



# ANNUAL REPORT

**2015**



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# KEGOC, 2015: KEY OPERATIONAL INDICATORS

**Transformer capacity, (MVA)**

as on 31/12/2015	36,244.55
as on 31/12/2014	36,244.55
as on 31/12/2013	35,875.05
as on 31/12/2012	35,535.65

**35-1150 kV lines length circuit, (km)**

as on 31/12/2015	24,893.46
as on 31/12/2014	24,893.53
as on 31/12/2013	24,533.03
as on 31/12/2012	24,427.74

**Electricity supplied to the grid (million kWh)**

in 2015	40,092.9
in 2014	42,812.8
in 2013	43,460.3
in 2012	46,244.9

**Technological losses of electricity  
for transmission in the network, (million kWh)**

in 2015	2,439.6
in 2014	2,576.1
in 2013	2,387.4
in 2012	2,645.0

**Technological losses of electricity for transmission  
in the network (% of electricity supplied to the network)**

in 2015	6.08
in 2014	6.02
in 2013	5.49
in 2012	5.72

**Electricity transmission, (million kWh)**

in 2015	37,897.0
in 2014	40,236.7
in 2013	41,055.4
in 2012	43,487.1

**Technical dispatching, (million kWh)**

in 2015	82,808.9
in 2014	85,418.3
in 2013	83,863.4
in 2012	83,511.7

**Electricity balancing, (million kWh)**

in 2015	157,038.1
in 2014	160,464.6
in 2013	153,521.4
in 2012	152,908.9

# KEY FINANCIAL INDICATORS

**Operating income , KZT million**

in 2015	110,061.5
in 2014	93,519.8
in 2013	73,811.7
in 2012	65,855.2

**Net income, KZT million**

in 2015	-7,779.6
in 2014	8,616.0
in 2013	-14,500.3
in 2012	6,941.0

**EBITDA\*, KZT million**

as on 31/12/2015	48,137
as on 31/12/2014	24,804
as on 31/12/2013	20,202
as on 31/12/2012	17,862

**Total value of assets, KZT million**

as on 31/12/2015	595,336.61
as on 31/12/2014	549,928.04
as on 31/12/2013	367,321.73
as on 31/12/2012	232,404.84

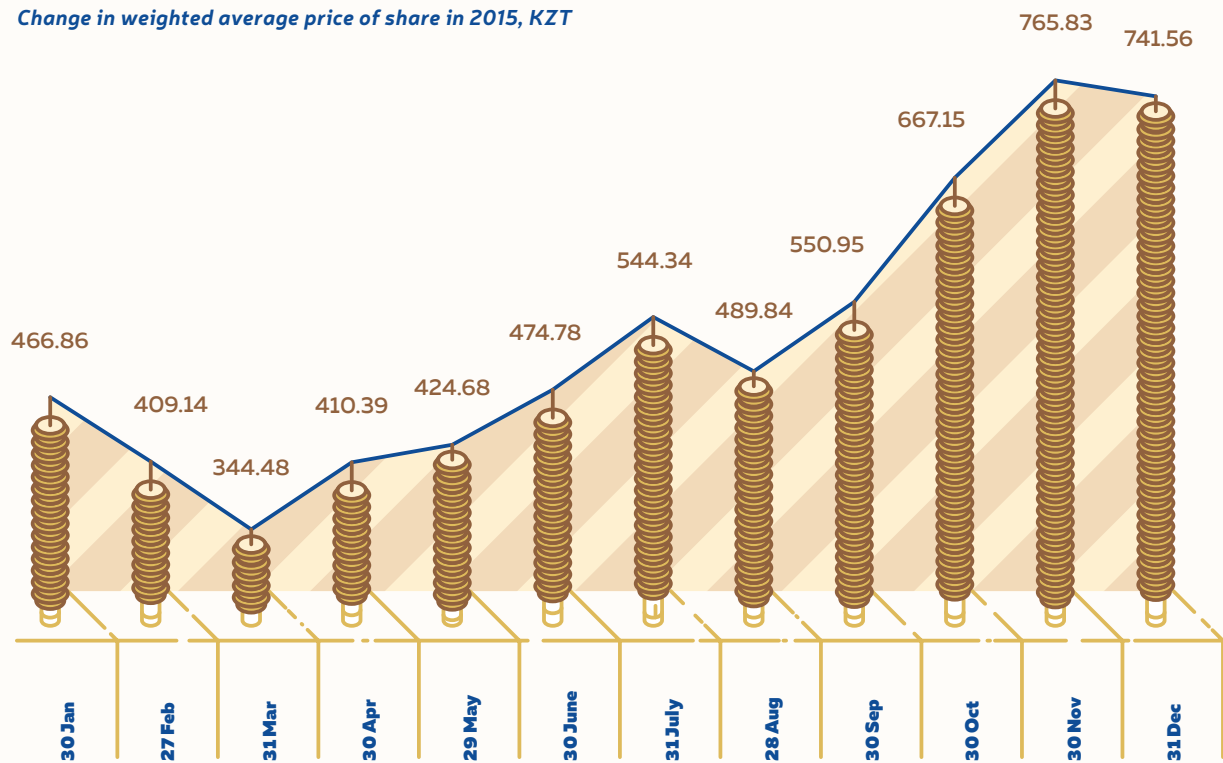
\* EBITDA is calculated as operating income less operating expenses excluding depreciation.

**Borrowed capital, KZT million**

as on 31/12/2015	171,230.54
as on 31/12/2014	107,596.41
as on 31/12/2013	92,541.27
as on 31/12/2012	80,808.81

**Equity, KZT million**

as on 31/12/2015	340,976.61
as on 31/12/2014	359,777.47
as on 31/12/2013	221,181.46
as on 31/12/2012	126,560.04

**Change in weighted average price of share in 2015, KZT**

Any information concerning the plans referred to in this Annual Report, is forward-looking and reflects 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 of 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 Kazakhstan Unified Power System.

KEGOC was established as a joint-stock company (JSC) on 28 September 1996 in accordance with Resolution of the Government of Kazakhstan No. 1188 On Certain Measures to Restructure Kazakhstan Power System Management. Until 2006, 100 % of KEGOC 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 (Kazakhstan holding for management of state assets). 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 Wealth Fund on the stock market (approved by Resolution 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 on the Kazakhstan securities market was twenty-five million nine hundred and ninety-nine thousand nine hundred and ninety-nine (25,999,999). The price of one ordinary share of KEGOC was five hundred and five (505) tenge. Registered address: 59 Tauyelsizdik Ave, Astana, Kazakhstan.

**The main services are as follows:**

- the electricity transmission via trans-regional networks;
- technical dispatching of the electricity supply to the grid and electricity consumption;
- balancing of electricity production and consumption.

The above mentioned services fall under the sphere of natural monopoly; and thus KEGOC operations are regulated by the Law of the Republic of Kazakhstan On Natural Monopolies and Regulated Markets.





# LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS



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

*The National Power Grid (NPG) is the backbone of the Kazakhstan Unified Power System (UPS). It is operated by Kazakhstan Electricity Grid Operating Company (KEGOC) joint-stock company. KEGOC is one of key power companies not only in Samruk-Kazyna group, but in the Republic of Kazakhstan on the whole.*

KEGOC is a System Operator of the Kazakhstan UPS. KEGOC deals with transmission, dispatching and balancing of electricity generation and consumption. As an operator, it

supports renewable energy sources in the Republic of Kazakhstan.

The company also maintains parallel operation of Kazakhstan Unified Power System with the power systems of the Russian Federation and Central Asian countries to increase the reliability of power supply in all the country's economic sectors.

KEGOC upgrades existing and constructs new high-voltage networks and implements a number of major investment projects aimed to ensure energy independence of Kazakhstan and develop the National Power Grid.

Project for Construction of 500 kV Second Transmission Line of Kazakhstan North-South Transit, Moinak Electricity Transmission Project, Alma Electricity Transmission Project and Ossakarovka Transmission Rehabilitation Project, etc. have already been implemented.

In 2016, the Company will proceed with the following projects: Kazakhstan Electricity Transmission Rehabilitation Project, Phase II, Pavlodar Electricity Transmission Reinforcement Project, 500 kV Ekibastuz – Shulbinsk HPP (Semey) – Ust-Kamenogorsk Construction Project and 500 kV Shulbinsk HPP

(Semey) – Aktogai – Taldykorgan – Alma Construction Project.

The financial position of the Company is stable. KEGOC's management optimizes operational and administrative expenses. As a result, even in 2016 and in the medium term the Company expects significant positive changes in its financial indicators.

One of the financial position stabilizing activities is the cap tariffs and tariff estimates for KEGOC's regulated services approved for 2016-2020 by the Committee on Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan in 2015. They shall come into effect from 01 January 2016.

As a People's IPO programme participant the Company fully met the expectations of Samruk-Kazyna major shareholder and more than 40 thousand Kazakhstanis who became KEGOC's shareholders. Minority shareholders have been paid dividends twice already.

In the reporting period the Company launched the Business Transformation Programme. In 2016 the Company plans to focus on achieving the key results of the Programme Roadmap.

The Programme is expected to enhance KEGOC's performance through improved organizational structure and operating model based on the best international practices requirements.

Over the last three years KEGOC has been the best among Samruk-Kazyna's subsidiaries on the Social Stability Rating (82%) and the Personnel Engagement Index (68%). These figures prove once again that the policy on human resources and personnel social stability is efficient.

The Company is a strong leader in the Corporate Governance Rating. According to 2015 diagnostics results, KEGOC's corporate governance rating was 85%. One of the Company's corporate governance strengths is the efficient and experienced membership of the Board of Directors represented by six directors. Four of the directors are independent and have an extensive background in electric power industry. Such experience and expertise will help the Company to cope with different issues, facilitate more effective development and achieve strategic goals and objectives. Additionally, the Company clearly segregated the competence of bodies (General Shareholders'

Meeting, the Board of Directors and the Management Board). This helps KEGOC to efficiently and promptly govern the Company and achieve the set goals.

# LETTER FROM THE CHAIRMAN OF MANAGEMENT BOARD



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

*The last year 2015 was challenging for KEGOC just like for all Kazakhstan economic sector participants.*

However, despite the negative challenges KEGOC has successfully met the major objective: ensured reliable and uninterrupted power supply to Kazakhstan enterprises and people as a System Operator of the Unified Power System of the Republic of Kazakhstan.

The reporting period showed the actual services for transmission of electricity via interregional networks

amounting to 37,897.0 million kWh. This is 1,757.8 million kWh or 4.4% lower than the planned targets. The volume of technical dispatching of electricity supplied to the grid and consumption made 82,808.9 million kWh. This is 1,600.1 million kWh or 1.9% lower than the planned targets. The volume of electricity generation and consumption balancing made 157,038.1 million kWh. This is 3,822.6 million kWh or 2.4% lower than the planned targets. The planned targets were not achieved due to reduced service volumes for Kazakhstan wholesale market participants, lack of planned electricity export to the Russian Federation and decreased electricity generation and supply to network by energy producing organizations.

As part of KEGOC's Long-Term Development Strategy, the Company ensures the adequate interconnection capacity and reliability. In particular, as instructed by the head of the state, the Nurlı Zhol programme covers the construction of Ekibastuz – Shulbinsk HPP (Semey) – Ust-Kamenogorsk and Shulbinsk HPP (Semey) – Aktogai – Taldykorgan – Alma high-voltage lines being a part of large-scale 500 kV North-East-South Electricity

Transmission Project. This project is the largest in KEGOC's development history. In 2016 the Company plans to disburse capital investments to the amount of KZT 43.8 billion as part of the Company's investment programme.

The Company's management also prioritize social and labour relations. For this purpose KEGOC creates comfortable and safe working environment and implements social programmes governed by the collective agreement. The employees are socially supported in different ways. The Company conducts KEGOC's Dynasties, Best Mentor of the Year contests and other socially significant events to promote the Power Engineer profession. The success of the conducted social policy is proved by a high Social Stability Rating (82%) and the Personnel Engagement Index (68%). For the third year now KEGOC has been a leader by the figures among Samruk-Kazyna subsidiaries.

The company will further focus on social issues. In particular, in 2016 it is planned to complete the construction of kindergarten for 240 children in Astana.

In 2015 KEGOC became public for

the first time, after share placement on the Kazakhstan Stock Exchange in December 2014. Currently KEGOC's shares are among the most marketable on the domestic stock market. Even though the analysts forecasted the share price increase up to KZT 740 in the first-half 2016 only, this forecast was achieved in November 2015 already.

I believe that KEGOC's shares are deemed to be attractive first considering the Company's transparency and stability. This is, in turn, results from a high corporate governance level (85%) based on the 2015 diagnostics.

In 2015 KEGOC successfully passed the witness audit of the Integrated Management System, which confirmed the compliance with the requirements of international standards for quality management systems (ISO 9001:2008), environmental management systems (ISO 14001:2004) and health and safety management systems (OHSAS 18001:2007). Moreover, in the reporting year KEGOC first certified its information security management system in compliance with the requirements of the ISO/IEC 27001 international standard. The certification body is TUV NORD CERT

(Germany).

In 2015 the Company launched the Business Transformation Programme initiated by Samruk-Kazyna. The transformation is preconditioned by the Kazakhstan-2050 Strategy of the head of the state, key objective of which is to join the top thirty most competitive countries in the world.

The business transformation requires parallel change of business processes, technologies and key competencies of the company's personnel. The integrated development of the three components is expected to ensure further sustainability of the company. The programme will improve company's operational and financial profile at the level of the advanced power operators, ensure efficient use of latent reserves, focus resources on business areas with high cost increase potential, increase labour productivity and implement the advanced management practices and technologies. Such changes together are expected to help KEGOC be more sustainable and promptly respond to potential changes in external and internal factors.

# KEY EVENTS IN 2015

<b>18 FEBRUARY</b>	Bakytzhan Kazhiyev, the Chairman of KEGOC Management Board, met with the employees to report on the results of operations in 2014 and plans for the coming year.
<b>26 FEBRUARY</b>	The Company management and the Ministry of Energy of the Republic of Kazakhstan met with veteran engineers of the country's power industry at KEGOC's head office.
<b>30 APRIL</b>	The first Annual General Meeting of KEGOC Shareholders took place and approved the annual financial statements, distribution of the net profit, decision to pay dividends on ordinary shares, and the amount of the dividend per one ordinary share of KEGOC for 2014.
<b>13 MAY</b>	KEGOC declared commencement of KEGOC Business Transformation Programme aimed to improve the efficiency of its activities.
<b>15 MAY</b>	Results of the KEGOC's Dynasties contest initiated and first conducted in 2012 were summarized.
<b>21-22 MAY</b>	Participation in VIII Astana Economic Forum 'Infrastructure: the Driver of Sustainable Economic Growth'.
<b>25 MAY</b>	KEGOC paid dividends on ordinary shares following 2014 in the amount of eight billion six hundred and thirteen million eight hundred thousand (8,613,800,000) tenge.
<b>26 MAY</b>	Participation in the 47th meeting of the CIS Electric Power Council, Yerevan (Republic of Armenia).
<b>21 SEPTEMBER</b>	The Committee on Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of Kazakhstan approved cap tariffs of Kazakhstan Electricity Grid Operating Company (KEGOC) JSC for 2016-2020.

<b>21-26 SEPTEMBER</b>	Participation in XII International competition to test the professional skill of electric power industry experts from CIS countries – International repair and maintenance competition for 110 kV and higher electricity transmission lines in Brest (Belarus). The team of Akmolinskiye MES branch took the second place.
<b>16 OCTOBER</b>	The extraordinary general meeting of shareholders approved the new revised versions of the Regulations on the General Meeting of KEGOC Shareholders, Charter, Corporate Governance Code and the Regulations on KEGOC Board of Directors.
<b>23 OCTOBER</b>	Participation in the 48th meeting of the CIS Electric Power Council in Almaty.
<b>27-29 OCTOBER</b>	Participation in the 14th Kazakhstan International Exhibition and Forum – Power Kazakhstan, Almaty
<b>3 NOVEMBER</b>	London held the Kazakh-British Business Council. The meeting resulted in signing Memorandum of Understanding between KEGOC JSC and Enzen Global Ltd.
<b>27 NOVEMBER</b>	Meeting of the Board of Directors and the Management Board of KEGOC with talent pool of the company – TOP-25;
<b>7 DECEMBER</b>	KEGOC paid dividends on KEGOC's ordinary shares following the first-half 2015 in the amount of two hundred and forty-four million three hundred and ninety-nine thousand nine hundred and ninety tenge sixty tiyn (KZT 244,399,990.60). On 31 December 2015 KEGOC agreed with Samruk-Kazyna, the major shareholder, that KEGOC will postpone payment of two billion one hundred and ninety-nine million six hundred thousand nine tenge forty tiyn (KZT 2,199,600,009.40) of dividends for the first half of 2015 to Samruk-Kazyna on the ordinary shares of KEGOC to 31 December 2016.

# MARKET OVERVIEW

## STATE REGULATION AND STRUCTURE OF POWER INDUSTRY IN KAZAKHSTAN

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

The main policy-maker in the 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 on Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan** is the state authority to manage and regulate the state monopoly activities (including KEGOC as a natural monopoly) and manage the protection of competition and restriction of monopolistic activity.

**Samruk-Kazyna Sovereign Wealth Fund** is a public holding company

owning and managing the national companies 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 119 power plants of different forms of ownership. As of 1 January 2016, the total installed capacity of the power plants in Kazakhstan is 21,307.2 MW; and the available capacity is 17,503.5 MW.

### 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 (the Russian Federation, 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 power plants.

**Electric networks of regional importance** provide electric connections inside the regions and deliver electricity to the retail consumers and belong to and are being operated by the **regional electric network companies (REC)**. There are 29 RECs in Kazakhstan.

**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 on 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, Energiya, Kaz-SelEnergoprojekt, Chokin KazNII energetiki and Almaty University of Power Engineering & Telecommunications** are engaged in research and design developments in power industry, market researches and forecasting, managing the issues of adopting new energy-efficient and environmentally friendly technologies for power generation and supply. KEGOC is a member of Kazakhstan Electricity Association, KazEnergy Association, Atameken National Chamber of Entrepreneurs and ECR Pool.

**Kazakhstan Electricity Association of Legal Entities**. The Association members are the energy producing organizations and consumers being the participants of the Kazakhstan wholesale electricity and capacity market. The main tasks of the Association are as follows: support all sector organizations; participate in elaboration of state programmes, laws and regulatory acts relating to power industry; support and protect its members' positions in issues where sector interests depend on the decisions of the Government, judicial and other authorities.

**KAZENERGY Kazakhstan Association of Oil, Gas and Energy Organizations** is an independent non-commercial union, which is challenged to create favorable conditions for the dynamic and sustainable development of the fuel and energy sector of the Republic of Kazakhstan. Aims of the Association are as follows: represent interests and protect rights at state bodies; harmonize legislative framework; create a unified information network for subsoil users, power generation companies, transporters and consumers of goods and services of the energy sector; develop and support industry-specific cooperation and entrepreneurship projects; stimulate economic, social, environmental,

and scientific-research activity with the Kazakhstan community.

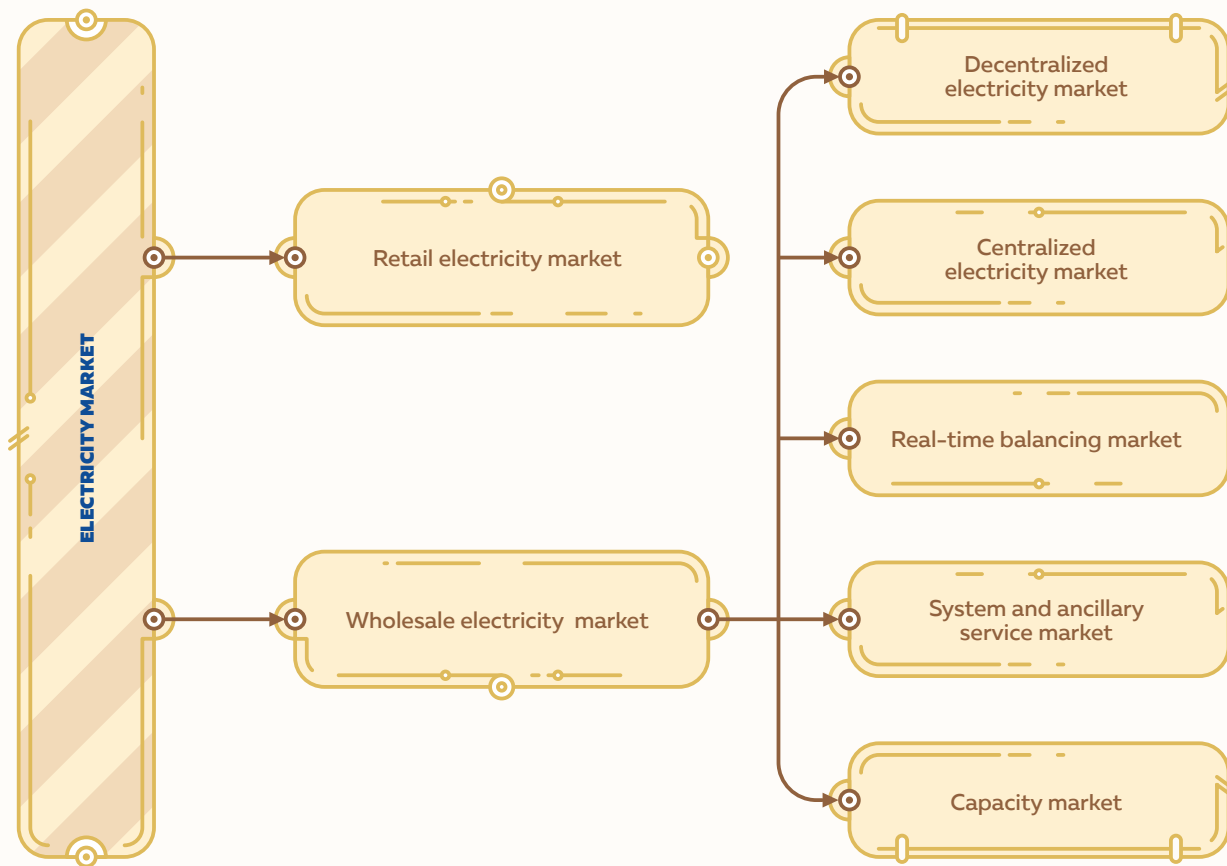
**Atameken National Chamber of Entrepreneurs of the Republic Kazakhstan** is a non-profit organization established on 9 September 2013 by the joint decision of the Government of Kazakhstan and Atameken Union to enhance the negotiation power of business with Kazakhstan Government and public authorities. The Chamber of Entrepreneurs represents the interests of small, medium and large businesses and covers all areas of business, including internal and external trade.

The main task of the Atameken National Chamber of Entrepreneurs is protection of the rights and interests of the business, ensuring wide coverage and involvement of all entrepreneurs in the process of formation of legislative and other regulatory rules for business.

**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.



### KAZAKHSTAN ELECTRICITY MARKET



The electricity market has two levels: wholesale and retail.

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

- **Decentralized electricity market** (bilateral contracts for 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 balancing electricity market in Kazakhstan operates in simulation mode (up to 1 January 2019 in accordance with Order of the Minister of Energy No. 676 dated 30 November 2015).
- **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 investments 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. Pursuant to Order of the Minister of Energy No. 676 dated 30 November 2015 the capacity market is planned to be commissioned on 1 January 2019.

The physical settlement on the balancing market of imbalances will be the responsibility of the System Operator, and the financial settlement of imbalances will be the responsibility of the Financial Centre. **The Financial Centre** on the balancing electricity market is Energoinform JSC.

**The participants of the wholesale electricity market are:**

- power generating organisations that supply electricity to the wholesale market in the amount of not less than 1 MW of the daily average (baseline) capacity;
- power transmission organizations;
- power supply 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;

- consumers who buy electricity on the wholesale market in the amount of not less than 1 MW of the daily average (baseline) capacity;
- the System Operator, which is Kazakhstan Electricity Grid Operating Company (KEGOC);
- the operator of the centralized electricity trading market, which is KOREM;
- the financial settlement centre for support to renewable energy sources;
- the national operator.

The Ministry of Energy of Kazakhstan (Order No. 61 dated 17 October 2014) assigned KEGOC the **System Operator of UPS of Kazakhstan**, with the following functions:

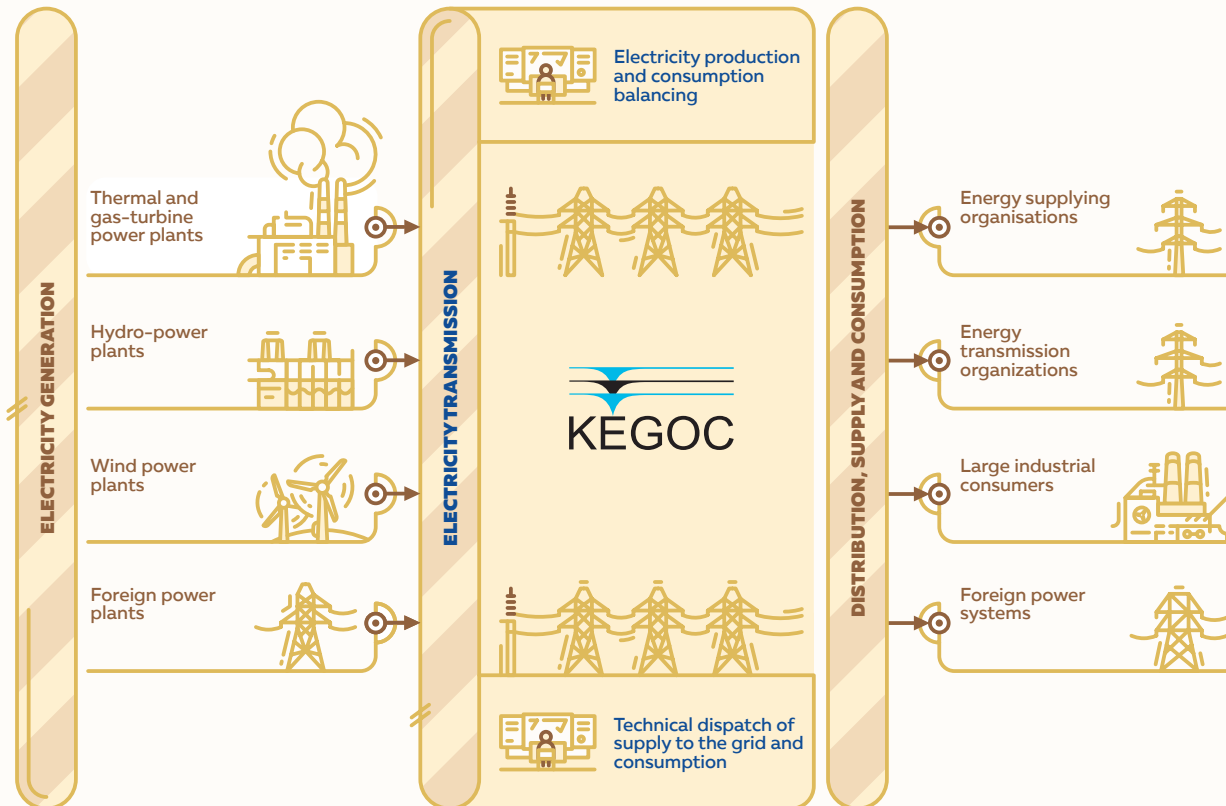
- render electricity transmission system services using the NPG; service the NPG and ensure its operational availability;
- render centralised operational dispatch control system services to control the operational modes of Kazakhstan UPS including actual energy balance reports and daily electricity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

- ensure reliability of Kazakhstan UPS;
  - render system services on balancing electricity generation-consumption;
  - perform financial settlement of electricity imbalances as established by the Laws of Kazakhstan;
  - 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 and regulation of electric capacity;
  - perform technical and methodical management in forming the unified informational system, commercial metering system, related relay protection and emergency automation devices for all participants of the wholesale electricity market;
  - ensure equal conditions for the participants of the wholesale electricity market to access the national power grid;
  - 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 withdrawal of the main equipment of power plants, substations, transmission lines, relay protection devices and emergency control automatics, process management systems and ensure their availability;
  - participate in planning of the hydro power plants operation subject to their water economy balances and operational modes of Kazakhstan UPS;
  - develop electricity and capacity balance forecasts;
  - organize the operation of the capacity market;
  - carry out certification of generating units electric power;
  - provide information about agreed power delivery designs to the authorized body on a quarterly basis;
  - perform other functions as defined in the Law of the Republic of Kazakhstan promoting the use of renewable energy sources.
- 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 of the operation modes of production, transmission and consumption of electricity in the 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, emergency and energy management automation 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

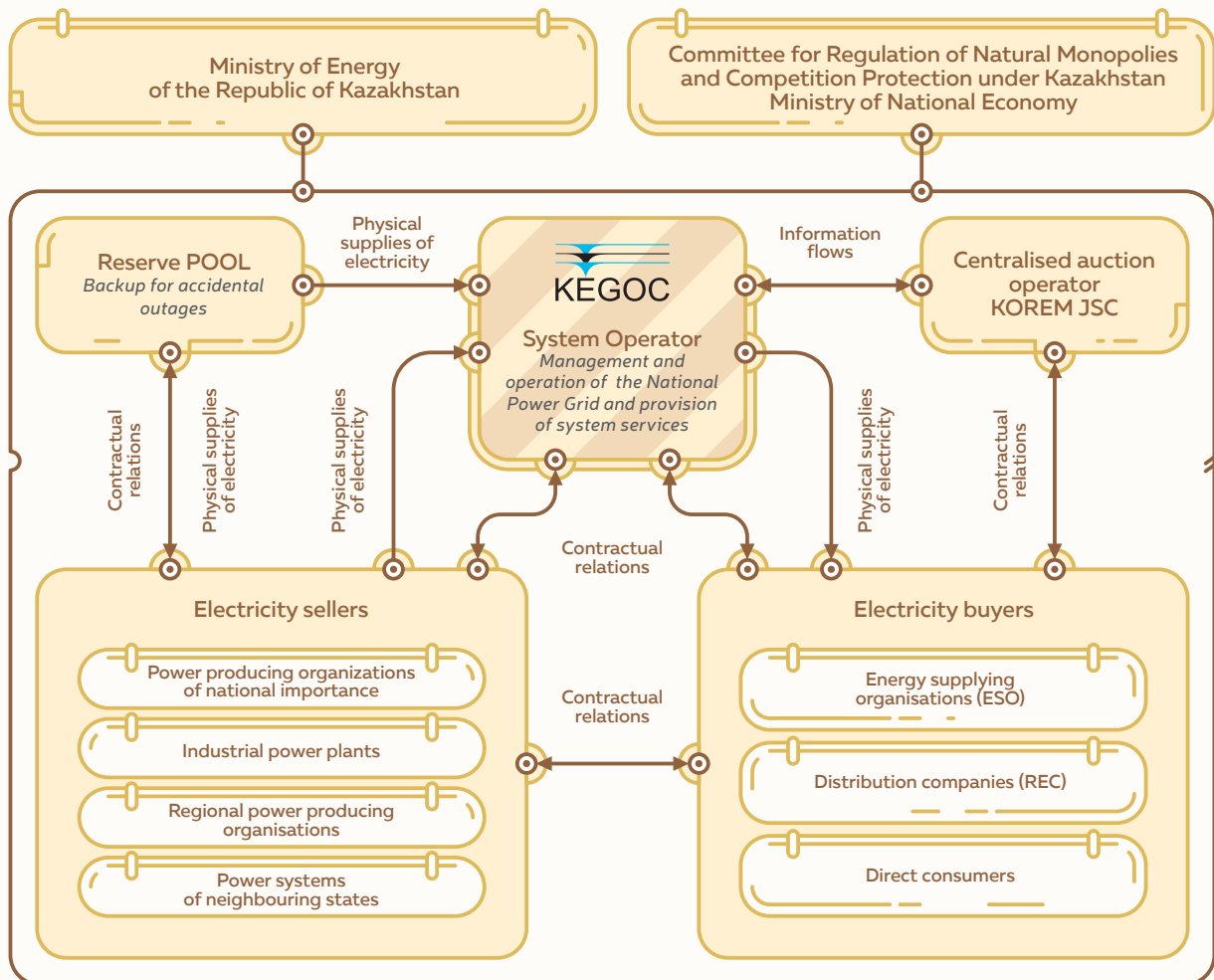
electricity market.  
 The centralised purchase and sale of the electricity produced by renewable energy facilities and delivered to the electric networks of Kazakhstan UPS is ensured by **Financial Settlement Centre for Support to Renewable Energy Sources LLP**. The Centre was

established by KEGOC in accordance with Law of the Republic of Kazakhstan On Support of Renewable Energy Sources in 2013.



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

**The Model of the Current Wholesale Electricity Market in Kazakhstan**



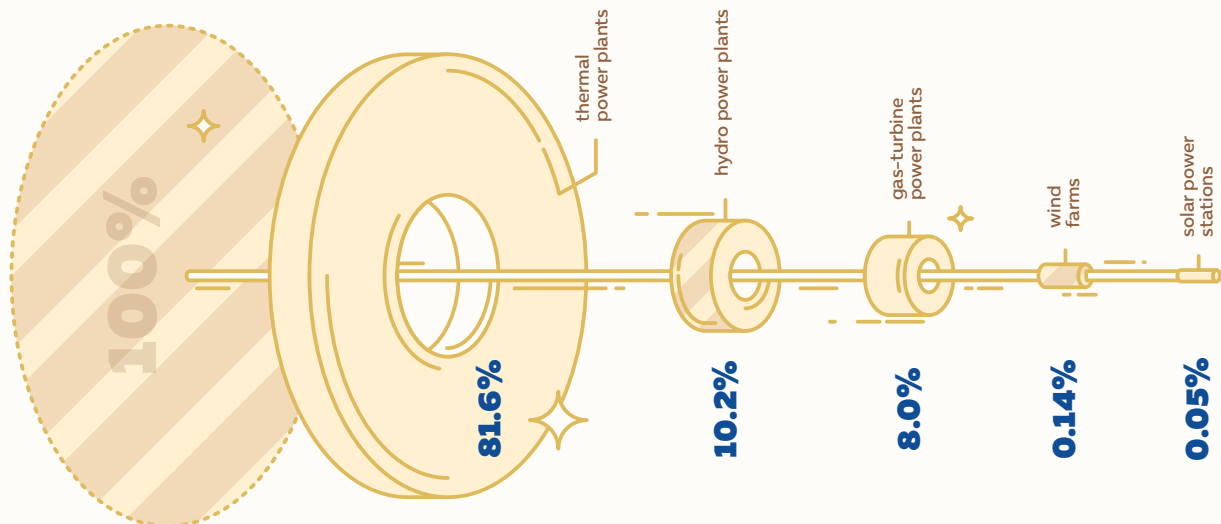
## ELECTRICITY BALANCE

### Electricity Production

Electricity generation in 2015 in Kazakhstan was 90,796.6 million kWh, including:

<b>THERMAL POWER PLANTS (TPP)</b>	74,091.8 million kWh
<b>HYDRO POWER PLANTS (HPP)</b>	9,250.3 million kWh
<b>GAS-TURBINE POWER PLANTS (GTPP)</b>	7,279.5 million kWh
<b>WIND FARMS</b>	130.2 million kWh
<b>SOLAR POWER STATIONS (SPS)</b>	44.8 million kWh

### Electricity Generation in Kazakhstan in 2015



*Compared to 2014, the highest electricity generation increase was at:*

<b>KAZAKHMYS ENERGY LLP GRES POWER PLANT</b>	by 525.7 million kWh or 11.4%
<b>ZHAMBYL GRES</b>	by 352.2 million kWh or 14.0 %
<b>PAVLODARENERGO JSC CHPP-3</b>	by 307.0 million kWh or 11.6%
<b>KAZAKHMYS ENERGY LLP BALKHASH CHPP</b>	by 265.2 million kWh or 57.9%
<b>KAZAKHMYS ENERGY LLP ZHEZKAZGAN CHPP</b>	by 101.3 million kWh or 11.4%
<b>ALUMINIUM OF KAZAKHSTAN JSC CHPP-1</b>	by 165.0 million kWh or 7.2%
<b>ASTANA-ENERGIYA JSC CHPP-2</b>	by 178.9 million kWh or 7.8%
<b>ARCELOR MITTAL TEMIRTAU JSC PLANT</b>	by 80.1 million kWh or 3.1%

Overall electricity production in 2015, as compared to 2014, decreased by 3,138.6 million kWh or 3.3%.

The electricity output at steam power plants in Kazakhstan decreased by 4,681.1 million kWh (5.9 %).

*Compared to 2014, the highest electricity generation decrease was at:*

<b>EKIBASTUZ GRES-123</b>	by 3,367.6 million kWh or 23.9%
<b>EEK JSC</b>	by 1,733.0 million kWh or 10.6%
<b>EKIBASTUZ GRES-2 POWER STATION JSC</b>	by 1,543.9 million kWh or 32.5%
<b>3-ENERGOORTALYK JSC</b>	by 322.4 million kWh or 42.7%
<b>CHPP OF SSGPO JSC</b>	by 172.8 million kWh or 10.8%
<b>POWER PLANT OF KAZCHROME JSC TRANSNATIONAL COMPANY FERROUS ALLOY PLANT</b>	by 129.3 million kWh or 11.8%

Zhambyl GRES power plant in the Zone South of Kazakhstan generated 2,872.7 million kWh. The contracted electricity was delivered by the power plant to Kyrgyzstan in January-February by the volume of 293.2 million kWh.

The hydropower production in Kazakhstan compared to 2014 increased by 1,014.5 million kWh or 12.3% to 9,250.3 million kWh. The profile of Kazakhstan hydropower operations is driven by water balance and hydrological conditions.

The gas-turbine power production in Kazakhstan increased by 363.3 million kWh or 5.3% to 7,279.5 million kWh.

**The structure of electricity generation in Kazakhstan as compared to 2014 is as follows:**

	2014	2015
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
Including TPP	83.8%	81.6%
Hydro	8.8%	10.2%
GTPP	7.4%	8.0%
SPS and Wind Farms	0%	0.2%

**Electricity Consumption**

In 2015, the consumption of electricity in Kazakhstan in comparison with 2014 decreased

by 813.7 million kWh or 0.9% and amounted to 90,847.2 million kWh. Consumption increased in Zone West by 114.8 million kWh (1.0 %), in Zone South it decreased by 462.8

million kWh (2.3 %) and in Zone North it decreased by 465.7 million kWh (0.8%).

**Compared to 2014 consumption increased at:**

<b>KAZAKHMYS SMELTING LLP</b>	by 274.1 million kWh or 36.8%
<b>AKTOBE FERROUS ALLOY PLANT TRANSNATIONAL COMPANY KAZCHROME JSC</b>	by 381.1 million kWh or 24.5%
<b>KAZAKHSTAN ELECTROLYTIC PLANT</b>	by 164.4 million kWh or 5.4%
<b>ALUMINIUM OF KAZAKHSTAN JSC</b>	by 9.0 million kWh or 1.0%



**Electricity consumption decreased at:**

<b>KAZPHOSPHATE LLP</b>	by 195.3 million kWh or 9.2%
<b>AKSU FERROUS ALLOY PLANT TRANSNATIONAL COMPANY KAZCHROME JSC</b>	by 85.5 million kWh or 1.5%
<b>UST-KAMENOGORSK TITANIUM-MAGNESIUM PLANT (UKTMK) CORPORATION KAZAKHMYS LLP</b>	by 10.8 million kWh or 2.4%
<b>KAZZINK JSC</b>	by 52.0 million kWh or 3.2%
<b>KAZZINK JSC</b>	by 32.1 million kWh or 1.2%
<b>SOKOLOVSK-SARBAI MINING AND PROCESSING PRODUCTION ENTERPRISE JSC</b>	by 571.3 million kWh or 24.3%
<b>ARCELOR MITTAL TEMIRTAU JSC</b>	by 63.2 million kWh or 1.7%

**Electricity consumption by zones:**

<b>ZONE NORTH</b>	60,399.2 million kWh or 66.5%
<b>ZONE SOUTH</b>	19,393.3 million kWh or 21.3%
<b>ZONE WEST</b>	11,054.7 million kWh or 12.2%

In 2015, compared to 2014, the most significant consumption increase was registered in Aktyubinskaya Oblast (by 565.9 million kWh or 13.4%). One of the reasons is the furnaces put into operation in a new steel melting shop at Aktobe ferrous alloy plant. The consumption increased at the Zhezkazgan power centre (by 221.4 million kWh or 3.5%) due to

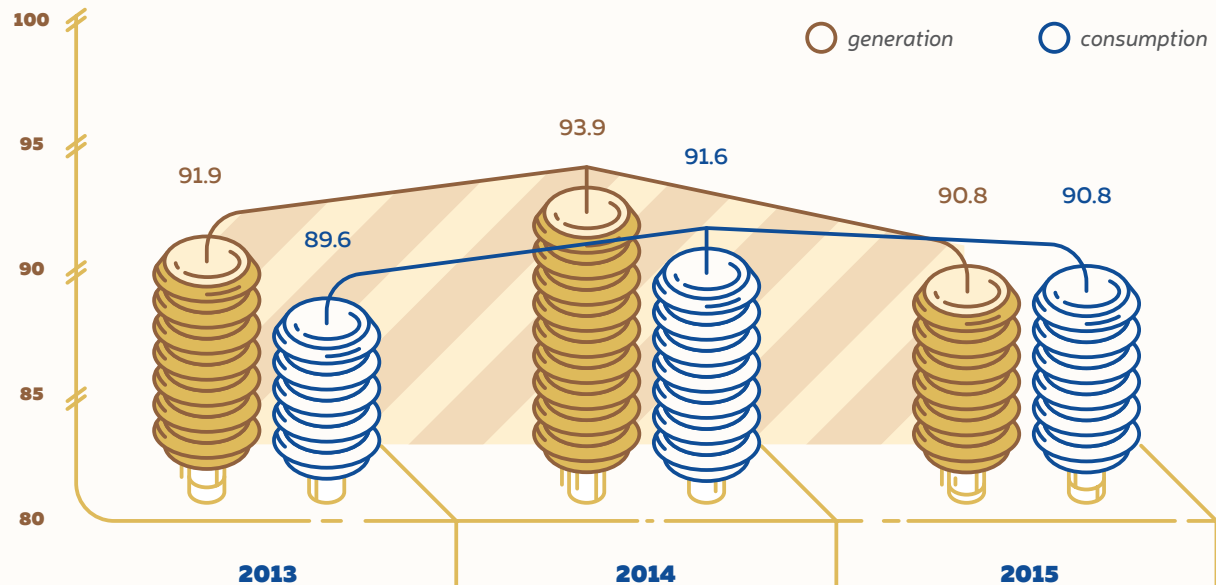
newly operated Kazakhmys Smelting copper-smelting plant.

Maximum consumption reduction was registered in Kostanai Oblast (by 785.6 million kWh or 14.4%) mainly due to reduction in consumption of Sokolovsk-Sarbai mining and processing production enterprise JSC, Pavlodar Oblast (by 387.6 million kWh or 2.2%), Almaty power centre

(by 253.7 million kWh or 2.8%).

The electricity consumption dynamics by zones and power centres of Kazakhstan compared to the previous year is given above.

### Generation and consumption of electricity, billion kWh



### Power Flows

In 2015, electricity consumption exceeded production by 50.6 million kWh. The balance flow from Russia made 471.4 million kWh (in 2014 the flow to Russia made 1,503.6 million kWh). The electricity purchased from Russia made 1,506.0 million kWh, this lower than the 2014 level by 118.4 million kWh or 7.3%. The electricity sold to Russia in 2015 was 1,034.6 million kWh, which is less than in 2014 by 2,093.4 million kWh or 66.9%. No unscheduled electricity was supplied from KEGOC to Uzбекenergo in 2015 (vs. 652.029 million kWh in 2014).

Pursuant to Minutes of 5th Meeting of Kazakhstan-Kyrgyz Intergovernmental Council held on 13 October 2014 to reduce the risk of unstable operation in the power supply system of the southern regions of Kazakhstan and accumulate water in Toktogul water reservoir and in accordance with the agreement of the Supreme Interstate Council dated 7 November 2014, Zhambyl GRES power plant and Electric Power Plants OJSC (Kyrgyz Republic) signed electricity sale contract for December 2014, with subsequent extension in the coming months. Electricity supplies to Kyrgyzstan began on 1 December equivalent to the gas

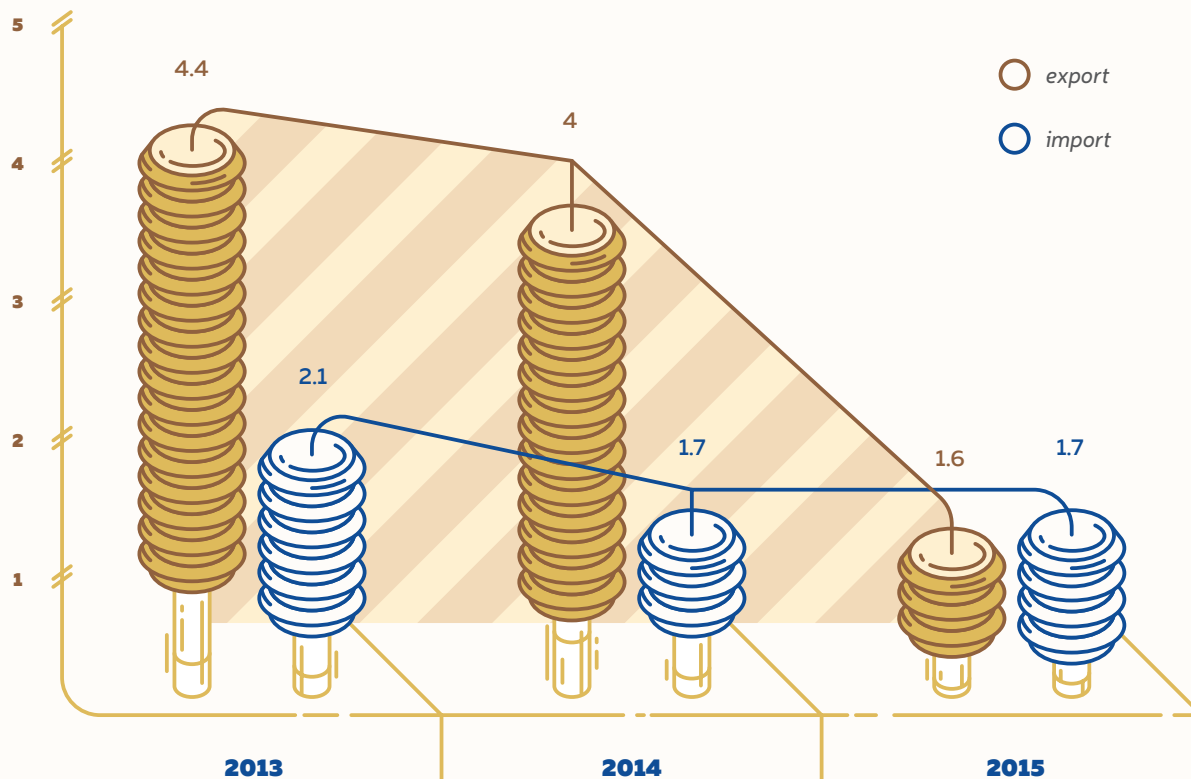
supply. In December-February the supply amounted to 411.9 million kWh. On 1 March the supply ceased. Ekibastuz GRES-1 power plant and Electric Power Plants OJSC (Kyrgyz Republic) signed electricity purchase and sale contract in March 2015. The electricity was supplied to Kyrgyzstan from 17 March to 10 April to the amount of 107.5 million kWh. Total electricity sold to Kyrgyzstan from December 2014 to April 2015 made 519.4 million kWh. The Minutes dated 24 June 2015 between the representatives of water-economy and power authorities of the Republic of Kazakhstan and the Kyrgyz Republic provided for

electricity supply from Kyrgyzstan to Kazakhstan up to 400 million kWh to additionally discharge water from Toktogul water reservoir for irrigation needs in south of Kazakhstan.

From 1 July to 11 August the consumers of Kazphosphate OJSC, ZhambylZharykSauda-2030 LLP and Temirzholenergo LLP received

electricity from Kyrgyzstan with further return, to the amount of 249.5 million kWh.

**Export and import of electricity, billion kWh**



\* Dynamics data for electricity export-import for 2013 and 2014 adjusted depending on balancing market volumes from the Russian Federation.

# KAZAKHSTAN POWER SECTOR DEVELOPMENT STRATEGY

Resolution of the Government of the Republic of Kazakhstan No. 724 dated 28 June 2014 approved the concept of development of the fuel and energy complex of Kazakhstan until 2030 that 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.

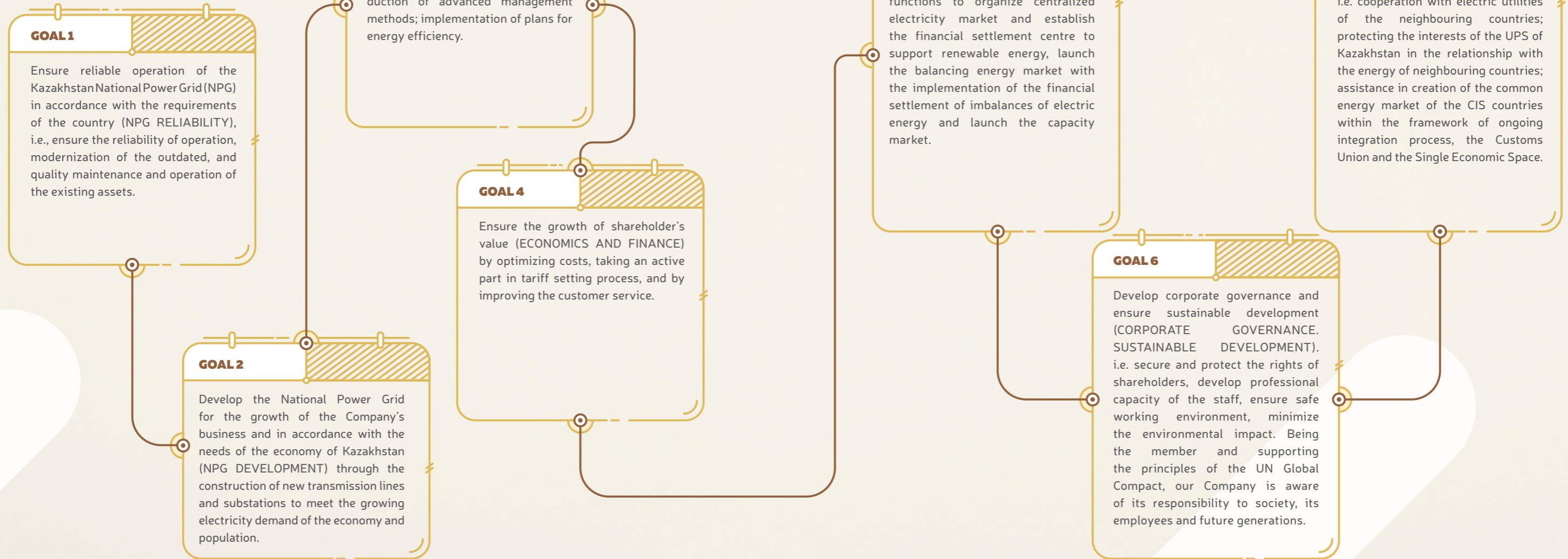
**Mission** of the Company is to ensure the reliable operation and effective development of Kazakhstan Unified Power System (UPS) in accordance with state-of-the-art technical,

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.

The long-term development strategy of the Company defined strategic goals up to 2025:





Goal



# NPG RELIABILITY

The main asset of the Company is a National Power Grid comprising 24,893.46 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

The high voltage lines and electric power substations ensure the cross-border electric power flows, transmit electric power from power plants and connect the regional power companies and major consumers



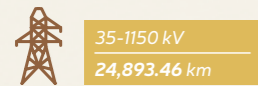
**GEOGRAPHY OF OPERATIONS**

KEGOC operates throughout the territory of the Republic of Kazakhstan. The Company's structure includes nine MES branches located throughout Kazakhstan and NDC SO (National Dispatch Centre of the System Operator).

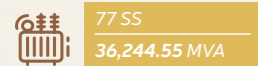
MES branches render system services in operational control of the branch.

The NDC SO performs the centralized dispatch control of the Unified Power System (UPS) of the Republic of Kazakhstan. 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 MES branches.

The main asset of the Company is the National Power Grid comprising 24,893.46 km of 35-1,150 kV high voltage electricity transmission lines



and 77 electric power substations with the installed transmission capacity of 36,244.55 MVA



They are designed to ensure the cross-border electric power flows, transmit electric power from power plants and connect the regional power companies and major consumers.



BRANCHES	
AKMOLINSKIYE MES	
AKTYUBINSKIYE MES	
ALMATINSKIYE MES	
VOSTOCHNYE MES	
ZAPADNYE MES	
SARBAISKIYE MES	
SEVERNYE MES	
TSENTRALNYE MES	
YUZHNYE MES	
NDC SO	
BRANCHES AND AFFILIATES	
ENERGOINFORM	100%
FSC RES	
BATYS TRANSIT	20%
REPRESENTATIVE OFFICE IN ALMATY	

**DESCRIPTION OF NPG FACILITIES**

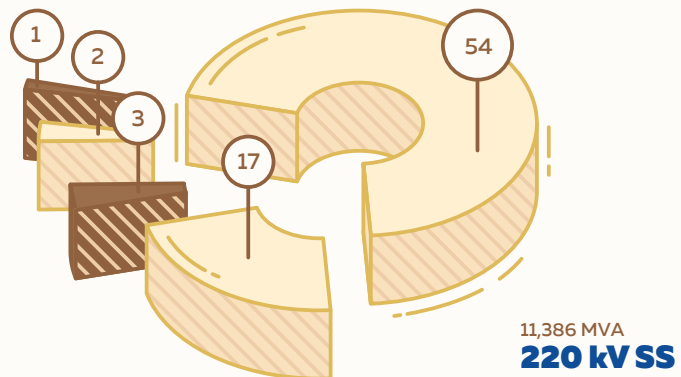
Quantity and capacity of KEGOC substations as of 31 December 2015

5 MVA  
**110 kV SS**

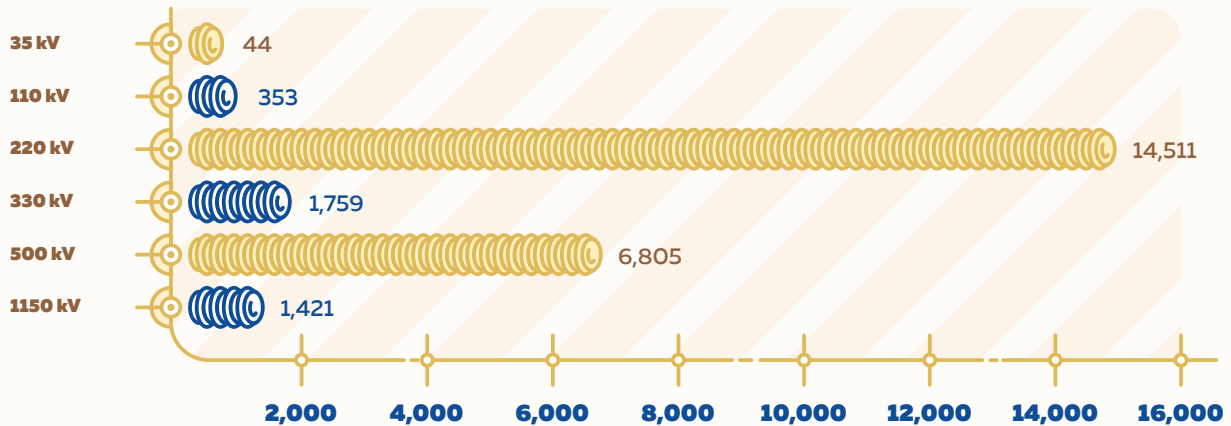
23 MVA  
**35 kV SS**

9,384 MVA  
**500 kV SS**

15,446 MVA  
**500 kV SS**





**Lenght of KEGOC OHTLs, km**

KEGOC substations have in total:

- 271 power transformers and autotransformers of 1,150-10 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);
- 169 shunt reactors of 1,150-35 kV (nine are on the balance sheet of Batys Transit and one is on the balance sheet of KCP LLP);
- 1,530 phases of 1,150-35 kV voltage transformers (including 75 on the balance sheet of third party organisations);
- 3,611 phases of 1,150-35 kV current transformers (including 229 on the balance sheet of third party organisations);
- 110 storage batteries (including 2 on the balance sheet of Batys Transit);
- 66 compressor units;
- 1,542 circuit breakers of 1,150-35

kV (air-blast, oil, SF<sub>6</sub>, vacuum) (including 94 on the balance sheet of third party organisations);

- 115 devices and tools for the treatment of solid insulation and transformer oil.

In total, there are 310 electricity transmission lines of 35 – 1,150 kV with the total length of 24,893.46 km (circuits) on the balance sheet of KEGOC.

### **DISPATCH CONTROL MANAGEMENT**

The operational and dispatch control in Kazakhstan UPS functions through the direct operational subordination of nine regional dispatch centres (RDC) being the structural subdivisions of KEGOC branches – Interconnection Electric Networks, to NDC SO.

The NDC SO dispatcher regulates the operation of power plants and electric networks of the Northern and Western

regions of the Kazakhstan UPS in cooperation with the dispatchers of SO UPS of Siberia Dispatch Control, Ural Dispatch Control, Mid-Volga Dispatch Control, Southern Dispatch Control, the dispatcher of Russia UPS and in the Southern region – in cooperation with the dispatcher of Energiya Coordinating Dispatch Centre.

NDC ensures the continuous operational and dispatch control of Kazakhstan UPS in cooperation with the regional control centres: **Akmolinskiy RDC, Aktyubinskiy RDC, Almatinskiy RDC, Vostochny RDC, Zapadny RDC, Kostanaiskiy RDC, Severny RDC, Tsentralny RDC, Yuzhny RDC.**

The National Dispatch Centre of the System Operator jointly with the RDC ensures the compliance with the daily load schedule of the wholesale electricity and capacity market participants, including interstate and interregional power flows.

Goal

2

# NPG DEVELOPMENT

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

The power industry for the economy of 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



## 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.

In 2015, KEGOC proceeded with the implementation of the following projects:

### Kazakhstan Electricity Transmission Rehabilitation Project, Phase II

The aim of the project was to improve the operation of electricity market, provide the 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 provided for the equipment rehabilitation at 55 substations and the construction of 220 kV transmission lines.

**The project implementation period:** 2010 – 2016.

**The project cost:** KZT 49.4 billion inclusive of VAT. The project was financed out of KEGOC's own funds and out of the funds borrowed from EBRD amounting to EUR 228.4 million.

Construction and installation works at the rehabilitated substations have been fully completed and all 55 substations have been put into operation.

With regard to stage II of the project the Company completed the engineering surveys, developed design and estimate documentation for 220 kV OHTL Tulkubas – Burnoye and in 2015 obtained a positive opinion of GosExpertiza.

### 500 kV OHTL Ekibastuz – Shulbinsk HPP (Semey) – 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 networks, and ensure delivery of all power generated at Shulbinsk HPP after the Bulak HPP, the counter regulator of Shulbinsk HPP, is put into operation.

**The project implementation period:** 2011-2017.

**The project cost:** KZT 43.3 billion

inclusive of VAT.

**The project is financed out of KEGOC's own funds.**

At present, under the 500 kV OHTL Ekibastuz – Shulbinsk HPP (Semey) – Ust-Kamenogorsk construction project 348 km of the line, including 218 km built in 2015, have been constructed with the total length of 600 km. Regarding 220 kV OHTL Semey – Shulbinsk HPP with cross-connection lines to 500 kV Semey SS, 33 km out of the total length of 106 km have been built. The construction and erection works are in progress at 500 kV Semey SS, 500 kV Ust-Kamenogorsk SS and 1150 kV Ekibastuz SS.

### 500 kV OHTL Shulbinsk HPP (Semey) – Aktogai – Taldykorgan – Alma Construction Project

The project shall increase the transmission capacity of the NPG in North-South direction, cover the needs of electrified railroads, energy intensive facilities of metal mining industry, create conditions for development of cross-border territories and large scale development of renewable energy potential, and strengthen the link with Zone East of the Kazakhstan unified power system.

**The project implementation period:** 2012-2018.

**The project cost:** KZT 76.8 billion inclusive of VAT.

**The project is financed out of KEGOC's**

**own funds and loan funds.**

To the present moment, the engineering surveys have been completed. The design estimates are due to be completed.

**Pavlodar Electricity Transmission Reinforcement Project**

The project goal is to secure the electricity supply to Pavlodar consumers and power delivery from Pavlodar power plants to the Kazakhstan UPS.

**The project implementation period:** 2011-2016.

**The project cost:** KZT 5.5 billion inclusive of VAT.

**The project is financed out of KEGOC's own funds.**

EPC contract was signed with a

contractor to implement the project. The Company has alienated land plots for construction from land owners and land users for the construction period. Under the project implementation the construction and erection works at the facility 'Replacement of conventional ground wire with the composite ground wire cable with optical fibres (OPGW) of 500 kV OHTL EGRES-1 – EEC power plant' have been completed.

**Disbursement of Capital Investments**

In 2015, over KZT 24,486 million were disbursed, including KZT 19,755 million – for major strategic projects, and KZT 4,456 million – for renovation and replacement of the existing assets.

**Capital investments in 2015, KZT million**

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

Alma Electricity Transmission Project

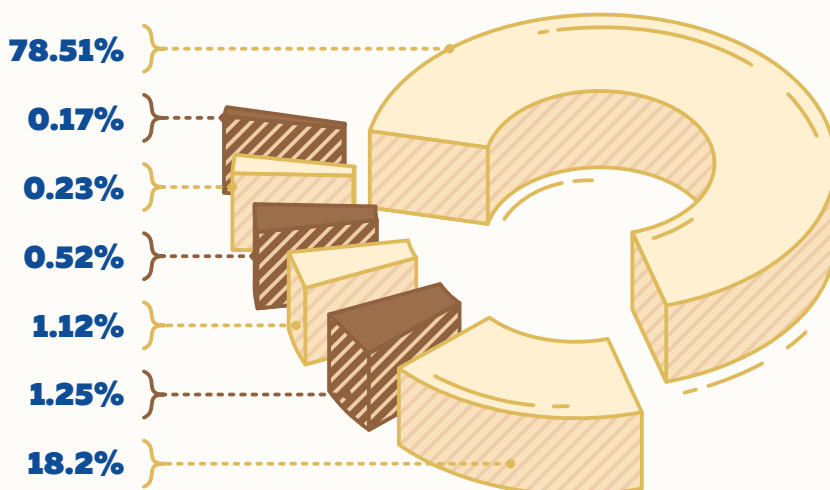
Kazakhstan Electricity Transmission Rehabilitation Project, Phase II

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

Construction of the kindergarten for 240 children in Astana

Pavlodar Electricity Transmission Reinforcement Project

Costs for maintaining the current level of operations









## BUSINESS OUTLOOK

The 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 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.

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 interests 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);
- **500 kV OHTL YuKGRES – Zhambyl Construction Project** will improve the reliability of power supply in Zone South of Kazakhstan;
- **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;

- **Torgai Electricity Transmission Project** is required to ensure power delivery from the 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;
- **Construction of 220 kV OHTLs Uralsk – Atyrau and Kulsary – Tengiz** is to strengthen electric connections between the oblasts of West Kazakhstan.



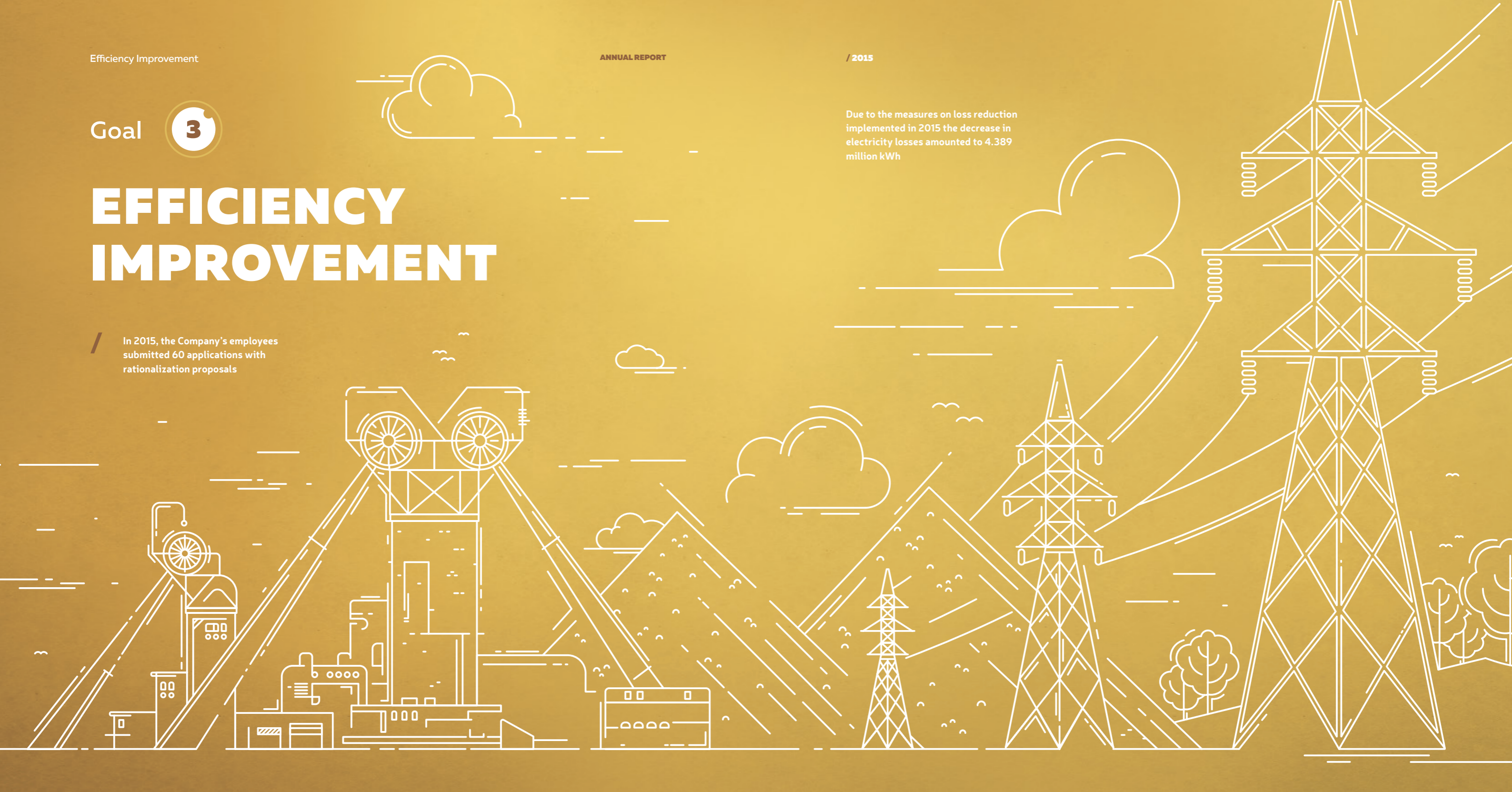
Goal

3

# EFFICIENCY IMPROVEMENT

In 2015, the Company's employees submitted 60 applications with rationalization proposals

Due to the measures on loss reduction implemented in 2015 the decrease in electricity losses amounted to 4.389 million kWh



KEGOC service consumers include legal entities: power generators, power transmission entities, power suppliers and industrial enterprises.

### ELECTRICITY TRANSMISSION

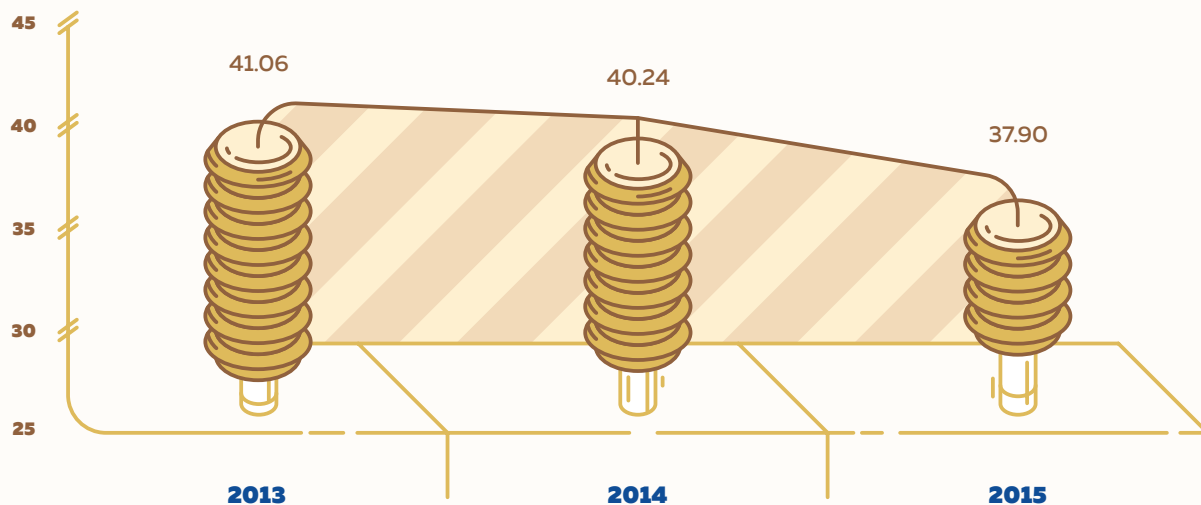
The actual volume of services for electricity transmission via trans-regional networks in 2015 amounted to 37,897.0 million kWh. In comparison with 2014, this index decreased by 2,339.7 million kWh or 5.8% as there was reduction in the services rendered to the Kazakhstan wholesale market participants by 931.0 million kWh or 2.6%, and no export of electricity was provided to the Russian Federation. The following entities had the highest rates of decrease: SSGPO

JSC by 351.4 million kWh or 30.6%, Arcelor Mittal Temirtau by 577.7 million kWh or 52.5%, KazPhosphate LLP by 149.0 million kWh or 6.7%, TemirZholEnergO LLP by 333.1 million kWh or 9.7%, ShygysEnergOTrade LLP by 106.6 million kWh or 5.9%, AktobeEnergO Snab LLP by 213.6 million kWh or 38.3%, Shiyeli Zharygy LLP by 41.3 million kWh or 16.7%, and ZhezkazganEnergO Sbyt LLP by 88.0 million kWh or 12.5%.

In 2015, KEGOC and FGC UES arranged for transmission (transit) of electricity via KEGOC's networks from the Russian Federation through the Republic of Kazakhstan back to the Russian Federation. The volume of services rendered by KEGOC via this transit amounted to 3,661.538 million

kWh, which is by 453.514 million kWh higher than in 2014.

*Electricity transmission via KEGOC networks, billion kWh*





MAJOR CUSTOMERS	2015, MILLION KWH
Federal Grid Company of Unified Energy System (FGC UES) PJSC	3,661.538
TemirZholEnergO LLP	3,109.989
AlmatyEnergOSbyt LLP	2,791.704
Kazphosphate LLP	2,061.047
KazZinc LLP	1,714.238
ShygysEnergOTrade LLP	1,702.201
Transnational Company KazChrome JSC	1,314.056
AstanaEnergOSbyt LLP	1,133.197
Ontustik Zharyk LLP	1,179.395
Almaty Power Stations JSC	844.834

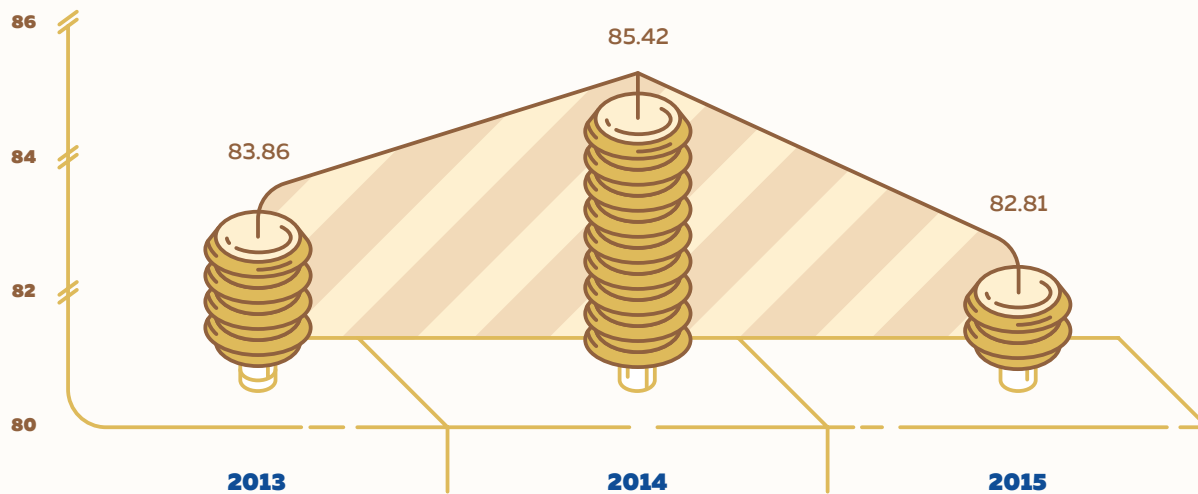
### TECHNICAL DISPATCH CONTROL

The actual volume of technical dispatching services of electricity supply to the grid and consumption in 2015 amounted to 82,808.9 million kWh. The volume of services in comparison with 2014 decreased by

2,609.4 million kWh or 3.1%, which was due to reduction in the generation and electricity supply to the grid by energy producing organizations as the participants of the wholesale electricity market of the Republic of Kazakhstan reduced electricity consumption. The most substantial decrease in electricity supply to

network was at the following power generation entities: Eurasian Energy Corporation JSC by 1,647.2 million kWh or 10.6% and Nurzhanov Ekibastuz GRES-1 LLP by 3,249.7 million kWh or 24.3%.

Technical dispatch control, billion kWh



MAJOR CUSTOMERS	2015, MILLION KWH
Eurasian Energy Corporation JSC	13,902.682
Nurzhanov Ekibastuz GRES-1 LLP	10,117.160
Kazakhmys Energy LLP	5,969.269
Almaty Power Stations JSC	4,456.529
MAEK-KazAtomProm LLP	4,175.815
PavlodarEnergo JSC	3,142.476
CHPP-3 Karaganda Energocenter LLP	3,104.933

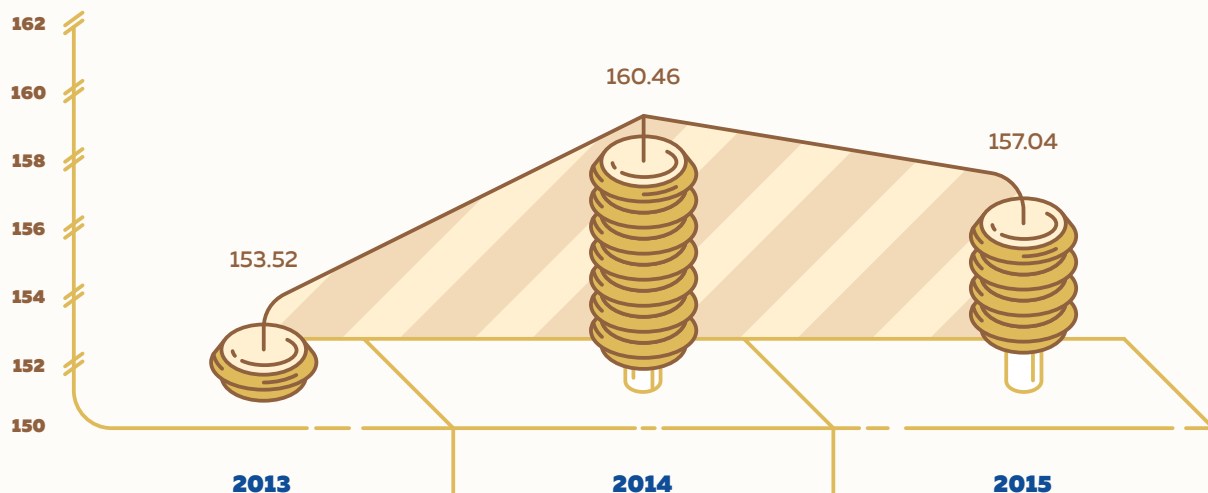
MAJOR CUSTOMERS	2015, MILLION KWH
Ekibastuz GRES-2 Power Station JSC	3,015.675
KazZinc LLP	2,951.704
Baturov Zhambyl GRES JSC	2,683.088

**ELECTRICITY PRODUCTION AND CONSUMPTION BALANCING**

The actual balancing of electricity generation and consumption in 2015 amounted to 157,038.1 million kWh.

The volume of services as compared to 2014 decreased by 3,426.5 million kWh or 2.1% due to the common decline in electricity production and consumption on the wholesale market of the Republic of Kazakhstan.

*Balancing, billion kWh*



MAJOR CUSTOMERS	2015, MILLION KWH
Eurasian Energy Corporation JSC	22,995.616
Nurzhanov Ekibastuz GRES-1 LLP	10,119.703
Kazakhmys Energy LLP	6,036.604
ArcelorMittal Temirtau JSC	5,863.843
AlmatyEnergoSbyt LLP	5,771.755
KazZinc LLP	5,624.710
Astana – Regional Electricity Network Company JSC	5,284.109
MAEK-KazAtomProm LLP	4,897.649
Almaty Power Stations JSC	4,525.116
Pavlodar REC JSC	4,465.209

### Consumer Satisfaction

In order to improve the quality of the services provided, KEGOC conducted a questionnaire survey on 2015 performance results to assess consumer satisfaction.

The average annual score of consumer satisfaction in 2015,

particularly the satisfaction with the KEGOC's personnel performance, reliability of provided business and technical information, promptness of customers' requests processing, quality of services, and the quality of RDC operation with respect to operational dispatch management was 4.5 out of five.

### RELIABILITY AND ENERGY EFFICIENCY IMPROVEMENT

The power consumption by the Company comprises two components: the technological 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 losses in transmission lines. It should be understood that technological losses mean 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 reduce the actual amounts of technological losses to its optimal level.

The actual process losses in KEGOC

networks in 2015 amounted to 2,439.637 million kWh or 6.08 % of electricity supply to the grid.

Due to the measures on loss reduction implemented in 2015 the decrease in electricity losses amounted to 4.389 million kWh.

POWER SAVING MEASURES IN 2015	OUTCOMES, MILLION KWH
Line tripping under low-load condition	0.187
Shutdown of power transformers under low-load conditions	4.202
Total for KEGOC	4.389

### **ELECTRICITY PURCHASE/SALE ACTIVITIES**

In 2015, as per the contract between KEGOC and Inter RAO UES (Russia) KEGOC sold electricity to the Russian Federation to cover hourly deviations of the actual interstate electricity balance flows versus the scheduled one. The volume of electricity supplied to the Russian Federation under the contract amounted to 989.666 million kWh.

In 2015, the Company purchased electricity for compensation of technical transmission losses and for auxiliary needs of the NPG.

According to the data on the actual balance of the electricity generation and consumption on the wholesale energy market of Kazakhstan, the actual volume of the electricity purchased to compensate the 2015 technical transmission losses amounted to 2,449.049 million kWh. In 2015, the volume of the electricity purchased to cover the losses decreased by 127.891 million kWh as compared to 2014.

In 2015, as per the contract between KEGOC and Inter RAO UES, KEGOC purchased electricity from the Russian Federation to cover hourly deviations of the actual interstate electricity

balance flows versus the scheduled one and to compensate technical transmission losses. Electricity received from the Russian Federation under the contract amounted to 977.224 million kWh. In 2015, KEGOC and Inter RAO PJSC arranged for transmission of electricity from the Russian Federation to the Republic of Kazakhstan to compensate technical transmission losses in Mynkul-Valikhanovo power region. The actual volume of the electricity purchase was 6.164 million kWh.

In addition, electricity was purchased for economic needs of MES branches in the amount of 32.488 million kWh,

which is 0.164 million kWh higher than in 2014.

In 2015 KEGOC purchased electricity from Kazakhmys Energy LLP to manage unscheduled electricity flows due to unauthorised consumption of electric power by Kyrgyzstan Power System from Kazakhstan UPS in November-December 2015 in the amount of 7.3 million kWh.

### INNOVATION ACTIVITY

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

In 2015, the Company implemented the following innovative projects:

DESCRIPTION	BRIEF DESCRIPTION
Satellite monitoring device for vehicles (GPS-sensors)	The system provides a permanent real time monitoring (online monitoring) of KEGOC vehicles, a simultaneous display of controlled vehicles, traffic routes in the online monitoring mode for the requested time period. You can create and upload various forms of analytical reports and graphs: by vehicles, groups of vehicles for various time intervals, and export data in different formats, including Excel. The reports contain data on a route trail, distance, speed, parking, stops, engine running time, voltage sensor readings, and others. The vehicle positioning error does not exceed 100 m.
Foundations with above-ground anchoring assemblies for the guy wires of suspension towers	In 2013, an invention patent was obtained under this project. At the present time ПА-3-1Н anchor plates and А3-1 U-bolts to be installed under the ground (3 meters deep) are used to fix guy wires of 1,150 kV suspension towers of ПОГ-1150-1, ПОГ-1150-5, and ПОГ-1150-11 types. Deep underground, aggressive environment (water, salt) and current leakage cause the so-called mechanical and electrochemical corrosion in the bolt and eyes connection. Over time, the corrosion process completely destroys the connection, which in its turn makes the tower less stable and causes its fall. According to the Rules of Technical Operation of Power Plants and Networks of the Republic of Kazakhstan, anchor assemblies, installed under the ground, shall be inspected every 6 years. The inspection of anchor guy wire assemblies provides for excavation of anchor assemblies, located under the ground, using the special equipment. The above-the-ground anchoring assemblies for guy wire of suspension towers at 1150 kV lines will reduce the corrosion of metal parts of the anchoring assemblies when located underground and will simplify their inspection.

Pursuant to the Memorandum of Cooperation between Samruk-Kazyna and Nazarbayev University a long-term agreement was concluded with the Nazarbayev University Research and Innovation System private institution (NURIS PI) to perform research, development and technological works relating to Feasibility Study of Corona Losses Mitigation in Kazakhstan NPG. 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. R&D are planned to be implemented in two stages: the first stage (2015) is a research work on corona losses mitigation in Kazakhstan NPG. If further implementation of the project is proved to be expedient based on the first stage results, the second stage provides for the performance of development works.

In 2015, the Company's employees submitted 60 applications with rationalization proposals; the Innovation and Technology Development Committee under the STC of KEGOC acknowledged 25 of them as rationalization proposals. As compared to 2014 (43 applications), the total quantity of submitted applications in 2015 increased by 40%, and the number of rationalization applications increased by 56% (as compared to 2014 with 16 rationalization proposals). In 2015, the rationalization applications of the

Company participated in the annual republican contest of rationalization proposals INNOVATOR.KZ in the categories The Best System of Support for Innovators at Enterprises and The Best Rationalization Proposal.

The KEGOC's Scientific and Technical Council (STC), operating on a permanent basis, was established to make decisions on: KEGOC development, implementation of the Innovation and Technology Development Strategy, development and introduction of new methods and technologies in projects related to new construction, rehabilitation, technical upgrade of grid facilities, improvement of the NPG operation modes, aimed to enhance the reliability and efficient operation of the NPG and reduce its operational costs, development of domestic scientific and production potential. In 2015, STC held five meetings where about 19 issues were reviewed. In addition, the Innovation and Technology Development Committee operates on a permanent basis under the STC at KEGOC. 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 2015 the Committee held four meetings.

Goal

4

# ECONOMY AND FINANCE

KEGOC service consumers include legal entities: power generators, power transmission entities, power suppliers and industrial enterprises

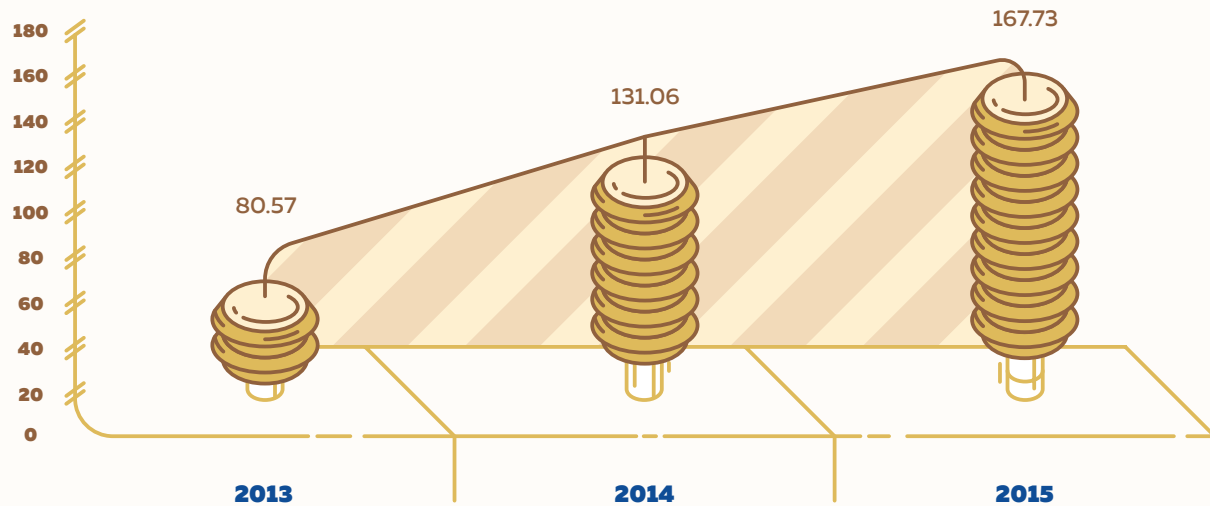
Compared to 2014 the revenues increased by 28.0% or by KZT 36,670.7 million, including operating revenues increase by 17.7% or by KZT 16,541.7 million





## ANALYSIS OF FINANCIAL AND ECONOMIC INDICATORS

### Revenues behaviour, KZT billion



Consolidated revenues for 2015 amounted to KZT 167,733.4 million, which is 29.4% or KZT 38,133.8 million higher than expected. At the same time the operating revenue was less than planned by 14.2 % or KZT 18,252.2 million.

The revenue from the sale of the purchased electricity was less than planned by KZT 7,687.4 million as there was no unscheduled electricity consumption from the Kazakhstan UPS.

The regulated services revenue was less than expected by KZT 4,299.5 million or by 4.1%, which was due to

decrease in the amount of rendered services (KZT 4,107.2 million) and lower electricity transmission tariff as compared to the planned one (KZT 192.3 million).

The revenue from the sale of electricity to compensate for deviations of the actual hourly amounts of interstate electricity balance flows was less than expected by KZT 3,439 million due to decrease in sales (KZT 1,798 million) and the weighted average price (KZT 1,641 million) as compared to the expected level. The revenue from the sale of power control services was less than expected by KZT 3,091.7 million.

Other 2015 revenues totaled KZT 57,672.0 million, which is higher than planned by KZT 56,386.0 million, and was mainly caused by the growth in the foreign exchange gain to the amount of KZT 50,830.6 million and growth of revenue related to disposition and sale of fixed assets amounting to KZT 1,965.7 million as a result of the sale of old office building of KEGOC's Executive Administration, the growth of revenues from deposit operations by KZT 1,760.5 million, as well as the accrual of revenues due to the change in the fair value of long-term trade receivables by KZT 943.4 million.

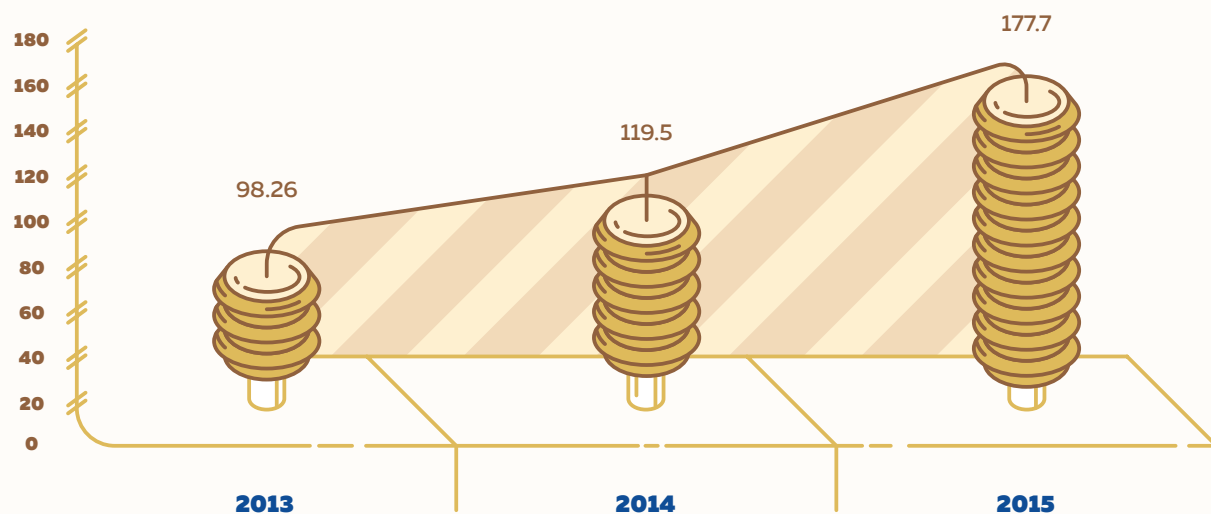
Compared to 2014 the revenues increased by 28.0% or by KZT 36,670.7 million, including operating revenues increase by 17.7% or by KZT 16,541.7 million. The growth of regulated services revenues by KZT 22,922.6 million was mainly caused by the increased tariffs. Thus, due to the increased tariffs the revenues grew by KZT 25,159.9 million; however, due to the reduced volume of rendered

services, the revenues decreased by KZT 2,237.3 million. At the same time, as compared to 2014 the revenues from the sale of purchased electricity decreased by KZT 7,277.1 million.

Compared to 2014, other revenues increased by KZT 20,129.0 million. This was mainly due to the growth in the foreign exchange gain to the amount of KZT 33,041.1 million and the deposit operations by KZT 1,476.2 million, the

accrual of revenues due to the change in the fair value of long-term trade receivables by KZT 507.6 million. Therewith, in 2015 there was no accrual of revenues from recoverable impairment losses of PPE as Facilities to the amount of KZT 15,834.0 million.

#### Expenses behaviour, KZT billion



Total consolidated expenditures in 2015 amounted to KZT 177,680.5 million, which is 62.6% or KZT 68,376 million higher than the planned ones.

The cost of sold services in the reported period amounted to KZT 74,216.3 million or 96.4% of the planned cost.

Decrease by KZT 15,127.4 million was mainly caused by the decrease in the actual expenditures as compared to the planned ones for the purchase of electricity in order to compensate for non-contractual consumption amounting to KZT 6,269.1 million, for

technological losses to the amount of KZT 3,577.0 million, and for the purchase of electricity from the power system of the Russian Federation to compensate for imbalances amounting to KZT 4,846.1 million.

Compared to 2014, the cost price grew

by KZT 1,326.3 million or 1.8%, mainly due to increased costs for the purchase of electricity generated by renewable energy sources by KZT 4,757.7 million and for amortization – by KZT 3,269.0 million. At the same time, the costs relating to the electricity purchase for compensation of non-contractual consumption decreased by KZT 5,149.4 million and for compensation of imbalances by KZT 1,943.1 million. General and administrative expenses (hereinafter referred to as GAE) in 2015 amounted to KZT 8,564.7 million, which is 39.3% lower than the expected ones. The GAE reduction by KZT 5,545.6 million as compared to the planned expenses was mainly due

to the recovery of debt provisions of Uzbekenergo (KZT 1,888.9 million), as well as reduction in the property tax costs (KZT 1,078.0 million), in labour costs (KZT 1,032.9 million), payment for consultancy, information and legal services (KZT 902.5 million), and for sponsorship (KZT 195.5 million).

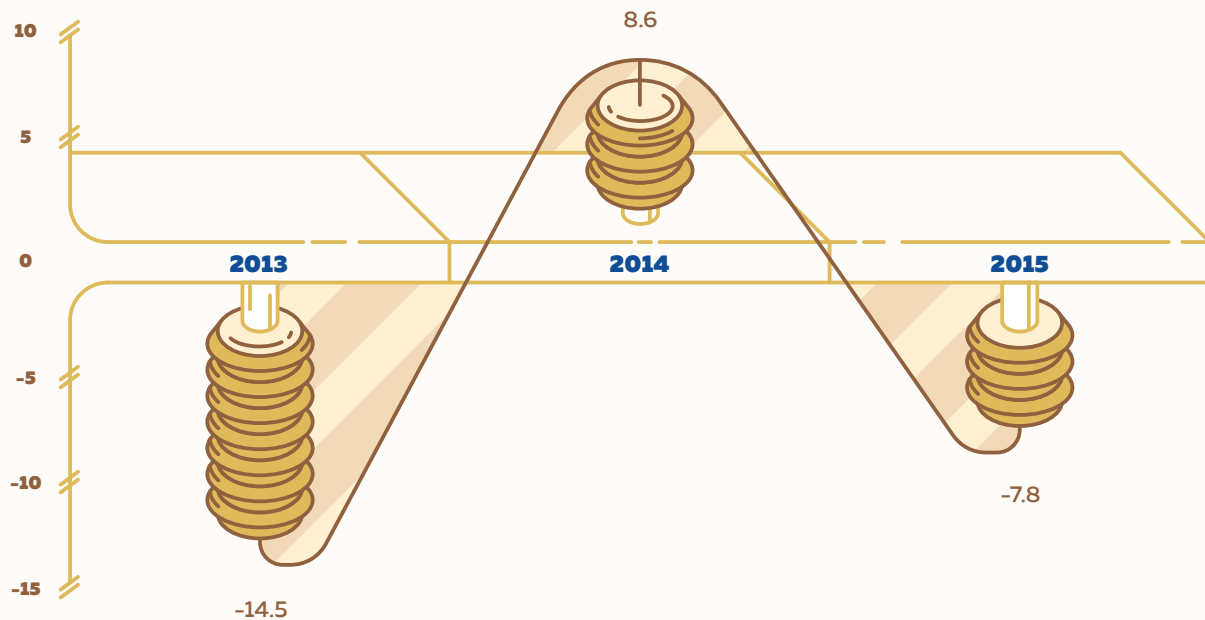
The GAE decrease by KZT 4, 816.3 million compared to the same period in 2014 was mainly due to the decrease in the expenses related to creation of provisions by KZT 4,721.0 million.

Other expenses for 2015 amounted to KZT 87,667.4 million, while the planned expenses were KZT 396.9 million. The planned level was exceeded by KZT 87,270.5 million mainly due to

accrual of foreign exchange losses in the amount of KZT 86,569.8 million. It was caused by increase in the foreign exchange rates as a result of the change in the monetary policy of the Government of Republic of Kazakhstan that introduced fully flexible exchange rate of tenge.

Other expenses compared to the same period last year increased by KZT 60,279.3 million, which is mainly due to the growth of currency exchange losses (KZT 61, 269.6 million).

#### Net profit behaviour, KZT billion



At the end of 2015 the net loss amounted to KZT 7,779.6 million, which is KZT 23,847.9 million lower than the planned target and KZT 16,395.6 million lower than the value in 2014.

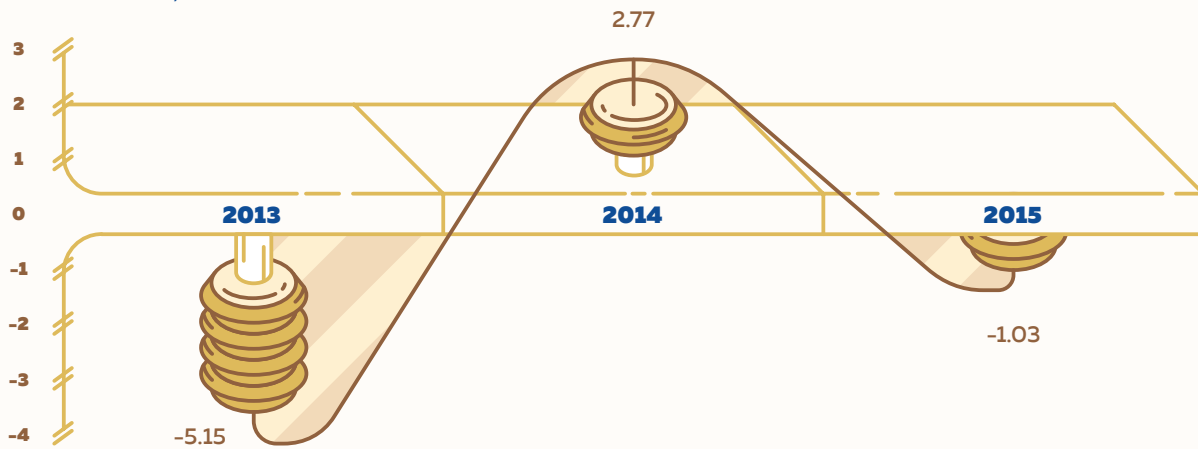
In 2016, the revenues are expected to be KZT 151,915.8 million, including

KZT 144,976.0 million of operating revenues and KZT 6,939.8 million of non-operating revenues. Expenditures are estimated at the amount of KZT 132,071.9 million, including KZT 100,743.0 million of sale costs, and KZT 13,098.9 million of

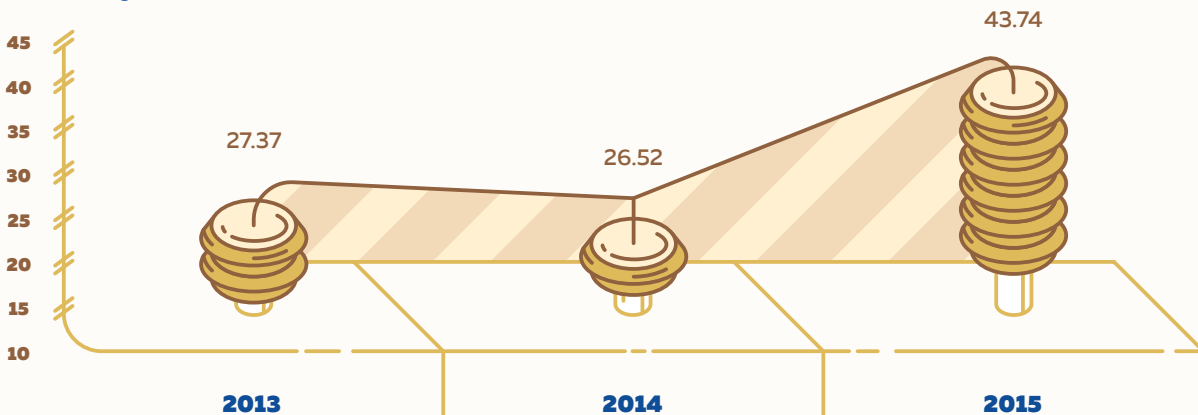
general and administrative costs. The total profit expected in 2016 based on the operating results amounts to KZT 15,789.7 million.

The loss made in 2015 had a negative impact on ROACE and Profitability of Operations ratios.

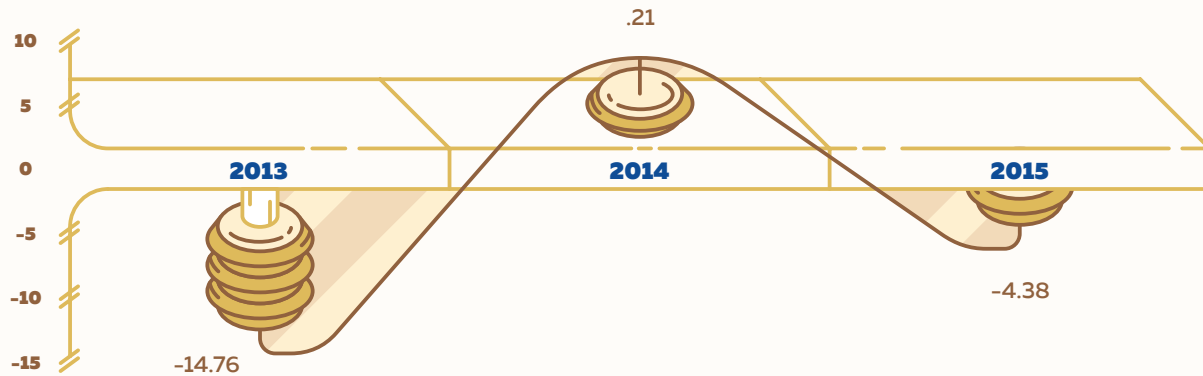
**ROACE behaviour, %**



**EBITDA margin behaviour, %**



### Operation profitability behaviour, %



EBITDA margin was calculated as a ratio of earnings before interest, tax, depreciation and amortisation to operating revenue. The rate growth, as compared to the last year, was due to the recovery of provisions for Uzbekenergo accounts receivable and optimization of costs during 2015.

### 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 reduction factors for Company's services tariffs.

Since KEGOC establishment, it has been consistently improving the tariff

policy for regulated services, and playing an active role in activities of relative organisations to improve the tariff policy.

In accordance with the effective legislation KEGOC shall submit applications to the Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan (CRNMPC) seeking approval (revision) of tariffs for regulated services referring to the sphere of natural monopoly.

In accordance with the procedure established by the law the Agency on Regulation of Natural Monopolies issued Order No.105-ОД dated 16 May 2014 to approve the cap tariff and tariff estimates of KEGOC for regulated services of 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 regulatory action, being effective from 1 November 2014 till 31 October 2015.

Due to the fact that the price for electricity delivered from Nurzhanov GRES-1 power plant reduced from 8.8 to 8.65 tenge/kWh, KEGOC made a decision to reduce the tariff for electricity transmission services from 1.954 to 1.943 tenge/kWh (exclusive of VAT), effective since 1 April 2015.

CRNMPC by Order No.367-ОД dated 9 September 2015 extended the validity of cap tariffs and tariff estimates until 31 December 2015.

**Cap tariffs in 2015**

DESCRIPTION	SINCE 01 NOVEMBER 2013	SINCE 01 NOVEMBER 2014	% TO TARIFF SINCE 01 OCTOBER 2013	SINCE 01 APRIL 2015	% TO TARIFF SINCE 01 NOVEMBER 2014
Electricity transmission, tenge/kWh	1.305	1.954	49.7	1.943	-0.6
Technical dispatch control of the electricity supply to the grid and electricity consumption, tenge/kWh	0.134	0.182	35.8	0.182	0
Electricity production and consumption balancing, tenge/kWh	0.060	0.083	38.3	0.083	0

In accordance with the existing procedures KEGOC applied to the Committee on Regulation of Natural Monopolies and Protection of Competition for approval of the cap tariffs and tariff estimates for KEGOC regulated services for the long-term period. Based on the review results, the Committee on Regulation of Natural Monopolies and Protection of Competition by its Order No. 388-ОД dated 21 September 2015 approved the cap tariffs and tariff estimates for KEGOC's regulated services for the five-year period, effective from 01 January 2016 to 31 December 2020. In accordance with the Law of the Republic of Kazakhstan On Natural Monopolies and Regulated Markets and Rules for approval of temporary reduction factors to the tariffs (prices, rates of fees) for electricity

transmission and (or) technical dispatching of electricity supply to the grid, and based on the orders of CRNMPC, KEGOC executed the electricity transmission at the tariff with account of temporary reduction factors for the following customers:

- Kazphosphate LLP: for the period from February to October 2015 at the rate of 0.99, in September 2015 at the 0.85 rate, and November-December 2015 at the 0.71 rate;
- Tau-Ken Temir LLP: in January-October 2015 at the rate of 0.77;
- Transnational Company Kaz-Chrome JSC: for the period March-October 2015 at the rate of 0.9346;
- Temirtau Electric Steel Works JSC: for the period March-October 2015 at the rate of 0.92, in December 2015 at the rate of 0.78;
- ZhambylZharykSauda-2030 LLP:

in September-November 2015 at the rate of 0.75, in December 2015 at the rate of 0.79;

- Varvarinskoye JSC: in November-December 2015 at the rate of 0.997;
- KazZinc LLP: in October-December 2015 at the rate of 0.98;
- TemirZholEnergо LLP: in December 2015 at the rate of 0.94.

The Company shall annually arrange public hearings to report on its activities with respect to regulated services (goods, works) 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 accordance with the Law of the Republic of Kazakhstan On Power Industry the System Operator is entrusted with the organization of the capacity market operation in the Republic of Kazakhstan





In accordance with the Law of the Republic of Kazakhstan On Power Industry the System Operator is entrusted with the organization of the capacity market operation in the Republic of Kazakhstan.

Within the framework of the approved The Nation Plan – 100 Specific Steps that provides for the introduction of the single purchaser model on the capacity market to carry out the centralized purchase of services of maintaining the electric capacity availability and the centralized provision of services to ensure the readiness of electric capacity to bear the load, the Company in 2015 carried out the preparatory work on the development of legal acts regulating its functioning. With regard to the electric capacity market of the Republic of Kazakhstan the following rules and contracts were approved:

- rules for development of electricity and capacity balance forecasts;
- rules for certification of generating units' electric capacity;
- the rules for determining the scope of services for maintenance of electric capacity availability for contracts on purchase of services for maintenance of electric capacity availability that shall be concluded between the single purchaser and operating generation organizations including combined heat and power plants;
- rules for calculating and posting on the Internet by the single purchaser of the price for the electric capacity availability to bear the load;

- standard contracts for provision of services to ensure the electric capacity availability to bear the load and for maintaining the electric capacity availability.

Also, the Rules for organization and operation of the wholesale electricity market underwent revisions with regard to the participation of renewable energy facilities and the Financial Settlement Centre for support to renewable energy sources on the wholesale electricity market, and with regard to the transmission of electricity via the regional power network connected to the national power grid based on the incoming-outcoming scheme.

In accordance with the Law of the Republic of Kazakhstan On Introducing Amendments to Some Laws of the Republic Kazakhstan in the Electric Power Sector, the commissioning of the electric capacity market and the balancing market is scheduled for 1 January 2019.







Goal



# 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 raised capital

KEGOC enjoys a leading position in the group of Samruk-Kazyna companies with regard to the corporate governance level, which is 85% based on the results of the diagnostics carried out in 2015



**INFORMATION ON COMPLIANCE WITH THE PRINCIPLES OF KEGOC CORPORATE GOVERNANCE CODE IN 2015**

ITEM NO.	PRINCIPLES OF KEGOC'S CORPORATE GOVERNANCE CODE	COMPLIANCE/NON-COMPLIANCE/PARTIAL COMPLIANCE
1.1	Protection of the rights and interests of shareholders	Compliance
1.2 (1)	Principles of the Board of Directors' Operation	Compliance

**INFORMATION ON COMPLIANCE/NON-COMPLIANCE WITH THE PRINCIPLES**

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 sets the procedure of obtaining the information regarding the Company activity by the shareholders, including the information that affects their interests.

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 to the maximum extent, and of 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.

Annually, the Board of Directors discloses the information on its operation in the 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 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 constructive relationship of Directors and the Management Board; provision of newly elected Directors with the induction programmes.

KEGOC Board of Directors consists of six directors, and four 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 2015, the Board of Directors' performance self-assessment was made through questionnaire survey.

**INFORMATION ON COMPLIANCE WITH THE PRINCIPLES OF KEGOC CORPORATE GOVERNANCE CODE IN 2015 (CONTINUED)**

ITEM NO.	PRINCIPLES OF KEGOC'S CORPORATE GOVERNANCE CODE	COMPLIANCE/NON-COMPLIANCE/PARTIAL COMPLIANCE
1.2 (2)	Principles of the Management Board's Operation	Compliance
1.3	Independence of Company Operations	Compliance
1.4	Transparency and Objectivity in Disclosure of Information about Company Operations	Compliance
1.5	Legality and ethics	Compliance



**INFORMATION ON COMPLIANCE/NON-COMPLIANCE WITH THE PRINCIPLES**

The Management Board is a collegial executive body of KEGOC. The Management Board is headed by the Chairman. 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. When voting, each member of the Management Board has one vote.

In accordance with Article 3 of the Regulation of KEGOC Management Board, the core principles of the Management Board's operation are observance of the shareholders' interests, honesty, fairness, soundness and regularity. The Management Board shall execute the decisions of the General Meeting of Shareholders and the Board of Directors.

The Company performs its operations independently. In accordance with Article 2 of the Charter, KEGOC is a national company and a commercial organisation, which is a legal entity under the Laws of the Republic of Kazakhstan with the main objective to generate net profit from its activity according to the Charter. KEGOC has a separately accounted property, its own balance sheet, 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, 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.

In order to enable reasonable decision-making by the General Meeting and to inform Stakeholders of the Company's operations, KEGOC shall timely provide shareholders and Stakeholders with the 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, ownership 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.

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 shareholders, members of the Board of Directors and the Management Board shall be built on mutual trust, respect, accountability and control.

**INFORMATION ON COMPLIANCE WITH THE PRINCIPLES OF KEGOC CORPORATE GOVERNANCE CODE IN 2015 (CONTINUED)**

ITEM NO.	PRINCIPLES OF KEGOC'S CORPORATE GOVERNANCE CODE	COMPLIANCE/NON-COMPLIANCE/PARTIAL COMPLIANCE
1.6	Efficient dividend policy	Compliance
1.7	Efficient HR policy	Compliance
1.8	Environmental protection	Compliance
1.9	Policy on the regulation of corporate conflicts and conflicts of interest	Compliance



**INFORMATION ON COMPLIANCE/NON-COMPLIANCE WITH THE PRINCIPLES**

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 observance of interests of the Company and shareholders in determining the amount of dividend payments, the increase in investment prospects of the Company and its capitalization, the respect and strict observance of the rights of shareholders, as provided for by the laws of the Republic of Kazakhstan.

Regulation on KEGOC Dividend Policy is placed on the web-site [www.kegoc.kz/corporate/documents](http://www.kegoc.kz/corporate/documents)

The Company's labour relationships are regulated by the Collective Bargaining Agreement, Internal Labour Rules, and internal documents for labour and remuneration payment, for rendering social support, incentives and recognition of KEGOC employees. All rights and obligations of the employer and employees are also specified in employment contracts.

The fundamental principles of KEGOC HR policy include: long-term relations; compliance of employees' qualifications with a job description and a current position; knowledge and experience succession, emphasis on development and education of employees; remuneration and promotion according to their merits and achieved results in their work.

The recruitment procedure in the Company is transparent and exercised in accordance with KEGOC rules of competitive selection for filling of vacancies.

Environmental responsibility is a key principle of KEGOC Environmental Policy.

The Company developed a number of documents specifying its environmental policy: 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 in KEGOC provide a comprehensive management of environmental impacts from the Company's operation.

The Company's Board of Directors appointed the Ombudsman and approved the Ombudsman Regulations. Its main objectives and functions are to ensure compliance with the Code by authorities, officials and employees of KEGOC and, if necessary, to explain the Code provisions and participate in the resolution of disputes arising between employees, and between employees and officials, etc. The Ombudsman shall be entitled, in accordance with the established procedure, to request and obtain from the employees, officials and the Head of Internal Audit Service the materials (information) necessary to provide clarification for the implementation of the Ombudsman's tasks and functions.

**INFORMATION ON COMPLIANCE WITH THE PRINCIPLES OF KEGOC CORPORATE GOVERNANCE CODE IN 2015 (CONTINUED)**

ITEM NO.	PRINCIPLES OF KEGOC'S CORPORATE GOVERNANCE CODE	COMPLIANCE/NON-COMPLIANCE/PARTIAL COMPLIANCE
1.9	Policy on the regulation of corporate conflicts and conflicts of interest	Compliance

**INFORMATION ON COMPLIANCE/NON-COMPLIANCE WITH THE PRINCIPLES**

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, and 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 shareholders, avoiding conflicts. In accordance with the Policy on Settlement of Corporate Conflicts and the Policy on Settlement of Conflict of Interest of the Officials and Employees, 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.

To update and improve the procedures for conflict settlement, the Board of Directors approved KEGOC's Policy on Settlement of Corporate Conflicts and the Policy on Settlement of Conflict of Interest of the Officials and Employees.

In accordance with KEGOC's Policy on Settlement of Corporate Conflicts, 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. To protect both the rights of 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 General Meeting of Shareholders) by means of direct negotiations or correspondence with the involvement of 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 KEGOC's Policy on Settlement of Corporate Conflicts 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 KEGOC Board of Directors, and shall decide on the procedure for corporate conflicts settlement at his/her own discretion.

In accordance with KEGOC's Policy on Settlement of Corporate Conflicts, the Board of Directors shall settle corporate conflicts relating to its competence. When settling corporate conflicts, the Ombudsman shall ensure that the Chairman of the Management Board/the Board of Directors is as full as possible aware of the matter of the corporate conflict and be a mediator in the Corporate Conflict Settlement.

During 2015, the Ombudsman received 5 complaints including one written and four oral complaints

In accordance with KEGOC's Business Ethics Code and Policy on Settlement of Conflict of Interest of the Officials and Employees, the basic requirement in protecting the interests of shareholders and KEGOC and its employees is to prevent conflict of interests. All employees of the Company shall conduct their activities so as to avoid a situation when a conflict of interest can arise with respect to themselves (or related persons) or other employees.

**INFORMATION ON COMPLIANCE WITH THE PRINCIPLES OF KEGOC CORPORATE GOVERNANCE CODE IN 2015 (CONTINUED)**

ITEM NO.	PRINCIPLES OF KEGOC'S CORPORATE GOVERNANCE CODE	COMPLIANCE/NON-COMPLIANCE/PARTIAL COMPLIANCE
1.9	Policy on the regulation of corporate conflicts and conflicts of interest	Compliance
1.10	Responsibility	Compliance

The above information on compliance with the principles of KEGOC Corporate Governance Code is given in the earlier version, approved by the decision of the Sole Shareholder (Order of the Chairman of the Board of Samruk-Kazyna No. 36-n dated 17 May 2011).

In October 2015 the shareholders at the extraordinary General Meeting of Shareholders of KEGOC approved a new Corporate Governance Code

elaborated in compliance with the legislation of the Republic of Kazakhstan with due regard to the corporate governance practices developing in Kazakhstan and in the world, and the Transformation Program of Samruk-Kazyna.

This Code consists of two parts: basic principles and annotations – rules and clarifications for the implementation of the basic principles. The first two chapters of the Code (The

Government as a shareholder of the Fund and cooperation of the Fund and organizations. The role of the Fund as a national management holding) are specific and describe aspects of the Fund management, the interaction between the Fund and the Government of the Republic of Kazakhstan and the corporate governance in the Fund and Organizations. The next five chapters (Sustainable development, The rights of shareholders and fair treatment

**INFORMATION ON COMPLIANCE/NON-COMPLIANCE WITH THE PRINCIPLES**

The Policy on Settlement of Conflict of Interest of the Officials and Employees provides for regulations preventing conflict of interests.

KEGOC developed the Standard Stakeholders Relations Policy. The basic principles of cooperation with stakeholders are as follows:

- responsibility;
- relation continuity;
- feedback from the stakeholders;
- accountability;
- transparency.

The procedure of compensation for stakeholders' rights violation is stipulated by the laws and the agreements, which are strictly observed by KEGOC.

In accordance with KEGOC's Charter the shareholders and the Board of Directors shall be entitled to receive any information on KEGOC's operations, including the information constituting commercial secrets, and to study all documents of the Company pursuant to the Republic of Kazakhstan laws and the internal documents of KEGOC.

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 of illegal and unethical acts of bodies, employees and officials of the Company. The Company has introduced a hot line for confidential messages.

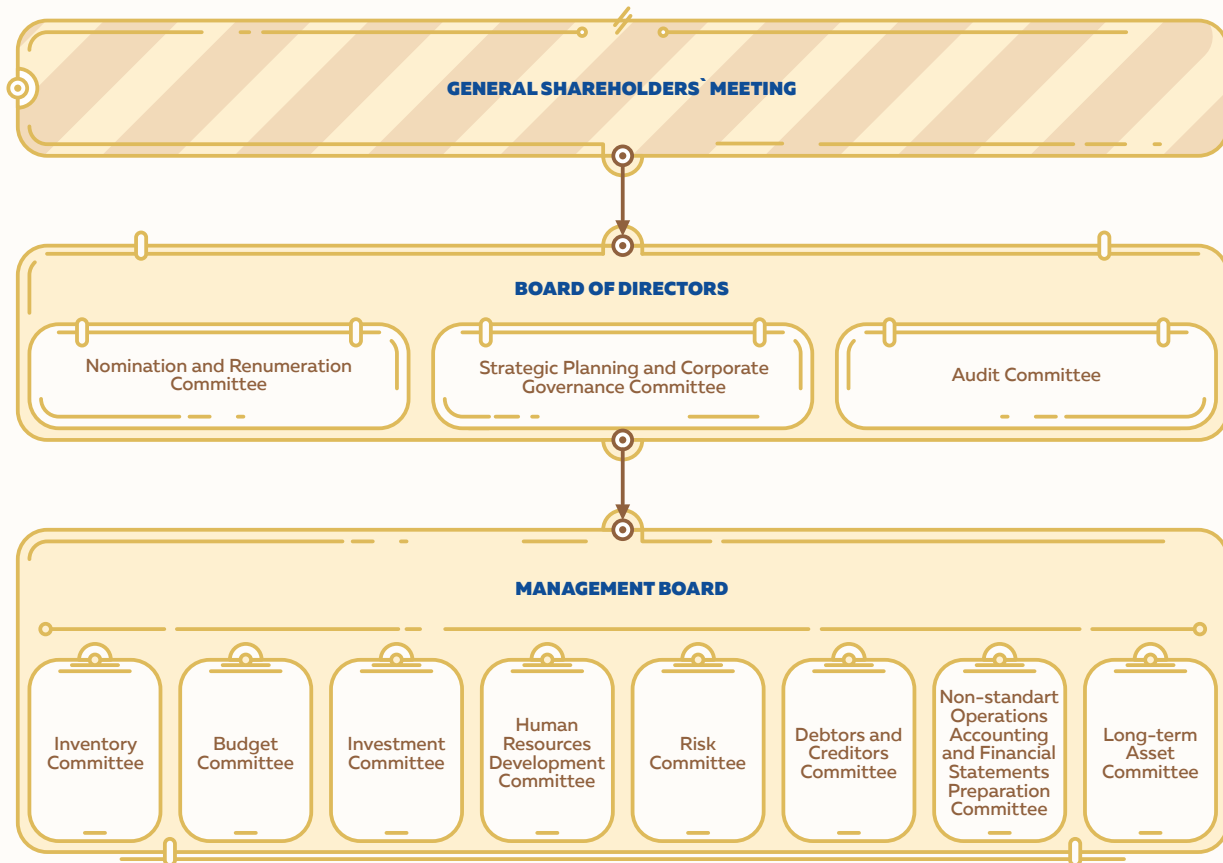
of shareholders, The efficiency of the Board of Directors and executive body, Risk management, internal control and audit, Transparency) of the Code shall be applied by the Fund and the Company with account of aspects described in the first two chapters, as well as the provisions of the legislation of the Republic of Kazakhstan.

Compared to the previous Code, the new Code in more detail regulates

relations between agencies, their operation and collaboration principles, and improvement of their performance. Another distinctive feature is an emphasis on the issues related to sustainable development.

Under the new Code, the information on facts and causes of non-compliance with its provisions shall be disclosed starting from 1 January 2017, i.e. the information is planned to be disclosed in the Company's

Annual Report for 2016. In order to implement the provisions of the new Code, the Company developed and approved the Action Plan for 2016-2020, which is expected to eliminate the non-compliance of the current corporate governance practices with the new Code.



## SHAREHOLDERS

In December 2014 under the Programme for public offering of shares of subsidiaries and affiliates of Samruk-Kazyna Sovereign Wealth Fund on the stock market (approved by Resolution No.1027 of the Government of Kazakhstan dated 8 September 2011 and hereinafter referred to as People's IPO Programme), KEGOC held 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 placed on the Kazakhstan organized securities market was 10% less one share or 25,999,999 (twenty-five million nine hundred and ninety-nine thousand nine hundred and ninety-nine). The price of one ordinary KEGOC share was 505 (five hundred and five) tenge.

As of 31 December 2015, the number of the Company's declared and placed ordinary shares was 260,000,000, of which 90 % plus one KEGOC share are owned by major shareholder represented by Samruk-Kazyna (234,000,001), the remaining 10 % minus one share belong to minority shareholders (25,999,999).

In 2015 there was no significant transactions or changes to shares and shareholders that own five or more per cents

of the number of the placed shares. There was no initial offering of shares, repurchase of its own shares by the Company or their subsequent resale in 2015.

### **GENERAL SHAREHOLDERS' MEETING**

The General Shareholders' Meeting is the superior body of KEGOC.

The General Shareholders' Meeting shall run its activities in accordance with the Law of the Republic of Kazakhstan On Joint-Stock Companies, the Charter and the Regulations on the General Meeting of KEGOC Shareholders.

The exclusive competence of the General Shareholders' Meeting is defined by Article 21.1 of the KEGOC Charter.

The General Shareholders' Meeting shall have the right to overrule any decision of other bodies of KEGOC on the issues relating to the internal operations of the Company, unless otherwise is stipulated in the Charter.

The General Shareholders' Meetings can be annual and extraordinary.

The Annual General Shareholders' Meeting shall be held no later than five (5) months after the end of the fiscal year.

All meetings of the shareholders, except for Annual one, are extraordinary.

The Annual General Shareholders' Meeting was held on **30 April 2015**, where the decisions were taken on the following issues:

- Approve the KEGOC Annual Report 2014;
  - Approve the annual financial statements, distribution of the net income, decision to pay dividends on ordinary shares and approve the amount of the dividend per one ordinary share of KEGOC for 2014;
  - Determine number of members, terms of office of KEGOC's Board of Directors, elect its members and chairman, and determine the rates and terms of remuneration and compensation of expenses for the members of KEGOC's Board of Directors in fulfilment of their duties;
  - Claims from the shareholders in relation to activities of KEGOC and its officers and results of consideration of such claims;
  - Number of members, terms of office of the Counting Board of the General Shareholders' Meeting of KEGOC and election of its members.
- The Extraordinary Shareholders Meeting was held on 16 October 2015, where the decisions were taken on the following issues:
- Approve the Regulations on the General Meeting of KEGOC's Shareholders;
  - Approve the new revision of KEGOC's Charter;
  - Approve the new revision of the Corporate Governance Code of KEGOC;
  - Approve the new revision of the Regulations on KEGOC Board of Directors;
  - Approve the financial statements,

distribution of the net income, decision to pay dividends on ordinary shares and on the amount of the dividends per one ordinary share of KEGOC for the first half of the year 2015.

### **REPORT ON THE BOARD OF DIRECTORS ACTIVITIES 2015**

From 01 January to 30 April 2015, KEGOC Board of Directors included the following members: Kuanysh Bektemirov, Anatoliy Spitsyn, Luca Sutera, Almassadam Satkaliyev and Bakytzhan Kazhiyev.

On the basis of the decisions of the General Shareholders' Meeting dated 30 April 2015, due to the expiration of the term of office of the Board of Directors as a whole, the new members were elected to the Board of Directors.



## MEMBERS OF THE BOARD OF DIRECTORS OF KEGOC



# KUANYSH BEKTEMIROV

*45 years old  
citizen of the Republic of Kazakhstan*

**Chairman of the Board of Directors, representative of major shareholder – Samruk-Kazyna.**

*Elected on 08 May 2012; the General Shareholders' Meeting of KEGOC extended the term of office for three years on 30 April 2015*

*Shares owned in KEGOC or its counterparties, or its branches and affiliates: no.*

- 2011-2012 – CEO at AstanaEnergContract;
- 2009-2010 – Deputy, First Deputy of CEO at KazHydroMet.

### Positions:

- since 2012, Chief Asset Management Officer at Samruk-Kazyna, Chairman of the Board of Directors at Samruk Energy, Chairman of the Board of Directors at Tau-Ken Samruk National Mining Company,
- member of the Board of Directors of KazAtomProm;



## LUCA SUTERA

*44 years old  
citizen of Italy*

**Independent Director,  
Chairman of the Audit  
Committee under the Board of  
Directors**

*Elected on 08 May 2012; the General Shareholders' Meeting of KEGOC extended the term of office for three years on 30 April 2015.*

*Shares owned in KEGOC or its counterparties, or its branches and affiliates: no.*

- since 2012 – Member of the Board of Directors at Samruk Energy.

### **Positions:**

- since 2015 – Chief Financial Officer and member of the Management Board at NEBRAS POWER (an international energy company in Qatar), Independent Director;
- 2011-2015 – Senior Vice President and Chief Financial Officer at Global power & water business (TAQA, Abu Dhabi National Energy Company);



## ANATOLIY SPITSYN

*76 years old  
citizen of the Russian Federation*

**Independent Director,  
Chairman of the Strategic  
Planning and Corporate  
Governance Committee under  
the Board of Directors**

*Elected on 08 May 2012; the General Shareholders' Meeting of KEGOC extended the term of office for three years on 30 April 2015.*

*Shares owned in KEGOC or its counterparties, or its branches and affiliates: no.*

- 2010-2013 – Professor of Economics and Finance Department, Public Sector, IIPAM, Russian Presidential Academy of National Economy and Public Administration;
- since 2012 – Member of the Board of Directors at Samruk Energy.

### **Positions:**

- since 2013 – Director of the Institute of Integration Problems Strategic Studies of the Eurasian Economic Community, Professor of the National Security chair, Department of the National Security of the Russian Presidential Academy of National Economy and Public Administration, Moscow;



## DOMINIQUE FACHE

*66 years old  
citizen of France*

**Independent Director,  
Chairman of the Nomination  
and Remuneration Committee  
under the Board of Directors**

*Elected by the General Shareholders' Meeting of KEGOC's on 30 April 2015. Shares owned in KEGOC or its counterparties, or its branches and affiliates: no.*

**Positions:**

- since 2013 – Member of the Board of Directors at Sophia Antipolis Science Park;
- 2008-2013 – Chairman of the Board of Directors, CEO at Enel OGK-5;
- 2007-2008 – General Director for Russia and CIS, Enel;
- 2006-2007 – Member of the

Board of Directors at SUEK – Siberian Energy Coal Company, Moscow, Russia.



## JANUSZ BIALEK

*60 years old  
citizen of the Republic of Poland and the United Kingdom*

### Independent Director

*Elected by the General Shareholders' Meeting of KEGOC's on 30 April 2015.*

*Shares owned in KEGOC or its counterparties, or its branches and affiliates: no.*

- 2003-2009 – Bert Whittington Chair of Electrical Engineering, Director of master's programmes for green energy systems, the University of Edinburgh, UK.

### **Positions:**

- since 2014 – Director of the Skoltech Center for Energy Systems;
- 2009-2013 – Chair of Electrical Power and Control, Director for research work at the School of Engineering and Computing Sciences, Durham University, UK;



## BAKYTZHAN KAZHIYEV

*51 years old  
citizen of the Republic of Kazakhstan*

**Member of the Board of  
Directors**

*Elected on 08 May 2012; the General Shareholders' Meeting of KEGOC extended the term of office for three years on 30 April 2015*

*Shares owned in KEGOC or its counterparties, or its branches and affiliates: no.*

**Positions:**

- since 2011 – Chairman of the Management Board at KEGOC;
- 2009-2011 – Vice-President at KEGOC;
- 2008-2009 – Executive Director at KEGOC;

- 2007-2008 – Head of the Capital Construction Department at KEGOC.

On the basis of the decisions of the General Shareholders' Meeting of dated 30 April 2015, due to the expiration of the term of office of the Board of Directors as a whole, the new members were elected to the Board of Directors.

More details regarding the members of the Board of Directors (including their qualifications) are available on KEGOC's website at: [www.kegoc.kz/ru/korporativnoe-upravlenie/sovet-direktorov](http://www.kegoc.kz/ru/korporativnoe-upravlenie/sovet-direktorov).

The Board of Directors includes four independent directors composing

more 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 preceding their election to the Board of Directors (except when they took the position of an independent director of the Company);
- are not an affiliate with respect to the KEGOC's affiliates;
- are not subordinated and were not subordinated to officials of KEGOC or its affiliates within three years

preceding their election to the Board of Directors;

- do not participate, and did not participate in the Company's audit as an auditor of an audit company within three years prior to their election to the Board of Directors;
- do not and did not represent the shareholder at the meetings of the Company's bodies within three years prior to their election to the Board of Directors;
- are not civil servants.

#### Attendance at the meetings in presentia by the members of the Board of Directors in 2015

MEMBERS OF THE BOARD OF DIRECTORS	13.02.2015	20.03.2015	29.04.2015	29.05.2015	10.07.2015	28.08.2015	15.10.2015	10.12.2015	%
Kuanysb Bektemirov	+	+	+	+	+	+	+	+	100
Anatoliy Spitsyn	+	+	+	+	+	+	+	+	100
Luca Sutera	+	+	+	+	+	+	+	+	100
Almassadam Satkaliyev	-	+	+	the term of office has expired					66.6
Dominique Fache	elected on 30.04.2015			+	+	+	+	+	100
Janusz Bialek	elected on 30.04.2015			-	+	+	-	+	60
Bakytzhan Kazhiyev	+	+	+	+	+	+	+	+	100



In 2015, the Board of Directors held 8 meetings in presentia at which 129 issues were reviewed. The major issues are as follows:

### Strategic issues:

- Report on implementation of KEGOC Long-Term Development Strategy, Investment Programme, large investment projects for 2015;
- KEGOC Development Plan for 2016-2020;
- KEGOC Annual Report 2014;
- Roadmap for KEGOC's Business Transformation Programme;
- Amendments to KEGOC's Innovation and Technology Strategy up to 2025;
- Annual Financial Statements;
- 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;
- Determining an auditor organisation for KEGOC for 2016-2018 and the cost of its services.

### Corporate governance issues:

- Action plan of the KEGOC Board of Directors and its Committees for 2015, Annual Audit Plan of KEGOC Internal Audit Service for 2015;
- Action Plan for implementation of Samruk Kazyna's expectations for 2015;
- New revision of KEGOC's Succession Plan;

- Action plan to improve KEGOC corporate governance in 2015;
- New revision of KEGOC's Charter;
- New revision of KEGOC Corporate Governance Code;
- New revision of the Regulations on KEGOC Board of Directors;
- New revision of the Regulations on the Corporate Secretary of KEGOC;
- Results of corporate governance diagnostics and review of the results of self-assessment of KEGOC for compliance of the current practices with the provisions of the new Corporate Governance Code (Gap-analysis);
- Assessment of the operations of the Board of Directors and its committees, the Chairman and members of the Board of Directors, the Management Board, Internal Audit Service and its Head, the Corporate Secretary of KEGOC with the assistance of independent organization.

### HR policy issues:

- Nomination of two representatives of KEGOC Board of Directors to the KEGOC Modernisation Council;
- Assessment of the remuneration policy for executives of KEGOC;
- Early termination of term of office of a member of KEGOC Management Board;
- KEGOC's Executive Administration (head office) Organisational Structure;
- Nomination of executive employees of KEGOC, determination of the

- amounts of their salaries, and election of the member of the Management Board;
- Individual key performance indicators of KEGOC executive employees.

### Review of transaction issues

Pursuant to KEGOC's Charter the exclusive competence of the Board of Directors comprises making of decisions on conclusion of transactions resulting in acquiring or alienating the property which costs 10% or more of the total assets of the Company and non-arms length transactions, excluding those ones which have to be decided by Samruk-Kazyna Board of Directors in accordance with the Law of the Republic of Kazakhstan On Sovereign Wealth Fund.

In 2015, KEGOC did not conclude any large transaction.

Only Independent Directors of KEGOC's Board of Directors can take part in decision making with regard to non-arms length transactions and which are determined as being so by the laws of the Republic of Kazakhstan. Thus, the independent members of the Board of Directors made a decision relating to the transaction with Batys Transit (purchase and sale of securities) in 2015.

The decisions made by the Board of Directors in 2015 contributed to the more efficient development of KEGOC, 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 at KEGOC, analyses the efficiency of the internal control mechanisms and the risks management in respect of wide range of business-processes.

### Committees under the Board of Directors

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

- Audit Committee;
- Nomination and Remuneration Committee;
- Strategic Planning and Corporate Governance Committee.

The Committees are an advisory body of the Board of Directors. All proposals worked out by the Committees are recommendations to be submitted to KEGOC Board of Directors for review.

The **Audit Committee** was established to work out and submit recommendations to the Board of Directors relating to control over financial and economic activities (including completeness and accuracy of the financial statements); reliability and efficiency of internal control systems and risk management, as well as execution of corporate governance documents; independence of external and internal audit, and process

ensuring enforcement of the laws of the Republic of Kazakhstan.

The Committee shall perform its functions in accordance with the Regulations on Audit Committee under KEGOC Board of Directors.

On 13 February 2015, the Board of Directors established the membership of the Committee:

- Luca Sutera – Chairman of the Committee, Independent Director;
- Anatoliy Spitsyn – Independent Director;
- Almassadam Satkaliyev.

Due to the expiration of the term of office of the Board of Directors as a whole, on 29 May 2015 the Board of Directors established a new membership of the Committee:

- Luca Sutera – Chairman of the Committee, Independent Director;
- Anatoliy Spitsyn – Independent Director;
- Janusz Bialek – Independent Director.

In 2015, the Committee held seven (7) meetings in presentia, where 51 issues were reviewed, and the appropriate recommendations were submitted to the Board of Directors, including: quarterly reports on the performance of the Internal Audit Service, issues relating to financial statements, internal control and risk management, internal and external audit, HR issues of the Internal Audit Service, preliminary approval of audit organisation to audit the Company for 2016-2018, payment amount of its services and draft contract with it.

Moreover, the Audit Committee members held three meetings with the representatives of Ernst & Young company, which was selected to conduct the audit of 2015 financial statements, and discussed preliminary audit results of KEGOC consolidated statements for 2014, the management letters on the audit results, audit plan for 2015, and financial statements review results for the 1st quarter and the 1st half-year, and 9 months of 2015.

**Attendance at the meetings in presentia by the members of the Audit Committee in 2015**

<b>MEMBERS OF THE AUDIT COMMITTEE</b>	<b>12.02.2015</b>	<b>19.03.2015</b>	<b>29.04.2015</b>	<b>10.07.2015</b>	<b>28.08.2015</b>	<b>15.10.2015</b>	<b>10.12.2015</b>	<b>%</b>
Luca Sutera	+	+	+	+	+	+	+	100
Anatoliy Spitsyn	+	+	+	+	+	+	+	100
Almassadam Satkaliyev	elected on 13.02.2015	+	+	the term of office has expired				100
Janusz Bialek	elected on 30.04.2015			+	+	–	+	75

In 2015, the Committee fully accomplished its goals, tasks and functional duties in accordance with the Regulations on the Audit Committee.

**The Nomination and Remuneration Committee**

was established to work out and submit to the Board of Directors the recommendations relating to:

- election or nomination of candidates as independent directors, membership of the Management Board, Corporate Secretary taking into account the provisions of the Company's internal documents;
- remuneration to the Directors,

members of the Management Board, Corporate Secretary in accordance with the goals, tasks and the current condition of KEGOC and level of remuneration in peer companies;

- introduction of structured and open system of remuneration to the directors, members of the Management Board, Corporate Secretary.

The Nomination and Remuneration Committee shall perform its functions in accordance with the Regulations on the Nomination and Remuneration Committee.

On 13 February 2015, the Board of

Directors established the membership of the Committee:

- Anatoliy Spitsyn – Chairman of the Committee, Independent Director;
- Luca Sutera – Independent Director,
- Almassadam Satkaliyev.

Due to the expiration of the term of office of the Board of Directors as a whole, on 29 May 2015 the Board of Directors established a new membership of the Committee:

- Dominique Fache – Chairman of the Committee, Independent Director;
- Anatoliy Spitsyn – Independent Director;

**Attendance at the meetings in presentia by the members of the Nomination and Remuneration Committee in 2015**

MEMBERS OF THE NOMINATION AND REMUNERATION COMMITTEE	12.02.2015	19.03.2015	29.04.2015	10.07.2015	28.08.2015	15.10.2015	10.12.2015	%
Dominique Fache	elected on 30.04.2015			+	+	+	+	100
Anatoliy Spitsyn	+	+	+	+	+	+	+	100
Luca Sutera	+	+	+	the term of office has expired				100
Almassadam Satkaliyev	elected on 13.02.2015	+	+	the term of office has expired				100
Janusz Bialek	elected on 30.04.2015			+	+	-	+	75

• Janusz Bialek – Independent Director.

In 2015, the Committee held seven (7) meetings in presentia, where 23 issues were reviewed, and the appropriate recommendations were submitted to the Board of Directors, including nomination of new members of the Board of Directors, Management Board, organisational structure, key performance indicators of the Management Board’s members, remunerations.

In October 2015, the members of

KEGOC Board of Directors and Management Board held a meeting with members of KEGOC talent pool.

In 2015, the Committee fully accomplished its goals, tasks and functional duties in accordance with the Regulations on the Nomination and Remuneration Committee as well as work plan of the Committee.

**The Strategic Planning and Corporate Governance Committee** was established to work out and submit to the Board of Directors the recommendations relating to:

- priority areas of the Company’s activities, development strategies, Development plan, implementation of investment programmes and large investment projects at KEGOC;
- improvement of corporate governance at the Company.

The Committee shall perform its functions in accordance with the Regulations on the Strategic Planning and Corporate Governance Committee under KEGOC Board of Directors.

On 13 February 2015, the Board of Directors established the membership of the Committee:

- Anatoliy Spitsyn – Chairman of the Committee, Independent Director;
- Luca Sutera – Independent Director,

• Almassadam Satkaliyev.  
Due to the expiration of the term of office of the Board of Directors as a whole, on 29 May 2015 the Board of Directors established a new membership of the Committee:

- Anatoliy Spitsyn – Chairman of the Committee, Independent Director;
- Dominique Fache – Independent Director;
- Luca Sutera – Independent Director.

***Attendance at the meetings in presentia by the members of the Strategic Planning and Corporate Governance Committee in 2015***

<b>MEMBERS OF THE STRATEGIC PLANNING AND CORPORATE GOVERNANCE COMMITTEE</b>	<b>12.02.2015</b>	<b>19.03.2015</b>	<b>29.04.2015</b>	<b>10.07.2015</b>	<b>28.08.2015</b>	<b>15.10.2015</b>	<b>10.12.2015</b>	<b>%</b>
Anatoliy Spitsyn	+	+	+	+	+	+	+	100
Luca Sutera	+	+	+	+	+	+	+	100
Almassadam Satkaliyev	elected on 13.02.2015	+	+	the term of office has expired				100
Dominique Fache	elected on 30.04.2015			+	+	+	+	100

In 2015, the Committee held seven (7) meetings in presentia, where 23 issues were reviewed, and the appropriate recommendations were submitted to the Board of

Directors, including issues relating to development strategy, Development plan, implementation of investment programme, innovation activities, etc. In 2015, the Committee fully

accomplished its goals, tasks and functional duties in accordance with the Regulations on the Strategic Planning and Corporate Governance Committee, as well as work plan of

the Committee. It should be noted that the Committee's activities meet the Samruk-Kazyna's expectations as a major shareholder of KEGOC regarding improved efficiency of the Board of Directors and rating of KEGOC corporate governance.

The independent members of the Board of Directors shall be remunerated in accordance with the resolution of the General Shareholders Meeting, during the period of fulfilment of their duties, and be compensated for 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 shall be paid to an independent director for the fulfilment of his/her duties as a member of the KEGOC Board of Directors in the amount determined by the General Shareholders Meeting in accordance with the laws of the Republic of Kazakhstan. The additional fee shall be 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.

An independent director shall be compensated for the expenses associated with the trip to the meetings of the Board of Directors of KEGOC, committees under 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. The expenses shall be compensated within the limits of reimbursement of business trip expenses stipulated by the internal documents of the Company.

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

In 2015, the annual fixed fee of independent directors of KEGOC Board of Directors amounted to KZT 37.048 million, the fee for the participation in the meetings in presentia of the committees amounted to KZT 13.441 million.

### Activity Assessment

KEGOC Corporate Governance Code provides for annual assessment of the activity of the Board of Directors, whereas no less than once every three years, the assessment shall be carried out with the assistance of an independent party.

In 2015, the activity of the Board of Directors was assessed through questionnaire survey based on the methods elaborated by Samruk-Kazyna in accordance with the laws of the Republic of Kazakhstan and the best international practice for the corporate governance, particularly the

principles of corporate governance of the Organization for Economic Cooperation and Development and the UK Corporate Governance Code. Having reviewed the findings of the activity assessment of the Board of Directors and its committees, the Chairman and members of the Board of Directors, Management Board, Internal Audit Service and its Head, and Corporate Secretary, the Board of Directors reached the conclusion that the work of the Board of Directors and committees was at an adequate level, and qualification of the members of the Board of Directors, Management Board, Corporate Secretary, Internal Audit Service and its Head complied with the goals and objectives of KEGOC.

### MANAGEMENT BOARD

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

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

## MEMBERSHIP OF KEGOC MANAGEMENT BOARD

Since 1 January to 10 December 2015 the following membership of KEGOC Management Board was effective:

<b>BAKYTZHAN KAZHIYEV</b>	Chairman of Management Board, KEGOC
<b>BAKYTKHAN ZHAZYKBAYEV</b>	First Deputy Chairman of Management Board
<b>ABAT AKMURZIN</b>	Deputy Chairman of Management Board – Operations
<b>ZHANABAI BEKSARY</b>	Deputy Chairman of Management Board – Corporate Governance
<b>MUKTAR BEKENOV</b>	Managing Director – Branches and Affiliates
<b>AIBEK BOTABEKOV</b>	Managing Director – Economics
<b>KAIRAT ZHAKIPBAYEV</b>	Managing Director – Legal Support and Security
<b>ASKERBEK KUANYSHBAYEV</b>	Managing Director – NPG Development and System Services
<b>BOLAT TEMIRBEKOV</b>	Managing Director – Technical Supervision and Supply

On 10 December 2015, KEGOC Board of Directors excluded Zhanabai Beksary from the Management Board due to his moving to another company, and elected a new member of the Management Board – Serik Ospanov.



Thus, as of 31 December 2015 KEGOC Management Board consisted of:



***Chairman of KEGOC's  
Management Board***

## **BAKYTZHAN KAZHIYEV**

*born in 1964, citizen of the Republic of Kazakhstan*

### **Education:**

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

### **Experience in the sector is 29 years.**

*Shares owned in KEGOC or its counterparties: no.*



***First Deputy Chairman of  
Management Board***

## **SERIK OSPANOV**

*born in 1973, citizen of the Republic of Kazakhstan*

### **Education:**

Semey State University majoring in Machinery and Apparatus for Food Production, and State Kazakh Academy majoring in Economics and Management.

### **Areas of responsibility at KEGOC:**

financial and economic issues, prising, cooperation with financial institutions, system services, interaction with power systems and power enterprises of neighbouring countries,

procurement, logistical support, operational dispatch control.

### **Experience in the sector is 15 years.**

*Shares owned in KEGOC or its counterparties: no.*



**Deputy Chairman of  
Management Board –  
Operations**

## **BAKYTKHAN ZHAZYKBAYEV**

*born in 1968, citizen of the Republic of Kazakhstan*

### **Education:**

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

### **Areas of responsibility at KEGOC:**

repair and maintenance of business assets, investment programme, technical policy, cooperation with branches and affiliates.

**Experience in the sector is 15 years.**

*Shares owned in KEGOC or its counterparties: no.*



**Deputy Chairman of  
Management Board –  
NPG Development and  
Corporate Governance**

## **ASKERBEK KUANYSHBAYEV**

*born in 1955, citizen of the Republic of Kazakhstan*

### **Education:**

Alma-Ata Power Engineering Institute majoring in Power Supply of Industrial Enterprises and Cities. Candidate of Economic Science, Associate Professor – Economics.

### **Areas of responsibility at KEGOC:**

KEGOC Development Strategy, corporate governance, risk management system, integrated management system, long-term NPG development, technical policy,

cooperation with international organisations.

**Experience in the sector is 38 years.**

*Shares owned in KEGOC or its counterparties: no.*



***Managing Director –  
Branches and Affiliates***

## ABAT AKMURZIN

*born in 1958, citizen of the Republic of Kazakhstan*

### **Education:**

Kazakh Agricultural Institute majoring in Electrification and Rudny Industrial Institute majoring in Economics and Business Management.

### **Areas of responsibility at KEGOC:**

branches and affiliates operation, repair and maintenance of business assets, investment programme, development of information technologies, construction.

**Experience in the sector is 35 years.**

*Shares owned in KEGOC or its counterparties: no.*



***Managing Director –  
System Services***

## MUKTAR BEKENOV

*born in 1958, citizen of the Republic of Kazakhstan*

### **Education:**

Alma-Ata Power Engineering Institute majoring in Power Systems and Networks.

### **Areas of responsibility at KEGOC:**

system services, interaction with power systems of neighbouring countries, operational dispatch and process control over the UPS operation modes, custom clearance of power flows, operation and

rehabilitation of relay protection and automation of substations, and operations metrology support.

**Experience in the sector is 35 years.**

*Shares owned in KEGOC or its counterparties: no.*



***Managing Director –  
Economics***

## **AIBEK BOTABEKOV**

*born in 1976, citizen of the Republic of Kazakhstan*

**Education:**

Buketov Karaganda State University majoring in International Relations and Economics.

**Areas of responsibility at KEGOC:**

financial and economic issues, pricing, cooperation with financial institutions and audit companies, financial statements, management accounting system.

**Experience in the sector is 18 years.**

*Shares owned in KEGOC or its counterparties: no.*



***Managing Director – Legal  
Support and Security***

## **KAIRAT ZHAKIPBAYEV**

*born in 1964, citizen of the Republic of Kazakhstan*

**Education:**

Kirov Kazakh State University majoring in Legal Science.

**Areas of responsibility at KEGOC:**

legal issues, economic, technical and information security, documentation record management.

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

**Experience in the sector is 8 years.**

*Shares owned in KEGOC or its counterparties: no.*



***Managing Director –  
Technical Supervision  
and Supply***

## BOLAT TEMIRBEKOV

*born in 1964, citizen of the Republic of Kazakhstan*

### Education:

Alma-Ata Power Engineering Institute majoring in Electrical Power Supply and Kazakhstan-Russian University majoring in Economics.

### Areas of responsibility at KEGOC:

procurement, logistical support, technical supervision and occupational safety.

### Experience in the sector is 28 years.

*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 2015 KEGOC's Management Board held 23 meetings and reviewed 191 issues, namely:

- Regarding internal regulatory

documents (IRDs) of KEGOC:

1. 10 IRDs and amendments to 12 IRDs were approved;
  2. two IRDs were agreed and submitted for consideration to KEGOC Board of Directors and one IRD was amended.
- three decisions were made relating to the single-source procurement of goods, works and services and five decisions were made relating to conclusion of non-arm's length transactions;
  - 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 2015 were approved. Progress and actions reports 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.
- reports on implementation of the Action Plan of the internal control improvement in 2014;
- risk reports;
- report on the Risk Committee's

- Performance for 2014;
- disclosure reports for 2015 and report on work results of Human Resources Development Committee for 2014 and approval of Human Resources Development Committee Work Plan for 2015;
- reports on implementation of KEGOC Development Plan;
- 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 major investment projects in 2014;
- report on implementation of KEGOC's Long-term Development Strategy 2025 in 2014 and implementation of the Comprehensive action plan for KEGOC's Long-term Development Strategy 2025;
- KEGOC Annual Report 2014;
- report on preliminary review of claims from the shareholders in relation to KEGOC's activities and its officers and results of consideration of such claims.
- reports on approval of membership, terms of office of the Counting Board of the General Shareholders' meeting and election of its members.

In 2015 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 JSC.

In addition, the Management Board considered the sponsorship and charity issues.

The labour payment and remuneration procedure for KEGOC Management Board members shall be outlined in the Regulations on KEGOC Management Board as well as the Rules for labour payment and remuneration 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 remuneration. Thus, the total salary amounting to KZT 128.07 million was calculated for the members of KEGOC Management Board from 01 January 2015 to 31 December 2015.

A year-end remuneration to KEGOC executive employees shall be 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 payment of remuneration is mainly conditioned by consolidated total income for the reporting period. The remuneration 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.

Considering these principles, the remuneration will not be paid to executive employees of KEGOC based on the performance in 2015.

## **DIVIDEND POLICY**

The dividend policy of KEGOC shall be based on the balance of interests of 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. 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 Shareholders' 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 KEGOC 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 Shareholders 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

	2013*	2014	1 <sup>ST</sup> HALF-YEAR 2015
Amount of the dividend per one ordinary share, KZT	–	33.13	9.4
Dividend yield, %	–	9.1%	1.4%
Book value per share as of the end of the period for which the dividends were declared (as per IFRS), KZT	1,027	1,380	1,370
Amount of dividends, KZT thousand	–	8,613,800	2,444,000
Share of net profit as per IFRS assigned for payment of dividends, %	–	99.97%	40.01%
Name of the issuer governing body that took decision to pay dividends	–	General Shareholders' Meeting	General Shareholders' Meeting
Date of the meeting of the issuer governing body where the decision was taken relating to payment of dividends, date and number of minute	–	Minute No. 1 dated 30 April 2015	Minute No. 2 dated 16 October 2015
Date of preparing the list of persons having the right to dividends	–	15 May 2015	30 October 2015

\*KEGOC did not declare nor pay a dividend for 2013 due to negative value of the net profit



### INTERNAL AUDIT SERVICE (IAS)

The IAS was established by the decision of the KEGOC Board of Directors in 2006. As of 31 December 2015, the approved staff in the IAS was eight.

The mission of the IAS 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 IAS 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.

The activities of the IAS shall be regulated by the Regulations on KEGOC Internal Audit Service, the Rules of Internal Audit Management at KEGOC, and job descriptions for the IAS employees.

All audit engagements were planned with respect to the mission and the main objective of the IAS. The risk-based approach was used to plan the internal audit i.e. the priority was given to business processes that are most vulnerable to negative events.

The IAS annual audit plan for 2015 was approved by the KEGOC Board of Directors. The plan provides for execution of 20 engagements. Themes of the audit engagements performed by the IAS in accordance with the plan included the combined

checks of the Company's branches, financial statements, external audit, procurement, risk management, information technologies, projects and etc. All the engagements were performed.

Moreover, within implementation of the Fund's Audit Committee instruction as well as initiative of the Fund's IAS relating to synergic IT audits in Samruk-Kazyna companies, the IAS took part in the following audit engagements:

- audit of information technologies in branches and affiliates of Samruk-Energy: Ekibastuz GRES-1 LLP, Bogatyr Coal LLP (Ekibastuz);
- audit of general IT controls in branches and affiliates of KazMunaiGas: Atyrau Refinery LLP (Atyrau).

According to the 2015 results of performed audit engagements, the IAS submitted to the Company 291 recommendations; among them 286 recommendations were accepted by the audited entities, and five (5) ones were not accepted (i.e. heads of the audited entities accepted the risk of their non-fulfilment). Audited entities together with the IAS prepared the Corrective Action Plans. Every quarter the IAS monitored the execution of the issued recommendations. Following the results of monitoring it was found out that as of 31 December 2015 KEGOC executed 60 recommendations, 226 recommendations are at implementation stage.

### RISK MANAGEMENT AND INTERNAL CONTROL

Risk management system is successfully working at 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 units – the risk owners and the structural unit responsible for the risk management.

The main principles of the risk management system are:

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

The Company annually 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 categories: strategic risks, financial risks, operational risks, and legal risks.

The activities of the Risk Committee which is responsible for the preparation of recommendations to the KEGOC Management Board with regard to the Company's risk management, were very pro-

ductive in 2015. In 2015, the Committee held nine (9) meetings. The Committee's members reviewed the reports on the risk management system, Risk Register and Risk Map as well as Risk Management Action Plan for 2016, etc.

Following are the material risks, which KEGOC incurred in 2015:

- **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 and euro).

To minimize the exchange rate dependence the Company puts its funds in second-tier banks' deposits.

- **Decreased scope of system services delivered,** a risk occurring due to reduction of the electricity transmission scope by the wholesale electricity market entities in the Republic of Kazakhstan, and due to lower electricity transit from the Russian Federation.

This risk shall be managed by correction of the planned indicators.

- **Risk of non-payment for unscheduled electricity consumption and power control services by the grid operators of the IPS of Central Asia.** The main factor of such risk is a breach of contract obligations by UzbekEnergo with regard to payment for the electricity and power regulation services. In order

to eliminate this risk the Company carries on the correspondence with UzbekEnergo relating to timely payment and settle of the arrears for the delivered electricity and power regulation services. Moreover, KEGOC carries out the claims work regarding the settle of the arrears by UzbekEnergo under the contracts for power regulation services and unscheduled electricity.

- **Occupational safety risk.** With respect to the Company's activities the personnel is exposed to the accidental risk during operations, as a result of safety regulations violation or occupational diseases. With a view to mitigate such risk KEGOC's 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.

Internal Control System (ICS) is implemented and functions at the Company. The ICS is based on the Standard 'Internal Control System of KEGOC' (ICS Standard) as well as the Regulations on Arrangement and Works Performance on Internal Control System at KEGOC. In accordance with the ICS Standard, the Board of Directors shall be responsible for arrangement, monitoring and assessment of the ICS's efficiency using risk-based approach; the Management

Board shall develop and implement the ICS internal document approved by the Board of Directors, provide reliable and efficient operation, monitoring of the ICS, improvement of processes and procedures for internal control. As per the ICS, the Company shall build a management system capable to promptly respond to the risks, control over core and supporting business processes and daily operations, as well as immediately inform the executives of appropriate level of any material deficiencies and areas to improve. In 2015, KEGOC approved a Business Process Classifier, in accordance with which two risk and control flowcharts and matrices Repair and Maintenance of Electric Grid Facilities and Prevention, Confinement and Elimination of Emergencies in the Kazakhstan UPS.

In accordance with KEGOC Corporate Governance Code, the Standard Internal Control 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 internal control system at the Company and report to the General Shareholders' Meeting on such assessment. Such assessment covers all types of control, including the financial and operational, control over the observance and efficiency of the risk management system.

In order to assist the Board of Directors in its assessment of the efficiency of the internal control system of KEGOC, the IAS, jointly with the Audit

Committee, reviewed in detail those components on which the system of internal control is based:

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

The assessment was carried out in accordance with the procedure for assessment of the internal control system efficiency for the branches and affiliates of Samruk-Kazyna.

Following the results of the assessment, the level of KEGOC's ICS conformity to the best world practice is 84.32% (in 2014 – 75.82%, growth – 8.5%). In 2015 KEGOC improved all the ICS components.

### INFORMATION POLICY

The fundamental principles in implementation of KEGOC's information policy include:

- Regularity and timeliness;
- Openness and accessibility;
- Accuracy and completeness;
- Promptness;
- Confidentiality;
- Balance;
- Equal rights for information recipients.

Disclosure of information to shareholders, investors and other stakeholders shall be performed by:

- Providing access to information (documents);
- Publishing information in the media;

- Posting information on the corporate website of KEGOC;
- Placing information on the internal resources of the Company (Lotus Notes software programs, Microsoft Outlook, etc.);
- Holding press conferences and meetings with the information recipients;
- Personal transfer of documents and other materials;
- Other methods provided by the Laws and internal documents of KEGOC.

**In order to exercise the rights of shareholders, and ensure high efficiency and availability of information, that is crucial for KEGOC users, in 2015 the Company provided the following:**

- Published operational and financial activities of the Company in the media (press-releases and news at the corporate website, direct e-mails to mass media editors office).
- Developed brochures, reports on the activities of KEGOC;
- Published interview of the Company's management on the activities of KEGOC; held press conferences, speeches at meetings and public events, briefing for the media with the assistance of the Central Communications Service under the President of the Republic of Kazakhstan with the participation of Chairman of the Board Mr B. Kazhiyev on the implementation of the instructions of the Head of State;

- Provided information support for projects and activities of KEGOC, including general meetings of KEGOC shareholders, launch of KEGOC Business Transformation Programme, operating and dispatching personnel professional skill competition (Akmolinskiy RDC), XII International competition of professional skill of electric power industry experts from CIS countries (Minsk, Belarus).
- Developed and launched an updated website of KEGOC with an improved user interface and technical capabilities.

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.

To assess the information transparency in KEGOC, to understand its activity and to reveal the efficiency of the information disclosure processes, in 2015 the independent party carried on a reputation audit (a full assessment of KEGOC's image among the citizens, employees of the Company and external experts by questioning and interviewing the experts from RPCs, broker's companies, financial institutions, customers and participants of the wholesale power market, and famous journalists). The results of this assessment represent a favourable perception of the activity and improvement of the Company's image both within the company and among external experts and population of the Republic

of Kazakhstan. Thus, we see a growth of the Company's reputation in comparison with the results of assessment in 2014 by 5% on such indicators as Influence, Openness and Transparency, Company and Management Recognition, Awareness of the Activity, etc.

**HR POLICY**

HR policy is aimed at ensuring the balance between the economic and

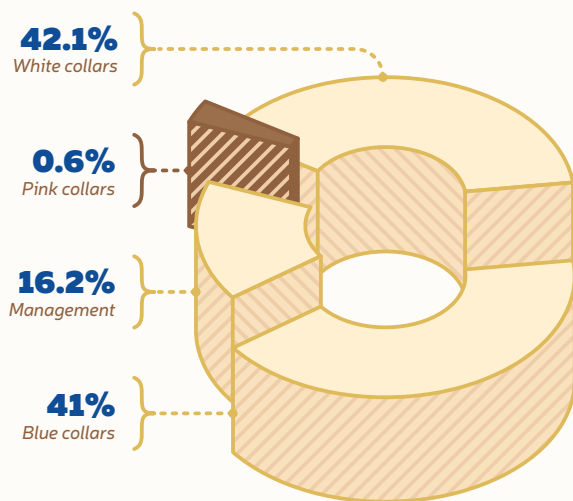
social efficiency of human resources. The key priorities of HR policy are:

- Employ, develop and retain highly qualified employees;
- Implement the best practices of personnel management;
- Manage the talent pool through a reasonable mix of internal personnel reserve and external resources;
- Establish executives talent reserve;

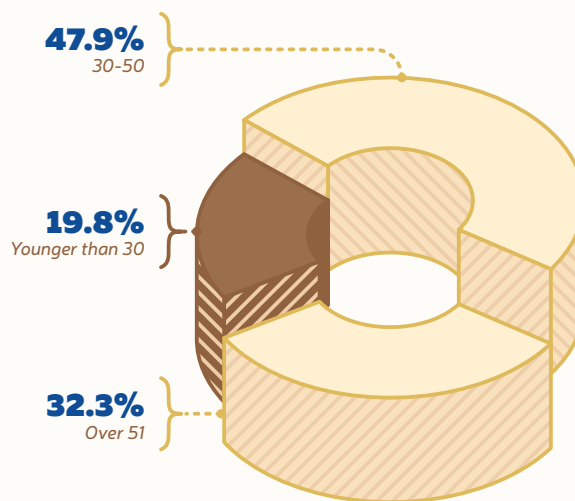
- Create and develop shared values, social norms and rules governing employee behaviour;
- Regulate social and labour relations; prevent labour conflicts;
- Support innovations and reforms in KEGOC.

**As of 31 December 2015, the Company has employed 4,826 people.**

*Structure of personnel by category in 2015*



*Structure of personnel by age in 2015*



A big share of the Company's personnel has a higher education. As of 31 December 2015, 61.7 % of employees have higher education (55.6 % of operational personnel), and 26.6 % of employees have secondary education. More than 30 % of employees have higher education in

power engineering, and among skilled workers education in power engineering (higher and secondary specialized) have more than 33 % of employees. Over 51.2 % of the Company's employees have over ten years of work experience in the energy sector, more

than 20.93 % have from 5 to 10 years of experience in the sector. Turnover of staff for 2015 was as follows: Consolidated, 4.46 % (for the same period in 2014, 6.98 %). 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.

Adapting procedure was introduced to ensure a comfortable onboarding process. To increase and improve 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 2015, 43 coaches among skilled managers and specialists were appointed in KEGOC branches, as well as 44 trainees (new joiners and transferred employees). Upon the recommendation of KEGOC qualification commissions, the coaches received a bonus for coaching. Every year the Company holds Best Mentor of the Year competition, based on the results of this competition the winner is awarded a badge, pennant, diploma and presented a valuable prize.

### **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.

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.

During the reporting period, the professional training and professional development covered 2,172 people or 45% of the staff listing (4,826 people). In 2015, the actual costs of KEGOC for training amounted to KZT 250.48 million, including KZT 87.6 million for administrative personnel, and KZT 162.8 million for operational personnel.

KEGOC systematically develops the talent pool project. The pool includes 359 people. For 2015, the number of vacancies with regard to the talent pool was 52, of which 41 were the employees from the talent pool. However, the percentage of appointment from the talent pool is 78.8 %.

In the reporting period, the Company proceeded to implement Talent Pool Management project, in the process of which TOP-25 talent pool was established based on the leadership competence model. There was a meeting of the employees included in TOP-25 with the members of the Company's Board of Directors where the key priorities for development were defined.

KEGOC has been continuing the work on introducing a dual training system for operating personnel. The Company

defined the business needs in training of students majoring in Electrical Equipment for Electrical Stations and Networks. The Company made a decision to continue maintaining social partnership with Karaganda Polytechnic College.

To improve the 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 reporting period, 491 employees passed the qualification tests, including: 63 employees from the Executive Administration and 12 employees from KEGOC branches included in the list of the Executive Administration, 416 employees from the branches, as well as 68 employees from EnergoInform.

During the reporting year, the KEGOC Dynasties competition was held, the winners of the competition were dynasties from Almatinskiye MES (Akylbai dynasty), Severnye MES (Klopov dynasty), Zapadnye MES (Suyesinov dynasty), and Strebkov dynasty. The Adamov dynasty (Tsentralnye MES) participated in the celebration of the Labour Dynasties Day at Samruk-Kazyna.

### **Personnel Motivation and Incentives**

The Company's activity on the social support for its employees is regulated

by the following internal documents:

- Collective bargaining agreement;
- KEGOC's HR policy;
- Rules for provision of social support for KEGOC's employees;
- Rules of reward and recognition of merits of KEGOC's employees.

The Collective bargaining 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, 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, the issues of health insurance and entertainment and leisure events for the employees. It also reflects the issues of social support of veterans of the Great Patriotic War and equated persons and long-service power engineers registered in the Company. The Collective bargaining agreement covers all employees of KEGOC.

In general, all amendments in the Collective bargaining 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 2015, the total amount of expenditures for employees housing rent was KZT 112 million (123 persons).

In addition, the Company annually provides voluntary medical insurance for the employees. In 2015, KEGOC's insurance covered more than 2,700 employees to the amount of KZT 169 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 2015, the personnel engagement index was 68 %, and the social stability rating was 82 %.

## 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, to take responsibility for environmental security of Kazakhstan National Grid development, to promote energy saving and rational use of environmental and energy resources in the Company's 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.

In accordance with the labour laws of the Republic of Kazakhstan, EMF, noise and other physical factors at the substations are regularly measured in accordance with schedules under assessment of labour conditions at operational facilities. 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.

In order to improve working conditions and in accordance with the Rules for Mandatory Certification of Production Facilities According to Labour Conditions in 2015 the Company performed certification at facilities of Aktyubinskiye MES, Almatinskiye MES, Zapadnye MES, Sarbaiskiye MES, Severnye MES, Tsentralnye MES and Yuzhnye MES branches: measured EMF, noise, vibration and noise, determined harmful and hazardous working environment factors affecting the health of employees at the workplace.

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 2015 was 21.15 tonnes given that the fixed standard rate was 27.57 tonnes p.a.

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 dangerous wastes of the Company are PCB containing wastes. Polychlorinated biphenyls were detected in 22 capacitors following laboratory tests in accordance with the requirements of Rules for Handling of Persistent Organic Pollutants and Wastes Containing Such Pollutants, and approved by order of the Minister of the Environment of the Republic of Kazakhstan, and refer to the 'red' danger level. The Company determined places for safe storage of PCB wastes at substations of Akmolinskiye MES, Vostochnye MES, and Severnye MES branches, concluded contracts with Eurasia Insurance Company on mandatory environmental insurance of facilities with hazardous activity, and prepared safety data sheets.

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

In 2015, KEGOC branches produced 3,395 tonnes of waste, where 1,343 tonnes were disposed at landfills, and 539 tonnes were transferred for recycling for the purpose of re-use. Transformer oil and scrap metal were sold to specialised organisations.

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. Water is supplied from artesian wells at the facilities of 7 branches.

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 external services expenses in 2015 amounted to:

- KZT 8.27 million, for performance of environmental monitoring of ambient air, soil, water resources and waste water;
- KZT 2.49 million, for developing documents on environmental rating for four MES branches, issue safety data sheets and required environmental estimations;
- KZT 8.43 million, industrial waste disposal;
- KZT 17 million, for assessment by external auditor of ISO 9001, ISO 14001 and OHSAS 18001 (taking into account the expansion of certification scope to ISO/IEC 27001) 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 aspects and risks associated with the specific nature of the Company's operations.

All environmental risks of KEGOC in 2015 are in the controlled conditions. The risks details were recorded in the register of environmental aspects of KEGOC.

KEGOC's environmental programme for 2015 includes a set of measures required to manage environmental risks and to achieve target and planned values. The programme was implemented following the year results. In 2015, the environmental aspects such as 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. The auxiliary transformers were replaced with dry-type transformers, and oil circuit breakers were replaced with SF6 or vacuum circuit breakers. The oil free equipment is environmentally friendly, improves fire safety, and excludes pollution of ground water and soil.

In 2015, the internal audits of integrated management system

were conducted in all branches of the Company; the results of the audits showed the compliance of the most inspected facilities of MES branches to the environmental management and environmental laws. A few comments were related to waste management at certain facilities; the corrective measures were taken within the established deadlines.

The results of the certification audit of the integrated management system conducted in 2015 confirmed that the Company's operations with regard to the environmental management system met the requirements of ISO 14001:2004.

## 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 the Kazakhstan Electricity Transmission Rehabilitation Project, Phase II and current investment program is one of the main ways of introducing new equipment in KEGOC. Following the results of the project implementation, replacement of oil circuit breakers with SF6 circuit breakers and vacuum circuit

breakers, and replacement of auxiliary transformers with dry-type transformers allowed for decreasing the volume of transformer oil filled in the electrical equipment by 1,706 tonnes.

Under the Investment programme, the EIAs for Rehabilitation of 220 kV outdoor switchgear bays at 500 kV Ust-Kamenogorsk SS, with replacement of 220 kV equipment were reviewed and approved.

Sections of EIA for four facilities of the 500 kV OHTL Ekibastuz – Semey – Ust-Kamenogorsk Construction Project and EIA for two facilities of the Pavlodar Electricity Transmission Reinforcement Project were reviewed and approved.

## OPERATIONAL 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 2015, the following documents were developed in the Company:

- KEGOC programme for occupational health and safety management system for 2015;
- Register of hazards and risks of KEGOC for 2015;
- Register of significant hazards and risks of KEGOC for 2015.

A meeting was held from 31 March to 1 April 2015 in order to

improve the work of reliability and occupational health units in improving the grid 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 of all MES branches, the senior specialist-head of training group of NDC SO, and the head of Occupational Safety and Health Service (OSHS) of EnergoInform attended the meeting. The actual occupational health expenses in the Company in 2015 amounted to KZT 284.701 million.

In 2015, the Company's employees passed the scheduled medical examinations, all cutting-edge training, qualification improvement training; and provided with personal protective equipment, including electrical protection, special nutrition, drugs, and safety posters. 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 2015. 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 for 2015.

Financing of the fire safety in KEGOC's branches in 2015 amounted to KZT 7.733 million.

In 2015, in order to maintain and improve the quality of fire safety KEGOC fulfilled the following actions: treated wooden structures of buildings with flame retardant, re-examined and re-charged fire extinguishers, delivered fire trainings, including trainings together with the public fire fighting service, briefings and trainings on fire safety, basic skills of fire safety according to the HR management plan, tested external and internal fire fighting mains, internal water system, and automated fire extinguishing installations. The branches set up fire-technical committees, headed by the chief engineers of the branches. The committees carry out preventive inspections on fire safety on regular basis. The action plan was developed with respect to these violations in

order to eliminate and prevent similar violations in future.

In 2015, as result of the taken fire safety measures there were no fire and inflammation at KEGOC facilities.

## **SPONSORSHIP AND CHARITY**

KEGOC allocates considerable amounts as sponsor and charity support on an annual basis.

In 2015, the charity support was provided in the amount of KZT 150.09 million. For instance, the employees of Zapadnye MES branch of KEGOC received assistance for recovery of houses flooded in the disaster. KEGOC made charitable assistance to the Company's employee for the treatment outside the Republic of Kazakhstan.

In addition, the Company annually provides social support to veterans of power industry and unemployed pensioners of KEGOC. Thus, in accordance with the Collective bargaining agreement between KEGOC and its employees, 783 veterans of power industry received charitable assistance to celebrate professional Power Engineer Day. KEGOC also rendered assistance to 67 unemployed pensioners veterans of the Great Patriotic War and equated persons registered in KEGOC.

In 2015, the Company also provided sponsorship for Kone Taraz Public Fund to prepare and hold the 550-year anniversary of the Kazakh Khanate in the city of Taraz.

Goal

7

# INTERNATIONAL COOPERATION

In its activities, KEGOC interacts with power systems of other states, such as the Russian Federation, the Kyrgyz Republic, the Republic of Uzbekistan, and the Republic of Tadjikistan

The Company participates in the work of international organizations such as the CIS Electric Power Council, the Eurasian Economic Commission of the Eurasian Economic Union, the Coordination Electric Power Council of the Central Asia, the World Energy Council, the EURELECTRIC association, the UNECE Committee on Sustainable Energy, the Energy Charter 'Settlement of Investment Disputes,' etc.



## 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),
- The Kyrgyz Republic (Power Plants OJSC, Kyrgyzstan NPG OJSC),
- The Republic of Uzbekistan (Uzbekenergo JSC),
- The Republic of Tadjikistan (Barki Tochik open joint stock holding company).

### The Russian Federation

In 2015, KEGOC continued the relations with the Russian counterparts with respect to agreements for parallel operation signed in 2010 in pursuance with the Intergovernmental agreement on some measures to ensure the parallel operation of power systems of Kazakhstan and Russia dated 20 November 2009. The above agreements govern the basic technical and financial obligations of the parties in parallel operation of Kazakhstan UPS and Russian UPS:

- Agreement for parallel operation of power systems of the Republic of Kazakhstan and the Russian Federation;
- Agreements for electricity procurement to cover the hourly

deviations of the actual interstate net power flow balance from the scheduled one between KEGOC and Inter RAO;

- Agreement for electricity transmission (transit) services across KEGOC networks.

In 2015, KEGOC and INTER RAO under the agreement 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 2015, KEGOC and FGC UES in accordance with the contract arranged for electricity transmission (transit) 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 3,661.538 million kWh.

### Central Asia

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

In 2015, KEGOC purchased the power control services from IPS of Central Asia (Kyrgyzstan) to the amount of 65 MW.

In 2015, there was no unscheduled electricity consumption by the power system of Uzbekistan from the Kazakhstan UPS.

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 2015, to develop international cooperation, KEGOC participated in the following events:

- The CIS Electric Power Council: 47th and 48th meetings, and meetings of working bodies of the Executive Committee of the CIS Electric Power Council;
- The Eurasian Economic Commission of the Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Russian Federation, Kyrgyzstan): 5th meeting of the Consultative Committee for Electrical Energy at the College of the Eurasian Economic Commission, as well as at 5th and 6th meetings of the Subcommittee for common electricity market development under the Eurasian Economic Union.
- agreement with FGC UES (Russia) to exchange information, innovative technologies, knowledge and experience in the electric power sector a cooperation.
- The Coordination Electric Power Council of the Central Asia (CEPC CA): meeting in presentia (No. 23) and two meetings in absentia

(Nos. 21, 22) of the CEPC CA and in two meetings (Nos. 26, 27) of the Coordination Commission of the CEPC CA.

- The World Energy Council (WEC); presentation of the International Energy Agency report Review of Energy Policy in Eastern Europe, Caucasus and Central Asia Countries; WEC session The Change of Power Energy Development in Europe and the Consequences for Central Asia under the X KAZENERGY Eurasian Forum; 26 session of the Energy Charter.
- The EURELECTRIC association; meetings of the UNECE Committee on Sustainable Energy; activities of the round table of the Energy Charter 'Settlement of Investment Disputes' under the X KAZENERGY Eurasian Forum.

In 2015, representatives of the International Bank for Reconstruction and Development visited KEGOC on working visit and observation mission to monitor the progress of the Alma Electricity Transmission Project (7965 KZ).

The representatives of the IBRD noted the early and effective implementation of the project. All affected security policies applied in the Bank under the project are being executed. All legal obligations are met.

As part of the missions held, representatives of the IBRD met with representatives of the Government of the Republic of Kazakhstan, and

management of Samruk-Kazyna Sovereign Wealth Fund and KEGOC to discuss current and planned projects.



# FINANCIAL STATEMENTS

External audit of consolidated financial statements in KEGOC for 2015 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 audit organization performing the audit relates to the exclusive competence of the General Meeting of Shareholders. Before the General Meeting of shareholders the decisions on the issues referred by the laws of the Republic of Kazakhstan and the Charter to competence of the General Meeting of shareholders were made by the Sole Shareholder of KEGOC. Ernst & Young LLP was defined by the Sole Shareholder on the basis of recommendations issued by the Unified Commission, which acted in accordance with the Procedure for the selection of an auditor for Samruk-Kazyna and organizations of which fifty per cent or more of voting shares (participation interest) belong directly or indirectly to Samruk-Kazyna on the basis of ownership or trust management. The audit services were purchased through a single source procurement procedure

in accordance with paragraph 139 of the Rules for Procurement of goods, works and services by Samruk-Kazyna Sovereign Wealth Fund JSC and by organisations in which Samruk-Kazyna holds fifty per cent or more of voting shares (participation interest) either directly in ownership or indirectly under trust management. The services for financial statements audit for 2015 under the contract for purchase of Audit of Financial Statements for 2013-2015 amounted to KZT 38.612 million, inclusive of VAT.

Except audit services, Ernst & Young LLP did not render other services to KEGOC in 2015.



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## Independent auditors' report

To the Shareholders and Management of JSC "Kazakhstan Electricity Grid Operating Company"

We have audited the accompanying consolidated financial statements of JSC "Kazakhstan Electricity Grid Operating Company" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC "Kazakhstan Electricity Grid Operating Company" and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*

Paul Cohn  
Audit Partner

Adil Syzdykov  
Auditor

Auditor Qualification Certificate No. 0000172  
dated 23 December 2013

3 March 2016

A member firm of Ernst & Young Global Limited

Evgeny Zhemaletdinov  
General Director  
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

**Consolidated statement of financial position**

As at 31 December 2015

<i>In thousands of Tenge</i>	NOTES	31 DECEMBER 2015	31 DECEMBER 2014
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	478,699,792	477,443,676
Intangible assets		1,036,367	1,044,908
Advances paid for non-current assets	7	1,939,241	425,016
Other financial assets	11	5,968,419	3,706,710
Deferred tax asset	26	2,839	683
Investments in associates	8	266,815	282,165
Long-term receivables from related parties	27	1,320,245	154,403
Other non-current assets		24,496	40,379
		489,258,214	483,097,940
<b>CURRENT ASSETS</b>			
Inventories	9	1,982,353	2,030,045
Trade accounts receivable	10	23,431,376	14,671,787
VAT recoverable and other prepaid taxes		295,619	3,616,172
Income tax prepaid		2,902,770	1,365,474
Other financial assets	11	65,572,190	28,864,716
Restricted cash	12	2,349,629	2,042,349
Other current assets	13	352,190	277,435
Cash and cash equivalents	14	9,030,762	13,962,123
		105,916,889	66,830,101
Assets held for sale	6	161,511	–
<b>TOTAL ASSETS</b>		<b>595,336,614</b>	<b>549,928,041</b>

**Consolidated statement of financial position (continued)**

<i>In thousands of Tenge</i>	NOTES	31 DECEMBER 2015	31 DECEMBER 2014
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	15	126,799,554	126,799,554
Asset revaluation surplus	15	221,297,751	221,756,419
Other reserves	15	(170,701)	(170,701)
(Accumulated loss) / retained earnings		(6,949,990)	11,392,194
		340,976,614	359,777,466
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	16	149,139,660	94,714,528
Deferred tax liability	26	64,677,142	66,791,645
		213,816,802	161,506,173
<b>CURRENT LIABILITIES</b>			
Trade and other accounts payable	18	13,525,144	11,994,310
Borrowings	16	22,090,879	12,881,885
Construction obligation	17	683,430	683,430
Dividends payable	15	2,199,600	–
Advances received		751,166	1,024,565
Taxes payable other than income tax		559,515	605,849
Income tax payable		4,577	11,342
Other current liabilities	19	728,887	1,443,021
		40,543,198	28,644,402
<b>TOTAL LIABILITIES</b>		254,360,000	190,150,575
<b>TOTAL EQUITY AND LIABILITIES</b>		595,336,614	549,928,041
Book value per ordinary share (in Tenge)	15	1,307	1,380

**Consolidated statement of comprehensive income**

For the year ended 31 December 2015

<i>In thousands of Tenge</i>	NOTES	2015	2014
Revenue	20	110,061,459	93,519,759
Cost of sales	21	(75,542,604)	(74,216,341)
<b>GROSS PROFIT</b>		<b>34,518,855</b>	<b>19,303,418</b>
General and administrative expenses	22	(8,564,705)	(13,380,998)
Selling expenses		(174,438)	(164,773)
Reversal of / (impairment loss)		5,353	(157,775)
Gain on revaluation of property, plant and equipment	4	–	14,250,162
<b>OPERATING PROFIT</b>		<b>25,785,065</b>	<b>19,850,034</b>
Finance income	23	3,876,505	1,894,805
Finance costs	23	(4,788,997)	(4,332,763)
Foreign exchange loss, net	24	(35,739,224)	(7,510,748)
Share of income of associates, net	6, 8	110,121	106,429
Other income	25	1,086,740	1,863,398
Other expenses		(277,281)	(291,468)
<b>(LOSS)/PROFIT BEFORE TAX</b>		<b>(9,947,071)</b>	<b>11,579,687</b>
Income tax benefit/(expense)	26	2,167,498	(2,963,667)
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b>(7,779,573)</b>	<b>8,616,020</b>
<b>EARNINGS PER SHARE</b>			
Basic (loss)/profit for the period attributable to ordinary equity holders (in Tenge)	15	(29.92)	39.09
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b>(7,779,573)</b>	<b>8,616,020</b>

**Consolidated statement of comprehensive income (continued)**

<i>In thousands of Tenge</i>	NOTES	2015	2014
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Gain on revaluation of property, plant and equipment		–	138,887,289
Income tax effect		–	(27,777,458)
<b>NET OTHER COMPREHENSIVE INCOME NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS, NET OF TAX</b>		–	111,109,831
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		–	111,109,831
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX</b>		<b>(7,779,573)</b>	<b>119,725,851</b>

**Consolidated statement of cash flows**

For the year ended 31 December 2015

<i>In thousands of Tenge</i>	<b>NOTES</b>	<b>2015</b>	<b>2014</b>
<b>OPERATING ACTIVITIES</b>			
(Loss) / profit before tax		<b>(9,947,071)</b>	11,579,687
<b>ADJUSTMENTS TO RECONCILE (LOSS) / PROFIT BEFORE TAX TO NET CASH FLOWS</b>			
Depreciation and amortisation		<b>22,420,041</b>	19,058,763
Finance costs	23	<b>4,788,997</b>	4,332,763
Foreign exchange loss, net		<b>45,952,373</b>	8,147,718
(Reversal of) / provision for doubtful accounts receivable and impairment of advances and other current assets	22	<b>(1,969,605)</b>	2,673,958
Provision for obsolete inventory	22	<b>80,681</b>	155,069
Loss from revaluation of assets held for sale		<b>481</b>	–
Income from sales of investment property		<b>(214,488)</b>	–
Loss from disposal of property, plant and equipment and intangible assets		<b>239,545</b>	272,453
Revaluation gain on property, plant and equipment		–	(14,250,162)
Income from transfer of fixed assets from customer		–	(1,616,399)
Finance income	23	<b>(3,876,505)</b>	(1,894,805)
(Reversal) / accrual of reserve on construction in progress		<b>(5,353)</b>	157,775
Share of income of associates, net	6, 8	<b>(110,121)</b>	(106,429)

**Consolidated statement of cash flows (continued)**

<i>In thousands of Tenge</i>	NOTES	2015	2014
<b>WORKING CAPITAL ADJUSTMENTS</b>			
Change in inventories		(32,989)	(268,227)
Change in trade accounts receivable		(6,549,880)	(9,264,504)
Change in VAT recoverable and other prepaid taxes		3,320,553	(798,420)
Change in other current assets		(30,129)	159,831
Change in trade and other accounts payable		(597,441)	2,115,684
Change in advances received		(273,399)	234,681
Change in taxes payable other than income tax		(277,921)	(102,695)
Change in other current liabilities		(705,175)	230,954
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>52,212,594</b>	<b>20,817,695</b>
Interest paid		(4,096,789)	(3,553,306)
Income tax paid		(1,072,964)	(48,828)
Interest received		2,932,699	1,214,999
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>49,975,540</b>	<b>18,430,560</b>



**Consolidated statement of cash flows (continued)**

<i>In thousands of Tenge</i>	NOTES	2015	2014
<b>INVESTING ACTIVITIES</b>			
Withdrawal of bank deposits		28,500,146	19,013,283
Placement of bank deposits		(38,605,228)	(28,306,613)
Change in restricted cash		1,267,838	(190,689)
Proceeds from sale of property, plant and equipment and intangible assets		1,632	73,376
Purchase of property, plant, equipment		(23,742,222)	(22,171,998)
Purchase of intangible assets		(134,896)	(419,847)
Payment for construction of kinder garden		(185,337)	(375,905)
Repayment of loans given to employees		27,194	24,323
Distribution from an associate		–	44,710
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(32,870,873)</b>	<b>(32,309,360)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from shares issuance	15	–	13,129,999
Payment for consulting services related to IPO		–	(90,561)
Payment of dividends	15	(8,858,003)	–
Repayment of borrowings		(14,194,528)	(10,951,764)
Proceeds from borrowings		–	13,592,683
<b>NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES</b>		<b>(23,052,531)</b>	<b>15,680,357</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(5,947,864)</b>	<b>1,801,557</b>
Net foreign exchange difference		1,016,503	433,011
Cash and cash equivalents at 1 January		13,962,123	11,727,555
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	14	<b>9,030,762</b>	<b>13,962,123</b>

**Consolidated statement of changes in equity**

For the year ended 31 December 2015

<i>In thousands of Tenge</i>	SHARE CAPITAL	ASSET RE-VALUATION SURPLUS	OTHER RESERVES	RETAINED EARNINGS / (ACCUMULATED LOSS)	TOTAL
<b>AS AT 1 JANUARY 2014</b>	107,245,972	110,878,954	(170,701)	3,227,238	221,181,463
Profit for the year	–	–	–	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
<b>TOTAL COMPREHENSIVE INCOME</b>	–	111,109,831	–	8,616,020	119,725,851
Transfer of asset revaluation reserve (Note 15)	–	(232,366)	–	232,366	–
Issue of shares (Note 15)	20,246,150	–	–	–	20,246,150
Transaction costs attributable to Initial Public Offering (Note 15)	(692,568)	–	–	–	(692,568)
Distribution to shareholder (Note 17)	–	–	–	(683,430)	(683,430)
<b>AS AT 31 DECEMBER 2014</b>	126,799,554	221,756,419	(170,701)	11,392,194	359,777,466
Loss for the year	–	–	–	(7,779,573)	(7,779,573)
<b>TOTAL COMPREHENSIVE INCOME</b>	–	–	–	(7,779,573)	(7,779,573)
Dividends (Note 15)	–	–	–	(11,057,800)	(11,057,800)
Transfer of asset revaluation surplus (Note 15)	–	(458,668)	–	458,668	–
Other changes in equity of the associate	–	–	–	36,521	36,521
<b>AS AT 31 DECEMBER 2015</b>	126,799,554	221,297,751	(170,701)	(6,949,990)	340,976,614



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2015

## 1. 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 2015 and 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 stakes in the following companies as of 31 December 2015 and 31 December 2014:

COMPANIES	ACTIVITIES	31 DECEMBER 2015	31 DECEMBER 2014
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 of the Republic of Kazakhstan for the Regulation of Natural Monopolies (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 Acting Chairman of the Management Board and Chief Accountant on 3 March 2016.

## 2. 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 2015. 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 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 2014, except

for the adoption of following new standards and interpretations effective as of 1 January 2015. The Group did not yearly adopt standards, interpretations and amendments that were issued, but not yet effective.

#### **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. This amendment will not affect the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

#### **Annual improvements 2010-2012 cycle**

These improvements are effective from 1 July 2014 and did not 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.

#### **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 did not 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.

#### **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.

#### **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 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.

#### **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 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.

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;

- 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 assets) 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;
- 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 assets and unquoted AFS financial assets, and for non-recurring measurement, if any. External valuers are involved for valuation of UPS assets. 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.

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 values, 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 values 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:

<b>EXCHANGE RATE AS AT THE END OF THE PERIOD (TO KZT)</b>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
USD 1	340.01	182.35
EUR 1	371.46	221.59
RUR 1	4.61	3.13

<b>AVERAGE EXCHANGE RATE FOR THE YEAR (TO KZT)</b>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
USD 1	222.25	179.12
EUR 1	246.48	238.1
RUR 1	3.62	4.76



### Non-current assets held for sale

Non-current assets and disposal groups (which may include current and non-current assets) are recognised on the balance sheet as “held for sale” in case of its net assets value will be compensated mainly by sale during the twelve months after the reporting date.

Assets classification is subject to change upon all the following conditions: (a) the assets are available for immediate sale in its present condition, in accordance with the conditions customary for sales of such assets; (b) the Company’s management approved the active program for searching a buyer and initiated an active implementation; (c) assets are actively marketed for a sale at a reasonable price compared to their fair value; (d) the sale is expected within one year and (e) the necessary actions to complete the sale plan indicate that it is unlikely that significant changes will be made in the plan of sale or its cancellation.

Non-current assets or disposal groups classified in the balance sheet in the current period as held for sale are recorded in the balance sheet separately. Liabilities directly associated with disposal group transferred in the disposal, to be transferred to the category “held for sale” and are recognized in the balance sheet separately. Comparative information of the balance sheet are

not corrected for adjustment with classification at the end of the current reporting period.

Disposal groups are assets (current or non-current) to be disposed by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is accounted in a disposal group in case a disposal group includes units generating cash flow, which has been allocated goodwill.

Non-current assets held for sale and disposal groups are valued at the lower of book value and fair value less costs of sell. Non-current assets held for sale are not amortized.

### Property, plant and equipment

Property, plant and equipment, except for UPS assets, 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 assets 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
<b>UPS ASSETS</b>	
Power transmission lines	50 years
Constructions	10-30 years
Machinery and equipment	12-30 years
<b>VEHICLES AND OTHER PROPERTY, PLANT AND EQUIPMENT</b>	
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.

Due to changes in the National Classifier of Fixed Assets of the Republic of Kazakhstan effective from 1 January 2015 “UPS Machinery and equipment” class has been separated from “UPS constructions” class. Therefore, the Group renamed “UPS constructions” into “UPS assets” for the purposes of financial statements.

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.

## Investment property

Investment property includes property of the Group which is held to earn income from rent and/or purchased for the purpose of capital appreciation over time and is not used by the Group.

Investment property is recorded in the financial statements at cost of purchase less accumulated depreciation and provision for impairment, if any. Subsequent to initial recognition investment properties are measured under cost model. Earned income from rent is recognized in the statement of comprehensive income as rental income from investment activities. Gain or loss on disposal of investment property is determined as the difference between the sales proceeds and the book value of investment property.

Since the Group uses a model of accounting for investment property based on actual costs, movement between investment property, fixed assets and inventory does not affect the book value of the property transferred and does not affect the value of the property for the purposes of valuation and disclosure.

Subsequent expenditures are capitalized into cost of the asset only when it is probable that the Group will receive future economic benefits related to these costs and that their costs can be measured

reliably. All other expenses on repairs and maintenance are recorded as expenses when incurred.

## 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.

## 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 assets 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.

### **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 amortized 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.

Unrealized 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 at initial recognition 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:

- **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.

#### **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 amortized 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.

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 at initial recognition 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:

- **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.

### 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.

### **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 160,230 per month (2014: KZT 149,745) 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 and previous periods 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.

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.

#### **4. 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.

##### **Revaluation of property, plant and equipment**

The revalued UPS assets 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 assets refer to Level 3 in the fair value hierarchy (unobservable inputs).

The Group performed revaluation of UPS assets as at 1 June 2014. Tariffs increase 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 assets 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.*

Management of the Group believes that fair value of UPS assets approximates their carrying value at 31 December 2015.

### **Recoverability of National Energy System assets (UPS assets)**

The Company assesses assets or cash-generating units (CGU) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value

less costs to sell and value in use. These assessments require the use of estimates and assumptions such as levels of tariffs for regulated services, discount rates, future capital requirements, operating performance (including volumes of electricity transmission) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of

factors that may be specific to the entity and not applicable to entities in general.

In 2015 the Group determined main impairment indicators, including increasing levels of operational and capital expenditure as a result of significant devaluation of national currency. As a result of assessment of the recoverable amount of the Group's assets carried out by Group management, no impairment of assets was revealed as at 31 December 2015.

The Group calculates recoverable amount using a discounted cash flow model. The discount rate of 9.84% was derived from the Company's post-tax weighted average cost of capital. The Development plan of the Group, which is approved for a five-year period and revised on an annual basis, is the primary source of information. It contains forecasts for volumes of electricity transmission, revenues, costs and capital expenditure.



Various assumptions such as forecasts of tariff levels for regulated services and inflation rates take into account existing prices, foreign exchange rates, other macroeconomic factors and historical trends and variability. The projection of cash flows was limited till 2020. Expenditure cash flows up to 2020 were obtained from the Group's development plan together with management's current assessment of probable changes in operational and capital expenditure. Terminal value was estimated by applying forecasted long-term growth rate of 3.5%.

The key assumptions required for the recoverable amount estimation are tariffs for regulated services, volumes of electricity transmission, discount rate and long-term growth rate. The sensitivity of the headroom to changes in the key assumptions was estimated.

Assumptions on levels of tariffs were based on Order of the chairman of Committee on regulation of natural monopolies and competition protection of Ministry of National Economy of Republic of Kazakhstan on "Approval of tariffs upper limits and tariff cost sheets for regulated services on transmission of electricity, technical dispatching and balancing of electricity production and consumption of KEGOC JSC for 2016-2020". If tariff levels had been assumed to be 5% lower than the assumptions used in the assessment,

this would have had led to no additional impairment.

Estimated electricity transmission volumes are based on the development plan. If the electricity transmission volumes had been assumed to be 5% lower than the assumptions used in the assessment this would have had led to no additional impairment.

Increase of discount rate by 0.5% or decrease of long-term growth rate by 0.5% would have had led to no additional impairment.

### **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 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, Uzbekenergo JSC, due to existing practice. Accordingly, accounts receivables from Uzbekenergo JSC were discounted for 1 year using discount rate of

9.5%, that is the management's best estimate of the market discount rate. In December 2015 the Group revised repayment period of the receivables from Uzbekenergo JSC in accordance with repayment schedule proposed by Uzbekenergo JSC due to the fact that Uzbekenergo JSC carried out the timely payment of the receivables in accordance with the debt repayment schedule. Additionally, the Group has discounted future cash flows under 10.01% that is our best estimate of market rate in accordance with the schedule provided. 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.

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 in the consolidated financial statements, 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.

## 5. 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:

<i>In thousands of Tenge</i>	2015	2014
Revenue from Kazakhstan customers	99,912,697	74,585,633
Revenue from Uzbekistan customers	10,148,762	8,763,555
Revenue from Russian customers	–	10,170,571
<b>TOTAL REVENUE PER CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>	<b>110,061,459</b>	<b>93,519,759</b>



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

For the year ended 31 December 2015 the revenue from one customer, Samruk-Energo Group, including its joint-ventures, amounted to KZT 17,401,767 thousand, arising from transmission, technical dispatching and balancing services.

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.

## **6. NON-CURRENT ASSETS HELD FOR SALE**

In 2015 the Group decided to sell 49.9% interest in its associate "KazEnergoProvod" LLP.

On 6 May 2015 the Management of the Group approved the plan of sale of share. According to the approved plan sale of share should have been completed during 2015 to either shareholder of "KazEnergoProvod" LLP at a market price estimated by independence appraiser or other party under the electronic auction. Accordingly, starting from 6 May 2015, these investments are classified by the Group as non-current assets held for sale. In accordance with accounting policy non-current assets held for sale are valued at the lower of

book value and fair value less costs to sell (Note 3). In accordance with the accounting policy the independent appraiser assessed the fair value of the share in "KazEnergoProvod" LLP amounting to KZT 161,511 thousand. As fair value less costs to sell was less than the carrying amount which at the date of transfer amounted to KZT 161,992 thousand, the Group recognized loss in the amount of KZT 481 thousand.

Share in loss of "KazEnergoProvod" LLP for the period from 1 January 2015 till the date of transfer into non-current assets held for sale comprised KZT 5,120 thousand (2014: KZT 8,624 thousand).

**7. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES PAID FOR NON-CURRENT ASSETS***In thousands of Tenge*

	<b>LAND</b>
<b>COST</b>	
<b>AT 1 JANUARY 2014</b>	1,324,235
Additions	133,000
Transfers	72,548
Transfers to intangible assets	-
Revaluation surplus (OCI)	-
Revaluation (Profit or loss)	-
Disposals	-
<b>AT 31 DECEMBER 2014</b>	<b>1,529,783</b>
At 1 January 2015	1,529,783
Additions	43,449
Transfers	2,817
Transfers to intangible assets	-
Transfers to investment property	(46,320)
Disposals	(824)
<b>AT 31 DECEMBER 2015</b>	<b>1,528,905</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>	
<b>AT 1 JANUARY 2014</b>	-
Charge for the period	-
Revaluation surplus (OCI)	-
Revaluation (Profit or loss)	-
Disposals	-
Transfers	-

	BUILDINGS	UPS CONSTRUCTIONS	VEHICLES AND OTHER PROPERTY, PLANT AND EQUIPMENT	CONSTRUCTION-IN- PROGRESS	TOTAL
	6,984,370	496,334,581	26,978,560	37,189,851	568,811,597
	616,618	7,914,622	1,230,247	24,875,583	34,770,070
	5,943,094	40,081,122	2,483,575	(48,580,339)	-
	-	-	9,914	(29,431)	(19,517)
	-	241,801,480	-	-	241,801,480
	-	16,767,840	-	-	16,767,840
	(500)	(584,236)	(286,439)	(112,814)	(983,989)
	<b>13,543,582</b>	<b>802,315,409</b>	<b>30,415,857</b>	<b>13,342,850</b>	<b>861,147,481</b>
	13,543,582	802,315,409	30,415,857	13,342,850	861,147,481
	-	47,843	826,624	23,612,941	24,530,857
	595,627	(1,583,633)	3,849,063	(2,863,874)	-
	-	-	(378)	(142,511)	(142,889)
	(910,536)	(159,699)	(432,269)	-	(1,548,824)
	(3,350)	(490,161)	(378,135)	(23,173)	(895,643)
	<b>13,225,323</b>	<b>800,129,759</b>	<b>34,280,762</b>	<b>33,926,233</b>	<b>883,090,982</b>
	(1,405,936)	(242,805,084)	(15,529,323)	(252,090)	(259,992,433)
	(207,900)	(16,542,341)	(2,057,234)	-	(18,807,475)
	-	(102,914,191)	-	-	(102,914,191)
	-	(2,517,678)	-	-	(2,517,678)
	241	371,870	259,142	54,494	685,747
	779	(12,374)	11,595	-	-

<i>In thousands of Tenge</i>	<b>LAND</b>
Impairment	–
<b>AT 31 DECEMBER 2014</b>	–
<b>AT 1 JANUARY 2015</b>	–
Charge for the period	–
Transfers	–
Transfer to investment property	–
Disposals	–
Impairment reversal	–
At 31 December 2015	–
<b>NET BOOK VALUE</b>	
<b>AT 1 JANUARY 2014</b>	1,324,235
<b>AT 31 DECEMBER 2014</b>	1,529,783
<b>AT 31 DECEMBER 2015</b>	1,528,905

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

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
At costs	247,164,032	249,271,337
Accumulated depreciation	(74,224,315)	(65,946,769)
<b>NET CARRYING AMOUNT</b>	<b>172,939,717</b>	<b>183,324,568</b>

	BUILDINGS	UPS CONSTRUCTIONS	VEHICLES AND OTHER PROPERTY, PLANT AND EQUIPMENT	CONSTRUCTION-IN- PROGRESS	TOTAL
	-	-	-	(157,775)	(157,775)
	(1,612,816)	(364,419,798)	(17,315,820)	(355,371)	(383,703,805)
	(1,612,816)	(364,419,798)	(17,315,820)	(355,371)	(383,703,805)
	(262,308)	(19,555,680)	(2,289,621)	-	(22,107,609)
	679	(412,998)	412,319	-	-
	346,460	74,821	337,492	-	758,773
	2,328	260,908	373,848	19,014	656,098
	-	-	-	5,353	5,353
	(1,525,657)	(384,052,747)	(18,481,782)	(331,004)	(404,391,190)
	5,578,434	253,529,497	11,449,237	36,937,761	308,819,164
	11,930,766	437,895,611	13,100,037	12,987,479	477,443,676
	11,699,666	416,077,012	15,798,980	33,595,229	478,699,792

As at 31 December 2015 and 31 December 2014 fully amortised property, plant and equipment (at cost), which are still in use amounted to KZT 8,480,667 thousand and KZT 6,261,817 thousand, respectively.

### Capitalized borrowing costs

During the year ended 31 December 2015 the Group did not capitalise any borrowing costs as a result of completion of its investment projects

financed by bank loans (2014: KZT 414,827 thousand at the capitalization rate of 3.05-4.27%).

### Construction in progress

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

### Advances paid for non-current assets

As at 31 December 2015 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", "Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma" (2014: as at 31 December 2014 the advanced

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").

### Investment property

In June 2015 the Group leased out buildings and constructions

with complex of equipment and adjacent land located in Astana. In this regard, these assets were transferred from property, plant and equipment to investment property.

In July 2015 the Group decided to sell the investment property, as a result the property was transferred to non-current assets held for sale and sold out on 30 September 2015

for the total amount of 2,161,476 thousand Tenge. In accordance with sales and purchase agreement the payment will be made by monthly installments of 16,375 thousand Tenge till 2027. The present value of the future payment amounted to 1,249,840 thousand Tenge as at 31 December 2015 (Note 27).

## 8. INVESTMENTS IN ASSOCIATES

### Investments in associates comprised the following:

<i>In thousands of Tenge</i>	31 DECEMBER 2015	31 DECEMBER 2014
Batys Transit JSC	266,815	115,053
KazEnergoProvod LLP	161,992	167,112
	428,807	282,165
<i>Transfer to assets held for sale (Note 6)</i>	(161,992)	–
	266,815	282,165

### Group's ownership in associates is as follows:

	31 DECEMBER 2015	31 DECEMBER 2014
Batys Transit JSC	20.0%	20.0%



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.

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

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
<b>STATEMENT OF FINANCIAL POSITION</b>		
Current assets	1,444,651	1,737,686
Non-current assets	20,692,201	21,839,053
Current liabilities	(1,722,382)	(4,203,537)
Non-current liabilities	(19,080,393)	(18,615,330)
<b>NET ASSETS</b>	<b>1,334,077</b>	<b>757,872</b>
Unrecognised share in net assets	–	(182,606)
	<b>1,334,077</b>	<b>575,266</b>
Group's share in net assets	266,815	115,053
<b>CARRYING AMOUNT OF THE INVESTMENT</b>	<b>266,815</b>	<b>115,053</b>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>		
Revenue	5,460,163	3,298,799
Net profit	576,206	1,005,474
<b>GROUP'S SHARE OF INCOME OF AN ASSOCIATE</b>	<b>115,241</b>	<b>201,095</b>
Previously unrecognised share in net liabilities	–	(86,042)
<b>GROUP'S SHARE OF INCOME OF AN ASSOCIATE RECOGNISED IN PROFIT OR LOSS</b>	<b>115,241</b>	<b>115,053</b>

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 2015 or 2014.

## 9. INVENTORIES

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
Spare parts	1,242,830	1,303,556
Raw and other materials	852,345	807,416
Fuel and lubricants	125,711	117,508
Other inventory	28,894	49,043
Less: allowance for obsolete inventories	(267,427)	(247,478)
	<b>1,982,353</b>	<b>2,030,045</b>

### *Movement in the allowance for obsolete inventories was as follows:*

<i>In thousands of Tenge</i>	<b>2015</b>	<b>2014</b>
<b>AT 1 JANUARY</b>	247,478	163,972
Charge for the year	80,681	155,069
Write-off	(60,732)	(71,563)
<b>AT 31 DECEMBER</b>	<b>267,427</b>	<b>247,478</b>

## 10. TRADE ACCOUNTS RECEIVABLE

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
Trade accounts receivable	25,559,459	18,605,575
Less: allowance for doubtful accounts receivable	(1,452,512)	(3,445,256)
Less: discount of accounts receivable	(675,571)	(488,532)
	<b>23,431,376</b>	<b>14,671,787</b>

**Movement in the allowance for obsolete inventories was as follows:**

<i>In thousands of Tenge</i>	2015	2014
<b>AT 1 JANUARY</b>	3,445,256	893,394
Charge for the period	15,375,749	5,301,090
Utilized	(5,893)	(53,641)
Reversal	(17,362,600)	(2,695,587)
<b>AT 31 DECEMBER</b>	<b>1,452,512</b>	<b>3,445,256</b>

As at 31 December 2015 trade receivables included receivables from the client Uzbekenergo JSC in the amount of KZT 19,495,495 thousand (31 December 2014: KZT 13,789,041 thousand). In 2014 the Group estimated that the average actual repayment period of receivables from Uzbekenergo JSC takes one year. The Group discounted future cash flows from Uzbekenergo JSC, accordingly. In December 2015 the Group revised its expectations regarding the

recoverability of the receivables from Uzbekenergo JSC and reversed the allowance for doubtful accounts in the amount of KZT 17,107,925 thousand due to the fact that the Uzbekenergo JSC carried out the timely payment of the receivables in accordance with the debt repayment schedule, that was proposed by Uzbekenergo JSC. Additionally, the Group has discounted future cash flows in accordance with the schedule provided.

As at 31 December 2015 the discount

on accounts receivable comprised KZT 675,571 thousand (31 December 2014: KZT 488,532 thousand). During the year ended 31 December 2015 the Group recognized amortization of discount in the amount of KZT 912,679 thousand as a part of the finance income in the consolidated statement of comprehensive income.

**The ageing analysis of trade receivables is as follows:**

<i>In thousands of Tenge</i>	TOTAL	NEITHER PAST DUE NOR IMPAIRED	PAST DUE BUT NOT IMPAIRED			
			30-90 DAYS	91-180 DAYS	181-270 DAYS	ABOVE 271 DAYS
<b>31 DECEMBER 2015</b>	23,431,376	4,765,585	200,833	141,647	5,288,501	13,034,810
<b>31 DECEMBER 2014</b>	14,671,787	6,738,462	898,885	605,629	3,726,090	2,702,721

**Trade receivables were denominated in the following currencies:**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
United States dollar	19,693,177	10,050,854
Tenge	3,247,617	4,109,477
Russian rouble	490,582	511,456
	<b>23,431,376</b>	<b>14,671,787</b>

**11. OTHER FINANCIAL ASSETS**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
<b>LONG-TERM OTHER FINANCIAL ASSETS</b>		
Bank deposits	5,100,150	2,838,441
Bonds of Batys Transit	868,269	868,269
	<b>5,968,419</b>	<b>3,706,710</b>
<b>SHORT-TERM OTHER FINANCIAL ASSETS</b>		
Bank deposits	65,509,892	28,825,720
Interest accrued on bonds of Batys Transit	62,298	38,996
	<b>65,572,190</b>	<b>28,864,716</b>
<b>TOTAL OTHER FINANCIAL ASSETS</b>	<b>71,540,609</b>	<b>32,571,426</b>

In 2007-2009 the Group acquired bonds of Batys Transit, an associate (Note 8), an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 8%. 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 bonds Batys Transit 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 5,100,150 thousand as at 31 December 2015) with fixed interest rate of 4.5% per annum due in 2017. As at 31 December 2015 the accrued interest was nil (2014: accrued interest was KZT 103,191 thousand).

In October 2015 the Group placed deposit with ATF Bank amounting

to USD 5,000 thousand (equivalent of KZT 1,700,050 thousand at 31 December 2015) for a period of 368 days with fixed interest rate of 5.1% per annum due in November 2016. As at 31 December 2015 the accrued interest was nil.

Short-term deposits as at 31 December 2015 and 2014 represent

deposits placed in Kazakhstan banks with the fixed interest rate of 3-32% per annum; and also include the accrued and uncollected interest in the amount of KZT 114,722 thousand and KZT 306,180 thousand, respectively.

**Other financial assets were denominated in the following currencies:**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
United States dollar	68,367,375	31,651,160
Tenge	3,173,234	920,266
	<b>71,540,609</b>	<b>32,571,426</b>

**12. RESTRICTED CASH**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
Cash on reserve accounts	2,204,660	1,490,425
Cash on debt service accounts	–	460,851
Cash restricted on current account	144,969	91,073
	<b>2,349,629</b>	<b>2,042,349</b>

As at 31 December 2015 and 2014 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.

**As at 31 December 2015 and 2014, restricted cash was denominated in the following currencies:**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
United States dollar	2,204,660	1,951,276
Tenge	144,969	91,073
	<b>2,349,629</b>	<b>2,042,349</b>

**13. OTHER CURRENT ASSETS**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
Deferred expenses	65,009	35,094
Advances paid for goods and services	23,155	205,731
Loans to employees	22,623	28,300
Other receivables	355,603	106,297
Less: provision for impairment of other current assets	(114,200)	(97,987)
	<b>352,190</b>	<b>277,435</b>

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

<i>In thousands of Tenge</i>	<b>2015</b>	<b>2014</b>
<b>AT 1 JANUARY</b>	97,987	29,574
Charge for the period	68,433	88,746
Reversal	(51,187)	(20,291)
Utilized	(1,033)	(42)
<b>AT 31 DECEMBER</b>	<b>114,200</b>	<b>97,987</b>



**14. CASH AND CASH EQUIVALENTS**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
Short-term deposits	5,036,000	7,550,000
Current accounts with banks, in Tenge	2,551,406	4,334,932
Current accounts with banks, in foreign currencies	1,434,716	2,067,974
Cash on hand	3,424	4,919
Cash at special accounts	5,216	4,298
	<b>9,030,762</b>	<b>13,962,123</b>

During 2015 the interest is accrued on cash on current accounts at 0.5-7% per annum. During 2015 the interest is accrued on short-term deposits at 16-32% per annum.

***As at 31 December 2015 and 2014, cash and cash equivalents were stated in the following currencies:***

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
Tenge	7,596,046	11,894,149
Euro	1,040,794	1,653,838
United States dollar	393,010	409,569
Russian rouble	307	4,203
Others	605	364
	<b>9,030,762</b>	<b>13,962,123</b>

**15. EQUITY**

As at 31 December 2015 and 31 December 2014 share capital of the Company comprised of 260,000,000

shares that were issued and fully paid. All ordinary shares have equal voting rights. The Group does not hold preferred shares. Although ordinary shareholders have voting rights, the

dividend payment is not guaranteed. On 30 September 2014 the Group received fixed assets with fair value amounting KZT 7,116,151 thousand for payment of 19,508,061 shares that

were 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 2015 and 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 30 April 2015 on the General Shareholders meeting the Group declared dividends for 2014, in the amount of KZT 8,613,800 thousand that is 99.97% of net income, or 33.13 Tenge per common share. In May and June 2015 dividends were fully paid to the shareholders.

On 16 October 2015 on the extraordinary General Shareholders meeting the Group declared dividends for the 1st half-year of 2015, in the

amount of KZT 2,444,000 thousand that is 40.01% of net income, or 9.40 Tenge per common share. In December 2015 the Group reached the agreement on deferment of dividend payment to the major shareholder – Samruk-Kazyna – in the amount of KZT 2,199,600 thousand due to 30 December 2016. The payment for other shareholders was performed in October 2015.

### Earnings per share

*Basic and diluted (loss)/earnings per share are given as follows:*

<i>In thousands of Tenge</i>	<b>2015</b>	<b>2014</b>
<b>(LOSS)/PROFIT FOR THE YEAR</b>	(7,779,573)	8,616,020
Weighted average number of shares	260,000,000	220,441,961
<b>BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE</b>	<b>(29.92)</b>	<b>39.09</b>

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.

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
Total assets	595,336,614	549,928,041
Less: intangible assets	(1,036,367)	(1,044,908)
Less: total liabilities	(254,360,000)	(190,150,575)
<b>NET ASSETS</b>	<b>339,940,247</b>	<b>358,732,558</b>
Number of ordinary shares	260,000,000	260,000,000
<b>BOOK VALUE PER SHARE, TENGE</b>	<b>1,307</b>	<b>1,380</b>

### Asset revaluation surplus

As at 31 December 2015 and 2014 the revaluation surplus represents revaluation surplus recognized as a result of revaluation of Group's UPS constructions on 1 June 2014. Transfer of asset revaluation surplus into retained earnings, upon disposal of PPE, for the year ended

31 December 2015 amounted to KZT 458,668 thousand (2014: KZT 232,366 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.

## 16. BORROWINGS

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
International Bank of Reconstruction and Development (IBRD)	74,153,611	43,861,868
European Bank of Reconstruction and Development (EBRD)	97,076,928	63,734,545
	<b>171,230,539</b>	<b>107,596,413</b>

<i>In thousands of Tenge</i>	31 DECEMBER 2015	31 DECEMBER 2014
Less: current portion of loans repayable within 12 months	(22,090,879)	(12,881,885)
	149,139,660	94,714,528

As at 31 December 2015 and 31 December 2014 the accrued and unpaid interest amounts to KZT 1,421,081 thousand and KZT 902,515

thousand, respectively. As at 31 December 2015 and 31 December 2014 the unamortized portion of loan origination fees

amounts to KZT 813,886 thousand and KZT 894,810 thousand, respectively.

#### **Loans were denominated in the following currencies:**

<i>In thousands of Tenge</i>	31 DECEMBER 2015	31 DECEMBER 2014
In United States dollars	110,952,763	66,134,005
In euro	60,277,776	41,462,408
	171,230,539	107,596,413

As at 31 December 2015 the Group made prepayment of accrued interest and principal due on 15 January 2016 on loan granted by IBRD for realization of “Construction of the Alma 500 kW substation” project in the amount of KZT 197,681 thousand and KZT 600,571 thousand, respectively. For financial statements presentation purposes the borrowings were presented net of these prepayments.

#### **“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 2015

and 31 December 2014 are USD 49,540 thousand (equivalent to KZT 16,844,095 thousand) and USD 60,270 thousand (equivalent to KZT 10,990,234 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. As at 31 December 2015

loan balances were fully repaid. The outstanding balances at 31 December 2014 were USD 3,905 thousand (equivalent to KZT 712,077 thousand).

### **“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 2015 and 31 December 2014 are USD 57,129 thousand (equivalent to KZT 19,424,481 thousand) and USD 65,285 thousand (equivalent to KZT 11,904,694 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 2015 and 31 December 2014 are euro 129,389 thousand (equivalent to KZT 48,062,645 thousand) and euro 146,640 thousand (equivalent to KZT 32,494,018 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 2015 and 31 December 2014 are euro 29,248 thousand (equivalent to KZT 10,864,522 thousand) and euro 35,748 thousand (equivalent to KZT 7,921,345 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 2015 and 31 December 2014 are euro 1,811 thousand (equivalent to KZT 672,763 thousand) and euro 3,019 thousand (equivalent to KZT 668,852 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.

### **“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 2015



and 31 December 2014 are USD 42,490 thousand (equivalent to KZT 14,446,957 thousand) and USD 44,726 thousand (equivalent to KZT 8,155,806 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 2015 and 31 December 2014 are USD 69,572 thousand (equivalent to KZT 23,665,329 thousand) and USD 71,356 thousand (equivalent to KZT 13,011,832 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 2015 and 31 December 2014 are USD 86,763 thousand (equivalent to KZT 29,500,398 thousand) and USD 95,026 thousand (equivalent to KZT 17,328,082 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 2015 and 31 December 2014 are USD 11,431 thousand (equivalent to KZT 3,886,802 thousand) and USD 12,956 thousand (equivalent to KZT 2,362,458 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 2015 and 31 December 2014 are USD 10,168 thousand (equivalent to KZT 3,457,055 thousand) and USD 11,183 thousand (equivalent of KZT 2,039,310), 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.

## **17. CONSTRUCTION OBLIGATION**

In accordance with the decision of the Management Board of Samruk-Kazyna dated 28 November 2013, the Group shall construct a kindergarten in Astana city. In 2014 the Group estimated cost of construction and engaged a construction company. Accordingly, the Group recognised provision for construction for the whole amount of KZT 683,430 thousand and respective distribution to the Shareholder. The expected date of completion of the construction of the kinder garden is at the end of 2016.



**18. TRADE AND OTHER ACCOUNTS PAYABLE**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
Accounts payable for property, plant and equipment and construction works	8,091,105	5,980,443
Accounts payable for electricity purchased	4,507,777	4,427,471
Accounts payable for inventories, works and services	926,262	1,586,396
	<b>13,525,144</b>	<b>11,994,310</b>

***Accounts payable as at 31 December 2015 and 31 December 2014  
are stated in the following currencies:***

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
Tenge	12,613,812	9,893,669
Russian rouble	782,163	826,099
United States dollar	64,961	28,941
Euro	64,208	1,245,601
	<b>13,525,144</b>	<b>11,994,310</b>

**19. OTHER CURRENT LIABILITIES**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>31 DECEMBER 2014</b>
Due to employees	555,197	1,225,630
Commission payable on the non-withdrawn portion of EBRD loans*	–	9,665
Other	173,690	207,726
	<b>728,887</b>	<b>1,443,021</b>

\* 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 2015 the commission on the non-withdrawn portion of the borrowings amounted to nil, as credit lines were fully utilised (2014: KZT 57,172 thousand) (Note 23).

**20. REVENUE**

<i>In thousands of Tenge</i>	<b>2015</b>	<b>2014</b>
Electricity transmission	73,343,942	57,766,254
Technical dispatch	15,071,222	12,225,728
Balancing of electricity production and consumption	13,017,269	10,329,887
Revenue from sales of purchased electricity	5,004,398	7,278,411
Revenue from electricity sales for compensation of the interstate balances of electricity flows	3,020,328	3,932,061
Revenue from power regulation services	–	2,898,688
Other	1,276,395	1,572,860
	<b>110,733,554</b>	<b>96,003,889</b>
Discounts to customers	(672,095)	(2,484,130)
	<b>110,061,459</b>	<b>93,519,759</b>

Discounts to customers are authorised by the Committee of the Republic of Kazakhstan for the Regulation of Natural Monopolies.

**21. COST OF SALES**

<i>In thousands of Tenge</i>	<b>2015</b>	<b>2014</b>
Depreciation and amortization	21,774,524	18,505,522
Technical losses of electric energy	20,172,090	20,779,476
Payroll expenses and related taxes	11,446,146	10,991,705
Cost of purchased electricity for compensation of interstate balances of electricity flows	8,291,914	10,234,929
Repair and maintenance expenses	4,954,298	4,778,621
Cost of purchased electricity	4,891,579	5,150,762
Inventories	1,213,793	1,071,549
Security services	981,283	920,591
Other	1,816,977	1,783,186
	<b>75,542,604</b>	<b>74,216,341</b>

**22. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of Tenge</i>	<b>2015</b>	<b>2014</b>
Taxes other than income tax	5,205,055	5,321,160
Payroll expenses and related taxes	2,788,241	3,173,328
Depreciation and amortization	584,225	544,370
Consulting services	212,567	180,615
Insurance	155,121	136,741
Sponsorship and charitable donations	152,170	134,213

<i>In thousands of Tenge</i>	2015	2014
Business trip expenses	133,596	111,113
Rent expenses	106,469	117,963
Utilities	99,490	73,624
Trainings	85,615	68,826
Provision for obsolete inventory (Note 9)	80,681	155,069
Materials	63,061	73,665
Corporate events	53,989	53,566
Bank services	37,804	38,332
Security services	37,339	43,551
Communication services	24,357	22,252
Repair expenses	6,793	21,891
(Reversal of) / provision for doubtful receivables and impairment of advances (Notes 10 and 13)	(1,969,605)	2,673,958
Other	707,737	436,761
	<b>8,564,705</b>	<b>13,380,998</b>

**23. FINANCE INCOME/(COSTS)**

<i>In thousands of Tenge</i>	2015	2014
<b>FINANCE INCOME</b>		
Interest income from deposits, current accounts and bonds	2,958,192	1,451,025
Amortization of discount on accounts receivable	912,679	435,780
Others	5,634	8,000
	<b>3,876,505</b>	<b>1,894,805</b>

<i>In thousands of Tenge</i>	2015	2014
<b>FINANCE COSTS</b>		
Interest on loans	3,410,140	3,152,588
Discount on account receivable	675,570	989,760
Commission on bank guarantees	615,165	460,042
Amortization of loan origination fees	88,122	87,340
Commission on the non-withdrawn portion of EBRD loan (Note 19)	–	57,172
Others	–	688
Less: interest capitalized into the cost of qualifying assets (Note 7)	–	(414,827)
	<b>4,788,997</b>	<b>4,332,763</b>

#### 24. 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.

On 20 August 2015 National Bank of Republic of Kazakhstan and Government of Republic of Kazakhstan decided to shift to freely floating currency exchange rate as a part of

implementation of inflation targeting program. As a consequence of change of exchange rate of Tenge for the year ended 31 December 2015, the Group incurred net foreign exchange loss in the amount of KZT 35,739,224 thousand.

#### 25. OTHER INCOME

<i>In thousands of Tenge</i>	2015	2014
Income from fines and penalties	649,655	70,668
Gain from sales of buildings and constructions	214,488	–
Income from gratuitous transfer of assets	–	1,587,134
Other income	222,597	205,596
	<b>1,086,740</b>	<b>1,863,398</b>

**26. INCOME TAX BENEFIT / (EXPENSE)**

<i>In thousands of Tenge</i>	<b>2015</b>	<b>2014</b>
<b>CURRENT INCOME TAX</b>		
Current income tax expense	64,306	55,865
Adjustments in respect of current income tax of previous year	(115,145)	(15,126)
<b>DEFERRED TAX</b>		
Deferred income tax (benefit)/expense	(2,116,659)	2,922,928
<b>TOTAL INCOME TAX (BENEFIT)/EXPENSE REPORTED IN PROFIT AND LOSS</b>	<b>(2,167,498)</b>	<b>2,963,667</b>
Deferred tax expense on revaluation of UPS constructions	–	27,777,458
<b>Tax expense during the period recognized in OCI</b>	<b>–</b>	<b>27,777,458</b>

The income tax rate in the Republic of Kazakhstan is 20% in 2015 and 2014.

***A reconciliation of the 20% income tax rate and actual income tax recorded in the consolidated statement of comprehensive income is provided below:***

<i>In thousands of Tenge</i>	<b>2015</b>	<b>2014</b>
<b>(LOSS)/PROFIT BEFORE INCOME TAX EXPENSE</b>	<b>(9,947,071)</b>	<b>11,579,687</b>
<b>TAX AT STATUTORY INCOME TAX RATE OF 20%</b>	<b>(1,989,414)</b>	<b>2,315,937</b>
Adjustments in respect of current income tax of previous year	(115,145)	(15,126)
<b>(Reversal)/accrual of provision for doubtful accounts receivable</b>	<b>(385,303)</b>	<b>524,295</b>
<b>Non-deductible forex loss</b>	<b>81,979</b>	<b>–</b>
<b>Support of producers of energy from renewable sources</b>	<b>80,534</b>	<b>–</b>
Other non-deductible expenses	159,851	138,561
<b>INCOME TAX (BENEFIT) / EXPENSE REPORTED IN PROFIT OR LOSS</b>	<b>(2,167,498)</b>	<b>2,963,667</b>



**Tax effect on temporary differences leading to deferred income tax assets and liabilities at 31 December 2015 and 31 December 2014 is provided below:**

<i>In thousands of Tenge</i>	CONSOLIDATED STATEMENT OF FINANCIAL POSITION		CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	
	31 DECEMBER 2015	31 DECEMBER 2014	2015	2014
Tax losses carried forward	3,472,159	1,201,812	2,270,347	1,201,812
Accounts receivable	263,044	129,591	133,453	105,131
Accrued liabilities	127,625	305,230	(177,605)	(4,016)
Property, plant and equipment	(68,537,131)	(68,427,595)	(109,536)	(4,225,855)
Deferred tax (expense)/benefit			2,116,659	(2,922,928)
<b>NET DEFERRED TAX LIABILITIES</b>	<b>(64,674,303)</b>	<b>(66,790,962)</b>		

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.

## **27. 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 2015 and 31 December 2014:*

<i>In thousands of Tenge</i>		<b>TRADE ACCOUNTS RECEIVABLE FROM RELATED PARTIES</b>	<b>TRADE ACCOUNTS PAYABLE TO RELATED PARTIES</b>
Subsidiaries of Samruk-Kazyna Group	<b>2015</b>	<b>1,873,643</b>	<b>1,734,326</b>
	2014	585,642	1,844,045
Associates of Samruk-Kazyna	<b>2015</b>	<b>322,623</b>	<b>205,367</b>
	2014	304,904	324,385
Entities under joint control of Samruk-Kazyna	<b>2015</b>	<b>314,628</b>	<b>686,464</b>
	2014	108,787	2,011,868
Associates of the Group	<b>2015</b>	<b>47,602</b>	<b>11,883</b>
	2014	27,163	19,169

*The Group had the following transactions with related parties for the year ended 31 December 2015 and 2014:*

<i>In thousands of Tenge</i>		<b>SALES TO RELATED PARTIES</b>	<b>PURCHASES FROM RELATED PARTIES</b>
Subsidiaries of Samruk-Kazyna Group	<b>2015</b>	<b>22,452,578</b>	<b>12,008,135</b>
	2014	19,215,320	12,958,556
Associates of Samruk-Kazyna	<b>2015</b>	<b>5,794,687</b>	<b>1,846,301</b>
	2014	3,959,937	1,169,841
Entities under joint control of Samruk-Kazyna	<b>2015</b>	<b>2,791,742</b>	<b>10,169,968</b>
	2014	2,390,475	11,187,190
Associates of the Group	<b>2015</b>	<b>293,011</b>	<b>87,094</b>
	2014	311,539	96,232

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 at 31 December 2015 the Group's borrowings of KZT 75,266,975 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2014: KZT 44,911,159 thousand).

In 2007-2009 the Group acquired bonds of an associate, Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 8%. 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 2015 (31 December 2014: KZT 868,269 thousand).

Interest income accrued on bonds of Batys Transit JSC, the associate, amounted to KZT 75,084 thousand for the year ended 31 December 2015 (for the year ended 31 December 2014: KZT 57,219 thousand).

As of 31 December 2015 the Group had outstanding accounts receivable from Balkhash TES JSC for the sale of property, plant and equipment in

the amount of KZT 168,654 thousand (31 December 2014: KZT 154,403 thousand) presented within long-term receivables from related parties. In accordance with sales agreement Balkhash TES JSC will repay the outstanding balance in December 2018. As at 31 December 2015 the discount on accounts receivable from Balkhash TES JSC comprised KZT 51,197 thousand (31 December 2014: KZT 65,448 thousand). For the year ended 31 December 2015 the amortization of discount on accounts receivable comprised KZT 14,251 thousand (2014: KZT 9,926 thousand).

On 30 September 2015 the Group has sold buildings and constructions with equipment and land located in Astana city to its related party Kazpost JSC for KZT 2,161,476 thousand. In accordance with sales agreement Kazpost JSC will repay the outstanding balance by equal monthly payments until June 2027. Accordingly, the Group discounted the future cash flows using discount rate of 10.37%, which is the Group Management's best estimate of market rate. As of 31 December 2015 the discount on accounts receivable from Kazpost JSC comprised KZT 911,636 thousand. As of 31 December 2015 the receivable net of discount comprised KZT 1,249,840 thousand, of which KZT 1,151,591 thousand was accounted for within long-term receivables from related parties. For the year ended 31 December 2015 the Group recognized income from amortization of discount on long-term receivables from Kazpost

JSC in the amount of KZT 30,700 thousand.

Total compensation to key management personnel included in personnel costs in the consolidated statement of comprehensive income was KZT 362,814 thousand for the year ended 31 December 2015 (for the year ended 31 December 2014: KZT 304,262 thousand). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

## **28. 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.

<i>In thousands of Tenge</i>	<b>INCREASE/ (DECREASE) IN BASIS POINTS*</b>	<b>EFFECT ON PROFIT BEFORE TAX</b>
<b>FOR THE YEAR ENDED 31 DECEMBER 2015</b>		
LIBOR	50/(12)	(556,105)/133,465
EURIBOR	25/(25)	(149,000)/149,000
<b>FOR THE YEAR ENDED 31 DECEMBER 2014</b>		
LIBOR	2/(2)	(13,301)/13,301
EURIBOR	7/(7)	(28,759)/28,759

\* 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). 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.

<i>In thousands of Tenge</i>	<b>INCREASE/(DECREASE) IN EXCHANGE RATE</b>	<b>EFFECT ON PROFIT BEFORE TAX</b>
<b>AT 31 DECEMBER 2015</b>		
US dollar	60%/(20%)*	(12,215,701)/4,071,900
Euro	60%/(20%)**	(35,580,714)/11,860,238
<b>AT 31 DECEMBER 2014</b>		
US dollar	17.37%/(17.37%)	(3,838,785)/(3,838,785)
Euro	18.36%/(18.36%)	(7,537,546)/(7,537,546)

\* in absolute terms increase/(decrease) in exchange rate of Tenge in relation to US dollar comprised 204.01/(68) Tenge;

\*\* in absolute terms increase/(decrease) in exchange rate of Tenge in relation to euro comprised 222.08/(74.29) Tenge.

## Credit risk

Credit risk is the risk that 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 2015 the Group had one customer Uzbekenergo JSC that owed the Group KZT 18,986,981 thousand and accounted for 81% of all trade accounts receivable outstanding (31 December 2014: KZT 10,048,687 thousand and accounted for 68%).

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.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	ON DEMAND	DUE MORE THAN 1 MONTH BUT NOT LATER THAN 3 MONTHS	DUE MORE THAN 3 MONTHS BUT NOT LATER THAN 1 YEAR	DUE MORE THAN 1 YEAR BUT NOT LATER THAN 5 YEARS	DUE MORE THAN 5 YEARS	TOTAL
<b>AT 31 DECEMBER 2015</b>						
Borrowings	–	6,944,759	19,416,270	93,532,667	75,206,539	195,100,235
Trade and other accounts payable	–	13,525,144	–	–	–	13,525,144
	–	20,469,903	19,416,270	93,532,667	75,206,539	208,625,379
<b>AT 31 DECEMBER 2014</b>						
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

### 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 2015.

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 2015	31 DECEMBER 2014
<b>DEBT/CAPITAL</b>	0.29	0.20

<i>In thousands of Tenge</i>	31 DECEMBER 2015	31 DECEMBER 2014
Long-term borrowings	149,139,660	94,714,528
Short-term borrowings	22,090,879	12,881,885
<b>DEBT</b>	<b>171,230,539</b>	<b>107,596,413</b>
Total liabilities	254,360,000	190,150,575
Equity	340,976,614	359,777,466
<b>CAPITAL</b>	<b>595,336,614</b>	<b>549,928,041</b>

The structure of the Group capital includes the share capital as disclosed in Note 15, reserves and retained earnings.

### 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**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>
<b>FINANCIAL ASSETS</b>				
Available-for-sale financial assets (Note 11)	868,269	–	–	868,269
<b>NON-FINANCIAL ASSETS</b>				
Long-term assets held for sale (Note 6)	161,511	–	–	161,511
UPS constructions (Note 7)	416,077,012	–	–	416,077,012

**Liabilities for which fair values are disclosed**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>
<b>FINANCIAL LIABILITIES</b>				
Borrowings (Note 16)	171,230,539	–	171,230,539	–

**Assets measured at fair value**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>
<b>FINANCIAL ASSETS</b>				
Available-for-sale financial assets (Note 11)	868,269	–	–	868,269
<b>NON-FINANCIAL ASSETS</b>				
UPS constructions (Note 7)	437,895,611	–	–	437,895,611

**Liabilities for which fair values are disclosed**

<i>In thousands of Tenge</i>	<b>31 DECEMBER 2015</b>	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>
<b>FINANCIAL LIABILITIES</b>				
Borrowings (Note 16)	107,596,413	–	107,596,413	–

As of 31 December 2015 and 2014 the fair value of these bonds were measured at present value of future cash flows.

**Fair values of financial instruments**

As of 31 December 2015 and 31 December 2014 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.

**29. 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 Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The National Bank of the Republic of Kazakhstan shifted to inflation targeting policy. Starting from 20th August 2015 it was decided to cease the support of Tenge exchange rate against US dollar and other main currencies in order to decrease the volume of currency interventions and to reduce the influence on establishing the Tenge exchange rate. Official exchange rate before devaluation amounted to 188.38 Tenge per 1 US dollar. As at 31 December 2015 the exchange rate amounted to 340.01 Tenge per 1 US dollar.

In 2015, the Kazakhstan economy continued to be negatively impacted by a significant drop in crude oil

prices and a significant devaluation of Kazakhstani Tenge. The combination of the above along with other factors resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. Management believes it is taking appropriate measures to support the sustainability of the Partnership'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 preceding 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 2015.

As at 31 December 2015, 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.

### 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 2015 and 31 December 2014. 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 2015 the Group excluded from EBITDA the foreign exchange loss of KZT 35,739,224 thousand incurred during the year ended 31 December 2015.

### Insurance

As at 31 December 2015, the Group insured property and equipment with the carrying value of KZT 153,385,690 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 2015, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 84,277,398 thousand (31 December 2014: KZT 103,344,164 thousand).

Due to the fact that a significant part of the plan on capital investments and, open contracts in particular, consist of equipment and spare parts purchased outside of the Republic of Kazakhstan, there is a likelihood of fluctuations in the value of contractual obligations. The main cause of these variations is the effect of changes in exchange rates caused by the transition to the regime of free-floating exchange rate in the framework of the implementation of target-based inflation.

#### *Tariffs on purchase of electricity from renewable energy sources*

According to the Government Decree No. 419 dated 29 April 2014, the tariffs for the purchase of electricity from renewable energy stations, which have been put into exploitation before the adoption of the Law on renewable energy No. 165-IV ("Law") dated 4 July 2009, are equal to the tariffs stipulated in

the technical-economic justification of the station. For the renewable energy producing organizations that have been put into exploitation after the Law adoption fixed tariffs approved by the Government decree of the Republic of Kazakhstan No. 645 dated 12 June 2014 are applied.

***Tariff on sale of electricity from renewable energy sources***

Tariff on sale of electricity from renewable energy sources to contingent consumers is calculated according to the Rules on Calculating the Tariffs on Supporting the Renewable Energy Sources approved by the Government Decree No. 290 dated 1 April 2014. The sales tariff includes cost of purchased electricity, operating costs, cost of services on balancing production and profit margin and is calculated by the Company regularly.

Management believes that purchase and sales tariffs on electricity from renewable energy sources are applied and calculated properly in accordance with the applicable regulation and legislation.

**Contractual commitments**

***Power regulation services***

During the year ended 31 December 2015 the Group provided power regulation services to its client Uzbekenergo JSC. However, due to the fact that as at 31 December 2015 the Group has not yet signed a sales agreement for power regulation

services, the Group did not recognize revenue from sales of these services, as management believes that the amount of revenue cannot be reliably measured, and that it is not probable that future economic benefits associated with this transaction will flow to the entity.



# APPENDICES

## APPENDIX 1. REPORT ON MANAGEMENT OF BRANCHES AND AFFILIATES, AND IMPACT OF THE FINANCIAL AND ECONOMIC PERFORMANCE OF BRANCHES AND AFFILIATES ON KEGOC PERFORMANCE INDICATORS IN 2015

### Energoinform

KEGOC is the sole shareholder (100% shares).

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:

- Reliable and efficient operation and development of telecommunications and information systems of KEGOC.
- Becoming an Information Integrator Unified Power System of Kazakhstan.
- Increase in the cost of equity capital.

The core operations: maintenance of information telecommunication complex of KEGOC.

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 KZT 10,000.

The number of the placed shares is 217,970.

The revenues of Energoinform in 2015 were KZT 3,743.371 million with the total expenses of KZT 3,453.141 million. According to the results of operations for the period, the net income was KZT 235.374 million.

In comparison with 2014 the revenues decreased by KZT 134.37 million or 3.47 %, while expenses decreased by KZT 138.260 million or 3.86 %.

The key performance indicators of Energoinform for 2015 were as follows:

- EBITDA margin was 9.97 %, for the same period of 2014 it was 10.74 %, the deterioration in EBIDTA margin compared to the previous year was caused by decrease in the Company's income;
- net income was KZT 235.374 million, which is higher than the actual figure in 2014 by KZT 33.988 million, or 16.9 %.

Energoinform together with EAST INDUSTRY COMPANY Ltd LLP in the city of Semey in October 2012 organized a 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 8,000 tonnes of cables and wires a year. The share

of Energoinform in the authorized capital of KazEnergoprovod is 49.9 % or KZT 161.5 million in monetary terms.

### 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.

Order No. 256 of the Minister of Energy of the Republic of Kazakhstan dated 31 March 2015 On Determination of Financial Settlement Centre for Support to Renewable Energy Sources determined Financial Settlement Centre for Support to Renewable Energy Sources.

The core operations of FSCS RES: to ensure the centralised purchase and sale of the electricity produced by renewable energy sources (RES) facilities and delivered to the electric networks of Kazakhstan UPS.

As of 31 December 2015 FSCS RES concluded contracts with 40 RES facilities.

In 2015, FSCS RES sold electricity produced by RES facilities to conditional customers in the amount of 203.6 million kWh.



The sole founder and sole participant is KEGOC.

FSCS RES was registered in the Department of Justice Department of Saryarka district of Astana on 27 August 2013.

FSCS RES's authorized capital was KZT 100.0 million as of 31 December 2015.

Total income of FSCS RES amounted to KZT 5,026.013 million at the end of 2015. Expenses amounted to KZT 4,998.771 million. Profit based on

the results of 2015 amounted to KZT 22.554 million.

*The financial and economic activity of EnergoInform and FSCS RES in 2015 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)	
	2014	2015	2014	2015
<b>GENERAL KEY INDICATORS</b>				
EBITDA margin, %	26.34	45.50	26.52	43.74
<b>LIQUIDITY AND BORROWING</b>				
Current liquidity ratio (not less than 1.0)	2.32	2.67	2.33	2.61
Interest coverage (EBIT / interest expense)	5.14	-2.02	5.23	-1.92
Debt to EBITDA (not more than 5.0)	3.26	11.16	3.22	10.82
Debt / equity (not more than 2.0)	0.30	0.50	0.30	0.50
<b>PROFITABILITY</b>				
Profitability of operations, %	7.08	-4.68	7.21	-4.38

### Batys Transit

Batys Transit was registered 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 Transit are: KEGOC with 20% of shares, MekhEnergoStroy LLP with 80% of shares.

Batys Transit 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.

Batys Transit 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 Transit:

- 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 2016

<b>29 JANUARY</b>	An extraordinary General Meeting of Shareholders of KEGOC: determination of an audit firm to audit the Company's financial statements for 2016 – 2018.
<b>JANUARY</b>	Participation in the meeting of the Consultative Committee for Electrical Energy at the College of the Eurasian Economic Commission
<b>FEBRUARY-MARCH</b>	Report of the Company's management to the employees on the results of work for 2015 and tasks for 2016
<b>MAY</b>	Participation in the 49th meeting of the CIS Electric Power Council, Dushanbe, Tajikistan
<b>BEFORE 29 MAY</b>	Holding the Annual General Meeting of Shareholders
<b>MAY</b>	Participation in the IX Astana Economic Forum
<b>MAY</b>	Celebration of the Labour Dynasties Day of Samruk-Kazyna, with the participation of all members of the Company's labour dynasty
<b>SEPTEMBER</b>	XIII International competition to test the professional skill of electric power industry experts from CIS countries – International repair and maintenance competition for 110 kV and higher electricity transmission lines on the training ground in Makinsk.

<b>SEPTEMBER</b>	Holding the meetings of the Board of Directors and the Management Board of KEGOC with talent pool
<b>OCTOBER</b>	Participation in the 50th meeting of the CIS Electric Power Council
<b>OCTOBER</b>	Participation in the annual KAZENERGY forum
<b>OCTOBER</b>	Participation in the 15th Kazakhstan International Exhibition and Forum – Power Kazakhstan, Almaty
<b>NOVEMBER</b>	Participation in the republican meeting of power engineers of KEA
<b>DECEMBER</b>	Holding the Best Mentor of the Year competition

The actual dates and the nature of the events may vary irrespective of the best efforts of KEGOC.

### APPENDIX 3. GLOSSARY

<b>AR</b>	Autoreclosing
<b>ARNM</b>	Agency of Kazakhstan for Regulation of Natural Monopolies
<b>BRANCHES</b>	MES and NDC SO branches of KEGOC
<b>CHPP</b>	Combined heat and power plant
<b>CIS</b>	Commonwealth of Independent States
<b>COMPANY</b>	Kazakhstan Electricity Grid Operating Company Joint Stock Company “KEGOC”
<b>EA</b>	Executive Administration
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>ECR POOL</b>	Kazakhstan electric capacity reserve pool
<b>EIA</b>	Environmental impact assessment
<b>ESO</b>	Energy supplying organization
<b>FS</b>	Feasibility Study

**APPENDIX 3. GLOSSARY (CONTINUED)**

<b>FUND</b>	Samruk-Kazyna Sovereign Wealth Fund Joint Stock Company
<b>GRES</b>	State District Power Plant
<b>GTPP</b>	Gas turbine power plant
<b>HPP</b>	Hydroelectric power plant
<b>IAS</b>	Internal Audit Service
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>ICS</b>	Internal control system
<b>IMS</b>	Integrated management system
<b>IPO</b>	Initial Public Offering
<b>IPS</b>	Integrated power system
<b>JSC</b>	Joint Stock Company
<b>KEGOC JSC</b>	Kazakhstan Electricity Grid Operating Company Joint Stock Company “KEGOC”
<b>kWh</b>	kilowatt-hour
<b>LLP</b>	Limited liability partnership
<b>MEBP</b>	Ministry of Economy and Budget Planning of the Republic of Kazakhstan
<b>MES</b>	KEGOC’s branches – Intersystem Power Grids
<b>MVA</b>	Megavolt-ampere
<b>MW</b>	Megawatt
<b>NDC SO</b>	KEGOC’s branch – National Dispatch Centre of the System Operator
<b>NGOs</b>	Non-governmental organizations

<b>NPG</b>	National Power Grid
<b>OJSC</b>	Open Joint Stock Company
<b>OHTL</b>	Overhead transmission line
<b>OSY</b>	Outdoor switchyard
<b>PLC</b>	Power line carrier
<b>PRELIMINARY EIA</b>	Preliminary environmental impact assessment
<b>RDC</b>	Regional Dispatch Centre
<b>REC</b>	Regional network company
<b>ROACE</b>	Return on average capital employed
<b>SAIDI</b>	System average interruption duration index
<b>SAIFI</b>	System average interruption frequency index
<b>SAMRUK-KAZYNA JSC, SOLE SHAREHOLDER</b>	Samruk-Kazyna Sovereign Wealth Fund Joint Stock Company
<b>SCADA</b>	Supervisory Control and Data Acquisition system
<b>SS</b>	Substation
<b>STC</b>	Scientific and Technical Council
<b>TPP</b>	Thermal power plant
<b>UPS</b>	Unified Power System
<b>VAT</b>	Value added tax
<b>WACS</b>	Wide area control systems
<b>WAMS</b>	Wide area measurement systems

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