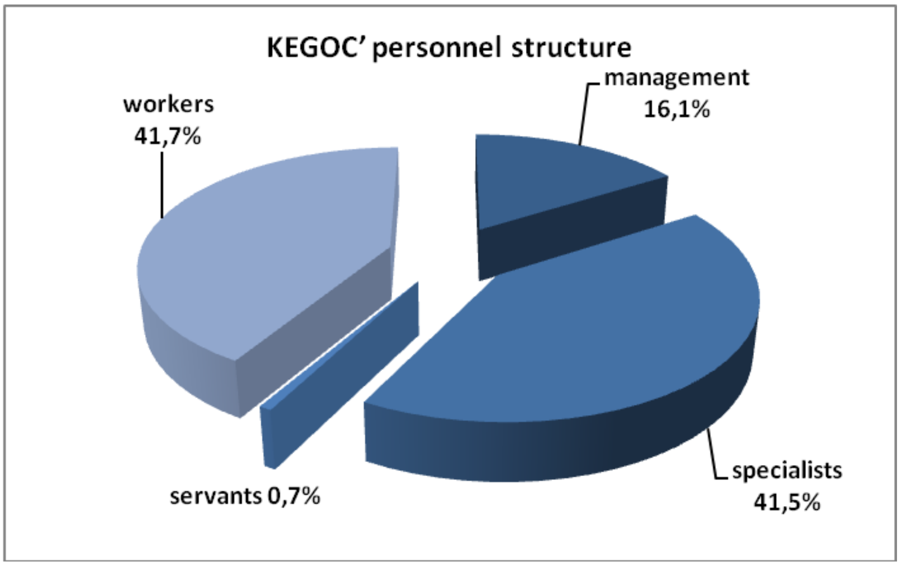
The human resources of KEGOC are the most important strategic factor for the Company's success. KEGOC's human resources management is carried out on the basis of the Corporate Governance Code, Business Ethics Code, integrated management system, HR policy, and internal documents with regard to KEGOC's personnel motivation. HR policy is aimed at ensuring the balance between the economic and social efficiency of human resources.

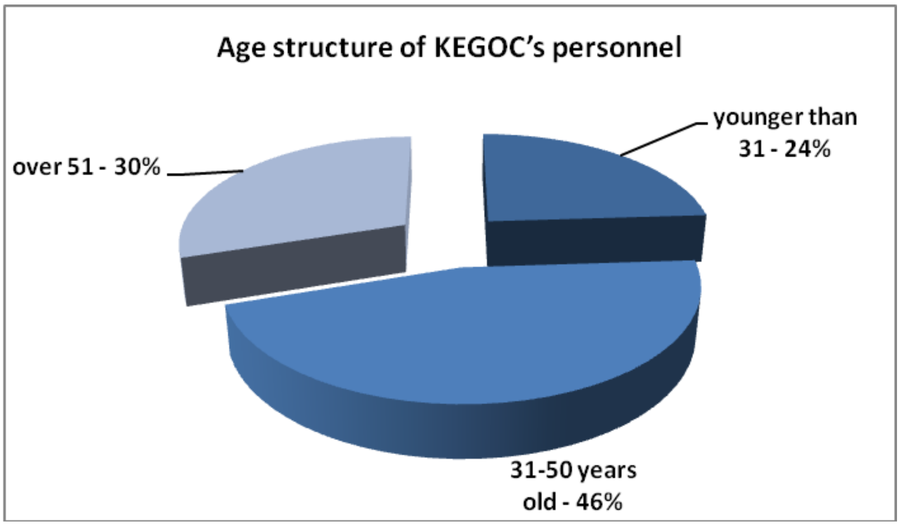
The key priorities of HR policy are:

- attraction, development and retention of highly qualified employees; adoption of the best practices of personnel management (improvement of organizational structure, planning, staff recruiting and deployment; professional training and development of personnel); establishment of effective human resources units;
- talent pool management through a reasonable mix of internal personnel reserve and external resources; establishment of executives talent reserve;
- regulation of social and labour relations; prevention of labour conflicts;
- support of innovations and reforms in KEGOC;
- creation and development of shared values, social norms and rules governing employee behaviour.

Personnel Structure

Staff listing of the Company's employees as of 31 December 2014 is 4762 people.





A big share of the Company's personnel has a higher education. As of 31 December 2013, 60.4% of employees have higher education, and 29.6 % of employees have secondary education.

Over 50.7 % of the Company's employees have over 10 years of work experience in the energy sector, more than 22 % have 5 to 10 years of experience in the sector and 27.2 % have experience of less than 5 years.

The staff turnover in the Company was 6.98 % in 2014 (6.9 % - in 2013).

Personnel Development and Training

One of the priorities of the Company's operations is the personnel development, i.e. the set of actions aimed at personnel selection, advanced training and professional growth.

Recruitment procedure in the Company is exercised in accordance with KEGOC rules of competitive selection for filling of vacancies. To ensure transparency the existing procedures include search and selection of highly qualified specialists, maintenance of database on candidates, introduction of transparent competitive procedures while selecting the personnel to fill vacancies, including testing elements.

The following main types of personnel training are used in KEGOC to ensure continuity in the process:

- ✓ independent study (self-education);
- ✓ in-service training (technical industrial study);
- ✓ short-time off-job training at the refresher courses of the specialized training centres;
- ✓ internship in other companies.

In 2014, the professional training and professional development covered 1889 employees that are 39.7 % of the staff listing.

KEGOC systematically develops the talent pool project. The pool includes 249 people. For 2014 the number of vacancies with regard to the talent pool was 32, of which 19 were the employees from the talent pool. However the percentage of appointment from the talent pool is 59.4 %.

From July 2012 KEGOC is undertaking a comprehensive work on implementation of the dual system of education for operating personnel of the Company. For this purpose, KEGOC, Government Institution "Department of education for Karaganda oblast", and Karaganda Polytechnic College concluded agreement on the social partnership under the students training for the specialization of 'Electrical equipment of power stations and networks'.

The result of joint work carried out by KEGOC and Karaganda Polytechnic College is an experimental curriculum for specified specialization with increased number of hours for practical training together with carrying out laboratory work. The curriculum with all amendments is approved by Government Institution "Department of education for Karaganda oblast", which is a territorial authority of Ministry of Education and Science of the Republic of Kazakhstan. Key feature of the experimental curriculum is that practical-theoretical and practical training became equal by the time provided, while total time left the same, which is in compliance with the requirements of the clause 5.1 of compulsory standards of technical and professional education of the Republic of Kazakhstan, approved by decree No. 1080 of the Government of Kazakhstan dated 23 August 2012. In 2014 12 college students had practical training in Tsentralnye MES branch at 500 kV Agadyr SS, 500 kV Zhezkazgan SS, 220 kV Nikolskaya SS, 220 kV Balkhashskaya SS and 500 kV Nura SS. After finishing the college, the students will acquire the qualification of Maintenance electrician for switchgear equipment and Electrician for OHTL repair.

The Company fulfils its liabilities under the contract in terms of refresher courses for the academic staff. For instance, Advisory Council of Karaganda Polytechnic College consists of Heads of Automated Relay Protection and Automation, Metrology and Measurement System Services of Tsentralnye MES branch, also in autumn two foremen of college's in-service training received training in Tsentralnye MES branch.

To improve performance of the employees and assess their qualification level and quality of functional duties performed by them, every year KEGOC arranges qualification tests for employees including some computer-based testing elements. In the reported period 601 KEGOC employees have passed the qualification tests, where: 43 employees of KEGOC Executive Administration and 13 employees of KEGOC branches included into the list of the Executive Administration, 44 employees of branches, and also 101 employees of Energoinform.

To increase the level of professional knowledge and skills of young operating specialists, to assist in their professional development, to preserve competence of experienced operating employees, adapt to corporate culture, traditions and rules of conduct in KEGOC, the coaching system was introduced. In 2014, 56 coachers among skilled managers and specialists were appointed in KEGOC branches, as well as 56 trainees (new joiners and transferred employees). Upon the recommendation of KEGOC qualification commissions, 51 coachers received a bonus for coaching.

Personnel Motivation and Incentives

The Company's activity on the social support for its employees is regulated by the following internal documents:

- Collective labour agreement;
- HR Policy in KEGOC
- Rules for provision of social support for KEGOC’s employees;
- Rules of reward and recognition of merits of KEGOC’s employees.

The Collective labour agreement between KEGOC and its employees for 2014-2018 was amended in accordance with the requirements of the labour laws of the Republic of Kazakhstan, taking into account all aspects of the social and labour relations, measures on labour conditions improvement as to prevent the social tension in the staff. The agreement provides for agreement joining procedures, as well as takes into account the matters of regulating the labour rules, including rest time during leaves for social reasons, labour payment, provision of social guarantees and compensations, specifies measures on employees support and human resources development, determines a list of jobs and positions with the additional paid leaves for work under harmful, heavy and hazardous conditions, organization of medical care, and entertainment events for the employees. Also it reflects the issues of social support of veterans of the Great Patriotic War and equated persons and long-service power engineers, registered in KEGOC. The Agreement covers all employees of KEGOC.

In general all amendments in the Collective agreement are aimed at improvement of social and labour relations, protection of employees' rights and human resources management in KEGOC.

Moreover, the Company supports employees in solving their housing problems by partial reimbursement of rent expenditures out of KEGOC funds for a rent period of no more than three years (for operational staff - without limitation as to time) based on the lease agreement concluded independently by the employees of the Company. In 2014 the total amount of expenditures for employees housing rent was KZT 130.5 million (112 persons).

Also the Company annually provides voluntary medical insurance for the employees. In 2014 KEGOC's insurance covered 2,500 employees and their family members to the amount of KZT 148.2 million.

One of the key indicators of KEGOC's HR policy is the personnel engagement index (based on the results of employees' questionnaire survey and on-line questionnaire for administrative and managerial staff) and the social stability rating determined among operational staff. In 2014 the personnel engagement index was 64%, and the social stability rating was 77 %.

In 2014, According to the results of the state contest 'Senim-2014', KEGOC became a winner in nomination of 'The Best Socially Responsible Enterprise' under the world conference 'Human resources management: role of HR in change management'.

Environmental Protection

KEGOC considers environmental activities as an integral part of its day-to-day operations, completely understanding the necessity to keep environmental balance, to ensure environmentally sustainable social and economical development of the society.

The goal of KEGOC environmental policy is to minimize adverse environmental impact, to increase the level of environmental safety, responsibility for environmental protection security under Kazakhstan NPG development; energy saving and rational use of environmental and energy resources in the Company's activities.

Indicators of Environmental Activities

Overhead transmission lines and outdoor switchgears are not the active sources of environmental pollution. Main sources of environmental impact from operations of electric-power grids and substations include:

- ✓ power frequency electromagnetic field;
- ✓ operations of KEGOC branches to maintain networks and substations;
- ✓ wastes generated during substation equipment repair and upgrade.
- ✓ Company's ongoing investment projects.

Physical Environmental Impact

The physical environmental impact includes power frequency electromagnetic field (EMF), audible noise, vibration, office equipment radiation, and other physical factors. EMF, noise and other physical factors at the substations is regularly measured in accordance with schedules under assessment of labour conditions at operational facilities in accordance with the labour laws of the Republic of Kazakhstan. EMF and audible noise are also measured in case of any change in standard sizes and design features of equipment (at the time of replacement, upgrading, etc.), main electric circuits of substation, approaching transmission lines. The excessive exposure levels are addressed with relevant protective measures.

At the facilities of Aktyubinskiye MES branch, EMF, vibrations and noise have been measured; chemical and physical factors, EMF, illumination, vibrations and noise have been measured at work places. No variances from standards were revealed.

In the second quarter of 2014 during the assessment of work places in Severnye MES branch, EMF, noise and other physical factors have been measured at 146 work places. Based on the results of the assessment the action plan on labour conditions improvement was developed.

Ambient Air Impact

According to maximum permissible emissions (MPE), the MES branches identified stationary sources of harmful emissions (both organized and unorganized emission source). In order to reduce emissions from stationary sources, the MES branches conducted the operational monitoring (monitoring of the operating process), namely, they kept records of hours of operation for each item of equipment and consumption of materials. The fact of the reduced emissions was supported by the findings of the environmental monitoring conducted by the specialized organisations under signed contracts. The volume of gross emissions from stationary sources in 2014 was 24.27 tons given that the fixed standard rate was 29.57 tons p.a.

	Standard rate, tonne/year	Actual, tonne/year	%
Gross emissions from stationary sources	**27.66**	**23.27**	**16**

Emissions from stationary sources are calculated in compliance with the Calculation methods approved by the environmental authority of the Republic of Kazakhstan, and are determined according to the conducted measurements.

Emissions from mobile sources are not measured; the quantity of the used fuel is used for calculation of payments for emissions from mobile sources in accordance with the Code of the Republic of Kazakhstan on taxes and other mandatory payments to the budget.

In 2014 the annual contract for servicing SF6 circuit-breakers was signed with TOO Siemens (Almaty) which should prevent leakage of sulphur hexafluoride.

Operational Wastes

Depending on the type, wastes are divided into production and municipal wastes (solid domestic wastes) generated in the course of life activity.

By hazard level all wastes are divided into:

- “green” – G index (non-hazardous);
- “amber” – A index (hazardous);
- “red” – R index (hazardous)

The most hazardous wastes are mercury containing wastes (waste fluorescent lamps) which are referred to “amber” hazard level.

The main waste products are transformer oil and scrap metal, generated in the course of operation, repair and rehabilitation of equipment.

Production wastes are stored in designated hard surface areas. The outline map of waste disposal was developed for each substation. In 2014 KEGOC branches produced 2806 tons of wastes, among them 944 tonnes disposed at landfills, 283 tonnes of waste were transferred for recycling for the purpose of re-use. Used transformer oil and metal scrap were mainly sold by specialised organisations.

Water and Soil Impact

Water consumption in the Company is insignificant, because it is not used in the industrial process. There are no discharges into water bodies and relief. The existing wells at the facilities of MES branches are operated in line with the obtained permits. Water is supplied from artesian wells at the facilities of 5 branches. Specialised organisations are contracted to monitor the underground water intake facilities in accordance with the Water Code of Kazakhstan.

Potential sources of contamination include transformer oil used in oil-filled equipment, as well as waste waters resulting from domestic use of water. Oil-filled equipment has oil receiving devices or oil soak pits that prevent oil from spilling on the soil.

Environmental Fees

Fees for the ambient air pollution are paid in accordance with the established deadlines. Fees for the ambient air pollution by stationary emission sources and for water discharges (in some MES branches), are paid based on the estimation of actual emissions or results of the operational environmental monitoring. Fees for air pollution by motor transport are paid based on estimation of the fuel consumption. Environmental payments for emissions into environment in 2014 amounted to KZT 4.3 million.

Environmental external services expenses in 2014 amounted to:

- KZT 7.07 million – for performance of environmental monitoring of ambient air, soil, water resources and waste water;
- KZT 0.8 million – for developing documents on environmental rating for 4 MES branches, issue safety data sheets and required environmental estimations;
- KZT 9.03 million – industrial waste disposal;
- KZT 13.647 million – for assessment by external auditor of ISO 9001, ISO 14001 and OHSAS 18001 (as a whole) management system certification.

Environmental Management System Operation

The environmental management system shall ensure that environmental indicators are effectively reached and improved in accordance with the environment policy of KEGOC. It shall manage environmental risks associated with the specific nature of the Company’s operations.

All environmental risks of KEGOC in 2014 are in the controlled conditions. The risks details were recorded in the register of environmental aspects of KEGOC.

KEGOC’s environmental programme for 2014 includes a set of measures required to manage environmental risks and to achieve target and planned values, and as of the end of the year this programme was completed. In 2014 environmental aspects 'transformer oil', 'used transformer oil' and 'metal scrap' were significant due to replacement of oil-filled power equipment under the Kazakhstan Electricity Transmission Rehabilitation Project, Phase II. Auxiliary transformers were replaced with dry-type transformers, oil circuit-breakers were replaced with SF6 and vacuum circuit-breakers. Application of oil-free equipment is 'green', increases fire safety and excludes ground water and soils pollution.

Other activities in place included safe handling of industrial and consumer wastes, their timely removal for subsequent recycling or burial, the prevention of harmful effect of physical factors and other environmental risks.

In 2014 the internal audits of integrated management system were conducted in all branches of the Company; the results of the audits showed that compliance of the most inspected facilities of MES branches to the environmental management and environmental legislation. Small number of comments was related to waste management at some facilities, the measures on eliminations of these comments were taken within the established deadlines.

The results of the 2014 certification audit of KEGOC's integrated management system (IMS) confirmed the compliance of the corporate environmental management system with ISO 14001 requirements.

Environmental Actions during Investment Projects Implementation

The environmental requirements shall be included into the Terms of Reference of the proposed grid development projects in order to meet the requirements of environmental laws at the design and implementation project stages.

Replacement of oil circuit-breakers with SF6 and vacuum circuit-breakers under Kazakhstan Electricity Transmission Rehabilitation Project, Phase II and current investment program is one of the main ways of introducing new equipment in KEGOC. SF6 and vacuum circuit-breakers in contrast with oil circuit-breakers have higher ratios of reliability, cycles to failure, life duration, have high performance characteristics, and they are easy to maintain. In 2014, replacement of oil circuit breakers with SF6 circuit breakers and vacuum circuit breakers, and replacement of auxiliary transformers with dry-type transformers allowed to decrease the volume of transformer oil filled in the electrical equipment by 366 tonnes.

As part of the Investment programme, consideration and agreement of EIA of rehabilitation projects of 500 kV Ulke SS, 500 kV Agadyr SS, 500 kV Zhalagash SS, 500 kV Avrora SS and 500 kV Stepnaya SS have been completed.

Consideration and agreement of preEIA of draft FS for Construction of 500 kV interconnection line Kazakhstan - Kyrgyzstan, sections of EIA for two facilities of the 500 kV OHTL Ekibastuz – Semey – Ust-Kamenogorsk Construction Project, EIA for three facilities of the Pavlodar Electricity Transmission Reinforcement Project, National Power Grid Rehabilitation Project of KEGOC branches Aktyubinskiye MES, Sarbaiskiye MES, Zapadnye MES, Balkhash Electricity Transmission Project have been completed.

For the purposes of openness and availability of environmental information on 29 July 2014 in Tulkubas district of South Kazakhstan oblast and on 30 July 2014 in Zhualyn district of Zhambyl oblast the company held public hearings regarding the EIA for 220 kV OHTL Tulkubas-Burnoe Construction Project, under Kazakhstan Electricity Transmission Rehabilitation Project. Non-governmental organisations, media, officials from the authorities of Zhambyl and Almaty Oblasts and regions, and other concerned parties took part in the public hearings.

Operational Safety

Occupational Health and Safety

Safe labour conditions, low level of operational injuries, improved operational and sanitary-household and labour conditions of the employees and low level impact of harmful and adverse factors are the constant development priorities of the Company.

In 2014, the following documents were developed:

- KEGOC programme for occupational health and safety management system for 2014;
- Register of hazards and risks of KEGOC for 2014;
- Register of significant hazards and risks of KEGOC for 2014.

A meeting was held on 26-28 March 2014 in order to improve the work of reliability and occupational health groups concerning the improvement of OHTL operation reliability and the occupational health of KEGOC's personnel and to exchange experience in addressing the problematic issues. The heads of reliability and occupational health groups of all the branches and EnergoInform participated in the meeting.

In 2014, the actual costs for occupational safety in the Company amounted to KZT 205.126 million. In 2014, the Company allocated the above amount on scheduled medical examinations of employees, different types of up-to-date training, including advanced training; individual protection facilities, including electrical protection, special nutrition and medical supplies. The employees exposed to hazards during work process received prescribed compensations based on the results of their working places assessment with regard to exposure to harmful conditions.

In all branches: the safety workshops were delivered during repair campaign including qualification tests of repair crew and check of availability of the individual protection devices, instruments, harness, and special cloths.

The inspections were conducted in all the branches specifically to check the conditions of technical operations, occupational, labour and fire safety of the facilities.

In accordance with the law of Kazakhstan on compulsory insurance of the employees against accidents at work, the Company purchased insurance against accidents at work for 2014. In accordance with the requirements of the law of Kazakhstan on compulsory insurance of the owner of the facility which operationally involves the risk of causing harm to third parties, the Company purchased such insurance.

Fire Safety

Financing of the fire safety in KEGOC's branches in 2014 amounted to KZT 11.353 million.

In 2014, to maintain and improve the quality of fire safety KEGOC fulfilled the following scheduled actions:

- 42623.75 square meters of timber building structures were treated with flame retardant;
- 144 fire extinguishers were tested;
- 773 fire extinguishers were recharged;
- Fire trainings were delivered at substations, including 25 trainings together with the public fire fighting service, briefings and trainings on fire safety, basic skills of fire safety according to personnel information programme;
- External fire fighting mains, internal water systems, automated fire extinguishing installations were tested.

The branches set up fire-technical committees, headed by the chief engineers of the branches. The committees carried out 156 preventive inspections on fire safety. The action plan was developed with respect to these violations in order to eliminate and prevent similar violations in future.

As a result of fire safety measures taken in Company, there was no fires and fire outbreaks in 2014 at the KEGOC's facilities.

Sponsorship and Charity

KEGOC allocates considerable amounts as charity support on an annual basis. In 2014 the charity support was provided in the amount of KZT 134.21 million, including the support of:

- Akimat of Almaty for resettlement of citizens from the sanitary protection zone of the transmission line;
- financial assistance for 743 nonworking power engineer veterans registered in KEGOC to provide charity support in honour of the celebration of the professional holiday - power engineers' day;
- financial assistance for veteran of the Great Patriotic War registered in Energoinform.

GOAL 7. INTERNATIONAL COOPERATION

Collaboration with Power Systems of Other States

In its activities, KEGOC interacts with power systems of other states, such as:

- The Russian Federation (Federal Grid Company of Unified Energy System, System Operator of Unified Energy System, INTER RAO UES);
- The Kyrgyz Republic (Power Plants OJSC, Kyrgyzstan NPG OJSC);
- The Republic of Uzbekistan (Uzbekenergo SJSC);
- The Republic of Tadzhikistan (Barki Tochik open joint stock holding company).

The Russian Federation

Relations between KEGOC and Russian counterparts on agreements concluded in 2010 on ensuring the parallel operation under intergovernmental agreement dated 20 November 2009 on some measures to ensure the parallel operation of power systems of Kazakhstan and Russia. The above agreements govern the basic technical and financial obligations of the parties in parallel operation of Kazakhstan UPS and Russian UPS.

- the agreement on parallel operation of power systems of the Republic of Kazakhstan and the Russian Federation;
- agreements on electricity procurement of actual hourly deviations of the actual interstate net power flow balance from the scheduled one between KEGOC and INTER RAO UES;
- service contract for the transmission (transit) of electricity through KEGOC network.

In 2014, KEGOC and INTER RAO UES arranged for purchase and sale (from Russia to Kazakhstan and vice versa) of electricity to cover the hourly deviations of the actual interstate net power flow at the border between power systems of Kazakhstan and Russia.

In 2014, KEGOC and FGC UES arranged for transmission (transit) of electric power through KEGOC's networks from the Russian Federation through the Republic of Kazakhstan back to the Russian Federation. The transit services rendered by KEGOC totalled 3,208.023 million kWh

Central Asia

The parallel operation of power systems of Central Asia and Kazakhstan continued in the reported period.

In 2014, KEGOC purchased power control services from IPS of Central Asia (Kyrgyzstan) to the amount of 70 MW.

In 2014 there was a transaction of unscheduled electric power sale to Uzbekistan due to the unauthorised consumption by Uzbek power system of electric power from Kazakhstan UPS. The unscheduled electric power supply to Uzbekistan amounted to 652.029 million kWh.

In 2014, a transaction was executed with Uzbekistan counterpart to sell them power control service. The amount of actually delivered services was 4,047 MW.

During the reported period, the work on establishing contractual relations with respect to other aspects of the parallel operation with power systems of Central Asia continued.

Professional Association Membership

In 2014, to promote creation of the efficient electricity market relations with the neighbouring countries the company participated in following events:

- in the CIS Electric Power Council: the 45th and 46th meetings, and also the meetings of working bodies of Executive Committee of CIS Electric Power Council.
- in the Eurasian Economic Commission of the Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Russian Federation): at the 4th meeting of the Advisory Committee on electric power at the College of EEC, as well as in 4 meetings of the Subcommittee on the establishment of a common electricity market of the Eurasian Economic Union;
- to exchange information, innovative technologies, knowledge and experience in the electric power industry the memoranda of cooperation with leading companies ABB Switzerland Ltd (Switzerland) and Alstom Grid SAS (Czech Republic) have been signed;
- in the World Energy Council, represented by the Secretary of the Committee of Kazakhstan: in meetings of the Executive Assembly and the International World Energy Leaders Summit; in a consultative meeting on clean energy production, co-organized by the United Nations Economic Commission for Europe, World Energy Council and Clean Coal Centre of the International Energy Agency;
- in EURELECTRIC association: in the meeting of the Working Group on Energy Efficiency of Energy Charter; technical seminar of Energy Charter Secretariat on 'Payment of services on transmission of electricity'; in the meetings of the Working Group on Energy Efficiency and Strategy Group of Energy Charter Secretariat; in the work of the 25th Session of the Conference of the Energy Charter, under the chairmanship of the Republic of Kazakhstan;
- in the Coordination Electric Power Council of Central Asia (CEPC CA): in two sessions of CEPC CA and in two meetings of the Coordination Commission of CEPC CA.

FINANCIAL STATEMENTS

External audit of consolidated financial statements in KEGOC for 2014 was carried out by independent auditing organization Ernst and Young LLP, the member of Chamber of Auditors of the Republic of Kazakhstan.

In accordance with the Charter of KEGOC, determination of the auditing organization conducting an audit shall refer to the exclusive competence of the General Shareholders' meeting. Before Annual General Meeting the decisions on the issues referred by the laws of the Republic of Kazakhstan and the Charter to competence of the Annual General Meeting were made by the Sole Shareholder of KEGOC. Ernst & Young LLP was selected by the Sole Shareholder on the basis of the recommendations issued by the Unified Commission, acting in accordance with the Procedure for the selection of an auditor for Samruk-Kazyna Sovereign Wealth Fund and organizations, in which fifty or more percent of the voting shares (participation) directly or indirectly owned by Samruk-Kazyna under the right of ownership or trust management. Procurement of audit services was single source procured in compliance with clause 140 of the Rules of procurement of goods, works and services by Samruk-Kazyna Sovereign Wealth Fund and organizations, in which fifty or more percent of the voting shares (participation) directly or indirectly owned by Samruk-Kazyna under the right of ownership or trust management.

Services on audit of the financial statements for 2014 under the Agreement on procurement of services on audit of the financial statements for 2013-2015 amounted to KZT 34.468 million inclusive of VAT.

In addition to audit services, in 2014 Ernst and Young LLP rendered consultancy services on agreed-upon procedures in relation to financial information and submission of comfort letters under the Company's IPO.

“Kazakhstan Electricity Grid Operating Company” JSC

Consolidated financial statements

For the year ended 31 December 2014 with Independent Auditors’ report

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

In thousands of Tenge	**Notes**	**31 December 2014**	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	7	**477,443,676**	308,819,164
Intangible assets		**1,044,908**	885,708
Advances paid for non-current assets	7	**425,016**	8,765,506
Investments in associates	8	**282,165**	220,446
Deferred tax asset	26	**683**	–
Other financial assets	11	**3,706,710**	868,269
Other non-current assets		**194,782**	56,662
		483,097,940	319,615,755
Current assets			
Inventories	9	**2,030,045**	1,916,887
Trade accounts receivable	10	**14,671,787**	8,501,318
VAT recoverable and other prepaid taxes		**3,616,172**	2,817,752
Income tax prepaid		**1,365,474**	1,141,931
Other financial assets	11	**28,864,716**	18,992,431
Restricted cash	12	**2,042,349**	1,688,834
Other current assets	13	**277,435**	919,263
Cash and cash equivalents	14	**13,962,123**	11,727,555
		66,830,101	47,705,971
Total assets		**549,928,041**	367,321,726
Equity and liabilities			
Equity			
Share capital	15	**126,799,554**	107,245,972
Asset revaluation surplus	15	**221,756,419**	110,878,954
Other reserves	15	**(170,701)**	(170,701)
Retained earnings		**11,392,194**	3,227,238
		359,777,466	221,181,463
Non-current liabilities			
Borrowings	16	**94,714,528**	82,323,069
Deferred tax liability	26	**66,791,645**	36,090,576
		161,506,173	118,413,645
Current liabilities			
Trade and other accounts payable	18	**11,994,310**	14,713,802
Borrowings	16	**12,881,885**	10,218,204
Construction obligation	17	**683,430**	–
Advances received		**1,024,565**	789,884
Taxes payable other than income tax		**617,191**	713,332
Other current liabilities	19	**1,443,021**	1,291,396
		28,644,402	27,726,618
Total liabilities		**190,150,575**	146,140,263
TOTAL EQUITY AND LIABILITIES		**549,928,041**	367,321,726
BOOK VALUE PER ORDINARY SHARE (IN TENGE)	15	**1,380**	1,027

Chairman of the Management Board ______________________________

Kazhiyev B.T.

Chief Accountant ______________________________

The accounting policies and explanatory notes on pages 6 to 48 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

Mukanova D.T.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

In thousands of Tenge	Notes	2014	2013*
Revenue	20	**93,519,759**	73,811,723
Cost of sales	21	**(74,216,341)**	(55,574,322)
Gross profit		**19,303,418**	18,237,401
General and administrative expenses	22	**(13,380,998)**	(6,422,878)
Selling expenses		**(164,773)**	(154,408)
Gain / (loss) on revaluation of property, plant and equipment	7	**14,250,162**	(26,708,545)
Impairment loss		**(157,775)**	(99,212)
Operating profit / (loss)		**19,850,034**	(15,147,642)
Finance income	23	**1,894,805**	1,797,051
Finance costs	23	**(4,332,763)**	(2,021,023)
Foreign exchange loss, net	24	**(7,510,748)**	(2,680,967)
Share of income / (loss) of an associate, net		**106,429**	(3,659)
Other income	25	**1,863,398**	381,865
Other expenses		**(291,468)**	(13,972)
Profit / (loss) before tax		**11,579,687**	(17,688,347)
Income tax (expense) / benefit	26	**(2,963,667)**	3,188,073
Profit / (loss) for the year		**8,616,020**	(14,500,274)
Earnings per share			
Basic profit / (loss) for the period attributable to ordinary equity holders (in Tenge)	15	**39.09**	(67.71)

Profit / (loss) for the year	**8,616,020**	(14,500,274)
Other comprehensive income / (loss)		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Net loss on available for sale financial assets	–	(115,578)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods, net of tax	–	(115,578)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Gain on revaluation of property, plant and equipment	**138,887,289**	138,645,728
Income tax effect	**(27,777,458)**	(27,729,146)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax	**111,109,831**	110,916,582
Other comprehensive income for the year, net of tax	**111,109,831**	110,801,004
Total comprehensive income for the year, net of tax	**119,725,851**	96,300,730

* Certain amounts shown here do not correspond to the 2013 consolidated financial statements and reflect reclassifications made as detailed in *Note 5*.

Chairman of the Management Board _______________________________

Kazhiyev B.T.

Chief Accountant _______________________________

Mukanova D.T.

The accounting policies and explanatory notes on pages 6 to 48 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

In thousands of Tenge	Notes	2014	2013
Operating activities			
Profit / (loss) before tax		**11,579,687**	(17,688,347)
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation		**19,058,763**	8,549,023
Finance costs	23	**4,332,763**	2,021,023
Foreign exchange loss		**8,147,718**	2,470,792
Provision for doubtful accounts receivable and impairment of advances	22	**2,673,958**	195,153
Provision / (reversal of provision) for obsolete inventory	22	**155,069**	(217,628)
(Gain) / loss on revaluation of property, plant and equipment		**(14,250,162)**	26,708,545
Loss / (gain) from disposal of property, plant and equipment and intangible assets		**272,453**	(9,841)
Income from transfer of fixed assets		**(1,616,399)**	–
Finance income		**(1,894,805)**	(1,797,051)
Accrual of reserve on construction in progress		**157,775**	99,212
Share of (income) / loss of an associate		**(106,429)**	3,659
Working capital adjustments:			
Change in inventories		**(268,227)**	(53,085)
Change in trade accounts receivable		**(9,264,504)**	(4,784,595)
Change in VAT recoverable and other prepaid taxes		**(798,420)**	(1,627,206)
Change in other current assets		**159,831**	(564,640)
Change in trade and other accounts payable		**2,115,684**	849,837
Change in advances received		**234,681**	214,912
Change in taxes payable other than income tax		**(102,695)**	977,477
Change in other current liabilities		**230,954**	96,672
Cash flows from operating activities		**20,817,695**	15,443,912
Interest paid		**(3,553,306)**	(2,925,527)
Income tax paid		**(48,828)**	(333,411)
Interest received		**1,214,999**	2,273,350
Net cash flows from operating activities		**18,430,560**	14,458,324
Investing activities			
Withdrawal of bank deposits		**19,013,283**	24,071,686
Placement of bank deposits		**(28,306,613)**	(18,534,259)
Change in restricted cash		**(190,689)**	(19,500)
Proceeds from sale of property, plant and equipment and intangible assets		**73,376**	314,149
Purchase of property, plant, equipment		**(22,171,998)**	(23,706,522)
Purchase of intangible assets		**(419,847)**	(51,764)
Payment for construction of kinder garden		**(375,905)**	–
Repayment of loans given to employees		**24,323**	35,697
Investments in an associate		–	(109,350)
Distribution from an associate	8	**44,710**	–
Net cash flows used in investing activities		**(32,309,360)**	(17,999,863)

The accounting policies and explanatory notes on pages 6 to 48 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

The accounting policies and explanatory notes on pages 6 to 48 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

The accounting policies and explanatory notes on pages 6 to 48 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Notes	2014	2013
Financing activities			
Proceeds from shares issuance	15	**13,129,999**	403,000
Payment for consulting services related to IPO		**(90,561)**	–
Payment of dividends	15	**–**	(2,082,309)
Repayment of borrowings		**(10,951,764)**	(7,858,832)
Proceeds from borrowings		**13,592,683**	16,526,701
Net cash flows from financing activities		**15,680,357**	6,988,560
Net change in cash and cash equivalents		**1,801,557**	3,447,021
Net foreign exchange difference		**433,011**	236,032
Cash and cash equivalents at 1 January		**11,727,555**	8,044,502
Cash and cash equivalents at 31 December	14	**13,962,123**	11,727,555

Chairman of the Management Board ______________________________

Kazhiyev B.T.

Chief Accountant ______________________________

Mukanova D.T.

The accounting policies and explanatory notes on pages 6 to 48 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

In thousands of Tenge	**Share capital**	**Asset revaluation surplus**	**Other reserves**	**Retained earnings**	**Total**
As at 1 January 2013	106,842,972	–	(55,123)	19,772,193	126,560,042
Loss for the period	–	–	–	(14,500,274)	(14,500,274)
Net loss on available for sale financial assets, net of tax *(Note 15)*	–	–	(115,578)	–	(115,578)
Gain on revaluation of property, plant and equipment, net of tax *(Note 15)*	–	110,916,582	–	–	110,916,582
Total comprehensive income	–	110,916,582	(115,578)	(14,500,274)	96,300,730
Transfer of asset revaluation surplus *(Note 15)*	–	(37,628)	–	37,628	–
Issue of share capital *(Note 15)*	403,000	–	–	–	403,000
Dividends *(Note 15)*	–	–	–	(2,082,309)	(2,082,309)
As at 31 December 2013	**107,245,972**	**110,878,954**	**(170,701)**	**3,227,238**	**221,181,463**
Profit for the period	–	–	–	8,616,020	8,616,020
Gain on revaluation of property, plant and equipment, net of tax *(Note 7)*	–	111,109,831	–	–	111,109,831
Total comprehensive income	**–**	**111,109,831**	**–**	**8,616,020**	**119,725,851**
Transfer of asset revaluation surplus *(Note 15)*	–	(232,366)	–	232,366	–
Contribution to share capital *(Note 15)*	7,116,151	–	–	–	7,116,151
Issue of share capital	13,129,999	–	–	–	13,129,999
Transaction costs attributable to Initial Public Offering *(Note 15)*	(692,568)	–	–	–	(692,568)
Distribution to shareholder *(Note 17)*	–	–	–	(683,430)	(683,430)
As at 31 December 2014	**126,799,554**	**221,756,419**	**(170,701)**	**11,392,194**	**359,777,466**

Chairman of the Management Board ______________________________

Kazhiyev B.T.

Chief Accountant ______________________________

Mukanova D.T.

The accounting policies and explanatory notes on pages 6 to 48 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

GENERAL INFORMATION

Kazakhstan Electricity Grid Operating Company JSC (“the Company” or “KEGOC”) was established in accordance with the Government Resolution No. 1188 dated 28 September 1996 by transferring of some assets of the former National Energy System “Kazakhstanenergo”.

As of 31 December 2014 the Company’s major shareholder was Sovereign Wealth Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna”) (90 percent plus one share). Samruk-Kazyna is controlled by the Government of the Republic of Kazakhstan.

On 19 December 2014 the Company placed 25,999,999 shares (10 percent minus one share) at 505 Tenge per share on the Kazakhstan Stock Exchange under the “People’s IPO” programme.

KEGOC is the national company which provides electricity transmission, dispatch and electricity production-consumption balancing services in Kazakhstan. As the state-appointed system operator, the Company provides centralized dispatching control, ensures parallel work with energy systems of other countries, maintains the balance in energy system, provides system services and acquires auxiliary services from wholesale entities at energy market, as well as transmits electricity through unified power system (the “UPS”), ensures its technical support and maintenance. The UPS consists of substations, distribution devices, interregional and international power transmission lines which provide the output of electricity of electrical stations with the voltage of 220 kW and more.

The Company has shares in the following companies as of 31 December 2014 and 31 December 2013:

		Percentage of ownership	
Companies	**Activities**	**31 December 2014**	31 December 2013
Energoinform JSC	Maintenance of the KEGOC’s IT system	**100%**	100%
Accounting and Finance Center for the support of renewable energy resources LLP	Centralised sales and purchase of electricity produced by energy producers using renewable energy sources and delivery into the electricity grid of the Republic of Kazakhstan	**100%**	100%

The Company and its subsidiaries are hereafter referred as the “Group”.

The Group’s operating activities are regulated by the Law of the Republic of Kazakhstan dated 9 July 1998 No. 272-I On Natural Monopolies and Regulated Markets as the Group is a natural monopolist in electricity transmission, technical dispatch and electricity production-consumption balancing services. According to the Law, the Group’s electricity transmission, technical dispatch and electricity production-consumption tariffs are approved by the Committee for Regulation of Natural Monopolies and Protection of Competition at the Ministry of National Economy of the Republic of Kazakhstan (the “Committee”).

The Company’s registered office is located at 59 Tauelsyzdyk Str., Astana, 010000, the Republic of Kazakhstan.

These consolidated financial statements were authorised for issue by the Company’s Chairman of the Management Board and Chief Accountant on 3 March 2015.

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been prepared on a historical cost basis, except for certain classes of property, plant and equipment, which are stated at revalued amounts and available for sale financial assets that have been measured at fair value as described in the accounting policies and notes to these consolidated financial statements. The consolidated financial statements are presented in Kazakhstan Tenge (“Tenge” or “KZT”) and all values are rounded to the nearest thousands, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, in accordance with IFRS, as would be required if the Group had directly disposed of the related assets or liabilities.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policy

Revaluation of UPS constructions

In 2013 the Group changed its accounting for property, plant and equipment with respect to measurement of certain classes of property, plant and equipment after initial recognition. The Group has previously measured all property, plant and equipment using the cost model as set out in IAS 16.30, whereby after initial recognition of the assets classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

On 1 November 2013 the Group elected to change the method of accounting for UPS constructions classified in property, plant and equipment, since the Group believes that revaluation model more effectively demonstrates the financial position of UPS constructions. After initial recognition, the Group uses the revaluation model, whereby UPS constructions will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Group applied the exemption in IAS 8, which exempts this change in accounting policy from retrospective application and extensive disclosure requirements.

New and amended standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of following new standards and interpretations effective as of 1 January 2014:

- *Offsetting Financial Assets and Financial Liabilities* - Amendments to IAS 32;
- *Novation of Derivatives and Continuation of Hedge Accounting* – Amendments to IAS 39;
- IFRIC 21 *Levies*;
- *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27);
- Amendments to IAS 36 *Assets Impairment – Disclosures on Recoverable Amount for Non-financial Assets*.
- *Annual Improvements 2010-2012 Cycle;*
- *Annual Improvements 2011-2013 Cycle.*

The nature and impact of new standard/amendment is described below:

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Amendments to IAS 36 Assets Impairment – Disclosures on Recoverable Amount for Non-financial Assets

These amendments remove unintended consequences for disclosures in accordance with IAS 36, associated with IFRS 13 coming into effect. In addition, these amendments require disclosure of information on asset's or CGU recoverable amount on which impairment loss was recognized or reimbursed during the reporting period. These amendments are applied retrospectively for annual periods beginning on or after 1 January 2014. In accordance with these amendments the Group provided additional disclosure for impairment of non-financial assets in *Note 7*.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Standards issued, but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued, but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued, but not yet effective (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payments

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';

- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued, but not yet effective (continued)

Annual improvements 2010-2012 Cycle (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Annual improvements 2012-2014 Cycle

These improvements are effective from 1 January 2016. The Group management is in process of assessment whether these improvements will have a material impact on the Group. They include:

IFRS 5 Changes in methods of disposal

IFRS 7 Servicing Contracts

IFRS 7 Applicability of the amendments to IFRS 7 to condensed interim financial statements

IAS 19 regional market issue

IAS 34 Disclosure of information "elsewhere in the interim financial report"

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;

- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures financial instruments, such as, available for sale (“AFS”) financial assets at fair value at each balance sheet date, and non-financial assets (UPS constructions) at fair value when fair value differs materially from their carrying value. Also, fair values of financial instruments measured at amortized cost are disclosed in *Note 28*.

Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group’s finance management determines the policies and procedures for both recurring fair value measurement, such as UPS constructions and unquoted AFS financial assets, and for non-recurring measurement, if any.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

External valuers are involved for valuation of UPS constructions. Involvement of external valuers is decided upon annually by the finance management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The finance management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

At each reporting date, the finance management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the finance management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The finance management, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset of revalued class of property, plant and equipment in accordance with Group accounting policy with relevant external sources to determine whether the change is reasonable.

The finance management and external valuers discusses the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Foreign currencies

The Group's consolidated financial statements are presented in Tenge ("KZT"), which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

Exchange rates for foreign currencies in which the Group had significant transactions are represented as follows:

Exchange rate as at the end of the period (to KZT)	**31 December 2014**	31 December 2013
USD 1	**182.35**	153.61
EUR 1	**221.59**	211.17
RUR 1	**3.13**	4.69

Average exchange rate for the 12 months (to KZT)	**2014**	2013
USD 1	**179.12**	152.14
EUR 1	**238.10**	202.08
RUR 1	**4.76**	4.78

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment, except for UPS constructions, are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized in profit or loss as incurred.

UPS constructions are measured at fair value less accumulated depreciation and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation surplus. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

Depreciation is computed on a straight-line basis over the estimated useful lives set out in the following table:

Buildings	60 years
UPS constructions	
Power transmission lines	50 years
Substation equipment	12-30 years
Constructions	10-30 years
Vehicles and other property, plant and equipment	
Other machinery and equipment	7-25 years
Vehicles	11 years
Computers and other data processing equipment	4-10 years
Furniture	7 years
Other property, plant and equipment	3-15 years

Land is not depreciated.

The useful lives and residual values of property, plant and equipment are reviewed annually and, where applicable, adjustments are made on a prospective basis. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amounts of the carrying values of property, plant and equipment and on depreciation expenses recognized in the consolidated statement of comprehensive income.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognized.

Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the profit and loss in the period in which expenditure is incurred.

Intangible assets of the Group consist primarily of licenses and software. Intangible assets are amortized on a straight-line basis over their estimated useful lives, generally from 3 to 20 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the intangible asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future economic benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on value in use, which are prepared separately for each of the Group’s CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for UPS constructions previously revalued with the revaluation taken to OCI. For such assets, the impairment is recognized in OCI up to the amount of any previous revaluation. For assets previously impaired, except for goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of comprehensive income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognized its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognized the loss as 'Share of loss of an associate' in profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognized any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

The Group's financial assets include cash, short-term and long-term deposits, trade and other accounts receivable, quoted and unquoted financial instruments.

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Subsequent measurement (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and operating expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as interest income in the profit or loss. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for sale reserve to the profit or loss in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets.

Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in other comprehensive income is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the statement of comprehensive income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Inventory

Inventories are accounted for on a first in, first out basis.

Inventories are valued at the lower of cost and net realizable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Restricted cash

In accordance with loan agreements on projects financing signed with International Bank for Reconstruction and Development (“IBRD”) and European Bank for Reconstruction and Development (“EBRD”), the Group opened bank escrow accounts, necessary for debt service. Cash, held on these bank accounts, can be used exclusively for the purposes of planned payments on interest and principal loan amounts. If cash is restricted in use for the period not exceeding 12 months from the reporting date, such cash is treated as current asset and an appropriate disclosure is provided in the notes to the consolidated financial statements. If cash is restricted in use for the period exceeding 12 months from the reporting date, such cash is reflected within non-current assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised:

Rendering of services

Revenue from rendering of services is recognised by reference to the stage of completion.

The Group receives its revenue from rendering of transmission services of electricity from power generators to wholesale and major customers, technical dispatching of the input of electricity into the energy system and consumption of electricity, organization of balancing of electricity producing and consumption and ensuring a contractual power supply with energy systems of neighbouring countries and other.

Tariffs for services of electricity transmission, technical dispatch, organization of balancing of production/consumption of electricity are approved by the Committee.

Revenues from providing a contractual power supply with energy systems of neighbouring countries are recognised in accordance with terms of contracts conducted on the basis of Agreement between the Government of Republic of Kazakhstan and Russian Federation “On Measures Securing Parallel Operation of Unified Power Systems of the Republic of Kazakhstan and Russian Federation”.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in the statement of comprehensive income.

Equipment received from customers

The Group receives certain property, plant and equipment items from its customers. The Group assesses whether each transferred item meets the definition of an asset, and if so, recognises the transferred asset as property, plant and equipment. At initial recognition, its cost is measured at fair value, or the construction cost of transferred equipment, and a corresponding amount is recognised as other income as the Group has no future performance obligations. If future performance obligations exist such income should be deferred over the performance obligation period or useful life of the equipment whichever comes earlier.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

Pension obligations

In accordance with the legislation of the Republic of Kazakhstan, the Group deducted 10% of employees’ salaries, but no more than KZT 149,745 per month (2013: KZT 139,950) to accumulative pension funds. Pension fund payments are withheld from employees’ salaries and included with payroll expenses in the consolidated statement of comprehensive income when they are incurred. The Group has no other retirement benefit obligations.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of any outflow in settlement is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Revaluation of property, plant and equipment

From 1 November 2013 the Group has changed its accounting policy for the measurement of UPS constructions to the revaluation model and performed revaluation of UPS constructions as at that date. The Group engaged Deloitte TCF LLP, an accredited independent appraiser, to assess the fair value of its constructions.

The revalued UPS constructions constitute one class of asset under IFRS 13, based on the nature, characteristics and risks of the property. Input data for determining the fair value of UPS constructions refer to Level 3 in the fair value hierarchy (unobservable inputs).

In May 2014 the Committee approved increase of tariffs for electricity transmission, technical dispatch and balancing of electricity production and consumption services effective from the date of the KEGOC's IPO planned by the end of 2014. Accordingly, the Group performed revaluation of UPS constructions as at 1 June 2014. Higher tariffs resulted in the revaluation surplus on certain assets credited to OCI in the amount of KZT 138,887,289 thousand, and respective deferred tax liability in the amount of KZT 27,777,458 thousand and revaluation gain amounting to KZT 14,250,162 thousand was credited to profit and loss to the extent of revaluation deficit recognized on these assets in prior periods.

Fair value of UPS constructions was determined by using the cost approach. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost). Cost approach has been used due to highly specialized nature of the assets and because there is no history of such assets ever being sold.

The appraised current replacement cost has been further compared to the recoverable amount identified based on discounted cash flows model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

As a result of the assessment, the amount of KZT 415,708,160 thousand was recognised as a fair value as of 1 June 2014.

In assessment of the fair value the following main assumptions have been applied:

Discount rate (WACC)	11.61%
Long term growth rate	2.88%
Remaining useful life of the primary asset	40 years

An increase in the discount rate by 0.5% or a reduction in long term growth rate by 0.5% would result in a decrease in the fair value of Group's property, plant and equipment for approximately KZT 9,089,485 thousand or KZT 9,602,177 thousand, respectively.

Accounts Receivable

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. The Group's estimate of uncollectible overdue amounts is as follows: 31-90 days – 5%, 91-180 days – 20%, 181-360 days – 50% and above 361 days – 100%. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. In 2014 the Group increased expected repayment period for one of its customers, Uzbek Energo GAK, due to existing practice. Accordingly, accounts receivables from Uzbek Energo GAK were discounted for 1 year using discount rate of 9.5%, that is the management's best estimate of the market discount rate. Further details are contained in *Note 10*.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Taxes (continued)

As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the consolidated financial statements.

RECLASSIFICATIONS

The following reclassifications of comparative information had been made in the statement of comprehensive income for the year ended 31 December 2013 to conform to the current year presentation:

In thousands of Tenge		As previously reported	Reclassifications	As reclassified
Impairment loss	(1)	–	(99,212)	(99,212)
Loss on revaluation of property, plant and equipment	(1)	(26,807,757)	99,212	(26,708,545)

(1) Impairment loss in the amount of KZT 99,212 thousand was reclassified from loss on revaluation of property, plant and equipment deficit to Impairment loss.

Operating segments information

Operating segments

For management purposes, the Group is organized into one business unit, operating a Kazakhstan electricity grid for rendering services of electricity transmission, technical dispatch of electricity supply to the network and consumption of electricity, balancing of electricity generation and consumption. This operating segment represents the only reportable segment of the Group.

Geographic information

Revenues from external customers based on the locations of the customers represent the following:

In thousands of Tenge	**2014**	2013
Revenue from Kazakhstan customers	**74,585,633**	58,219,000
Revenue from Uzbekistan customers	**10,170,571**	5,792,932
Revenue from Russian customers	**8,763,555**	9,799,791
Total revenue per consolidated statement of comprehensive income	**93,519,759**	73,811,723

Management analyses the Group's revenue and profit before tax determined in accordance with IFRS.

For the year ended 31 December 2014 the revenue from two customers amounted to KZT 13,003,569 thousand and KZT 10,170,571 thousand, arising from power regulation, sales of purchased electricity, transmission, technical dispatching and balancing services.

For the year ended 31 December 2013 the revenue from one customer amounted to KZT 7,379,970 thousand, arising from electricity transmission.

PROPERTY, PLANT AND EQUIPMENT and advances paid for non-current assets

In thousands of Tenge	Land	Buildings	UPS constructions	Vehicles and other property, plant and equipment	Construc-tion-in-progress	Total
Cost						
At 1 January 2013	**1,161,998**	**6,549,853**	**166,102,476**	**25,105,371**	**34,447,386**	233,367,084
Additions	157,755	228	23,725	956,691	41,333,399	**42,471,798**
Transfers	17,348	652,664	36,539,756	1,218,906	(38,428,674)	–
Transfers to intangible assets	–	–	–	–	(254,026)	(254,026)
Disposals	(12,866)	(218,375)	(129,492)	(302,408)	(61,112)	**(724,253)**
Revaluation surplus (OCI)	–	–	327,943,843	–	–	327,943,843
Revaluation (Profit or loss)	–	–	(34,145,727)	–	–	(34,145,727)
Impairment	–	–	–	–	(99,212)	(99,212)
At 31 December 2013	**1,324,235**	**6,984,370**	**496,334,581**	**26,978,560**	**36,937,761**	**568,559,507**
At 1 January 2014	**1,324,235**	**6,984,370**	**496,334,581**	**26,978,560**	**36,937,761**	568,559,507
Additions	133,000	616,618	7,914,622	1,230,247	24,849,794	34,744,281
Transfers	72,548	5,943,094	40,081,122	2,483,575	(48,580,339)	–
Transfers to intangible assets	–	–	–	9,914	(29,431)	(19,517)
Revaluation surplus (OCI)	–	–	241,801,480	–	–	241,801,480
Revaluation (Profit or loss)	–	–	16,767,840	–	–	16,767,840
Disposals	–	(500)	(584,236)	(286,439)	(32,531)	(903,706)
Impairment	–	–	–	–	(157,775)	(157,775)
At 31 December 2014	**1,529,783**	**13,543,582**	**802,315,409**	**30,415,857**	**12,987,479**	**860,792,110**
Accumulated depreciation						
At 1 January 2013	–	**(1,311,423)**	**(54,553,326)**	**(14,058,108)**	–	**(69,922,857)**
Charge for the period	–	(145,059)	(6,458,729)	(1,772,710)	–	(8,376,498)
Disposals	–	50,546	67,904	301,495	–	419,945
Revaluation surplus (OCI)	–	–	(189,298,115)	–	–	(189,298,115)
Revaluation (Profit or loss)	–	–	7,437,182	–	–	7,437,182
At 31 December 2013	–	**(1,405,936)**	**(242,805,084)**	**(15,529,323)**	–	**(259,740,343)**

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For the year ended 31 December 2014

At 1 January 2014	**–**	**(1,405,936)**	**(242,805,084)**	**(15,529,323)**	**–**	**(259,740,343)**
Charge for the period	–	(207,900)	(16,542,341)	(2,057,234)	–	(18,807,475)
Revaluation surplus (OCI)	–	–	(102,914,191)	–	–	(102,914,191)
Revaluation (Profit or loss)	–	–	(2,517,678)	–	–	(2,517,678)
Transfers	–	779	(12,374)	11,595	–	–
Disposals	–	241	371,870	259,142	–	631,253
At 31 December 2014	–	**(1,612,816)**	**(364,419,798)**	**(17,315,820)**	–	**(383,348,434)**
Net book value						
At 1 January 2013	1,161,998	5,238,430	111,549,150	11,047,263	34,447,386	163,444,227
At 31 December 2013	1,324,235	5,578,434	253,529,497	11,449,237	36,937,761	308,819,164
At 31 December 2014	**1,529,783**	**11,930,766**	**437,895,611**	**13,100,037**	**12,987,479**	**477,443,676**

7. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES PAID FOR NON-CURRENT ASSETS (continued)

Revaluation of property, plant and equipment

As stated in *Notes 3* and *4*, from 1 November 2013 the Group has changed its accounting policy for the measurement of UPS constructions to the revaluation model. The Group engaged Deloitte TCF LLP, an accredited independent appraiser, to assess the fair value of its constructions. The Group performed revaluation of UPS constructions as at 1 June 2014. Previous revaluation was performed as at 1 November 2013.

The revalued UPS constructions constitute one class of asset under IFRS 13, based on the nature, characteristics and risks of the property. Input data for determining the fair value of UPS constructions refer to Level 3 in the fair value hierarchy (unobservable inputs). The appraisal approach, key assumptions applied are disclosed in *Note 4*.

As a result of the 2014 revaluation the Group recognized revaluation surplus on certain assets credited to OCI in the amount of KZT 138,887,289 thousand (2013: KZT 138,645,728 thousand), and respective deferred tax liability in the amount of KZT 27,777,458 thousand (2013: KZT 27,729,146 thousand). Excess of the fair value over the carrying amount was recognised in profit and loss as revaluation gain for the total amount of KZT 14,250,162 thousand (2013 loss on revaluation: KZT 26,807,757 thousand), to the extent that revaluation deficit was previously recognized on these assets, while the remaining amount was accounted as increase in respective revaluation surplus.

If UPS constructions were measured using the cost model, the carrying amount would be as follows:

In thousands of Tenge	**31 December 2014**	31 December 2013
At costs	**249,271,338**	201,961,515
Accumulated depreciation	**(65,946,769)**	(59,478,037)
Net carrying amount	**183,324,569**	142,483,478

During the year ended 31 December 2014 the Group gratuitously received certain items of property, plant and equipment, including substation and transmission lines, from the Group's customer Altaypollimetally LLP for the total amount of KZT 1,586,978 thousand (2013: nil). The Group recognised corresponding gain within other income in the statement of comprehensive income (*Note 25*).

As at 31 December 2014 and 31 December 2013 information on property, plant and equipment included the following:

In thousands of Tenge	**31 December 2014**	31 December 2013
Fully amortised property, plant and equipment (at cost), which are still in use	**6,261,817**	5,270,606

Capitalized borrowing costs

During year ended 31 December 2014 the Group capitalized borrowing costs at the capitalization rate of 0.61% - 4.28% in the amount of KZT 414,827 thousand (2013: KZT 1,047,882 thousand at the capitalization rate of 0.87% - 4.30%).

Construction in progress

Construction in progress is mainly represented by equipment and construction works as part of the implementation of the "Construction of 500 kW line Ekibastuz – Shulbinskaya GES (Semey) – Ust-Kamenogorsk" and "Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma".

Advances paid for non-current assets

As at 31 December 2014 advances paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the project "Construction of 500 kW line Ekibastuz – Shulbinskaya GES (Semey) – Ust-Kamenogorsk" (2013: as at 31 December 2013 the advanced paid for non-current assets mainly represented prepayments made to suppliers for construction work related to the projects "Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500, 200 kW", "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2", "Reconstruction of the Ossakarovka 220 kW power line" and construction of an administrative building, which have been completed during 2014).

Investments in associates

Investments in associates comprised the following:

In thousands of Tenge	**31 December 2014**	31 December 2013
KazEnergoProvod LLP	**167,112**	220,446
Batys Transit JSC	**115,053**	–
	282,165	220,446

Group's ownership in associates is as follows:

	31 December 2014	31 December 2013
KazEnergoProvod LLP	**49.9%**	49.9%
Batys Transit JSC	**20.0%**	20.0%

KazEnergoProvod LLP

In October 2012 the Group and East Industry Company Ltd LLP, a third party entity, established KazEnergoProvod LLP (KazEnergoProvod). KazEnergoProvod's principal place of operations and country of incorporation is the Repubic of Kazakhstan. The main activity of KazEnergoProvod is production and sale of cable and wire products.

On 30 January 2014 the Group and East Industry Company Ltd LLP signed an additional agreement to the Charter agreement on decrease of the charter capital of KazEnergoProvod to KZT 360,000 thousand. As a result the Group withdrew KZT 44,710 thousand in cash.

The following table illustrates the summarised financial information of KazEnergoProvod:

In thousands of Tenge	**31 December 2014**	31 December 2013
Statement of financial position		
Current assets	**326,031**	214,167
Non-current assets	**158,449**	153,012
Current liabilities	**(149,587)**	(652)
Non-current liabilities	**–**	–
Net assets	**334,893**	366,527
Group's share in net assets	**167,112**	182,897
Unpaid capital contribution of other partners	**–**	37,549
Carrying amount of the investment	**167,112**	220,446

In thousands of Tenge	**31 December 2014**	31 December 2013
Statement of comprehensive income		
Revenue	**140,748**	221,533
Net loss	**(17,284)**	(7,334)
Group's share in loss of an associate	**(8,624)**	(3,659)

8. INVESTMENTS IN ASSOCIATES (continued)

Batys Transit JSC

Batys Transit JSC’s (“Batys Transit”) principal place of operations and country of incorporation is the Republic of Kazakhstan. The main activity of Batys Transit is realization of a project on construction and exploitation of interregional power line, which connects the North Kazakhstan region with Aktobe region. Batys Transit’s bonds are listed on the Kazakhstan Stock Exchange.

As at 31 December 2013, carrying value of investments in Batys Transit was written off to zero, due to accumulated losses that resulted in equity pick-up to zero balance. The cumulative amount of unrecognized share of losses of Batys Transit was KZT 86,042 thousand as at 31 December 2013. For the year ended 31 December 2014 Batys Transit earned net income amounting to KZT 1,005,474 thousand. As a result as at 31 December 2014 the Group recognised its share in profits of Batys Transit amounting to KZT 115,053 thousand, which is the Group’s share in profits exceeding the share of previously unrecognised losses.

The following table illustrates the summarised financial information of Batys Transit:

In thousands of Tenge	**31 December 2014**	31 December 2013
Statement of financial position		
Current assets	**1,737,686**	1,709,039
Non-current assets	**21,839,053**	22,548,744
Current liabilities	**(4,203,537)**	(3,568,396)
Non-current liabilities	**(18,615,330)**	(20,936,989)
Net assets / (liability)	**757,872**	(247,602)
Additional paid-in capital not attributable to the Group	**(182,606)**	(182,606)
	575,266	(430,208)
Group’s share in net assets/(liabilities)	**115,053**	(86,042)
Unrecognised share in net liabilities	–	86,042
Carrying amount of the investment	**115,053**	–

In thousands of Tenge	**31 December 2014**	31 December 2013
Statement of comprehensive income		
Revenue	**3,298,799**	4,066,214
Net profit	**1,005,474**	423,951
Group’s share of income of an associate	**201,095**	84,790
Previously unrecognised share in net liabilities	**(86,042)**	(84,790)
Group’s share of income of an associate recognised in profit or loss	**115,053**	–

THE ASSOCIATES REQUIRE THE PARENT’S CONSENT TO DISTRIBUTE ITS PROFITS. THE PARENT DOES NOT FORESEE GIVING SUCH CONSENT AT THE REPORTING DATE.

THE ASSOCIATES HAD NO CONTINGENT LIABILITIES OR CAPITAL COMMITMENTS AS AT 31 DECEMBER 2014 OR 2013.

INVENTORIES

In thousands of Tenge	**31 December 2014**	31 December 2013
Spare parts	**1,303,556**	1,064,197
Raw and other materials	**807,416**	841,503
Fuel and lubricants	**117,508**	118,636
Other inventory	**49,043**	56,523
Less: allowance for obsolete inventories	**(247,478)**	(163,972)
	2,030,045	1,916,887

9. INVENTORIES (continued)

Movement in the allowance for obsolete inventories was as follows:

In thousands of Tenge	**2014**	2013
At 1 January	**163,972**	565,505
Charge for the year	**155,069**	–
Reversal	–	(217,628)
Written-off	**(71,563)**	(183,905)
At 31 December	**247,478**	163,972

Trade accounts receivable

In thousands of Tenge	**31 December 2014**	31 December 2013
Trade accounts receivable	**18,605,575**	9,394,712
Less: allowance for doubtful accounts receivable	**(3,445,256)**	(893,394)
Less: discount of accounts receivable	**(488,532)**	–
	14,671,787	8,501,318

Movement in the allowance for doubtful accounts receivable was as follows:

In thousands of Tenge	**Individually impaired**
At 1 January 2013	666,260
Charge for the period	254,330
Reversal	(26,856)
Utilised	(340)
At 31 December 2013	**893,394**
Charge for the period	5,301,090
Reversal	(2,695,587)
Utilised	(53,641)
At 31 December 2014	**3,445,256**

As of 31 December 2014 trade receivables included receivables from the client Uzbek Energo GAK in the amount of KZT 13,789,041 thousand. In 2014 the Group estimated that the average actual repayment period of receivables from Uzbek Energo GAK takes one year. The Group applied, in 2014, discounting of future cash flows from Uzbek Energo GAK and recognized a loss from discounting of receivables of KZT 914,376 thousand as a part of finance costs in the statement of comprehensive income. For the year ended 31 December 2014 the Group recognized amortization of discount in the amount of KZT 425,844 thousand as a part of the finance income in the statement of comprehensive income.

The ageing analysis of trade receivables is as follows:

			Past due but not impaired			
In thousands of Tenge	**Total**	**Neither past due nor impaired**	**30-90 days**	**91-180 days**	**181-270 days**	**Above 271 days**
31 December 2014	**14,671,787**	**6,738,462**	**898,885**	**605,629**	**3,726,090**	**2,702,721**
31 December 2013	8,501,318	8,037,914	160,121	2,731	300,552	–

Trade receivables were denominated in the following currencies:

In thousands of Tenge	**31 December 2014**	31 December 2013
United States dollar	**10,050,854**	4,388,875
Tenge	**4,109,477**	3,830,074
Russian ruble	**511,456**	282,369
	14,671,787	8,501,318

Other financial assets

In thousands of Tenge	**31 December 2014**	31 December 2013
Long-term other financial assets		
Bank deposits	**2,838,441**	–
Bonds of Batys Transit	**868,269**	868,269
	3,706,710	868,269
Short-term other financial assets		
Bank deposits	**28,825,720**	18,937,123
Interest accrued on bonds of Batys Transit	**38,996**	55,308
	28,864,716	18,992,431
Total other financial assets	**32,571,426**	19,860,700

In 2007-2009 the Group acquired bonds of Batys Transit, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 5%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. The Group also has investments into Batys Transit *(Note 8)*. The Group do not offset the unrecognised share of loss in Batys Transit with the investment in bonds, since the bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006.

In January 2014 the Group placed long-term deposit with ATF Bank amounting to USD 15,000 thousand (equivalent of KZT 2,728,500 thousand as at 31 December 2014) with fixed interest rate of 4.5% per annum maturity in 2017. The balance as at 31 December 2014 also includes the accrued interest income in the amount of KZT 103,191 thousand.

Short-term deposits as at 31 December 2014 and 2013 represent deposits placed in Kazakhstan banks with the fixed interest rate of 5%-8.5% per annum; and also include the accrued and uncollected interest in the amount of KZT 306,180 thousand and KZT 322,929 thousand, respectively.

Other financial assets were denominated in the following currencies:

In thousands of Tenge	**31 December 2014**	31 December 2013
United States dollar	**31,651,160**	12,064,220
Tenge	**920,266**	7,796,480
	32,571,426	19,860,700

RESTRICTED CASH

In thousands of Tenge	**31 December 2014**	31 December 2013
Cash on reserve accounts	**1,490,425**	1,240,009
Cash on debt service accounts	**460,851**	369,953
Cash restricted on current account	**91,073**	78,872
	2,042,349	1,688,834

As at 31 December 2014 and 2013 restricted cash mainly represented cash held on a debt service account and reserve account.

According to the terms of the loan agreements with IBRD and EBRD, the Group's creditors, the Group accumulates cash on a special debt service bank account opened with Kazakhstan bank during the semi-annual period preceding the scheduled date of payment of principal, interest and commission fees related to the IBRD and EBRD loans.

In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of Group’s loans *(Note 16)*, the Group is obliged to hold cash on a special reserve account opened in a Kazakhstan bank. The Group is obliged to reserve cash for at least 110% of the upcoming semi-annual payment of principal, interest and commission fees of the IBRD and EBRD loans.

12. RESTRICTED CASH (continued)

At 31 December 2014 and 2013, restricted cash was denominated in the following currencies:

In thousands of Tenge	**31 December 2014**	31 December 2013
United States dollar	**1,951,276**	1,609,962
Tenge	**91,073**	78,872
	2,042,349	1,688,834

Other CURRENT ASSETS

In thousands of Tenge	**31 December 2014**	31 December 2013
Advances paid for goods and services	**205,731**	427,372
Deferred expenses	**35,094**	410,330
Loans to employees	**28,300**	30,082
Other receivables	**106,297**	81,053
Less: provision for impairment of other current assets	**(97,987)**	(29,574)
	277,435	919,263

Changes in the provision for impairment of other current assets are as follows:

In thousands of Tenge	**2014**	2013
At 1 January	**29,574**	65,366
Charge for the period	**88,746**	2,623
Reversal	**(20,291)**	(34,944)
Utilised	**(42)**	(3,471)
At 31 December	**97,987**	29,574

CASH AND CASH EQUIVALENTS

In thousands of Tenge	**31 December 2014**	31 December 2013
Short-term deposits	**7,550,000**	4,000,000
Current accounts with banks, in Tenge	**4,334,932**	2,862,774
Current accounts with banks, in foreign currencies	**2,067,974**	4,855,815
Cash on hand	**4,919**	4,550
Cash at special accounts	**4,298**	4,416
	13,962,123	11,727,555

At 31 December 2014 and 2013, cash and cash equivalents were stated in the following currencies:

In thousands of Tenge	**31 December 2014**	31 December 2013
Tenge	**11,894,149**	6,871,741
Euro	**1,653,838**	1,658,253
United States dollar	**409,569**	3,082,412
Russian ruble	**4,203**	114,821
Others	**364**	328
	13,962,123	11,727,555

Equity

	31 December 2014	31 December 2013
Authorized shares:		
Ordinary shares at 500 Tenge per share	**214,491,940**	238,324,377
Ordinary shares at 364.78 Tenge per share	**19,508,061**	–
Ordinary shares at 505 Tenge per share	**25,999,999**	–
Total	**260,000,000**	238,324,377

	Number of shares	**Share Capital in thousands of Tenge**
At 1 January 2013 (10,000 Tenge each)	10,684,297	106,842,972
Stock split on 18 March 2013 (1:20)	203,001,643	–
Issued on 28 May 2013 (500 Tenge each)	806,000	403,000
As at 31 December 2013	214,491,940	107,245,972
Issued on 7 September 2014 (364.78 Tenge each)	19,508,061	7,116,151
Issued on 19 December 2014 г. (505 Tenge each)	25,999,999	13,129,999
Less: consulting services expense related to issuance of shares	–	(692,568)
As at 31 December 2014	**260,000,000**	**126,799,554**

All ordinary shares have equal voting power. The Group does not have preferred shares. The holders of ordinary shares have voting rights but dividend payments are not guaranteed. On 30 September 2014 the Group received certain items of property, plant and equipment with the fair value of KZT 7,116,151 thousand as a payment for 19,508,061 share issued on 7 September 2014.

The Group placed 25.999.999 common shares at a price of KZT 505 at the Kazakhstan stock exchange under the People's IPO program. On 19 December 2014 the contribution to share capital of KZT 13,129,999 thousand was received. As of 31 December 2014 authorized capital is presented net of the cost of the consulting services related to the issue of shares under People's IPO of KZT 692,568 thousand.

Dividends

On 29 March 2013 the Group declared dividends for 2012, in the amount of KZT 2,082,309 thousand. The dividend amounted to 9.74 Tenge per common share according to the total number of shares as at the date of dividend declaration of 213,685,940. On 11 April 2013 the declared dividends were paid. No dividends were declared or paid during the year ended 31 December 2014.

Earnings per share

Basic and diluted earnings per share amounts are calculated by dividing the net profit for the period by the weighted average number of ordinary shares outstanding during the period. The Group had 220,441,961 weighted average number of ordinary shares for the year ended 31 December 2014 (2013: 214,184,998). For the years ended 31 December 2014 and 2013, basic and diluted earnings and losses per share amounted to 39.09 Tenge and (2013: 67.71 Tenge), respectively.

15. EQUITY (continued)

Book value per share

In accordance with the decision of the Exchange Board of the Kazakhstan Stock Exchange JSC ("KASE") dated 4 October 2010 financial statements shall disclose book value per share (ordinary and preferred) as of the reporting date, calculated in accordance with the KASE rules.

In thousand Tenge	**31 December 2014**	31 December 2013
Total assets	**549,928,041**	367,321,726
Less: intangible assets	**(1,044,908)**	(885,708)
Less: total liabilities	**(190,150,575)**	(146,140,263)
Net assets	**358,732,558**	220,295,755
Number of ordinary shares	**260,000,000**	214,491,940
Book value per share, Tenge	**1,380**	1,027

Asset revaluation surplus

At 31 December 2014 and 2013 the revaluation surplus represents revaluation surplus recognized as a result of revaluation of Group's UPS constructions on 1 June 2014 (previous revaluation was made on 1 November 2013) *(Note 7)*. Transfer of asset revaluation surplus into retained earnings, upon disposal of PPE, for the year ended 31 December 2014 amounted to KZT 232,366 thousand (2013: KZT 37,628 thousand).

Other reserves

Other reserves represent accumulated reserve on available for sale investments. After initial measurement, available for sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the other reserves until the investment is derecognised. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price.

Borrowings

In thousands of Tenge	**31 December 2014**	31 December 2013
International Bank of Reconstruction and Development (IBRD)	**43,861,868**	37,906,593
European Bank of Reconstruction and Development (EBRD)	**63,734,545**	54,634,680
	107,596,413	92,541,273
Less: current portion of loans repayable within 12 months	**(12,881,885)**	(10,218,204)
	94,714,528	82,323,069

At 31 December 2014 and 31 December 2013 the accrued and unpaid interest amounts to KZT 902,515 thousand and KZT 712,253 thousand, respectively.

At 31 December 2014 and 31 December 2013 the unamortized portion of loan origination fees amounts to KZT 894,810 thousand and KZT 976,862 thousand, respectively.

16. BORROWINGS (continued)

Loans were denominated in the following currencies:

In thousands of Tenge	**31 December 2014**	31 December 2013
In United Stated dollars	**66,134,005**	57,725,280
In Euro	**41,462,408**	34,815,993
	107,596,413	92,541,273

“Kazakhstan National Electricity Transmission Rehabilitation Project”

In 1999 the Group received the following credit line facilities for the purpose of implementation of the “Kazakhstan National Electricity Transmission Rehabilitation Project”:

(a) USD 140,000 thousand from IBRD for the 20 years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2005. An interest at LIBOR base rate plus general spread is payable semi-annually. The outstanding balances as at 31 December 2014 and 31 December 2013 are USD 60,270 thousand (equivalent to KZT 10,990,234 thousand) and USD 70,415 thousand (equivalent to KZT 10,816,448 thousand), respectively;

(b) USD 45,000 thousand from EBRD for the 15 years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2004. An interest at LIBOR base rate plus 1% margin is payable semi-annually. The outstanding balances as at 31 December 2014 and 31 December 2013 are USD 3,905 thousand (equivalent to KZT 712,077 thousand) and USD 7,827 thousand (equivalent to KZT 1,202,305 thousand), respectively.

“North-South Electricity Transmission Project”

In 2005 for the purpose of implementation of the Phase 2 of the “North-South Electricity Transmission Project”, the Group received a credit line facility of USD 100,000 thousand provided by IBRD for a period of 17 years of which first five years are a grace period. This credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus general spread is paid semi-annually. In 2011 the non-disbursed part of this IBRD credit line in the amount of USD 1,918 thousand was cancelled due to the fact that actual costs incurred within this project were less than expected. The outstanding balances as at 31 December 2014 and 31 December 2013 are USD 65,285 thousand (equivalent to KZT 11,904,694 thousand) and USD 73,411 thousand (equivalent to KZT 11,281,206 thousand), respectively.

“Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2”

In 2008, for the realization of the “Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2” the Group opened the following credit lines:

(a) two credit-line facilities of euro 127,500 thousand and euro 75,000 thousand from EBRD for 15 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.85% margin is payable semi-annually. The outstanding balances as at 31 December 2014 and 31 December 2013 are euro 146,640 thousand (equivalent to KZT 32,494,018 thousand) and euro 130,252 thousand (equivalent to KZT 27,505,277 thousand), respectively;

(b) a credit line facility of euro 47,500 thousand from EBRD for 12 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.55% margin is payable semi-annually. The outstanding balances as at 31 December 2014 and 31 December 2013 are euro 35,748 thousand (equivalent to KZT 7,921,345 thousand) and euro 30,743 thousand (equivalent to KZT 6,492,013 thousand), respectively;

(c) a credit line facility of euro 5,000 thousand from EBRD for 9 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 2.75% margin is repayable semi-annually. The outstanding balances as at 31 December 2014 and 31 December 2013 are euro 3,019 thousand (equivalent to KZT 668,852 thousand) and euro 2,918 thousand (equivalent to KZT 616,299 thousand), respectively.

In November 2013 the Group concluded supplementary agreement, according to which the second credit line was decreased from euro 75,000 thousand to euro 53,443 thousand. In December 2014 the unused part of loan from the

European Reconstruction and Development Bank amounted to EUR 5.028 thousand was cancelled due to the fact that actual expenses were lower than expected.

16. BORROWINGS (continued)

"Moinak Electricity Transmission Project"

In 2009, for the realization of the "Moinak Electricity Transmission Project" a credit line facility from IBRD of USD 48,000 thousand was opened for 25 years, of which the first five years are a grace period. The credit line facility is secured by the guarantee of the Government of the Republic of Kazakhstan. An interest rate is USD LIBOR rate plus fixed spread is payable semi-annually. In May 2013 unused portion of the credit line from the IBRD in the amount of USD 3,274 thousand was cancelled due to the fact that the amount of actual expenses incurred in the course of the project was less than expected. The outstanding balances as at 31 December 2014 and 31 December 2013 are USD 44,726 thousand (equivalent to KZT 8,155,806 thousand) and USD 44,726 thousand (equivalent to KZT 6,870,377 thousand), respectively.

"Construction of the Alma 500 kW substation"

In 2010 for the realization of the project "Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500, 200 kW" the Group received a credit line facility of USD 78,000 thousand from IBRD for 25 years, of which the first five years are a grace period. The credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus fixed spread is repayable semi-annually. The outstanding balances as at 31 December 2014 and 31 December 2013 are USD 71,356 thousand (equivalent to KZT 13,011,832 thousand) and USD 59,869 thousand (equivalent to KZT 9,196,545 thousand), respectively.

"Ossakarovka Transmission Rehabilitation Project"

In 2011, for refinancing of EBRD and DBK loans received in 2004-2005 for realization of the Phases 1, 2 and 3 of the "North-South Electricity Transmission Project" the Group opened the following credit lines for realization of the "Ossakarovka Transmission Rehabilitation Project":

(a) two credit-line facilities of USD 77,293 thousand and USD 44,942 thousand, from EBRD for a 15 years. An interest at the interbank six months LIBOR rate plus a 3.95% margin is payable semi-annually. The outstanding balances as at 31 December 2014 and 31 December 2013 are USD 95,026 thousand (equivalent to KZT 17,328,082 thousand) and USD 103,290 thousand (equivalent to KZT 15,866,327 thousand), respectively;

(b) a credit-line facility of USD 17,973 thousand, from EBRD for 12 years. An interest at the interbank six months LIBOR rate plus a 3.70% margin is payable semi-annually. The outstanding balances as at 31 December 2014 and 31 December 2013 are USD 12,956 thousand (equivalent to KZT 2,362,458 thousand) and USD 14,480 thousand (equivalent to KZT 2,224,245 thousand) respectively.

In 2011, for execution of "Reconstruction of the Ossakarovka 220 kW power line" the Group received from EBRD credit lines for the amounts of USD 12,900 thousand (A2, B1b) and USD 1,900 thousand (B2b). The credit lines were provided for 12 years, of which the first three years is a grace period. An interest at the interbank six months LIBOR rate plus 3.95% (A2, B1b) and 3.70% (B2b) margin is payable semi-annually. The outstanding balances as at 31 December 2014 and 31 December 2013 are USD 11,183 thousand (equivalent to KZT 2,039,310 thousand) and USD 4,783 thousand (equivalent of KZT 734,803), respectively.

In May 2014 the Group concluded supplementary agreement, according to which the undisbursed amount of the second tranche of EBRD credit line was decreased from USD 14,800 thousand to USD 11,691 thousand.

construction OBLIGATION

In accordance with the decision of the Management Board of Samruk-Kazyna dated 28 November 2013, the Group shall construct a kinder garden in Astana city and transfer it to Astana Akimat upon completion of construction. During the year ended 31 December 2014 the Group estimated cost of construction and engaged a construction company. Accordingly, the Group recognised construction obligation for the whole amount of KZT 683,430 thousand and respective distribution to the Shareholder.

TRADE AND OTHER accounts payable

In thousands of Tenge	**31 December 2014**	31 December 2013
Accounts payable for property, plant and equipment and construction works	**5,980,443**	10,978,705
Accounts payable for electricity purchased	**4,427,471**	2,005,930
Accounts payable for inventories, works and services	**1,586,396**	1,729,167
	11,994,310	14,713,802

Accounts payable as at 31 December 2014 and 31 December 2013 are stated in the following currencies:

In thousands of Tenge	**31 December 2014**	31 December 2013
Tenge	**9,893,669**	7,530,783
Euro	**1,245,601**	4,951,818
Russian ruble	**826,099**	650,229
United States dollar	**28,941**	1,579,960
British pound	**–**	1,012
	11,994,310	14,713,802

Other CURRENT liabilities

In thousands of Tenge	**31 December 2014**	31 December 2013
Due to employees	**1,225,630**	1,000,599
Commission payable on the non-withdrawn portion of EBRD loans*	**9,665**	84,620
Other	**207,726**	206,177
	1,443,021	1,291,396

* The Group is obliged to pay EBRD an annual commission charge on the non-withdrawn portion of the borrowings at the rate of 0.5% and 1%. For the year ended 31 December 2014 the commission on the non-withdrawn portion of the borrowings amounted to KZT 51,172 thousand (2013: KZT 163,719 thousand) *(Note 23)*.

Revenue

In thousands of Tenge	**2014**	2013
Electricity transmission	**57,766,254**	47,046,175
Technical dispatch	**12,225,728**	10,827,210
Balancing of electricity production and consumption	**10,329,887**	6,843,284
Revenue from sales of purchased electricity	**7,278,411**	3,470,894
Revenue from electricity sales for compensation of the interstate balances of electricity flows	**3,932,061**	3,995,050
Revenue from power regulation services	**2,898,688**	2,323,868
Other	**1,572,860**	1,999,682
	96,003,889	76,506,163
Discounts to customers	**(2,484,130)**	(2,694,440)
	93,519,759	73,811,723

Discounts to customers are authorised by the Committee of the Republic of Kazakhstan for the Regulation of Natural Monopolies.

Cost of sales

In thousands of Tenge	**2014**	2013
Technical losses of electric energy	**20,779,476**	17,715,238
Depreciation and amortization	**18,505,522**	8,266,091
Payroll expenses and related taxes	**10,991,705**	8,888,182
Cost of purchased electricity for compensation of interstate balances of electricity flows	**10,234,929**	8,424,124
Cost of purchased electricity	**5,150,762**	2,962,063
Repair and maintenance expenses	**4,778,621**	5,499,698
Inventories	**1,071,549**	1,171,032
Security services	**920,591**	890,566
Other	**1,783,186**	1,757,328
	74,216,341	55,574,322

General and administrative expenses

In thousands of Tenge	**2014**	2013
Taxes other than income tax	**5,321,160**	2,007,031
Payroll expenses and related taxes	**3,173,328**	2,573,322
Provision for doubtful receivables and impairment of advances (*Notes 10 and 13*)	**2,673,958**	195,153
Depreciation and amortization	**544,370**	278,973
Consulting services	**180,615**	196,221
Provision / (reversal of provision) for obsolete inventory (*Note 9*)	**155,069**	(217,628)
Insurance	**136,741**	142,206
Sponsorship and charitable donations	**134,213**	243,342
Rent expenses	**117,963**	162,712
Business trip expenses	**111,113**	128,203
Materials	**73,665**	81,859
Utilities	**73,624**	41,750
Trainings	**68,826**	61,408
Corporate events	**53,566**	89,330
Security services	**43,551**	31,757
Bank services	**38,332**	33,225
Communication services	**22,252**	23,745
Repair expenses	**21,891**	8,303
Other	**436,761**	341,966
	13,380,998	6,422,878

Finance INCOME / (costs)

In thousands of Tenge	**2014**	2013
Finance income		
Interest income from deposits, current accounts and bonds	**1,451,025**	1,785,871
Amortization of discount on accounts receivable	**435,780**	–
Others	**8,000**	11,180
	1,894,805	1,797,051

23. FINANCE INCOME / (COSTS) (CONTINUED)

In thousands of Tenge	**2014**	2013
Finance costs		
Interest on loans	**3,152,588**	2,416,311
Discount on account receivable	**989,760**	–
Commission on bank guarantees	**460,042**	403,311
Amortization of loan origination fees	**87,340**	84,500
Commission on the non-withdrawn portion of EBRD loan *(Note 19)*	**57,172**	163,719
Others	**688**	1,064
Less: interest capitalized into the cost of qualifying assets *(Note 7)*	**(414,827)**	(1,047,882)
	4,332,763	2,021,023

FOREIGN EXCHANGE LOSS, NET

On 11 February 2014 National Bank of the Republic of Kazakhstan made a decision to cease supporting exchange rate of Tenge against US dollar and other major currencies on the same level, reduce volume of currency interventions and reduce interventions in process of exchange rate formation. As a result of devaluation of Tenge the Group incurred foreign exchange loss of KZT 7,510,748 thousand for the year ended 31 December 2014.

Other income

Other income for the year ended 31 December 2014 mainly comprise of the income from gratuitous receipt of certain items of property, plant and equipment, including substation and transmission lines, from Group's customer Altaypollimetally LLP amounting to KZT 1,586,978 thousand.

Income Tax Expense

In thousands of Tenge	**2014**	2013
Current income tax		
Current income tax expense	**55,865**	178,518
Adjustments in respect of current income tax of previous year	**(15,126)**	807
Deferred tax		
Deferred income tax expense /(benefit)	**2,922,928**	(3,367,398)
Total income tax expense / (benefit) reported in the statement of profit or loss	**2,963,667**	(3,188,073)
Deferred tax related to items recognised in OCI during the year		
Deferred tax expense on revaluation of UPS constructions	**27,777,458**	27,729,146
Tax expense during the period recognized in OCI	**27,777,458**	27,729,146

The income tax rate in the Republic of Kazakhstan is 20% in 2014 and 2013.

26. INCOME TAX EXPENSE (continued)

A reconciliation of the 20% income tax rate and actual income tax recorded in the consolidated statement of comprehensive income is provided below:

In thousands of Tenge	**2014**	2013
Profit / (loss) before income tax expense	**11,579,687**	(17,688,347)
Tax at statutory income tax rate of 20%	**2,315,937**	(3,537,669)
Adjustments in respect of current income tax of previous year	**(15,126)**	807
Accrual of provision for doubtful accounts receivable	**524,295**	30,896
Non-deductible finance costs	**–**	180,484
Other non-deductible expenses	**138,561**	137,409
Income tax expense / (benefit) reported in profit or loss	**2,963,667**	(3,188,073)

During the year ended 31 December 2014 the Group recognised accrual of provision for doubtful accounts, including provision against receivables from Uzbek Energo GAK for the amount of KZT 2,621,473 thousand. Respective tax effect of KZT 524,295 thousand was accounted for as permanent tax difference since the Group will not deduct these expenses for income tax purposes (2013: KZT 154,480 thousand with respective tax effect of KZT 30,896 thousand).

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 31 December 2014 and 31 December 2013 is provided below:

	Consolidated statement of financial position			**Consolidated statement of comprehensive income**	
In thousands of Tenge	**31 December 2014**	31 December 2013	1 January 2013	**2014**	2013
Accounts receivable	**129,591**	24,460	10,479	**105,131**	13,981
Accrued liabilities	**305,230**	309,246	217,117	**(4,016)**	92,129
Property, plant and equipment	**(68,427,595)**	(36,424,282)	(11,956,424)	**(4,225,855)**	3,261,288
Tax losses carried forward	**1,201,812**	–	–	**1,201,812**	–
Deferred tax (expense) / benefit				**(2,922,928)**	3,367,398
Net deferred tax liabilities	**(66,790,962)**	(36,090,576)	(11,728,828)		

Reconciliation of deferred tax liabilities, net:

In thousands of Tenge	**2014**	2013
Opening balance as of 1 January	**(36,090,576)**	(11,728,828)
Tax (expense)/benefit recognized in profit or loss	**(2,922,928)**	3,367,398
Tax expense recognized in OCI *(Note 7)*	**(27,777,458)**	(27,729,146)
Closing balance as of 31 December	**(66,790,962)**	(36,090,576)

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Transactions with related parties

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel and other entities controlled by the Government. The related party transactions were made on terms agreed between the parties that may not necessarily be at market rates, except for regulated services, which are provided based on tariffs available to related and third parties.

The following table provides the balances of Trade accounts payable to/receivable from related parties as at 31 December 2014 and 31 December 2013:

In thousands of Tenge		Trade accounts receivable from related parties	Trade accounts payable to related parties
Subsidiaries of Samruk-Kazyna Group	**2014**	**585,642**	**1,844,045**
	2013	436,939	308,585
Associates of Samruk-Kazyna	**2014**	**304,904**	**324,385**
	2013	8,726	214,072
Entities under joint control of Samruk-Kazyna	**2014**	**108,787**	**2,011,868**
	2013	93,532	872,269
Associates of the Group	**2014**	**27,163**	**19,169**
	2013	12,484	13,308

The Group had the following transactions with related parties for the year ended 31 December 2014 and 2013:

In thousands of Tenge		Sales to related parties	Purchases from related parties
Subsidiaries of Samruk-Kazyna Group	**2014**	**19,215,320**	**12,958,556**
	2013	12,902,886	1,702,341
Associates of Samruk-Kazyna	**2014**	**3,959,937**	**1,169,841**
	2013	2,395,193	1,016,208
Entities under joint control of Samruk-Kazyna	**2014**	**2,390,475**	**11,187,190**
	2013	4,406,637	18,603,048
Associates of the Group	**2014**	**311,539**	**96,232**
	2013	174,782	329,743

The Group's sales to related parties mainly represent electricity transmission, technical dispatch and services on organizing and balancing of electricity production and consumption services. The Group's purchases from related parties mainly represent communication services, energy services and purchase of electricity.

As of 31 December 2013 there were deposits placed amounting to USD 12,500 thousand (equivalent of KZT 1,932,094 thousand) with Temir bank JSC, a 79.9% subsidiary of Samruk-Kazyna, a related party of the Group till 15 May 2014. On 15 May 2014 based on the decision of Samruk-Kazyna 79.9% share in Temir bank JSC has been sold out.

As at 31 December 2014 the Group's borrowings of KZT 44,911,159 thousand were guaranteed by the Government of the Republic of Kazakhstan (2013: KZT 39,467,326 thousand).

On 29 March 2013 the Group declared dividends for 2012 year in the amount of KZT 2,082,309 thousand, which were paid on 11 April 2013.

In 2007-2009 the Group acquired bonds of an associate, Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The coupon rate on the bonds is 5%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. The carrying value of Batys Transit bonds comprised KZT 868,269 thousand as of 31 December 2014 (2013: KZT 868,269 thousand).

27. TRANSACTIONS WITH RELATED PARTIES (continued)

Interest income accrued on bonds of Batys Transit, the associate, amounted to KZT 57,219 thousand for the year ended 31 December 2014 (year ended (2013: KZT 53,308 thousand).

As of 31 December 2014 the Group had outstanding accounts receivable from Balkhash TES JSC for the sale of property, plant and equipment in the amount of KZT 154,403 thousand presented within other non-current assets. In accordance with sales agreement Balkhash TES JSC will repay the outstanding balance in December 2018. During the year ended 31 December 2014 the Group recognized loss from discounting of accounts receivable from Balkhash TES JSC in the amount of KZT 65,448 thousand.

Total compensation to key management personnel included in personnel costs in the consolidated statement of comprehensive income was KZT 304,262 thousand for the year ended 31 December 2014 (31 December 2013: KZT 326,786 thousand). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's investment projects and operations. The Group has trade and other receivables, cash and short-term and long-term deposits that arrive directly from its operations. The Group also holds available-for-sale investments.

The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term and short-term borrowings with floating interest rates *(Note 16).* The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which the borrowings are denominated.

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates with all other variables held constant.

In thousands of Tenge	**Increase/(decrease) in basis points***	**Effect on profit before tax**
For the year ended 31 December 2014		
Libor	2/(2)	(13,301) / 13,301
Euribor	7/(7)	(28,759) / 28,759
For the year ended 31 December 2013		
Libor	3/(3)	(17,457) / 17,457
Euribor	12/(12)	(41,536) / 41,536

* 1 basis point = 0.01%.

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities. Also, the Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and euro exchange rate, with all other variables held constant. The Group’s exposure to foreign currency changes for all other currencies is not material.

In thousands of Tenge	**Increase / (decrease) in exchange rate**	**Effect on profit before tax**
At 31 December 2014		
US dollar	17.37% / (17.37%)	(3,838,785) / (3,838,785)
Euro	18.36% / (18.36%)	(7,537,546) / (7,537,546)
At 31 December 2013		
US dollar	30%/10%	(11,447,961)/(3,815,987)
Euro	30%/10%	(11,432,867)/(3,810,956)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities, primarily trade receivables *(Note 10)* and from its financing activities, including deposits with banks *(Notes 11, 12 and 14).* The Group’s exposure and the creditworthiness of its counterparties are controlled constantly. It is the Group’s policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to the credit risk is represented by the carrying value of each financial asset *(Notes 10, 11 12 and 14).*

Book value of financial assets recognized in the consolidated financial statements of the Group less impairment allowance reflects the maximal extent of the Group’s credit risk.

Customer credit risk is managed subject to the Group’s established policy, procedures and control relating to customer credit risk management. The outstanding customer receivables are regularly monitored by the Group management. At 31 December 2014 the Group had one customer Uzbek Energo GAK that owed the Group KZT 10,048,687 thousand and accounted for 68% of all trade accounts receivable outstanding (31 December 2013: KZT 5,135,171 thousand and accounted for 60%).

An impairment analysis is performed by Group management at each reporting date on an individual basis for all customers based on number of days the receivables are overdue. The calculation is based on actual incurred historical data. The maximum exposure to the credit risk is represented by the carrying value of each class of financial assets disclosed in *Note 10*. The Group does not hold collateral as security.

The credit risk on cash and deposits is limited because the counterparties of the Group are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

The management of the Group has built an appropriate liquidity risk management framework in accordance with the short, medium and long-term funding and liquidity management requirements. The Group manages its liquidity risk by maintaining adequate reserves, bank loans and credit lines, by monitoring projected and actual cash flows and comparing maturity dates of financial assets and liabilities.

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

In thousands of Tenge	On demand	Due more than 1 month but not later than 3 months	Due more than 3 month but not later than 1 year	Due more than 1 year but not later than 5 years	Due more than 5 years	Total
At 31 December 2014						
Borrowings	–	**4,076,231**	**10,895,062**	**56,652,174**	**51,083,760**	**122,707,227**
Trade and other accounts payable	–	**11,994,310**	–	–	–	**11,994,310**
	–	**16,070,541**	**10,895,062**	**56,652,174**	**51,083,760**	**134,701,537**
At 31 December 2013						
Borrowings	–	3,008,118	9,111,297	51,220,352	42,982,662	106,322,429
Trade and other accounts payable	–	14,713,802	–	–	–	14,713,802
	–	17,721,920	9,111,297	51,220,352	42,982,662	121,036,231

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise the shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2014.

The Group monitors capital using a debt to capital ratio, which is debt divided by total capital. The Group's objective is to keep the ratio not higher than 0.5. Debt is considered to be equal to all borrowings. Capital is considered to be equal to the total liabilities and entire equity.

	31 December 2014	31 December 2013
Debt/capital	**0.20**	0.25

In thousands of Tenge	31 December 2014	31 December 2013
Long-term borrowings	**94,714,528**	82,323,069
Short-term borrowings	**12,881,885**	10,218,204
Debt	**107,596,413**	92,541,273
Total liabilities	**190,150,575**	146,140,263
Equity	**359,777,466**	221,181,463
Capital	**549,928,041**	367,321,726

The structure of the Group capital includes the share capital as disclosed in *Note 15*, reserves and retained earnings.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

Assets measured at fair value

In thousands of Tenge	**31 December 2014**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Available-for-sale financial assets *(Note 11)*	**868,269**	–	–	**868,269**
Non-financial assets				
UPS constructions *(Note 7)*	**437,895,611**	–	–	**437,895,611**

Liabilities for which fair values are disclosed

In thousands of Tenge	**31 December 2014**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Borrowings *(Note 16)*	**107,596,413**	–	**107,596,413**	–

Assets measured at fair value

In thousands of Tenge	31 December 2013	Level 1	Level 2	Level 3
Financial assets				
Available-for-sale financial assets *(Note 11)*	868,269	–	868,269	–
Non-financial assets				
UPS constructions *(Note 7)*	253,529,497	–	–	253,529,497

Liabilities for which fair values are disclosed

In thousands of Tenge	31 December 2013	Level 1	Level 2	Level 3
Financial liabilities				
Borrowings *(Note 16)*	92,541,273	–	92,541,273	–

Significant transfer between Level 2 and Level 3 of the fair value hierarchy is explained by lack of active market for quoted bonds of Batys Transit (*Note 11*). As of 31 December 2014 the fair value of these bonds were measured at present value of future cash flows.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values of financial instruments

As of 31 December 2014 and 31 December 2013 the management assessed that the fair value of financial instruments of the Group, such as trade accounts receivable and payable, other financial assets, cash and cash equivalents, cash restricted in use, approximates their carrying amounts largely due to the short-term maturities of these instruments. Borrowings are stated at amortized costs which approximate their fair values.

The methods and assumptions used to estimate the fair value of UPS constructions are disclosed in *Note 4*.

COMMITMENTS AND CONTINGENCIES

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2014, the Kazakhstan economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Ruble. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2014.

As at 31 December 2014, Management of the Group believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

29. COMMITMENTS AND CONTINGENCIES (continued)

Compliance with loan covenants

From 1999 till 2011 the Group concluded loan facility agreements with EBRD and IBRD (the “Creditors”) for the amounts of 558 million US Dollars and 233 million Euro *(Note 16)*. According to the Loan facility Agreements concluded between the Group and the Creditors, the Group has to comply with the following covenants:

- Current ratio of not less than 1:1;
- Total debt to total capital of not more than 50%;
- Earnings before interest, income tax, depreciation and amortization (“EBITDA”) to interest expense of not less than 3:1;
- Net debt to EBITDA of not more than 4:1;
- Self-financing ratio of not less than 20%;
- Debt service ratio of not less than 1.2.

Management believes that the Group complied with all existing loan covenants with EBRD and IBRD as at
31 December 2014 and 31 December 2013. The Group excludes from EBITDA the foreign exchange loss, as management believes that foreign exchange loss meets definition of non-cash impairment and as such shall be excluded from the calculation of EBITDA as provided in the loan agreement. As of 31 December 2014 the Group excluded from EBITDA the foreign exchange loss of KZT 7,510,748 thousand incurred during the year ended 31 December 2014.

Insurance

As at 31 December 2014, the Group insured property and equipment with the carrying value of KZT 134,361,065 thousand. The insurance payment is limited to the carrying value of property and equipment. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or occurrence of any liabilities, no provision has been made in these consolidated financial statements for unexpected expenses associated with damage or loss of these assets.

Capital commitments

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 31 December 2014, the Group’s outstanding contractual commitments within the frameworks of this plan amount to KZT 103,344,164 thousand (31 December 2013: KZT 68,611,801 thousand).

APPENDICES

Appendix 1 Report on management of branches, affiliates and jointly-controlled entities, and impact of the financial and economic performance of branches, affiliates and jointly-controlled entities on KEGOC performance indicators in 2014

EnergoInform

KEGOC is the sole shareholder (100% of stock).

Mission: Ensure reliable operation and effective development of information and telecommunication system of the unified power system (UPS) of Kazakhstan using the world's best practices and innovative technologies.

Strategic goals:

Secure reliable and efficient operation and development of telecommunications and information systems of KEGOC.

Become an Information Integrator Unified Power System of Kazakhstan.

Increase the cost of equity capital.

The core operations: maintenance of information telecommunication complex of KEGOC, including: commercial metering system, SCADA, balancing electricity market, information management system, PLC, radio relay links, satellite communication, guaranteed power supply, branch exchange, fibre optic links, fire and security alarm systems and corporate services.

The charter capital of Energoinform is KZT 2,179.700 million. The number of issued shares is 700,000; the nominal value of one share is 10 000 tenge. The number of the placed shares is 217,970.

The revenues of Energoinform in 2014 were KZT 3,877.742 million with the total expenses of 3,594.907 million. According to the results of operations for the period the net income was KZT 201.385 million.

In comparison with 2013 the revenues increased by KZT 189.39 million or 5.1%, while expenses increased by KZT 208.793 million or 6.2%.

The key performance indicators of Energoinform for 2014 were as follows:

- Deterioration in EBIDTA margin compared to the previous year due to the excessive growth rate of the Company's expenses;

- The net income was KZT 201.385 million, which is lower than the actual figure in 2013 by KZT 34.511 million, or 14.6%, due to rising costs, mainly due to the increase in costs of labour, depreciation, taxes and execution of contract works and services.

Energoinform together with EAST INDUSTRY COMPANY Ltd LLP in the city of Semey in October 2012 organized a new venture: KazEnergoProvod LLP. The area of key operations is manufacture and sale of bare conductor (aluminium and aluminium steel reinforced types) for overhead power lines. Production capacity of the plant is 8000 tonnes of cables and wires a year. The share of Energoinform in the authorized capital of KazEnergoProvod is 49.9% or 179.64 million in monetary terms.

In 2014 Promstroy-Energo concluded long-term contract with KazEnergoProvod for the supply of 5,500.74 tonnes of ACSR conductor to the total amount of KZT 2,885.32 million for construction projects in the framework of the project for construction of 500 kV Ekibastuz-Shulbinskaya HPP - Ust-Kamenogorsk. The parties signed specification for the supply of 900 tonnes of ACSR 330/43 conductor for Promstroy-Energo. In 2014 the plant sold 307.9 tonnes of ACSR 330/43).

The financial Settlement Centre for Support to Renewable Energy Sources

Pursuant to Decree No. 1281 of the Government of Kazakhstan dated 29 November 2013 'On determination of financial settlement centre for support to renewable energy sources' in accordance with subparagraph 7-3) of the Law of the Republic of Kazakhstan dated 4 July 2009 'On the support of renewable energy’ the Board of Directors of KEGOC decided to establish a limited liability partnership Financial Settlement Centre for Support to Renewable Energy Sources.

Financial Settlement Centre for Support to Renewable Energy Sources (FSCS RES) was established in accordance with the decision of the Board of Directors of KEGOC dated 12 August 2012 ‘On the establishment of a limited liability partnership Financial Settlement Centre for Support to Renewable Energy Sources’.

The core operations of FSCS RES are to ensure the centralised purchase and sale of the electricity produced by renewable energy facilities and delivered to the electric networks of Kazakhstan UPS.

The sole founder and participant to the partnership is Kazakhstan Electricity Grid Operating Company.

FSCS RES was registered in the Department of Justice Department of Saryarka district of Astana on 27 August 2013.

The charter capital is KZT 100 million.

The total income of FSCS RES at the end of 2014 was KZT 208.235 million. The expenses were KZT 196.954 million. The financial result for the year (net income) was KZT 70.244 million.

KEGOC reviews and approves all regulatory, financial, accounting, technical, organizational and administrative documentation of EnergoInform and FSCS RES.

The financial and economic activity of Energoinform and FSCS RES in 2014 had almost no effect on the financial performance of the Company.

Indicators	**According to the non-consolidated financial statements** (excluding Energoinform and FSCS RES)		**According to the consolidated financial statements** (including Energoinform and FSCS RES)	
	2013	**2014**	**2013**	**2014**
General key indicators				
EBITDA margin, %	27.34	26.34	27.37	26.52
Liquidity and borrowing				
The current liquidity ratio (not less than 1.0)	1.74	2.32	1.72	2.33
Interest coverage (EBIT / interest expense)	-11.63	5.14	-11.93	5.23
Debt to EBITDA (not more than 5.0)	-12.44	3.26	-11.99	3.22
Debt / equity (not more than 2.0)	0.42	0.30	0.42	0.30
Profitability				

Profitability of operations, %	-14.42	7.08	-14.76	7.21

Batys tranzit

Batys tranzit was founded in November 2005, in accordance with the decree of the Government of Kazakhstan to implement the project for the construction of inter-regional power transmission line linking the North Kazakhstan with Aktobe oblast. The founders of Batys tranzit are: KEGOC with 20 % of shares, Mekhenergostroy LLP with 80% of shares.

Batys tranzit implements the project on the basis of a concession agreement with the Government of the Republic of Kazakhstan represented by the Ministry of Industry and New Technologies of the Republic of Kazakhstan; and this is one of the first examples of public-private partnership in implementation of the projects of the national significance on the basis of the concession agreement and financed by placing infrastructure bonds.

The main goal of public policy outlined in the Presidential Address to the people of Kazakhstan delivered on 6 February 2008 was to improve the welfare of the citizens of Kazakhstan and the project for construction and operation of North Kazakhstan - Aktobe oblast interregional 500 kV transmission line was noted as one of the breakthrough projects included in 30 corporate leaders of Kazakhstan governmental programme.

Batys tranzit mission: Contribute to the development of power industry in Kazakhstan through the structural improvement of the Unified Power System of Kazakhstan.

Core operations of Batys tranzit:

- Transmission of electricity;
- Operation of electric networks and substations;
- Construction and erection works
- Other activities not prohibited by applicable law.

Appendix 2 Corporate calendar for 2015

January	Consultative Committee for Electrical Energy at the College of the Eurasian Economic Commission
Before 1 May	Report to consumers on the activities of the Company for the provision of regulated services
22 May	The 47th meeting of the CIS Electric Power Council, Yerevan
Before 29 May	Annual General Meeting of Shareholders
May	Shapagat national invention contest
October	An extraordinary General Meeting of Shareholders
June	The scheduled meeting of the Coordination Electric Power Council of Central Asia, Dushanbe
October	The 48th meeting of the CIS Electric Power Council
October	KAZENERGY Annual Forum
October	Ratsionalizator.KZ national contest of innovations, Astana
November	Introduction of new tariffs for regulated services
November	Approval of the KEGOC Development Plan for 2016-2020;
November	X republican meeting of power engineers of KEA
4 quarter	Signing of the loan agreement with EBRD

The actual dates and the nature of the events may vary irrespective of the best efforts of KEGOC.

Appendix 3 Glossary

	Description
AR	Autoreclosing
ARNM	Agency of Kazakhstan for Regulation of Natural Monopolies
Branches	MES and NDC SO branches of KEGOC
CHPP	Combined heat and power plant
CIS	Commonwealth of Independent States
Company	Kazakhstan Electricity Grid Operating Company Joint Stock Company "KEGOC"
EA	Executive Administration
EBRD	European Bank for Reconstruction and Development
ECR Pool	Kazakhstan electric capacity reserve pool
EIA	Environmental impact assessment
ESO	Energy supplying organisation
FS	Feasibility Study
Fund	Samruk-Kazyna Sovereign Wealth Fund Joint Stock Company
GRES	State District Power Plant
GTPP	Gas turbine power plant
HPP	Hydroelectric power plant
IAS	Internal Audit Service
IBRD	International Bank for Reconstruction and Development
ICS	Internal control system
IMS	Integrated management system
IPO	Initial Public Offering
IPS	Integrated power system
JSC	Joint Stock Company
KEGOC JSC	Kazakhstan Electricity Grid Operating Company Joint Stock Company "KEGOC"
kWh	kilowatt-hour
LLP	Limited liability partnership
MEBP	Ministry of Economy and Budget Planning of the Republic of Kazakhstan
MES	KEGOC's branches - Intersystem Power Grids
MVA	Megavolt-ampere
MW	Megawatt
NDC SO	KEGOC's branch - National Dispatch Centre of the System Operator
NGOs	Non-governmental organisations
NPG	National Power Grid
OJSC	Open Joint Stock Company
OHTL	Overhead transmission line
OSY	Outdoor switchyard
PLC	Power line carrier
Preliminary EIA	Preliminary environmental impact assessment
RDC	Regional Dispatch Centre
REC	Regional network company
ROACE	Return on average capital employed

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SAIDI	System average interruption duration index
SAIFI	System average interruption frequency index
Samruk-Kazyna JSC, sole shareholder	Samruk-Kazyna Sovereign Wealth Fund Joint Stock Company
SCADA	Supervisory Control and Data Acquisition system
SS	Substation
STC	Scientific and Technical Council
TPP	Thermal power plant
UPS	Unified Power System
VAT	Value added tax
WACS	Wide area control systems
WAMS	Wide area measurement systems

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