

KEGOC ANNUAL REPORT 2018

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ABOUT COMPANY

Kazakhstan Electricity Grid Operating Company (KEGOC) was established in accordance with Decree No.1188 of the Government of Kazakhstan dated 28 September 1996 ‘On some measures to restructure power system management in Kazakhstan’. The date of initial registration of KEGOC is 11 July 1997.

Until 2006, 100 % of KEGOC shares had been owned by the government. In 2006, the government’s stock (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. Thus Samruk-Kazyna became a legal successor of Samruk.

On 18 December 2014 as part of the Programme for public offering of Samruk-Kazyna’s shares of affiliates and subsidiaries on the stock market, KEGOC placed 25,999,999 authorized ordinary shares on the Kazakhstan Stock Exchange through subscription.

As on 31 December 2018, the Company had 260,000,000 authorised and placed ordinary shares including 234,000,001 shares (90 % plus one share) belonging to Samruk-Kazyna, the major shareholder, 25,998,609 shares belonging to minority shareholders, and 1,390 shares repurchased by KEGOC.

Address: 59, Tauyelsizdik Ave., Almaty District, Z00T2D0, Nur-Sultan, Kazakhstan.

Mission: Ensure 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 standards.

Vision: We are the company with advanced reliability and efficiency performance at the level of the world’s best companies. Our aim is to continuously increase the value for all stakeholders through the development of the National Power Grid using advanced technologies, providing conditions for realization of transit and export potential and fostering corporate social responsibility.

In accordance with the laws of the Republic of Kazakhstan in electric power industry, KEGOC AS A SYSTEM OPERATOR OF THE UPS OF THE REPUBLIC OF KAZAKHSTAN and as such it is engaged in the following core activities:

- electricity transmission in the national power grid;
- technical dispatching of electricity supply and consumption in the grid;
- management of electricity production and consumption balancing.

The above-mentioned services in Kazakhstan is the area of a natural monopoly, which is why KEGOC’s operations shall be regulated by the Law of the Republic of Kazakhstan ‘On natural monopolies’.

KEGOC operations cover the entire territory of the Republic of Kazakhstan. The structure of the Company includes 9 intersystem electric networks branches (MES branches) and the National Dispatch Centre of the System Operator branch (NDC SO).

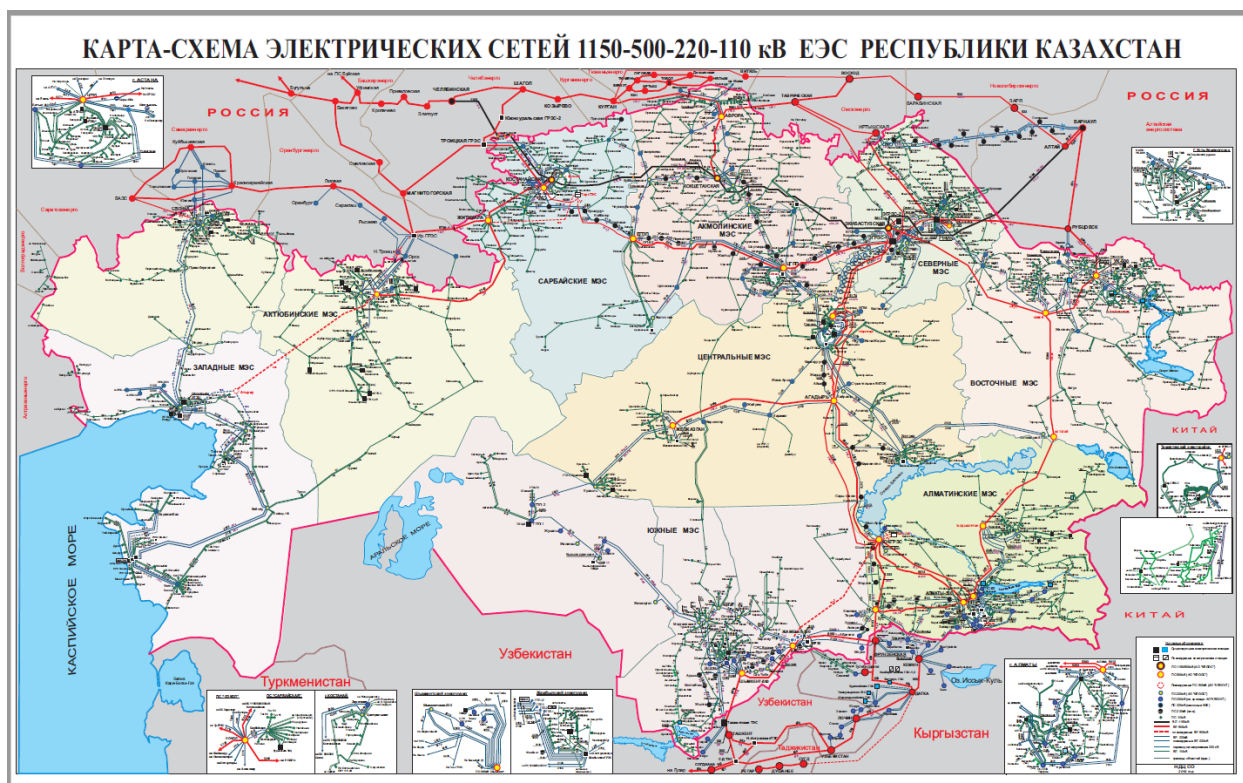
KEGOC has subsidiaries: EnergoInform JSC and Financial Settlement Centre for Renewable Energy Sources Support LLP (FSC RES).

EnergoInform is engaged in maintenance of National Power Grid equipment and provide telecommunication support for the Company’s activities.

FSC RES LLP was established in 2013 to encourage investments in renewable energy sector and increase the share of renewable energy in the Kazakhstan energy mix through government-guaranteed and centralized electricity purchase from all renewable energy facilities (who have chosen such support scheme) in accordance with the fixed rates. More detailed information about subsidiaries is given in Appendix 1.

KEGOC also has a stake in Batys Transit JSC (20% of shares), the company established in November 2005 in accordance with decree No. 1008 of the Government of the Republic of

Kazakhstan dated 7 October 2005 for implementation of the project the project for the construction of inter-regional power transmission line linking the North Kazakhstan with Aktobe oblast.



Akmolinskiye MES branch	Aktyubinskiy e MES branch	Almatinskiye MES branch	Vostochnye MES branch	Zapadnye MES branch	Sarbaiskiye MES branch	Severnye MES branch	Tsentralnye MES branch	Yuzhnye MES branch
10 SS	7 SS	11 SS	6 SS	5 SS	8 SS	8 SS	10 SS	13 SS
8,136.6 MVA	2425.5 MVA	4229.35 MVA	3694.5 MVA	950 MVA	6569.9 MVA	3520.6 MVA	3741.6 MVA	3,395 MVA,
OHTL: 4,230 km	OHTL: 967.39 km	OHTL: 4225.143 km	OHTL: 1919.290 km	OHTL: 1,681.5 km	OHTL: 2,444.525 km	OHTL: 3624.497 km	OHTL: 3,482.19 km	OHTL: 4201.303 km

As on 31 December 2018, the MES branches of KEGOC have:

1) 370 electricity transmission lines of 0.4 – 1150 kV with the total length of 25,096.597 km (circuits), including:

- 1421.225 km of 1150 kV OHTL;
- 8287.977 km of 500 kV OHTL;
- 1864.092 km of 330 kV OHTL;
- 14,693.992 km of 220 kV OHTL;
- 352.841 km of 110 kV OHTL;
- 44.13 km of 35 kV OHTL;
- 92.571 km of 10 kV OHTL;
- 12.851 km of 6 kV OHTL;
- 5.59 km of 0.4 kV OHTL.

2) 78 electric substations of 35 – 1150 kV with installed transformer capacity of 36,660.05 MVA.

- 3 substations of 1,150 kV with total capacity of 9,384.1 MVA;
- 18 substations of 500 kV with total capacity of 16,111.5 MVA;
- 54 substations of 220 kV with total capacity of 11,136.25 MVA;
- 1 substation of 110 kV with total capacity of 5 MVA;
- 2 substations of 35 kV with total capacity of 23.2 MVA.

Equipment installed on KEGOC's substations include:

- 272 of 1,150-10 kV power transformers and autotransformers (including 8 owned by third parties);
- 184 of 1,150-35 kV shunt reactors (including 9 owned by third parties);
- 1,572 of 1,150-35 kV air-blast, oil, SF6, and vacuum circuit breakers (including 99 owned by third parties);
- 1,583 units of 1,150-35 kV voltage transformers (including 64 owned by third parties);
- 3,704 units of 1,150-35 kV current transformers (including 244 owned by third parties);
- 111 storage batteries (including 2 owned by third parties);
- 45 compressor units;
- 116 devices and tools for the treatment of solid insulation and transformer oil;
- 64,699 of relay protection and automation and emergency automation devices;
- 31,861 metering devices.

LETTER FROM THE CHAIRMAN OF KEGOC'S BOARD OF DIRECTORS

Dear shareholders:

2018 was an important year for KEGOC. In August 2018, the Board of Directors unanimously voted to update the Development Strategy in accordance with the long-term letter of the shareholder's expectations for 2018-2028. The strategic goals and objectives of KEGOC were brought in line with the strategic goals of Samruk-Kazyna JSC to include the projects for technological development and business digitalization and update the investment project portfolio so that it would increase the efficiency of invested capital and develop new types of business.

In 2018 the Company achieved its goals in all strategic areas and completed the year on the positive operational and financial trend. The shareholders received their dividends twice in the total amount of about KZT 31.4 billion.

One of the foundations of a successful strategy implementation is motivation of employees to achieve the strategic goals. The members of the Board of Directors meet annually with the employees from the talent pool. The main topic of the meeting was corporate values developed as a part of the new project of the Transformation Programme titled 'Development of the corporate culture in KEGOC in 2018-2020'. This project shall support employee transformation initiatives, further improve the corporate culture of KEGOC, increase employee engagement, and develop human capital.

An important strategy development area is the observance of the principles of sustainable development. KEGOC is aware of its responsibility to shareholders, employees, society and future generations. Improvement of the occupational health management system, human capital and environmental remain the key elements of maintaining the effectiveness of the Company.

The sustainable development of the Company is impossible without continuous improvement of the corporate governance system. At the end of 2018, the Company's corporate governance rating was 'BB'.

On behalf of the Board of Directors of KEGOC I would like to thank all partners and shareholders for supporting the Company, and the team for its outstanding performance and contribution to the efficient and reliable operation of the Company.

Sincerely yours,

Almassadam Satkaliyev
Chairman of KEGOC's Board of Directors

LETTER FROM THE CHAIRMAN OF KEGOC'S MANAGEMENT BOARD

Dear readers:

The past 2018 was significant and productive not only for KEGOC, but in general for the entire electric power industry of the Republic of Kazakhstan.

The main event of the reporting year was the successful implementation of 500 kV OHTL Shulbinsk HPP (Semey) – Aktogai – Taldykorgan – Alma construction project. It was launched on 11 December 2018 during a live national TV conference on the Day of Industrialization. The event was participated by the President of the Republic of Kazakhstan, Mr. Nursultan Nazarbayev, who commended the completed project.

With this project in 2018 we completed North-East-South 500 kV Electricity Transmission Construction Project, the largest infrastructure project in the power sector. For four years KEGOC constructed more than 1,770 km of lines and three new 500 kV substations: Semey, Aktogay, and Taldykorgan. Open switchgears were expanded at 1150 kV Ekibastuzskaya substation, 500 kV Ust-Kamenogorsk substation, and 220 kV Shulbinsk hydropower plant. The Company also expanded and reconstructed 500 kV Alma substation, which is one of the substations providing power supply to Almaty.

2018 was also rich for other events important for the Company. KEGOC showed good performance. The amount of electricity transmission services in the national power grid amounted to 44.71 billion kWh. It is 2 billion kWh or 4.6% higher than it was in 2017. The amount of technical dispatching of electricity supply and consumption in the grid by 4.3% to 97.65 billion kWh. The amount of electricity generation and consumption balancing services in 2018 also grew by 5.1% to 183.36 billion kWh.

The net income for the year amounted to KZT 40 billion, which is KZT 7.2 billion higher compared with 2017.

To follow the instructions of the Head of State of reducing electricity prices, as well as to support the population, small and medium-sized businesses, the Company decided to reduce the prices of its services. Taking into account the growth of consumption and production of electricity, and respective growth of the regulated services provided by the Company, starting 1 January 2019, it will reduce the marginal prices for the following regulated services: from 2.823 to 2.496 KZT/kWh for electricity transmission; from 0.306 to 0.237 KZT/kWh for technical dispatching of supply and consumption of electricity in the grid; and from 0.098 to 0.088 KZT/kWh for management of the electricity production and consumption balancing.

Since KEGOC is a public company, the results of its operational and financial activities directly affect its stock price on the Kazakhstan Stock Exchange. In 2018 the maximum market price of one share reached a historic high of KZT 1,631 vs. the placement price in 2014 of KZT 505. It is symbolic that in 2018, KEGOC was awarded the prize of the Kazakhstan Stock Exchange 'For Contribution to the Development of the Stock Market'.

In 2018 we reaffirmed our status of a socially oriented company with social stability as one of its priorities implemented through effective personnel, social and communication policies. According to an independent study, KEGOC's Social Stability Index of 85% is one of the highest in the portfolio companies of Samruk-Kazyna. The engagement index of administrative and managerial staff in 2018 was also in the positive zone at 69%.

The Company has also been successful in implementation of the Business Transformation Programme. The transformation portfolio has 8 projects aimed at improving the efficiency of the Company's operations. In 2019 we are planning to launch SAP ERP, a billing system for our customers, and a corporate information security management system.

Undoubtedly, all these high achievements became possible thanks to the solid effort of the entire staff of the Company, united around common goals and objectives. Each member of our

team is proud of the fruits of their work, they put not just their knowledge but their heart into it constantly developing their professionalism. This is what moves the Company forward.

I would like to thank all our partners for their effective collaboration. I am confident that our further cooperation will be equally fruitful.

In 2019, relying on the vast experience of highly professional operational and administrative staff, the financial stability of the Company and the best practices, we also intend to achieve all of our goals.

Sincerely yours,

Bakytzhan Kazhiyev
Chairman of KEGOC's Management Board

KEY DEVELOPMENTS IN 2018

Date	Description
15 February	Early termination of the term of powers of the following members of KEGOC's Board of Directors: Kuanysh Bektemirov on his own initiative
17 April	The Kazakhstan Stock Exchange (KASE) held a meeting on the Issuer Day dedicated to KEGOC to increase the investors' interest in the issuer and seek feedback about the issuer from the shareholders
24 April	KEGOC held hearings of the annual performance report for the consumers and other stakeholders about regulated services provided by the Company
27 April	KEGOC held an annual General Meeting of Shareholders to approve the annual financial statements for 2017 and the amount of funds for dividend payment Also, the meeting determined the number of members, terms of office of KEGOC's Board of Directors, elected its members and the chair, and the rates and terms of remuneration and compensation of expenses for the members of KEGOC's Board of Directors. Ibragim Tagashev, was elected the Chairman of KEGOC's Board of Directors.
15 May	KEGOC published its financial statements for 2017 and for the first quarter of 2018.
16 May	KEGOC started payment of dividends on KEGOC's ordinary shares for 2017.
29 May	S&P Global Ratings upgraded the long-term credit rating of KEGOC from BB to BB+ with 'Stable' outlook
3 August	Fitch confirmed 'BBB-' rating of KEGOC with 'Stable' outlook
10 August	Moody's confirmed 'Baa3' rating of KEGOC and raised its BCA to 'ba2'
15 August	KEGOC published its interim financial statements for H1 2018
24 August	The extraordinary General Meeting of Shareholders of KEGOC elected Yermek Kudabayev an independent director of the Board of Directors of the Company
27 August	Early termination of the term of powers of the following members of KEGOC's Board of Directors: Ibrahim Tagashev on his own initiative
10 September	Bakytzhan Kazhiyev, the chair of the Management Board of KEGOC held a briefing at the Central Communications Service on the topic of 'Electric power industry: new technologies - new opportunities'
17-20 September	KEGOC's team won the second place in the XV International CIS Competition of Power Industry Professionals held in Minsk, Belarus
2 November	KEGOC, at the head office, hosted the 53rd meeting of the CIS Electric Power Council (CIS EES) attended by delegations of electric power authorities and utilities from Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia and Uzbekistan, and by representatives of the Executive Committee of the CIS, the Eurasian Economic Commission, "Energy" coordination dispatch control centre.
2 November	The meeting of an extraordinary General Meeting of Shareholders of KEGOC elected Almassadam Satkaliyev the chair of the Board of Directors of KEGOC and a representative of Samruk-Kazyna at the Board of Directors of KEGOC
29-30 November	The Spartakiad among KEGOC employees took place in the town of Rudny, where the first team place was taken by the athletes from Sarbaiskiye MES branch
30 November	KEGOC was the first of the portfolio companies of Samruk-Kazyna to sign a contract for supply of high-voltage equipment with domestic manufacturers within the framework of the Agreement on cooperation between Samruk-Kazyna and Atameken, the National Chamber of Entrepreneurs
30 November	The extraordinary General Meeting of KEGOC's Shareholders by mixed voting approved the interim financial statements, reviewed the net profit distribution, decided to pay dividends on ordinary shares and the amount of dividends per one KEGOC's ordinary share for H1 2018.
4 December	Dominique Fache, Yermek Kudabayev and Janusz Bialek, independent directors, members of the Board of Directors of KEGOC, met with 30 talents of the company. The main topic of the meeting was the approved corporate values of the Company.
11 December	500 kV Shulbinsk HPP (Semey) - Aktogay - Taldykorgan - Alma overhead transmission lines were commissioned during a national live TV-conference with the participation of the Head of State, Mr. Nursultan Nazarbayev
12 December	KEGOC started payment of dividends on KEGOC's ordinary shares for H1 2018.

MARKET OVERVIEW

State Regulation Structure of Power Industry in Kazakhstan

The main policymaker in the electric power industry is the Government of Kazakhstan. The **Ministry of Energy of Kazakhstan** is the public authority to manage the industry. The Committee of Atomic and Energy Supervision and Control under the Kazakhstan Ministry of Energy is the public authority to supervise and monitor the industry.

The Committee on Regulation of Natural Monopolies and Protection of Competition and Consumer's Rights under the Ministry of National Economy of the Republic of Kazakhstan is the public authority that monitors and regulates the state monopoly activities (including KEGOC as a natural monopoly) and manages the protection of competition and restriction of monopolistic operations.

The Unified Power System (UPS) of Kazakhstan is a combination of power plants, transmission lines and substations.

The electric power industry in Kazakhstan includes the following sectors:

- electricity generation;
- electricity transmission;
- electricity supply;
- electricity consumption;
- other activities in electric power industry.

Electricity generation

Electricity in Kazakhstan is generated by 138 power plants of various forms of ownership. As on 1 January 2019, the total installed capacity of the power plants in Kazakhstan was 21,901.9 MW; and the available capacity was 18,894.9 MW.

Electricity transmission

Electric networks in Kazakhstan include 0.4-1,150 kV substations, switchgears and electricity transmission lines connecting them to transmit and/or distribute electricity. The backbone grid in Kazakhstan UPS is *the National Power Grid (NPG)* that provides electric connections between the regions of the country and with the power systems of the neighbouring countries (the Russian Federation, the Kyrgyz Republic and the Republic of Uzbekistan) and deliver electricity from the power plants to the wholesale consumers. KEGOC owns 220 kV and above substations, switchgears, interregional and/or interstate transmission lines being a part of the NPG including lines used for connection of power plants.

Regional electric networks 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)**.

Power transmission organisations transfer electricity using their own or third party'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 organisations.

Electricity supply

The Kazakhstan electricity market power supply sector includes 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 have a role of the 'guaranteed power supplier'.

Other activities in electric power industry

Research and design institutes, such as **Energiya KazNIPITES, KazSelEnergoprojekt, Chokin Kazakh Research Institute of Power Engineering and Almaty University of Power Engineering & Telecommunications, Nazarbayev University and Energy System Researches LLP** are engaged in research and development in power industry, market researches and forecasting, addressing the issues of adopting new energy-efficient and environmentally friendly technologies.

KEGOC is a member of Kazakhstan Electricity Association, KazEnergy Association, Atameken National Chamber of Entrepreneurs, Association of Competition Development and Commodity Markets, Kazakhstan Association of Taxpayers and ECR Pool participant.

Kazakhstan Electricity Market

The electric power market has two levels: the wholesale and retail electric power markets.

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

- **Decentralized electricity market** (bilateral contracts of electricity purchase and sale);
- **Centralized electricity market**, which is based on short-term (spot-trade), mid-term (week, month) and long-term (quarter, year) electricity trading; The operator of the centralized electricity market is **KOREM JSC** (*Kazakhstan operator of the electricity and power market*);

- **Real-time balancing market** is being created 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. 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 Settlement Centre. **The role of the Financial Settlement Centre** in the balancing electricity market is played by Energoinform. Currently the balancing electricity market in Kazakhstan operates in simulation mode (up to 1 January 2021 in accordance with Order of the Minister of Energy No. 504 dated 13 December 2018).

- **System and ancillary service market**, where the System Operator renders the system services and acquires the ancillary services from the Kazakhstan electricity market participants in order to comply with the state standards of reliable operation of Kazakhstan UPS and electric power quality. The Ministry of Energy of Kazakhstan (Order No. 61 dated 17 October 2014) assigned KEGOC the role of **the System Operator of UPS of Kazakhstan**;

- **The electric capacity market** is being created in order to attract investments in maintaining the existing and constructing the new generating capacities in an amount sufficient to meet the electric capacity demand. In accordance with the Law on Electric Power Industry in Kazakhstan, the capacity market shall be launched on 1 January 2019.

The participants of the wholesale electricity market are:

- the 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;

- the power transmission organisations;

- the power supply organisations that do not have their own electrical networks and buy electricity on the wholesale electricity market with a view to resale it in the amount of not less than 1 MW of the daily average (baseline) capacity;

- the 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 market, which is KOREM;

- the Financial Settlement Centre for Renewable Energy Sources Support;

The centralized dispatch control of Kazakhstan UPS is a function of the National Dispatch Centre of the System Operator (NDC SO), the branch of KEGOC. 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).

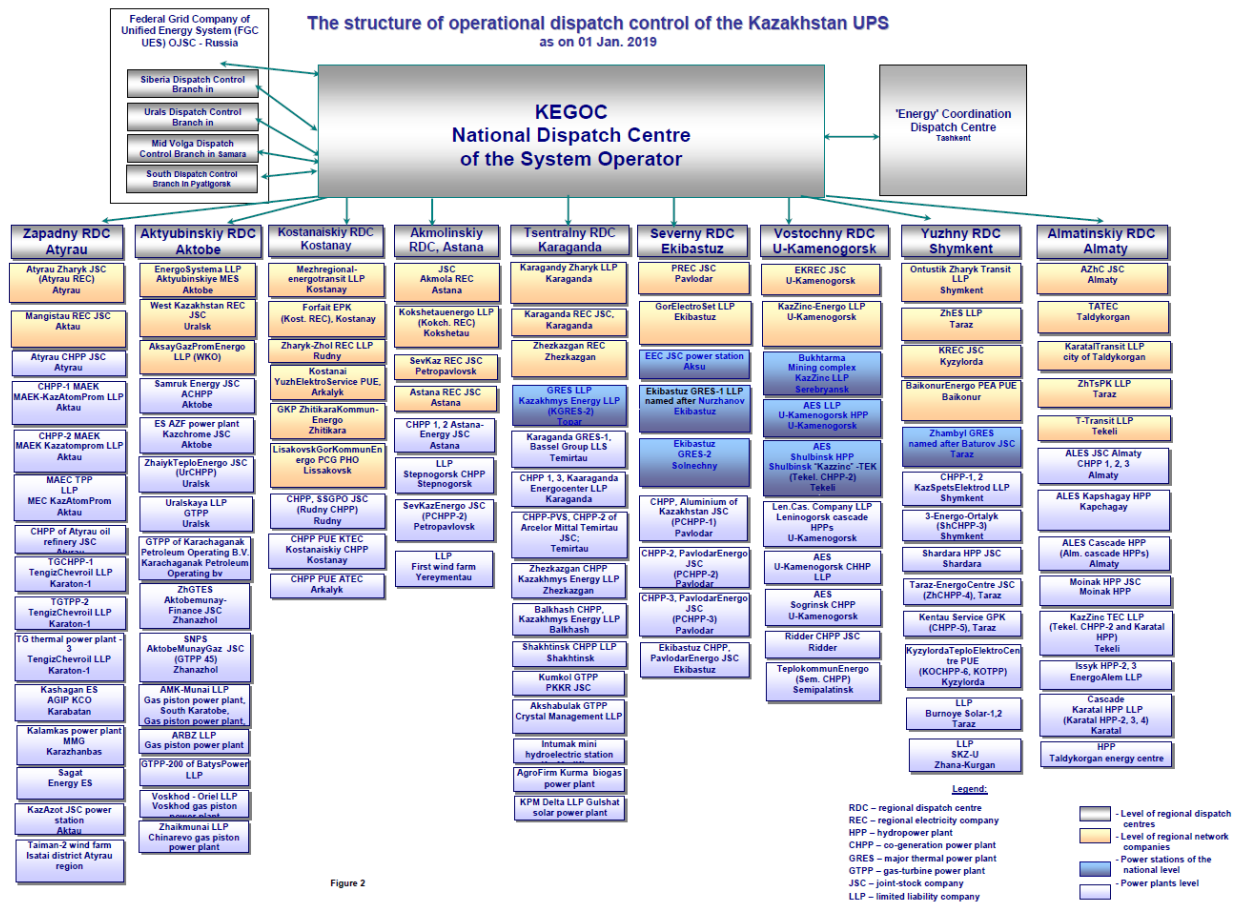


Figure 2

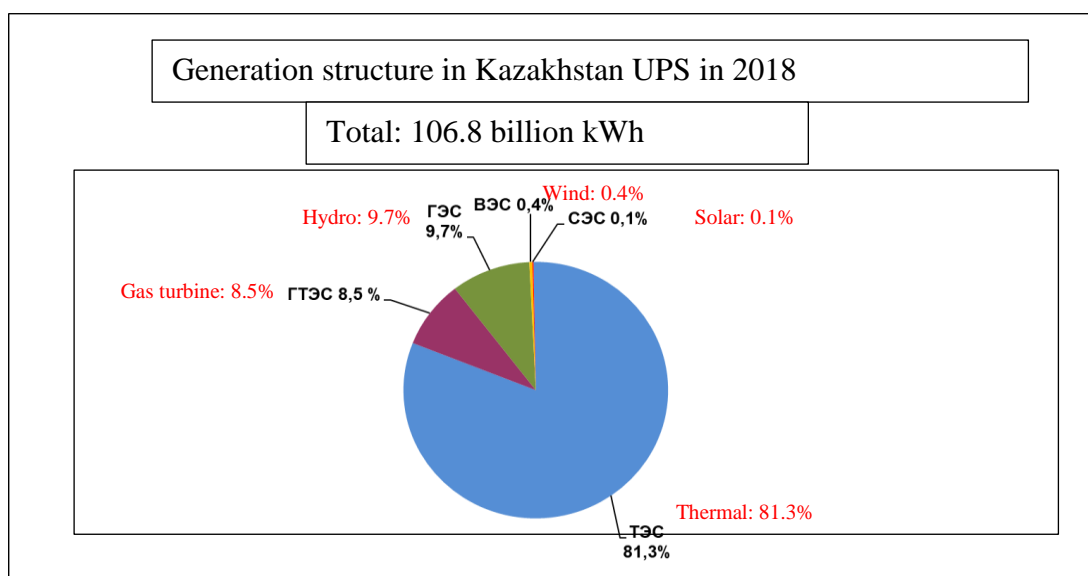
FSC RES does the centralised purchase and sale of the electricity produced by renewable energy facilities and delivered to the electric networks of Kazakhstan UPS.

Electricity Balance

The electricity consumption in Kazakhstan in 2018 compared to 2017 increased by 5,371.7 million kWh or 5.5 % to 103,228.3 million kWh. Consumption increased by 2,975.0 million kWh (4.6 %) in Zone North, by 1,007.8 million kWh (8.1 %) in Zone West and by 1,388.9 million kWh (6.8 %), and in Zone South of Kazakhstan. The most significant growth in electricity consumption was observed in Pavlodar Oblast by 779.0 million kWh (4.2%), Atyrau oblast by 647.9 million kWh (11.7%), Karaganda oblast by 620.5 million kWh (3.7%), Zhambyl Oblast by 518.56 million kWh (13.6%), East Kazakhstan Oblast by 517.0 million kWh (6%), and Aktoke Oblast by 400.7 million kWh (6.8%).

The electricity production in the Republic of Kazakhstan in 2018 was 106,797.1 million kWh, which is higher than in 2017 by 4,413.5 million kWh or by 4.3 %.

In 2018, electricity production in Kazakhstan exceeded consumption by 3,568.8 million kWh.



The net power flow in the reporting period on the border with Russia amounted to 3,566.0 million kWh (4,528.2 million kWh in 2017). At the same time, electricity exports to Russia amounted to 4,876.2 million kWh, which is 911.9 million kWh lower than in 2017 (5,788.1 million kWh). Electricity imports from Russia was 1,310.2 million kWh, which is 50.3 million kWh (4.0%) higher than in 2017 (1,259.9 million kWh). Both export and import are presented here net of the balancing electricity provided by Russia.

The net power flow to Central Asia (the Kyrgyz Republic, the Republic of Uzbekistan) amounted to 2.8 million kWh. The export of electricity to Kyrgyzstan was 18.3 million kWh, the import was 15.5 million kWh.

The increase in electricity consumption in 2018 had an impact on KEGOC's performance: the amount of transmission, technical dispatching and balancing services provided by the Company for its clients: power generators, power transmission utilities, power suppliers and consumers.

Operating activity of KEGOC

Electricity transmission

The actual amount of the transmission services in the National Power Grid in 2018 amounted to 44,709.0 million kWh, which is higher than in 2017 by 1,971.7 million kWh or 4.6 %. The increase is mainly due to the growth in the amount of services delivered to the wholesale electricity market participants in Kazakhstan by 2,683.8 kWh or 7.4 %.

In 2018, KEGOC under the contract with FGC UES transmitted electricity across KEGOC's networks from the Russia through Kazakhstan back to the Russia. The scope of such transmission services amounted to 2,216.7 million kWh which is 235.5 million kWh higher than in 2017.

Major customers, million kWh

Nurzhanov Ekibastuz GRES-1 LLP	3,758
AlmatyEnergoSbyt LLP	2,869
TemirZholEnergO LLP	2,538
Kazchrome Transnational Company JSC	2,361
Federal Grid Company of Unified Energy System (FGC UES) PJSC	2,217
KazPhosphate LLP	2,096
EnergOPotok LLP	2,014

KazZinc LLP	1,924
ShygysEnergoTrade LLP	1,492
AB Energo LLP	1,425

Technical Dispatch Control

The actual amount of the technical dispatching of supply and consumption in the grid in 2018 was 97,645.8 million kWh, which is higher than in 2017 by 4,035.8 million kWh or 4.3 %. This growth is caused by higher amount of electricity generation by both generators of regional and national importance.

Major customers, million kWh

Nurzhanov Ekibastuz GRES-1 LLP	18,174
Eurasian Energy Corporation JSC	14,286
Ekibastuz GRES-2 Power Station JSC	5,162
Almaty Power Stations JSC	4,918
MAEK Kazatomprom LLP	4,049
Karaganda Energocenter LLP	3,987
TOPA GRES LLP	3,293
KazZinc LLP	3,242
PavlodarEnergo JSC	3,218
SevKazEnergo LLP	2,821

Management of Electricity Production and Consumption Balancing

The actual amount of electricity production and consumption balancing management in the grid in 2018 was 183,357.8 million kWh, which is higher than in 2017 by 8,823.1 million kWh or 5.1 %. This growth is caused by higher amount of electricity generation and consumption on the wholesale market in Kazakhstan.

Major customers, million kWh

Eurasian Energy Corporation JSC	23,804
Nurzhanov Ekibastuz GRES-1 LLP	18,174
Astana REC JSC	6,175
KazZinc LLP	5,958
AlmatyEnergoSbyt LLP	5,905
ArcelorMittal Temirtau JSC	5,822
Ekibastuz GRES-2 Power Station JSC	5,117
Almaty Power Stations JSC	4,987
PavlodarEnergo JSC	4,632
TOPA GRES LLP	4,087

Electricity Purchase/Sale Transactions

In 2018, KEGOC purchased electricity:

✓ to compensate for technological consumption (loss) and for economic needs in the NES of Kazakhstan in the amount of 2 904,204 million kWh. in the amount of KZT 20,362.5 million, including from Russia 28.5 million kWh in the amount of KZT 329.2 million, from Kyrgyzstan 3.3 million kWh. in the amount of KZT 23.7 million. The amount of electricity purchased to compensate for technical losses as compared with 2017 increased by 106.926 million kWh (from 2,797.279 million kWh in 2017 to 2,904.204 million kWh in 2018) or KZT 2,134.486 million (from KZT 18,227.987 million in 2017 to KZT 20,362.473 million in 2018). The auxiliary electricity consumption in MES branches amounted to 31.512 million kWh, which is 4.985 million kWh higher than in 2017 (26.527 million kWh in 2017 vs. 31,512 million kWh in 2018).

✓ in order to compensate for the hourly deviations of the actual interstate balance of electric power flows vs. the planned ones at the border of the UPS of Kazakhstan and the UES of

Russia in the amount of 1,049.6 million kWh or KZT 11,838.0 million (including: PJSC Inter RAO (Russia) and from domestic energy sources - Ekibastuz SDPP-1 LLP, MAEK Kazatomprom LLP, Batys Power LLP);

✓ to balance the unscheduled power flows between the power systems of Kazakhstan and Kyrgyzstan in the amount of 3.3 million kWh worth KZT 23.7 million (purchased from the National Power System of Kyrgyzstan OJSC);

✓ to balance the unscheduled power flows from the power system of Kazakhstan to the power system of Kyrgyzstan in the amount of 6.1 million kWh worth KZT 43.4 million (purchased from Ekibastuzskaya GRES-1);

In 2018, KEGOC sold electricity:

✓ to balance hourly unscheduled power flows between the energy systems of Kazakhstan and Russia with the total amount of 1,049.6 million kWh worth KZT 4,213.8 million (to Inter RAO (Russia));

✓ to balance the unscheduled power flows between the power systems of Kazakhstan and Kyrgyzstan in the amount of 6.1 million kWh worth KZT 43.4 million (to the National Power System of Kyrgyzstan OJSC);

KEGOC's Development Strategy

KEGOC's operations are strategically important for the development of the entire economy of Kazakhstan and impact a huge number of people, and as such they dictate the main approaches to the Company's long-term development strategy. Above all, it shall carefully consider the interests of society and ensure the priority development of Kazakhstan NPG, decent working conditions and well-being of people, provide for the environment protection. The Company pays special attention not only to the economic but also social component of its business. All this is reflected in the development strategy of KEGOC.

In 2018, KEGOC updated its long-term development strategy in accordance with the instructions of the Chairman of the Management Board of Samruk-Kazyna and the letter of shareholder's long-term expectations for 2018-2028. The Company update the long-term development strategy to: (i) bring it in line with the approved state programs and documents, as well as the development strategy of Samruk-Kazyna for 2018-2028, especially in terms of improving the Company's performance and introducing a portfolio approach to asset management and investment projects; (ii) reflect current trends having a significant impact on the power industry development (the development of renewable energy sources, business digitalization, process automation and information security, etc.), including transformation of people's minds.

The development strategy of KEGOC for 2018-2028 was approved by the Board of Directors of KEGOC on 24 August 2018. The updated Strategy defines the mission and vision of KEGOC, as well as the main strategic goals and objectives needed to implement the Strategy and achieve the Company's key performance indicators (KPIs):

Goal 1: Ensure reliable operation of the Unified Power System of Kazakhstan, i.e. quality delivery of functions of the System Operator of the UPS of Kazakhstan; quality operational maintenance, repair and modernization of existing assets; increasing the transmission capacity of the NPGs of the Republic of Kazakhstan through the construction of new power transmission lines and substations; technological development and digitalization of business.

Goal 2: Ensure efficient operation of KEGOC by increasing the efficiency of invested capital and developing new types of business; implementation of KEGOC's Transformation Programme and the development of international cooperation.

Goal 3: Improve corporate governance and sustainable development by improving the OHS management system; improving corporate governance; human capital development and environmental protection.

The Strategy roadmap includes projects, activities and strategic KPIs. At the same time, the list of investment projects was formed using the portfolio approach, i.e. investment projects

are based solely on the principles of operational and commercial viability, the achievement of long-term interests of the Company and the return of invested capital.

In order to manage the performance of KEGOC, the KPI Tree was developed and approved. The KPI tree divides KPIs into strategic and operational ones by cascading the strategic KPI-1 level down the organizational structure and KEGOC activities, and thus sharing the responsibility for achieving the goals between the specific managers of KEGOC according to their position in the organizational structure. Accordingly, the role of each employee of KEGOC in achieving the goals and responsibility for the implementation of activities / projects of the Roadmap is enhanced.

To monitor the implementation of the Roadmap a detailed Strategy action plan was developed.

All planned activities of the Strategy Implementation Plan for 2018 have been implemented. The most significant events include:

- ✓ timely completion of 500 kV OHTL Shulbinsk HPP (Semey) -Aktogay-Taldykorgan-Alma construction project, as a part of the government's Nurly-Zhol programme;
- ✓ completion of the Business Transformation Programme projects, including a large and complex SAP ERP project that concerned the Company's basic business processes;
- ✓ start of trial operation of the billing system;
- ✓ approval of the IT development strategy and Information Security Development Program of KEGOC for 2018-2022;
- ✓ approval of KEGOC's Functional Funding Strategy for 2018-2028;
- ✓ confirmation of KEGOC's 'BB' corporate governance rating;
- ✓ update of HR policy of KEGOC.

Based on the stable growth of the country's economy, KEGOC expects future growth in consumption and production of electricity, which shall increase the amount of electricity transmission and regulated services provided by the Company. Therefore, despite the decrease in cap prices for consumers effective on 1 January 2019, KEGOC expects a steady growth in revenue and other financial indicators in future (ROACE, EBITDA, NAV, ROIC).

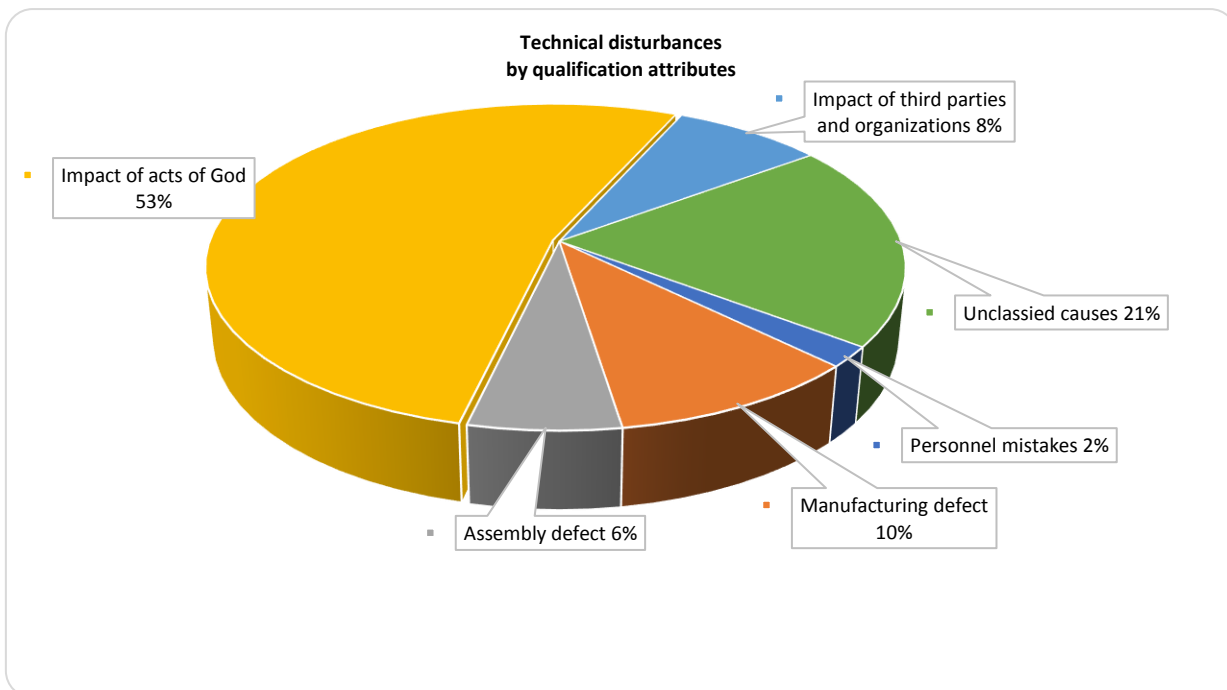
KEGOC will continue the implementation of asset modernization and development projects to maintain reliability of the UPS of Kazakhstan and improve such performance indicators as WWP (Percentage of Work Without Problems), SML (System Minutes Lost) and the degree of satisfaction of consumers of system services.

Sustainable development of KEGOC in future will be supported by further improving corporate governance and the OSH management system, increasing the Company's environment responsibility in accordance with the developed plans and programmes.

Goal 1: RELIABLE OPERATION OF THE UNIFIED POWER SYSTEM OF KAZAKHSTAN

Network Reliability

In 2018, KEGOC had 272 emergency outages in the grid (which is 3% lower than in 2017), including 149 occurrences with successful autoreclosing, and 123 occurrences with unsuccessful autoreclosing. In 2018, the Company recorded and investigated 49 technological disturbances, all 49 are class II failures. There were no class I disturbances or failures. 52 technological disturbances were recorded in 2017, including one disturbance (class I) and 51 minor disturbances (class II). There were no serious failures. The total number of operation disturbances as compared to 2017 decreased by 6 %.



In 2018 the Company recorded 33 technical disturbances on power lines which is 67 % of the total. Ten of the total number of technical disturbances damaged the transmission line elements.

In 2018 the Company recorded 16 technical disturbances on substations which is 33 % of the total. Three of the total number of technical disturbances on substations damaged the primary equipment.

The total undersupply of electricity in 2018 amounted to 274.18 thousand kWh versus 246.7 thousand kWh in 2017. Undersupply of electricity occurred mainly due to technological disturbances related to the impact of acts of nature.

The Company defined SML and WWP indicators to assess the network reliability level. In 2018 SML was 1.11 minutes, and WWP - 98.78% and, according to the results of the benchmarking completed as part of the Company's Strategy update, conform to the level of reliability indicators of peer system operators of electric power networks.

Investment Activity

In order to ensure the reliability of the National Power Grid, increase network capacity and improve energy efficiency, the Company has been systematically implementing the investment programme of funds injections and return for reconstruction, technical re-equipment of the fixed assets, and construction of the new ones.

In 2018 the Company disbursed KZT 42.62 billion (including KZT 7,82 billion of capitalized loan interest) vs. KZT 42.83 billion of the planned capital investments (including KZT 7.98 billion of capitalized loan interest). The Company completed 99.5% of the planned amount of work.

In 2018, KEGOC completed the main works under the largest infrastructure project in the power sector - North-East-South 500 kV Electricity Transmission Construction Project, launched in 2014. For four years KEGOC constructed in total 1,773 km of lines and three new 500 kV substations: Semey, Aktogai and Taldykorgan. 500 kV Alma SS was extended and rehabilitated, open switchgears were expanded at 1150 kV Ekibastuzskaya substation, 500 kV Ust-Kamenogorsk substation, and 220 kV Shulbinskaya hydropower plant.

Implementation of this project will make it possible to increase the transmission capacity from the northern power plants to the southern regions of Kazakhstan from 1,450 MW to 2,100

MW. The new transit will also resolve a number of urgent tasks and ensure the energy independence of consumers in the East Kazakhstan region, which so far were supplied by power through the territory of Russia. In addition, it will cover electricity demand of electrified railways and energy-intensive mining facilities. It is also important and timely that the commissioning of this project will give impetus to the development of renewable energy sources, in particular, small hydropower plants.

Since 110-1,150 kV overhead lines being on the Company's balance sheet with the operating time over 30 years account for 72% of the total length of the overhead lines (19,184 km out of 26,776 km), KEGOC plans to extend the range of modernization works to overcome the tendency of assets for deterioration.

For this purpose, KEGOC plans to implement the rehabilitation of 220-500 kV OHTL at the Company branches, which will cover partial replacement of existing OHTL structural components (towers, conductors, line hardware, etc.). This will significantly increase their lifetime and, as a result, ensure the reliable operation of the Unified Energy System of Kazakhstan.

In 2018, the Management Board of KEGOC approved the implementation of design solutions for the feasibility study on the Rehabilitation of 220-500 kV OHTLs at MES branches with the updated key indicators: cost of KZT 40.7 billion (excluding VAT) and implementation period until 2022 inclusive.

Pilot rehabilitation facilities include twenty-seven 220-500 kV overhead lines, which are on the balance sheet of KEGOC Aktyubinskiye MES branch (seven 220 kV OHTLs), Sarbaiskiye MES branch (nineteen 220-500 kV OHTLs) and Zapadnye MES branch (one 220 kV OHTL).

Pavlodar Electricity Transmission Reinforcement and 220 kV OHTL Tulkubas-Burnoye Construction investment projects with the total cost of KZT 9.4 billion (excluding VAT) are under implementation. In 2018, construction and installation works were performed under the projects, materials and equipment were supplied, foundations were erected, and conductors were installed. Completion of these projects and commissioning of all facilities are envisaged in 2019.

Also, projects on replacement of ground wire with OPGW (Optical Ground Wires) are under implementation at 220-500 kV OHTL Ust-Kamenogorsk - 14 SS, EGRES-1 - Ekibastuzskaya 220, EGRES-1 - Ekibastuzskaya 1150. In addition, construction and installation works are carried out under Severny RDC - Ekibastuzskaya 220 communication line.

The Company has started works on implementing the projects:

- Construction of Uralskaya SS - MGTS communication line;
- Construction of the communication line between Central RDC and the base of Tsentralnye MES branch (cable tie-in from the base of Tsentralnye MES to TETs-3-TsRDC cable);
- Replacement of ground wire at 500 kV OHTL Zhambyl - Shymkent-500;
- Replacement of ground wire at 220 kV OHTL Shymkent-500 - Shymkentskaya-220.

At the same time, in order to diversify the Company's business and gain additional profit from other activities, work is under way to implement the local project Development of Fibre Optic Communication Lines for Data Transmission.

With regard to capital investments in 2018 the Company fulfilled the disbursement plan (KZT 8.39 billion excluding VAT) by 103.8% (KZT 8.71 billion) to maintain the current level of operations. Disbursement of funds for local investment projects initiated under KEGOC business transformation programme amounted to KZT 2.995 billion (excluding VAT) out of the planned KZT 3.02 billion (99.4%).

In 2019, KEGOC will continue the active implementation of the project Rehabilitation of 220-500 kV OHTLs at MES branches (NPG Rehabilitation), plans to begin the design work on the large West Kazakhstan Electricity Transmission Reinforcement. Construction of Power Grid Facilities Project, and the pre-design work on promising investment projects worth about KZT 317 billion (excluding VAT).

Technological Development - Digitalization of Business

In the modern world, the Company's technological development is the driver of growth and business development that creates new opportunities and prospects for the Company's operations.

To fulfil expectations of the major shareholder and actively implement the State Program 'Digital Kazakhstan', the KEGOC Business Digitalization Concept was developed. The business digitalization concept in the Company is an addition to the Development Strategy of KEGOC and a fundamental document on the business digitalization specifying the main areas, principles and mechanisms of the digitalization process of all KEGOC activities. The Management Board of KEGOC approved KEGOC Business Digitalization Concept by the decision dated 28 March 2018.

In 2018, KEGOC continued implementing the following projects of technological development included in the State Programme 'Digital Kazakhstan' to increase the reliability, manageability and observability of the UPS of Kazakhstan:

- *Introduction of the monitoring and control systems based on synchrophasor technologies (WAMS (Wide Area Measurement Systems)/WACS (Wide Area Control Systems)).*

The Company in partnership with General Electric Company started implementing the first component 'The monitoring system based on synchrophasor technologies' (WAMS). The project has installed PMU (Phasor Measurement Unit) at 14 sites and specialized software in a number of dispatch centres. WAMS is planned to be commissioned in H1 2019.

- *Introduction of the Centralized Emergency Automation System (CEAS).*
- *Introduction of the Automatic Load-Frequency Control (ALFC).*

The feasibility study of the latter two projects was completed in partnership with Almaty University of Power Engineering and Telecommunications, and Institute of Automation of Energy Systems (Russia, Novosibirsk). Design estimates are planned to be developed in 2019.

The main impact of these projects shall be the higher transmission capacity of the grid without additional grid construction, smaller deviations of power at the border with Russia, and lower level of consumer outages during technological disruptions in the network.

In 2018 the work 'Feasibility study of corona losses mitigation in Kazakhstan NPG' with the involvement of NURIS (Nazarbayev University's scientific subdivision) was completed. The work studied possible ways to reduce corona losses in 500 kV KEGOC's networks by using technologies to treat the surface of high-voltage overhead transmission line conductors. Following the study results, KEGOC obtained an invention patent.

Also, in 2018 together with ORGRES Engineering Centre (Russia), KEGOC continued a scientific research on mitigation of electric power loss at 500 kV OHTL to determine the causes and develop counteractions that will reduce electric power losses in 500 kV transmission lines of KEGOC that were reported to have high level of losses.

KEGOC's Scientific and Technical Council (STC) operates on a permanent basis. The STC is a working body of KEGOC established to take decisions on the following issues: develop KEGOC, implement the Development Strategy, develop and arrange for introduction of new methods and technologies in projects for new construction, rehabilitation and technical upgrade of grid facilities, improve the NPG operation modes and develop domestic scientific and production potential. In 2018 the STC held eight meetings.

In addition, the Innovation and Technology Development Committee operates on a permanent basis under the STC at KEGOC. It is a working body that shall review and prepare conclusions on the information proposed for review by the STC, take decisions on rationalisation proposals of the Company's employees, etc. In 2008 the Committee held six meetings.

Applied technologies and equipment energy efficiency increase, energy-saving programme development and technological power consumption optimization are among the Company's main objectives.

The technical losses in KEGOC's networks in 2018 amounted to 2.9 billion kWh or 6.3 % of electricity supplied to the grid, not exceeding the standards established by the authorized body for natural monopolies.

In 2018, in accordance with the ITC Strategic Development Plan for 2018–2022, a number of activities were carried out on key areas of technological infrastructure development and digitalization of the electric power industry.

Under development of the target IT management model, the Company has currently implemented the centralized information management system of ITSM class (Information Technology Service Management) automating the main IT processes in KEGOC:

- incident and service requests management;
- IT problem management;
- management of IT service agreements;
- IT change management;
- management of IT change transfer and acceptance;
- IT asset management;
- configuration management (CMDB - Configuration Management Database).

To improve the efficiency of IT operation services under development of the target information security model, KEGOC has introduced a centralized integrated monitoring system for IT services and ITC infrastructure (SIEM - Security Information and Event Management) this year. The key task of SIEM solution is to obtain, save and analyse information on the state of the controlled elements of the Company's ITC infrastructure.

Also, with the view to enhancing the role of ITC in the main activities of KEGOC and introducing advanced technological IT solutions in the electric power industry, the work is being carried out to automate the Company's main and supporting processes, expand the data management program, qualitatively update and restructure corporate and technological networks, as well as centralize and virtualize ITC infrastructure and IT services.

In 2018, the Plan of Measures for Energy Saving and Raising Energy Efficiency of the Company for 2019-2020 was reapproved, as a result of which the planned reduction in the consumption of energy resources is expected to be 4,351 tons of fuel equivalent, and KZT 215.1 million in financial terms.

The Company pays much attention to the innovation and invention activity by encouraging personnel's technical creativity. In 2018 the Company's employees developed 38 rationalisation proposals aimed at improving operational efficiency, labour productivity and power supply reliability. Thus, the innovation proposal 'Ice removing instrument for 220 kV overhead lines' proposed by the employees of Severnye MES branch helps eliminating ice formations on the wires of high-voltage transmission lines in a purpose-designed way, as well as promotes safety of workers and improves speed and quality of the repair work. This innovation proposal is recommended for use in other branches of the Company.

Goal 2 ENSURE KEGOC's EFFICIENT OPERATIONS

Tariff Policy

To fulfil the mission of ensuring the NPG reliable operation, KEGOC has the main income source - cap tariffs for regulated services, which are approved by the authorized body for natural monopolies.

When implementing the large infrastructure investment projects, the company adheres to the tariff gradual increase policy. Under the Law on Natural Monopolies of the Republic of Kazakhstan the following KEGOC services refer to the natural monopoly services:

- electricity transmission via NPG;
- technical dispatching of electricity supply to the grid and electricity consumption;
- management of electricity generation and consumption balancing.

Once established, KEGOC has been consistently improving the tariff policy of regulated services and playing an active role in activities of relevant organisations relating to the tariff policy improvement.

In accordance with the legislation KEGOC shall submit applications to the Committee for Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of Kazakhstan (the authorized body regulating natural monopolies) seeking approval (revision) of tariffs for regulated services referring to the sphere of natural monopoly.

The Company's tariffs are set on a costs-plus basis, whereby the Company, in order to set a tariff for a certain period of time, considers the corresponding estimates of operating and financial costs and a fair rate of return on capital.

In 2013, KEGOC started rendering services at the cap tariffs. The principles of calculating the cap tariffs are similar to the calculation of annual tariffs except that the cap tariffs shall be approved for the period of up to five years. The cap tariffs make it possible for the Company to plan its capacity for long periods, and shareholders have the opportunity to get more information about the Company.

In accordance with the established procedures, KEGOC applied to the authorized body regulating natural monopolies seeking for approval of the cap tariffs and tariff estimates for KEGOC's regulated services for a long-term period. Based on the consideration results, Order No. 388-OD dated 21 September 2015 approved the cap tariffs and tariff estimates for KEGOC's regulated services for a five-year period from 01 January 2016 to 31 December 2020.

tenge per kWh	2016	2017	2018	2019	2020
electricity transmission	2.080	2.246	2.496	2.823	2.797
technical dispatching	0.231	0.234	0.249	0.306	0.306
generation and consumption balancing	0.084	0.086	0.091	0.098	0.098

In 2018, the following temporary compensatory tariffs were applied for the regulated services of KEGOC:

Service (KZT/kWh)	Period		Grounds	Decision
	01/01/2018- 30/06/2018	01/07/2018- 31/12/2018		
electricity transmission	2.4957	2.4928	Based on the consideration of the report on execution of tariff estimates for 2016 and 2017	of the authorized body regulating natural monopolies
technical dispatching	0.2489	0.2482		

In addition, the authorized body approved the decision of KEGOC to reduce, from 1 August 2018 to the end of 2018, the cap tariffs for technical dispatch of supply to the grid by 5% (from 0.2482 to 0.237 KZT/kWh), and for managing of electricity production and consumption balancing by 3% (from 0.091 to 0.088 KZT/kWh).

The decision to reduce KEGOC cap tariffs was made in accordance with the current legislation so that to achieve a balance of interests of consumers and the natural monopoly considering the actual growth in the volume of technical dispatching of electricity supply to the grid and managing of electricity production and consumption balancing for the previous period of 2018.

At the end of 2018, as part of the fulfilment of the instructions of the Head of State, the Ministry of Energy of the Republic of Kazakhstan decided to reduce the cost of electricity from 1 January 2019. Considering this decision, and the planned growth in the volume of services provided by KEGOC with the view to support the population, small and medium-sized businesses, the Company decided to reduce tariffs for its services to the level of 2018.

Service	Approved tariff caps for 2019 (tenge per kWh)	Tariff caps for 2019, including reduction
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		(tenge per kWh)
Electricity transmission	2.823	2.496
Technical dispatching	0.306	0.237
Managing of production and consumption balancing	0.098	0.088

According to the approved procedures the Company arranges public hearings to report its activities with respect to regulated services to strengthen the protection of consumers' rights, ensure transparency of activities for consumers and other interested parties. The basic principles of public hearings are publicity, transparency of the Company's activities and observance of the balance of consumer interests.

Financial and Economic Performance

The financial and economic results of 2018 were affected by the growth in the volume of rendered regulated services, revaluation of fixed assets classified as Constructions, and the partial early repayment of the borrowed loan at the end of 2017.

Analysis of the implementation of planned income and expenditure indicators

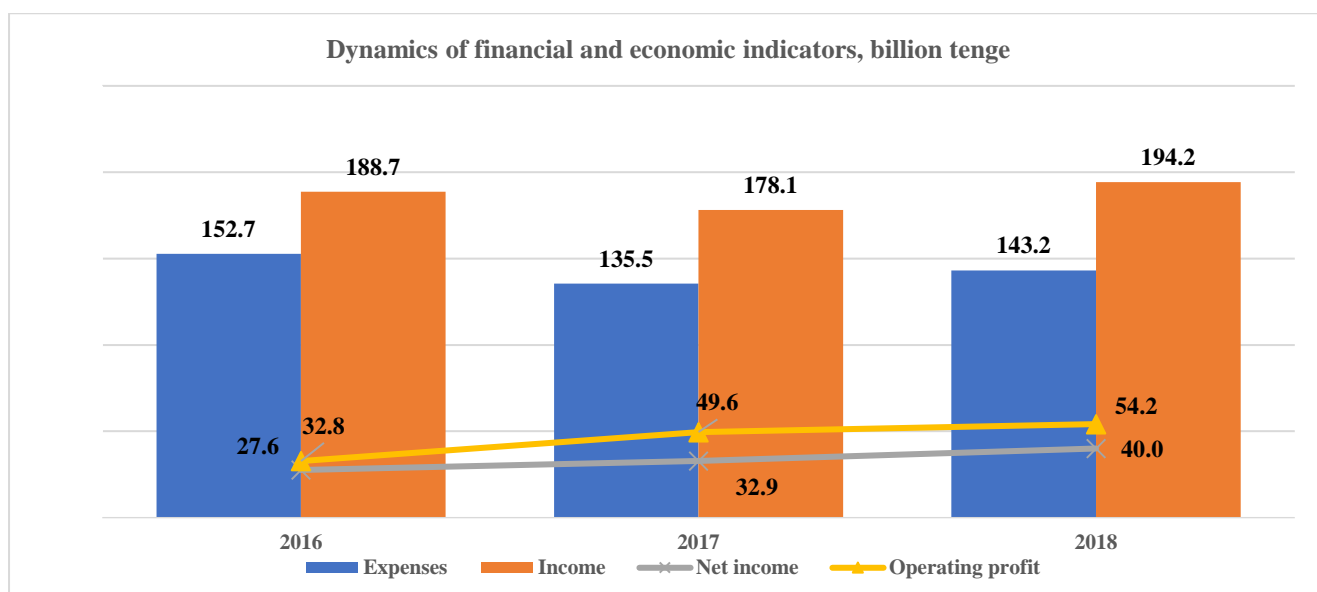
KZT million

	2018 plan	2018 actual	deviation	Main reasons for deviations
Consolidated income	173,225.15	194,194.04	+12.1 %	
<i>operating income</i>	171,268.92	175,797.39	+2.6 %	<i>Due to the increase in revenues from regulated services, from the sale of electricity to compensate for hourly deviations of the actual cross-border balance flows. At the same time, the decrease in revenues due to decrease in revenues from the sale of purchased electricity (Uzbekenergo did not purchase electricity), from the sale of purchased electricity produced by renewable energy sources by FSC RES and from the sale of power control services.</i>
<i>non-operating income</i>	1,956.23	18,396.65		<i>The increase is due to the growth in the foreign exchange gain, income from recoverable impairment loss of the fixed assets classified as Construction, income from the interest on bank deposit operations, income from the interest on securities, income due to change in the fair value of short-term securities, and income from equity participation in other organizations (share of profits of associated enterprises).</i>
Consolidated expenditures	129,259.32	143,169.22	+10.8 %	
<i>cost of sales</i>	107,082.58	105,840.19	-1.2 %	<i>Due to the reduction of expenses on technical losses, on the purchase of electricity to compensate for non-contractual withdrawal by Uzbekenergo due to the lack of electricity supply, and on power regulation provided by third parties. In addition, there is decrease in labour costs due to the postponement of the introduction of a new procedure for evaluating activities, expenses on labour and environmental protection, on fuel and lubricants, etc. At the same time, expenses on depreciation deductions increased due to the operating system revaluation, purchase of electricity from the Russian power system to compensate for imbalances, transfer of electricity via</i>

				<i>the third-party networks, purchase of electricity generated by renewable energy sources.</i>
<i>general and administrative expenses</i>	16,848.22	15,499.09	-8 %	<i>Due to the reduction of expenses on consulting services based on capitalization, on labour costs, on the costs of technical support of information systems of the business transformation centre, on travel expenses, as well as other expenses of the period. At the same time, property tax expenses increased.</i>

	2017	2018	deviation	Main reasons
Consolidated income	178,134.83	194,194.04	+9.0 %	
<i>Operating income</i>	152,379.82	175,797.39	15.4 %	<i>The fulfilment is mainly due to the increase in revenues on regulated services, as well as revenues from operations on the purchase and sale of electric energy by FSC RES.</i>
<i>Non-operating income</i>	25,755.00	18,396.65	-28.6 %	<i>Due to the decrease in the foreign exchange gain, decrease of revenues from operations with deposits, from changes in the fair value of long-term trade receivables, from equity participation in other organizations (the share of profits of associated enterprises). At the same time, there is increase in the income from recovered impairment loss of fixed assets classified as Construction, income as interest on securities, changes in the fair value of short-term securities.</i>
Consolidated expenditures	135,493.13	143,169.22	+5.7 %	
<i>cost of sales</i>	89,399.37	105,840.19	+18.4 %	<i>The excess is due to the increase in expenses for the purchase of electricity produced by renewable energy sources, depreciation deductions due to the revaluation of fixed assets, technical loss of electricity, purchase of electricity from the Russian power system to compensate for imbalances, remuneration of production personnel, transmission of electricity via the third-party networks.</i>
<i>general and administrative expenses</i>	13,142.39	15,499.09	+17.9 %	<i>The increase is mainly due to the accrual of provisions, property tax and labour costs. At the same time, the expenses for consulting services and medical insurance for employees deceased.</i>

All of the above factors influenced the operating profit and financial result based on 2018 results.



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.

International Cooperation

About cooperation with economic entities of power systems in the neighbouring countries as part of the parallel work

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

- Russia (Federal Grid Company of Unified Energy System, System Operator of Unified Energy System, Inter RAO);
- Kyrgyz Republic (Power Plants OJSC, Kyrgyzstan NPG OJSC);
- Uzbekistan (Uzbekenergo OJSC);
- Tajikistan (Barki Tojik OSHC).

Russian Federation

In 2018, 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 following 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;
- agreement for electricity procurement to cover the hourly deviations of the actual interstate balance flows of electricity vs. the plan between KEGOC and Inter RAO;
- agreement for electricity transmission (transit) services via KEGOC networks.

In 2018, there were electricity purchase and sale transactions under the agreements between KEGOC and Inter RAO to compensate for hourly deviations of the actual cross-border balance flows vs. the plan on the border of Kazakhstan UPS and the Russian UPS.

In 2018, KEGOC under the contract with FGC UES transmitted electricity via KEGOC's networks from the Russia through Kazakhstan back to the Russia.

Central Asia

In 2018:

- unscheduled consumption of electricity by the power system of Uzbekistan from the UES of Kazakhstan was not carried out;
- KEGOC provided services to regulate (frequency) capacity of the power system of Uzbekistan in accordance with the contract;
- to regulate unscheduled power flows between the power systems of Kazakhstan and Kyrgyzstan, in accordance with instruction 6 of the interstate agreement, the purchase and sale of electricity was carried out between KEGOC and Kyrgyzstan NPG.

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

In 2018, KEGOC participated in the meetings of the 33rd Coordination Commission of the Coordination Electric Power Council of Central Asia and the 29th Coordination Electric Power Council of Central Asia held on 24-25 October 2018 in Dushanbe (Tajikistan), meetings of the 32nd Coordination Commission of the Coordination Electric Power Council of Central Asia and the 28th Coordination Electric Power Council of Central Asia held on 20-21 June 2018 in Cholpan-Ata (Kyrgyz Republic).

CIS Electric Power Council

In 2018, two meetings of the CIS Electric Power Council were held: 52nd meeting (in absentia) and 53rd meeting.

The 53rd meeting of the CIS Electric Power Council took place on 2 November 2018 in Nur-Sultan in the central office of KEGOC. It was attended by delegations of state authorities and companies of the electric power industry from Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia and Uzbekistan, and representatives of the Executive Committee of the CIS, Eurasian Economic Commission and Energiya Coordinating Dispatch Centre.

The meeting participants discussed the most topical issues of interstate cooperation of the CIS electric power systems. In particular, heads of CIS delegations presented the information on the preparation of the power systems of the Commonwealth states for the autumn-winter period 2018-2019, and a number of documents of the Commission for Coordination of the Operational and Technological Cooperation of the energy systems of the CIS and Baltic states (CCOTC) were discussed.

As a result of the meeting, amendments and addenda to the Strategy (main areas) of interaction and cooperation of the CIS member states in the electric power sector were reviewed and approved, documents regulating personnel training, activities of CIS EPS working groups and the work plan of the CIS Electric Power Council for 2019 were considered and adopted. Also, it was decided to award the title of honour ‘Honourable Power Engineer of the CIS’ to a number of representatives of the CIS electric power systems.

KEGOC employees participated in the meetings of the following working groups of CIS EPS:

- the 27th and 28th meetings of the Coordination Council on the implementation of the Strategy for interaction and cooperation of the CIS member states in the electric power sector;
- the 32nd and 33rd meetings (in absentia) of the Commission for Coordination of the Operational and Technological Cooperation of the Energy Systems of the CIS and Baltic states (CCOTC);
- the 32nd meeting of the Working Group ‘Formation of the common electricity market of the CIS member-states’;
- the 30th meeting of the Working Group on updating and harmonizing the regulatory and technical framework for electric power industry regulation in the CIS;
- the 23rd meeting of the Working Group on metrological support of the CIS energy sector;

- the 11th and 12th meetings of the Working Group on the development of the interaction system in case of accidents and other emergency situations at the electric power facilities of the CIS member-states;
- the 10th and 11th meetings of the Working Group on the equipment operation reliability and occupational health;
- joint meetings of the Working Group of the CIS EPS on Environmental Protection and the Working Group on Energy Efficiency and Renewable Energy
- the 17th and 18th meetings of the Working Group on personnel management and training in the CIS electric power industry.

International Council on Large Electric Systems (CIGRE)

KEGOC participated in the 47th session of the International Council on Large Electric Systems (CIGRE) held from 26 to 31 August 2018 in Paris. The biennial CIGRE session is a unique event in the electric power industry including the international congress and the power equipment exhibition. The site, which brought together more than 3,500 delegates and representatives of world power companies, research organizations, manufacturers of equipment and materials for the electric power industry, design institutes and higher educational institutions, discussed issues related to new technologies developed to ensure the use of variable and hard-to-predict renewable energy sources in power systems. In particular, the following topics were discussed at the event: energy storage technologies in transmission and distribution systems, high-voltage DC OHLTs technologies and construction of AC and DC lines of ultra-high voltages, etc. Moreover, separate sessions were devoted to enhancing the role of consumers in power management, the use of new technologies and solutions in the formation and development of intelligent networks.

Goal 3 IMPROVE CORPORATE GOVERNANCE AND SUSTAINABILITY

HR Policy

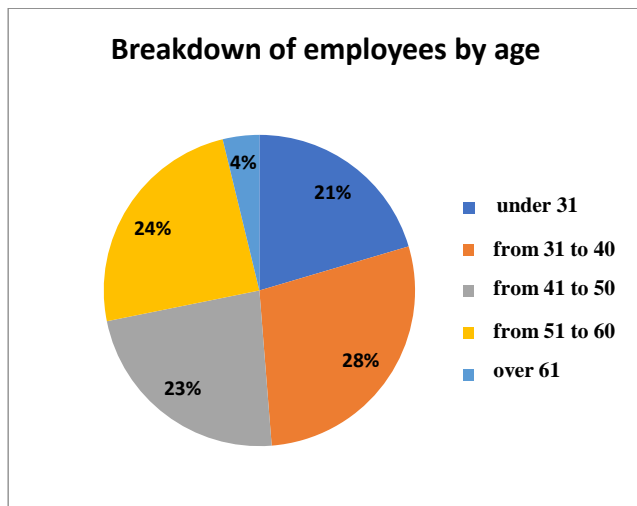
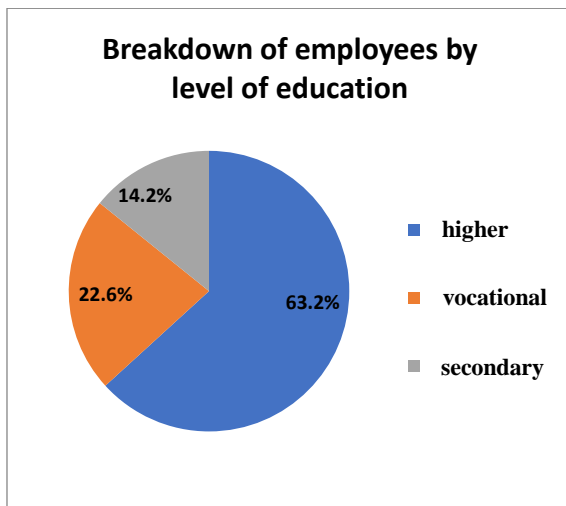
The human resources of KEGOC are the most important strategic factor for the Company's development success. KEGOC manages its human resources based on the principles of the Corporate Governance Code, Code of Conduct (Business Ethics Code), the integrated management system, HR Policy and internal documents relating to KEGOC's HR motivation.

The HR Policy is aimed at the formation of human potential as the most important intellectual and professional resource that ensures the implementation of the Development Strategy of KEGOC through the effective corporate culture focused on achieving high results and meritocracy.

To implement the Development Strategy of KEGOC, the HR Policy's objectives are to:

- ✓ ensure the commitment to the principles of meritocracy, including recruitment, training and development, assessment of employee performance and remuneration management;
- ✓ develop target corporate culture;
- ✓ improve talent pool management and career planning system;
- ✓ regulate social and labour relations contributing to the Company's successful operation;
- ✓ comply with the succession policy and knowledge transfer;
- ✓ train specialists on the application of digital technologies.

In the reporting year, the staff listing of the Company, including subsidiaries, was 4,797 people, which is 1.4% more than in 2017.



In 2018 the Company continued implementing KEGOC Business Transformation Programme, which is introducing the comprehensive assessment of employee performance. The results of the performance assessment are used to revise the salaries of the Company's employees, and to enrol employees to the personnel reserve (talent pool).

The Company has started the 'Development of the Corporate Culture of KEGOC' project. The project revealed the values uniting all the Company's employees, defined the target corporate culture model. KEGOC Corporate Culture Development Roadmap for 2018-2020 was developed and approved. It reflects initiatives and measures to achieve the set goals.

All the elements of HR policy are arranged in a way to enable quick and effective adaptation of new employees and accelerate their settling in a new job. On a regular basis an employee is introduced to the organization's objectives, its activity characteristics, and the Company's basic rules and expectations from employees. During the adaptation process, employees are instructed on safety as well.

KEGOC attaches great importance to the process of training and development of personnel and is guided by the following principles:

- 1) the effectiveness of training and focus on performance - training shall be aimed at addressing specific tasks that increase the efficiency of KEGOC;
- 2) the expediency - the choice of training activities must meet the training needs defined in the IWP (individual work plan) of the Employee in accordance with the official duties of the employee, the results of the performance assessment, as well as the objectives and tasks set for the employee;
- 3) the integrity of the development system, continuity and systematic training;
- 4) transfer of knowledge and competencies;
- 5) effective development of internal coaching;
- 6) active training on the 70/20/10 principle when training and development of the Employee is implemented through:
- 7) the use of advanced digital technologies in training, the development of distance/modular training.

The staff training was conducted using the full range of modern teaching methods - business workshops, seminars, trainings, internships, advanced training, vocational training and retraining programs, forums and conferences. In the reporting year, 2,650 employees were trained, which is 55.24 % of the headcount. KEGOC's actual training costs in 2018 amounted to KZT 329,945 million or 96.4 % of the plan, which is 27.3 % higher than in 2017.

KEGOC systematically develops the talent pool: the personnel reserve includes 294 people. In 2018, the number of vacancies, for which the pool was formed, was 56 and 32 vacancies were filled by employees from the personnel reserve. In November 2018, the members of KEGOC Board of Directors and Management Board held an annual meeting with prospective employees regarding KEGOC's values.

In December 2018 KEGOC held the Best Mentor of the Year competition, according to the results of which the winner was awarded a valuable gift and a diploma. Thus, KEGOC has been forming a mentoring institute.

In order to popularize and support the dynasties of the industry experts from the same family, and to publicly promote the succession of generations and social stability a solemn event was held on 29 June 2018 in the administrative building of KEGOC to award the winners of the Labour Dynasty contest, at which representatives of the Alpysbayevs, the Chernohayevs, the Lees, the Anessovs dynasties were awarded with valuable gifts and diplomas.

The remuneration system in the Company includes:

- the base part (wages, premiums and increments);
- the variable part (performance bonuses, one-time bonuses, remuneration of executive and administrative personnel);
- social support to employees;
- non-material remuneration.

In 2018, salaries/tariff rates of the Company's employees were increased by an average of 6%.

To create favourable conditions for effective work and raise loyalty, KEGOC provides a social support to the Company's employees: the recreation payment when granting the paid annual leave, on the anniversary date and the birth of child, due to the death of an employee or an employee's family members and the pensioner registered with KEGOC, to pay for the medical treatment of an employee and children - disabled, disabled from childhood irrespective of the group of physical inability and age.

Employees of retirement age are compensated upon their retirement, and the one-time material assistance is provided annually on the professional holiday 'Power Engineers' Day' to the pensioners registered with the Company.

In 2018, the Company assisted in resolving housing issues to 113 employees by partial reimbursement of housing costs totalling KZT 115.1 million at the expense of KEGOC. 43 employees became applicants for acquiring residential premises with subsequent purchase on the terms of Real Estate Fund Samruk-Kazyna (Real Estate Fund) in Shymkent, Almaty and Aktobe. To date, the house purchase contracts between employees of the Company and the Real Estate Fund are under execution.

In the reporting year the medical insurance in case of illness covered 2,502 employees of KEGOC, the amount of services costed KZT 86.4 million.

Based on the work results in 2018, 87 employees of KEGOC were rewarded with state and industry awards for special merits.

The Collective Labour Agreement concluded between KEGOC and its employees for 2016-2020, in addition to the main provisions of the labour laws of the Republic of Kazakhstan, refers to the issues related to the social support of the Company's employees, veterans of the Great Patriotic War, equated persons and long-service power engineers, and the organization of medical care and entertainment events for the employees. The Collective Labour Agreement covers all employees of the Company.

Environmental Protection

The goal of the Environmental Policy of KEGOC is to minimize the adverse environmental impact during electricity transmission and distribution.

The main areas of KEGOC Environmental Policy are:

- responsibility for environmental security of the Kazakhstan National Power Grid development;
- energy-saving and the rational use of natural and energy resources;
- compliance with the legal framework of the Republic of Kazakhstan relating to the environment, and with the requirements of ISO 14001;
- openness and accessibility of the information, including the results of environmental monitoring.

Environmental Management System

The Company implemented the environmental management system (EMS), which is certified for compliance with the requirements of international standard ISO 14001. EMS operates within the integrated management system of KEGOC. The main objective of its implementation and operation is to apply new management methods that would enhance the influence on the environmental aspects of the Company's production and economic activities. The environmental aspects management is a component of the corporate risk management system in KEGOC.

For efficient management, in 2018 the Company developed registers of environmental aspects and important environmental aspects of KEGOC for 2018. When identifying the aspects, all components of the environmental impact of the Company's activities are analysed (energy saving, water, soil, emissions, waste). Activities to manage environmental aspects are specified in the Company's Environmental Program for 2018. 'Potential PCB-containing waste', 'transformer oil' and 'waste transformer oil' were identified as critical environmental aspects in 2018. The 'potential PCB-containing wastes' aspect is critical due to the fact that polychlorinated biphenyl is dangerous substance according to the Environmental Code of the Republic of Kazakhstan (red hazard level). The 'spent transformer oil' and 'transformer oil' aspects are critical due to the existence of oil-filled equipment.

Water and Soil Impact

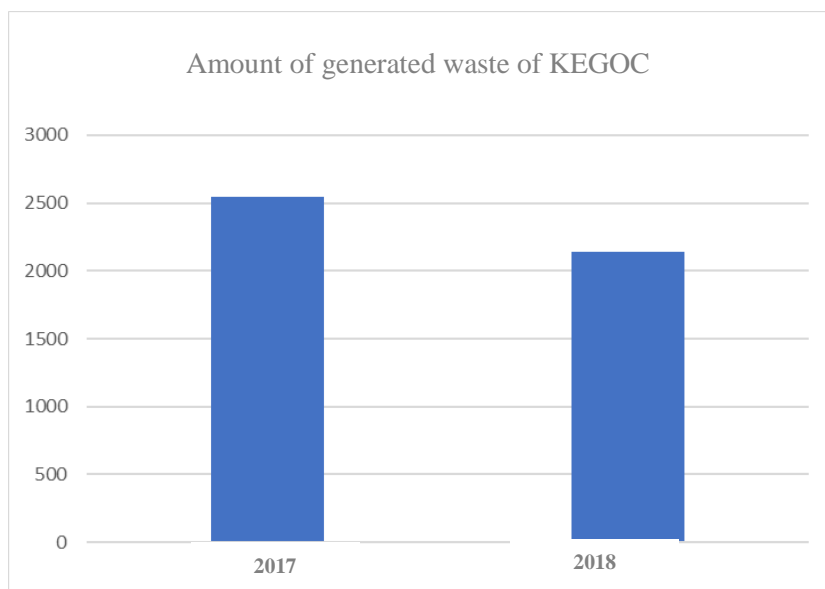
Water consumption in KEGPC is insignificant, because water is not used in the operational procedures. There are no discharges into water facilities and relief. At the facilities of seven branches of KEGOC: Aktyubinskiye MES, Akmolinskiye MES, Almatinskiye MES, Vostochnye MES, Sarbaiskiye MES, Tsentralnye MES and Yuzhnye MES water is supplied from artesian wells. The existing wells at the facilities of branches are operated in line with the obtained permits for special water use and under agreements with the local sanitary services. Potential sources contaminating water and soil include transformer oil used in oil-filled equipment, as well as waste waters resulting from domestic use of water. To prevent water contamination, the oil-filled equipment of the Company is equipped with oil receiving devices or oil soak pits that prevent oil from spilling on the soil.

Emissions

The Development Strategy of KEGOC determines the goal achievement indicator of environmental protection 'Reduction of actual emissions from stationary sources compared to the standard volumes'. To achieve this indicator, MES branches in 2018 conducted the operational monitoring, namely, they kept records of hours of operation for each item of equipment and consumption of materials. The total emissions of pollutants from stationary sources in 2018 amounted to 11.41 tons, in 2017 - 15.81 tons. The Company achieved a 27% reduction in emissions compared with the previous year due to the modernization of equipment and technological processes. The standard of 2018 was not exceeded.

Operational Wastes

The waste products at KEGOC facilities are generated in the course of operation, repair and rehabilitation of the substation equipment. The MES branches have defined the areas for temporary safe and separate waste storage, prepared schematic maps of waste disposal on the territory of the facilities with the explication and ensure timely removal for the subsequent disposal. The Company pays considerable attention to minimizing the environmental impact by reducing the amount of waste generated.



At the end of 2018, the amount of generated waste was 2,097 tons, which is more than 400 tons less than in the previous year.

Transformer oil and scrap metal were disposed by specialised organisations. One of the important environmental aspects in 2018 identified 'possibly PCD-containing wastes'. Based on the results of the laboratory analyses planned for 2018, PCBs were not detected in the oil-filled equipment.

Operational Safety

The improvement of the occupational safety system is the most important task for achieving the goals of KEGOC Long-Term Development Strategy. The Board of Directors of KEGOC pays much attention to occupational health and safety, for which purpose established a special Committee of the Board of Directors intended to develop policies and procedures, improve the system and monitor the provision of industrial safety and occupational health. In 2018 this Committee approved addenda to the Action Plan for the improvement of the OSH management system for 2018-2019. Moreover, in order to effectively implement and strengthen control, the Committee included the Plan performance KPIs into the KPI motivational maps of the executive and administrative personnel of the Company.

The Company continues to work on ensuring safe working conditions, reducing injuries during technological operations, improving production and sanitary conditions for workers, and reducing exposure to harmful and unfavourable factors.

In 2018, the Company carried out assessment of harmful and hazardous production factors at all workplaces and developed the register of hazards and risks of KEGOC for 2018 specifying the significant hazards and risks of KEGOC.

Based on the identified hazards and risks, the Company established KEGOC's Occupational Safety and Health Management System Program for 2018 providing for risks management activities.

In 2018, there were two work-related accidents of the Company's employees. Relevant measures were taken with regard to the accidents.

In addition, all KEGOC branches conducted:

- workshops on safe organization and performance of works during a repair campaign,
- qualification tests of repair crew and check of availability of the individual protection devices, instruments, harness, and special cloths;
- Occupational Safety Days resulting in the development of corrective measures.

Also, in 2018, employees of the Executive Administration of KEGOC was trained to: 'Occupational health and safety at enterprises'.

The Company held a meeting in order to improve the grid operation reliability and the occupational health of KEGOC's personnel and to exchange experience in addressing the problematic issues, attended by heads of occupational health and safety departments of all KEGOC branches Intersystem Electric Networks.

In 2018, the Company's employees underwent health checks and pre-shift medical inspection, took the required training and advanced training in occupational safety and health, received the necessary personal protective equipment including electrical protection devices, milk and medicines. The employees exposed to harmful factors during their work received prescribed compensations based on the results of working places assessment with regard to exposure to harmful conditions.

In accordance with the laws of the Republic of Kazakhstan, all employees are provided with occupational injury insurance and civil liability insurance for the Company as owner of facilities, which are operationally hazardous to third parties.

To assess the level of safe working conditions, the LTIFR, Lost Time Injury Frequency Rate including fatal accidents as a result of accidents related to the work of the Company's employees, is applied.

Corporate Governance

KEGOC adheres to the set goal of further enhancing the corporate governance and continues systematic work on improving the corporate governance to achieve the level of the world's leading companies. In this regard, the Company aims to ensure:

- ✓ efficient exercise of shareholders' rights;
- ✓ fair treatment to shareholders;
- ✓ efficient balanced dividend policy;
- ✓ efficient performance of the Board of Directors and Management Board of KEGOC;
- ✓ sustainability and efficient stakeholders engagement system;
- ✓ proper disclosure of information about the Company to stakeholders;
- ✓ improved risk management and internal control systems.

KEGOC Corporate Governance Rating

	2017	2018
Overall	BB	BB

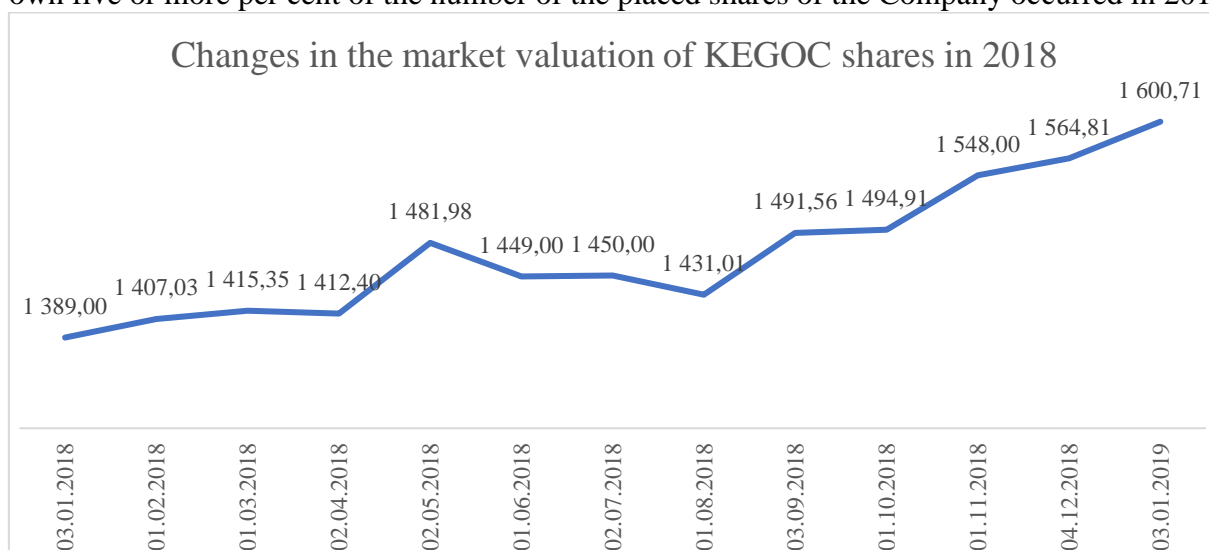
Equity

On 18 December 2014 as part of the Programme for public offering of shares of affiliates and subsidiaries of Samruk-Kazyna on the stock market, KEGOC placed 25,999,999 authorized ordinary shares on the Kazakhstan Stock Exchange through subscription.

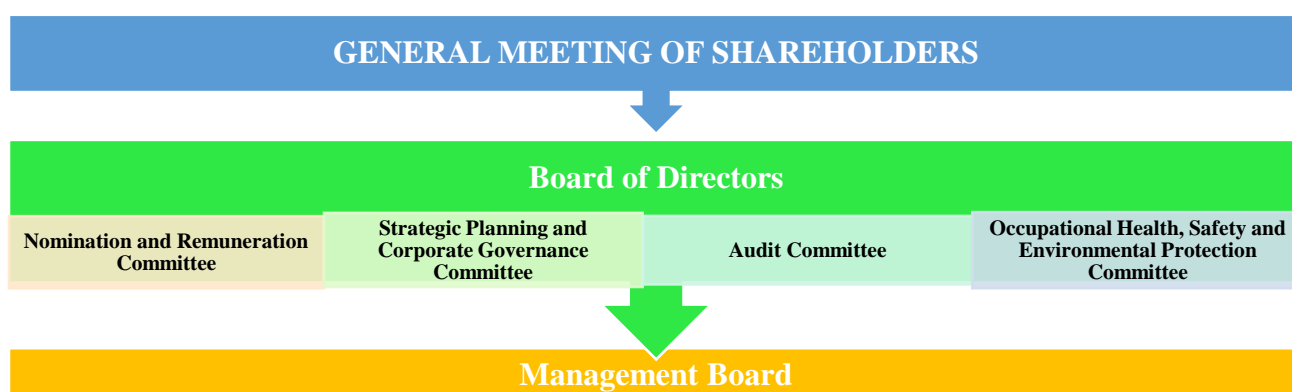
As on 31 December 2018, the number of authorised and placed ordinary shares of the Company with the nominal value of KZT 500 amounted to 260,000,000, of which 234,000,001 shares (90% plus one share) belong to Samruk-Kazyna, the major shareholder, and 25,998,609

shares belong to minority shareholders, the remaining 1,390 shares were repurchased by KEGOC. 25,998,214 placed ordinary shares of the Company are in free circulation.

No material transactions with shares or changes to the composition of shareholders that own five or more per cent of the number of the placed shares of the Company occurred in 2018.



Data source - Kazakhstan Stock Exchange (www.kase.kz)



General Meeting of Shareholders

The general meeting of shareholders is the superior body of the Company.

The general meeting of shareholders shall run its activities and exercise its rights in accordance with the Law of the Republic of Kazakhstan On Joint-Stock Companies, the Charter and the Regulations on the General Meeting of Shareholders of the Company.

In 2018 the Board of Directors initiated convening of the General Meeting of Shareholders four (4) times:

1. The Annual General Meeting of Shareholders was held on 27 April 2018 to take decisions were on the following issues:

Determine number of members, terms of office of KEGOC's Board of Directors, elect its members and the 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;

Approve the annual financial statements, procedure for distribution of the net income, payment of dividends on ordinary shares and approve the amount of dividends per ordinary share of KEGOC for 2017;

Review claims from the shareholders in relation to activities of KEGOC and its officers and results of consideration of such claims;

Determine number of members, terms of office of KEGOC's Counting Board and election of its members.

2. The extraordinary General Meeting of Shareholders was held on 24 August 2018 to take the decisions on the following issue:

Election of a member of KEGOC's Board of Directors, determination of the term of office, the salary and terms of remuneration and compensation of expenses for the member of KEGOC's Board of Directors.

3. The extraordinary General Meeting of Shareholders was held on 2 November 2018 to take the decisions on the following issue:

The composition of the Board of Directors of KEGOC.

4. The extraordinary General Meeting of Shareholders was held on 30 November 2018 to take the decisions on the following issue:

Approve the interim financial statements, distribution of the net income, decision to pay dividends on ordinary shares and the amount of the dividends per ordinary share of KEGOC for H1 2018.

Dividend Policy

The dividend policy of KEGOC observes the interests of shareholders in respect to the amount of dividend payments, contributes to the Company's investment attractiveness and its capitalization, respects and strictly observes the rights of shareholders stipulated by the Laws of the Republic of Kazakhstan. The dividends shall be paid on the following conditions: 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 decision of the General Meeting of Shareholders.

The source of dividends is the net income for the 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 shall be at least 40 % of the net income. The decision to pay dividends on KEGOC's ordinary shares based on the results of the year is made by the annual General Meeting of Shareholders after the Company's annual financial statements have been approved. The 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 have been audited for the corresponding period.

The General Meeting of Shareholders, after review of proposals of the Board of Directors shall, at its discretion, make a decision on payment of dividends on KEGOC's ordinary shares, approve the amount of dividends per KEGOC's ordinary share, and define a date of dividend payment.

Dividend History

Period for which the dividends are accrued	H1 2015	2016*	2017**	H1 2018
Amount of the dividend per ordinary share, KZT	9.4	53.06	88.53	80.53
Total amount of accrued dividends, KZT thousand	2,444,000	13,795,526	23,017,677	20,937,688
Share of net profit as per IFRS assigned for payment of dividends, %	40.01%	50%	70%	80%
Name of the issuer governing body that took decision to pay dividends	General Meeting of Shareholders	General Meeting of Shareholders	General Meeting of Shareholders	General Meeting of Shareholders

Date of the meeting of the issuer governing body where the decision was taken relating to payment of dividends, date and number of minutes	16 October 2015 - No.2	28 October 2016 - No.5; 12 May 2017 - No.6	26 October 2017 - No.7, 27 April 2018 - No.8	30 November 2018 - No.11
Date of preparing the list of persons having the right to dividends	30 October 2015	13 November 2016, 22 May 2017	6 November 2017, 14 May 2018	11 December 2018

* Dividends for 2016 were approved separately for H1 2016 (KZT 24.93 per share, Minutes of the General Meeting No. 5 dated 28 October 2016) and for H2 2016 (KZT 28.13 per share, Minutes of the General Meeting No. 6 dated 12 May 2017).

* Dividends for 2017 were approved separately for H1 2017 (KZT 48.4 per share, Minutes of the General Meeting No. 7 dated 26 October 2017) and for H2 2017 (KZT 40.13 per share, Minutes of the General Meeting No. 8 dated 27 April 2018).

Board of Directors

The Rules for Selection and Election of the Members of the Board of Directors of KEGOC developed in accordance with the Law of the Republic of Kazakhstan on Joint-Stock Companies and the Charter of KEGOC defined the process of selection and election of the members of the Board of Directors and criteria for the election of independent directors.

A director can be recognized as independent at KEGOC if he/she is not:

an affiliate and has not been an affiliate of the Company within three years preceding his/her election to the Board of Directors (except holding the position of an independent director of the Company);

an affiliated person in relation to the affiliated persons of the Company;

and has not been subordinated to officials of the Company or its affiliated companies within three years preceding his/her election to the Board of Directors;

a participant to the audit of the Company as an auditor working for an auditing organisation and has not taken part in such audit within three years preceding his/her election to the Board of Directors;

a representative of the shareholder at the meetings of the Company's bodies and has not been as such within three years preceding his/her election to the Board of Directors;

a civil servant.

The independent directors elected to the Board of Directors of the Company meet the above criteria.

Changes to the Board of Directors in 2018:

13 February	Kuanysht Bektemiroy, Chairman of KEGOC's Board of Directors, early terminated his term of office on his own initiative
27 April	As powers of the members of the Board of Directors expired, the annual General Meeting of KEGOC Shareholders newly formed the Board of Directors: 1) Ibragim Tagashev, Chairman of the Board of Directors of KEGOC; 2) Dominique Fache, Independent Director; 3) Janusz Bialek, Independent Director; 4) Suinshlik Tiyessov, Representative of Samruk-Kazyna; 5) Zhanna Yegimbayeva, Representative of Samruk-Kazyna; 6) Bakytzhan Kazhiyev, Chairman of Management Board of KEGOC
27 August	Ibragim Tagashev, Chairman of the Board of Directors of KEGOC early terminated his term of office on his own initiative
24 August	Yermek Kudabayev was elected as an independent director

2 November	Almassadam Satkaliyev was elected a Representative of Samruk-Kazyna and Chairman of the Board of Directors of KEGOC
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Members of the Board of Directors as of 31 December 2018

Almassadam Satkaliyev - Chairman of the Board of Directors, KEGOC

Born in 1970, citizen of the Republic of Kazakhstan.

Education:

Al-Farabi Kazakh State University, Alma-Ata, Mechanical Engineer, Application Mathematician (1987-1992);

Russian Presidential Academy of National Economy and Public Administration, Moscow, Master of Economics; International Institute of Public Administration and Civil Service, Public Sector Finance Department, Economics, Financial Economics Programme (2011-2013);

Nazarbayev University, Graduate School of Business (programme in collaboration with Duke University's Fuqua School of Business), Master of Business Administration (for executives) (2013-2015);

Stanford University, Graduate School of Business, Stanford Executive Program (SEP) (2016);

Member of Kazakhstan Academy of Natural Sciences (2015);

Doctor of Economics (2015);

Foreign Member of Russian Academy of Natural Sciences (2010);

Candidate of Economic Sciences (2002).

Work experience for the last five years:

since August 2018: Asset Management Director, Samruk-Kazyna;

July 2018 - August 2018: KAZENERGY Kazakhstan Association of Oil & Gas and Power Organizations;

January 2012 - May 2018: Chairman of the Management Board of Samruk-Energy.

Participation in the management bodies of other entities:

Chairman of the Board of Directors of KOREM;

Member of the Board of Directors of Kazakhstan Temir Zholy NC JSC;

Member of the Board of Directors of KazMunayGas JSC.

Shares owned in KEGOC or its subsidiaries: none.

Dominique Fache - Independent Director, Chairman of the Occupational Health, Safety and Environmental Protection Committee, member of the Audit Committee and Strategic Planning and Corporate Governance Committee of the Board of Directors of KEGOC.

Born in 1949, citizen of France.

Education: University of Sorbonne, France (1972), degree in Engineering, Lomonosov Moscow State University, Russia. The National Centre for Scientific Research (CNRS), Paris, France, University of Sorbonne in collaboration with Ecole Supérieure Electricite.

Work experience for the last five years and participation in the management bodies of other entities:

Since 2016: Chairman of RTF Board of Directors;

Since 2013: Member of the Board of Directors at Sophia Antipolis Science Park, France;

2008 – 2013: Chairman of the Board of Directors, President of EnelOGK-5.

Founder of a series of science and innovation events, conferences and festivals for Sophia Antipolis science park, founder of Club de Nice, which organises European Energy Forum.

Shares owned in KEGOC or its subsidiaries: none.

Janusz Bialek - Independent Director, Chairman of the Nomination and Remuneration Committee and the Strategic Planning and Corporate Governance Committee, member of the Audit Committee under KEGOC's Board of Directors

Born in 1955, citizen of the Republic of Poland and the United Kingdom.

Education: MEng degree in Electrical Engineering (1977), PhD degree in Engineering (1980), Warsaw University of Technology, Poland.

Work experience for the last five years:

Since 2014: Director of the Skoltech Centre for Energy Systems, Skolkovo Institute of Science and Technology.

2009-2013: Chair of Electrical Power and Control, Director for research work at the School of Engineering and Computing Sciences, Durham University, UK.

Shares owned in KEGOC or its subsidiaries: none.

Suinshlik Tiyessov - member of KEGOC's Board of Directors, representative of Samruk-Kazyna, member of the Strategic Planning and Corporate Governance Committee and the Occupational Health, Safety, and Environmental Protection Committee of KEGOC's Board of Directors.

Born in 1946, citizen of the Republic of Kazakhstan.

Education: Lenin Kazakh Polytechnic Institute, Almaty, majoring in Electrical Engineering (1968), Business and Management Centre of Gatton College of Business and Economics, University of Kentucky, USA (1996).

Work experience for the last five years:

2004-2016: Chairman of the Management Board at KOREM.

Candidate of Technical Sciences, author of the monograph *Formation of the electricity market in Kazakhstan*. Participated in the formation of the national grid, introduction of unique transmission lines and 1,150-500 kV substations, and the largest electricity generators: Aksuiyskaya GRES, Ekibastuz GRES. Participated in the development and introduction of: external power supply design of Tengiz oil and gas field; implementation of Kazakhstan Electricity Transmission Rehabilitation Project; the electricity and capacity market project in Kazakhstan, the First Electricity Law in 1995; all regulatory and legal documents relating to operation of the electricity market in Kazakhstan.

Shares owned in KEGOC or its subsidiaries: none.

Zhanna Yegimbayeva - Member of KEGOC's Board of Directors, representative of Samruk-Kazyna, member of the Nomination and Remuneration Committee and the Occupational Health, Safety, and Environmental Protection Committee of KEGOC's Board of Directors.

Born in 1953, citizen of the Republic of Kazakhstan.

Education: Kirov Kazakh State University, Lawyer (1988).

Work experience for the last five years:

2011-2016: Deputy Head of the Office of the Prime Minister of the Republic of Kazakhstan.

Participation in the management bodies of other entities:

Advisor to Chairman of Management Board at Baiterek National Holding JSC;

Member of the Board of Directors of KazAgro National Management Holding JSC;

Member of the Board of Directors of Kazakhstan Engineering NC JSC.

Shares owned in KEGOC or its subsidiaries: none.

Yermek Kudabayev - Independent Director, Chairman of the Audit Committee, the Nomination and Remuneration Committee under KEGOC's Board of Directors.

Born in 1970, citizen of the Republic of Kazakhstan.

Education:

Moscow Institute of Steel and Alloys (MISiS), Engineer - Economist (1987-1993);

Kazakhstan Institute of Management, Economics and Forecasting (KIMEP), Master of Business Administration (MBA) (1994-1996);

Certified accountant of the Republic of Kazakhstan (1988); licensed auditor of the Republic of Kazakhstan (2000);

Certified accountant (CAP) (2002);
 Certified accountant and financier by Association of Certified Chartered Accountants (ACCA), London, UK (2004).

Work experience for the last five years:

2016 - present: Managing Director for Economics and Finance of Intelligent Consulting Solutions LLP;

2013-2016: Managing Director for Economics and Finance at KazPetroDrilling JSC.
 Shares owned in KEGOC or its subsidiaries: none.

Bakytzhan Kazhiyev, Chairman of KEGOC’s Management Board, member of KEGOC’s Board of Directors.

Born in 1964, citizen of the Republic of Kazakhstan.

Education:

Alma-Ata Power Engineering Institute majoring in Power Systems and Networks (1986);
 Karaganda State Technical University majoring in Economics (2007);
 Almaty Management University, Doctor of Business Administration (2018).

Work experience for the last five years:

Since 31 May 2011, Chairman of the Management Board at KEGOC.
 Shares owned in KEGOC or its subsidiaries: none.

COMPETENCE OF THE MEMBERS OF THE BOARD OF DIRECTORS

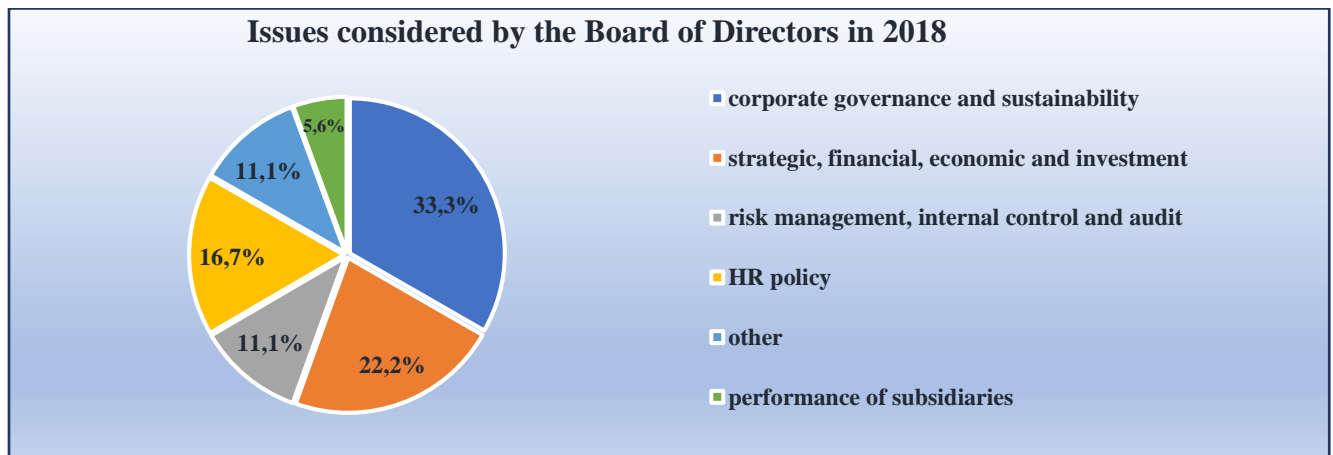
Members of the Board of Directors	Almassadam Satkaliyev	Yermek Kudabayev	Janusz Bialek	Dominique Fache	Zhanna Yegimbayeva	Suinshlik Tiyyessov	Bakytzhan Kazhiyev
Experience in the sector/total work experience, years	18/27	8 months/26	39/39	47/47	2.6/48	51/51	33/33
Core competencies							
Knowledge of the industry							
Work experience in the field of the industry							
Deep knowledge of the industry							
Technical skills/experience							
Specific skills and experience							
Financial capability							
Deep knowledge of finance							
Deep knowledge of marketing							
Deep knowledge of social and environmental issues							
Experience in management and jurisprudence							
Corporate Governance							
Transformation							
Experience in IPO							

Development and implementation of the strategy													
International experience													

Information on attendance at the meetings in praesentia of the Board of Directors and Committees of the Board of Directors

Members of the Board of Directors	Attendance												
	26.01.	02.03.	30.03.	26.04.	27.04.	01.06.	29.06.	23.07.	24.08.	28.09.	02.11.	30.11.	%
Kuanysh Bektemirov Chairman of the Board of Directors	+	<i>early terminated his office on 13 February 2018</i>											100
Ibragim Tagashev Chairman of the Board of Directors	<i>elected on 27 April 2018</i>				+	+	+	<i>early terminated his office on 27 August 2018</i>					100
Almassadam Satkaliyev Chairman of the Board of Directors	<i>elected on 2 November 2018</i>										+	+	100
Anatoliy Spitsyn Independent Director	+	+	+	+	<i>expired term of office at KEGOC's Board of Directors on 27 April 2018</i>								100
Luca Sutera Independent Director	+	+	+	+									100
Dominique Fache Independent Director	+	+	+	+	+	+	+	+	+	+	+	+	100
Janusz Bialek Independent Director	+	+	+	-	+	+	+	+	+	+	+	+	91.6
Suinshlik Tiyyessov Representative of Samruk-Kazyna	+	+	+	+	+	+	+	+	+	+	+	+	100
Zhanna Yegimbayeva Representative of Samruk-Kazyna	+	+	+	+	+	+	+	+	+	+	+	+	100
Yermek Kudabayev Independent Director	<i>elected on 24 August 2018</i>								+	+	+	+	100
Bakytzhan Kazhiyev Chairman of Management Board	+	+	+	+	+	+	+	+	+	+	+	+	100

In 2018, the Board of Directors held eleven (11) meetings in presentia and one (1) meeting in absentia, where 144 issues were considered with relevant decisions made.



The major issues were as follows:

approved KEGOC's Development Strategy for 2018-2028

Strategic, financial, economic and investment issues	approved KEGOC's Business Plan (Development Plan) for 2018-2022, and reviewed quarterly reports on the implementation of KEGOC's Business Plan (Development Plan) for 2018-2022
	made decisions on the conclusion of non-arm's length transactions
	approved 2018-2021 Road Map for KEGOC's Business Transformation Programme and reports on implementation thereof
	approved KEGOC's Information and Telecommunication Complex Development Strategy
	accepted for execution the mid-term Letter of Expectations of Samruk-Kazyna for 2019-2023
Corporate governance and sustainability issues	introduced amendments and addenda to KEGOC's Charter
	reviewed results of independent diagnostics of corporate governance of KEGOC and quarterly reports on execution of KEGOC's Corporate Governance Improvement Plan
	approved the Action Plan for KEGOC corporate governance improvement for 2018-2020
	approved the new revision of the Rules on assessment of performance of the Board of Directors and its committees, the Chairman and members of the Board of Directors and the Corporate Secretary of KEGOC
	approved the Annual Report and the Sustainability Report for 2017
	approved KEGOC's Information Security Development Programme for 2018-2022
Risk management, internal control and audit issues	approved risk appetite for 2019, Risk Register, Risk Map, Key Risk Management Action Plan, key risk tolerance levels and indicators for 2019, and reviewed quarterly risk reports
	approved the amended Rules on KEGOC internal audit
	approved Strategic Plan of the Internal Audit Service of KEGOC for 2018-2020
	approved the new revision of the Regulations on the Audit Committee of KEGOC's Board of Directors and the amended Regulations on KEGOC Internal Audit Service
	approved amendments and addenda to KEGOC's Methodology on determination of the risk-appetite and risk tolerance levels
	approved KEGOC's Code of Conduct (Business Ethics Code)
HR policy issues	approved amendments and addenda to the Organizational Structure and the total staff number of the Executive Administration (head office)
	introduced amendments and addenda to KEGOC's Rules of social support to employees;
	approved KEGOC's HR Policy
	introduced amendments to the Rules for election and early termination of the powers of the Chairman and members of KEGOC's Management Board
	appointed KEGOC's Ombudsman;
	approved the new revision of the List of positions of KEGOC which shall be elected or approved by KEGOC's Board of Directors
	appointed General Director of FSC RES
	determined the number, term of office of the Supervisory Board of FSC RES, elected its Chairman and members
Performance of subsidiaries	reviewed the issues regarding the annual and extraordinary General Meeting of Batys Transit JSC shareholders
	approved the financial statements of EnergoInform and FSC RES for 2017, the amount of dividends per EnergoInform's ordinary share

During the reporting period, the Company concluded 185 non-arm's length transactions to the total amount of KZT 44,425,241,302.91 including seven transactions on which the decision-making falls within the competence of the Board of Directors.

On 29 June 2018, the Board of Directors members participated in ceremonial event rewarding the winners of KEGOC labour dynasty contest.

Independent Directors Dominique Fache, Janusz Bialek and Yermek Kudabayev participated in the meeting with KEGOC's prospective employees on 30 November 2018.

Independent Director Janusz Bialek participated in the following conferences: on 11-16 June 2018 in Dublin (Ireland) on power system calculations; on 11-12 September 2018 in Moscow, Skoltech - MIT conference; on 20-21 September 2018 in Hamburg (Germany) Moscow (Russia) IEEE Sustainable Energy Supply and Energy Storage Systems (NEIS);

Member of the Board of Directors Zhanna Yegimbayeva participated in training by Ernst&Young audit firm.

Member of the Board of Directors Suinshlik Tiyyessov participated in workshop on Results of Renewables Five-Year Operation in Kazakhstan, Further Development Prospects arranged by FSC RES jointly with UN Development Programme in Kazakhstan.

Independent Director Yermek Kudabayev participated in workshop on Features of International Tax Planning during the Age of Transparency arranged by PriceWaterhouse LLP in November 2018 in Almaty.

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

Strategic Planning and Corporate Governance Committee;

Nomination and Remuneration Committee;

Occupational Health, Safety and Environmental Protection Committee;

Audit Committee.

Strategic Planning and Corporate Governance Committee

The committee's operations are governed by the Regulations on the Strategic Planning and Corporate Governance Committee.

Composition of the Committee:

- 1) Janusz Bialek, Chairman of the Committee, Independent Director;
- 2) Dominique Fache, member of the Committee, Independent Director;
- 3) Suinshlik Tiyyessov, member of the Committee;
- 4) Daulet Karimov, Expert without the right to vote.

Functions of the Committee:

Work out and submit to the Board of Directors the recommendations relating to:

- priority areas of activity and strategic planning;
- implementation of investment programs and major investment projects;
- improvement of corporate governance and sustainability;
- implementation of Business Transformation Programme.

In 2018, the Committee held **9 meetings** in praesentia and reviewed **34 issues**.



Information on attendance at the meetings of the Strategic Planning and Corporate Governance Committee of KEGOC's Board of Directors in 2018

Members of the Committee	Attendance									
	26.01.	02.03	30.03.	26.04.	01.06.	30.06.	24.08.	02.11.	29.11.	%
Anatoliy Spitsyn Independent Director	+	+	+	+	<i>on 27 April 2018 the term of office expired</i>					100
Dominique Fache Independent Director	+	+	+	+	+	+	+	+	+	100
Janusz Bialek Independent Director	<i>elected on 27 April 2018</i>				+	+	+	+	+	100
Suinshlik Tiyyessov Representative of Samruk-Kazyna	+	+	+	+	+	+	+	+	+	100
Yermek Kudabayev Independent Director	<i>elected on 24 August 2018</i>							+	+	100
Daulet Karimov Expert without the right to vote	+	+	+	+	+	+	+	+	+	100

Nomination and Remuneration Committee

The committee's operations are governed by the Regulations on the Nomination and Remuneration Committee of KEGOC Board of Directors.

Composition of the Committee:

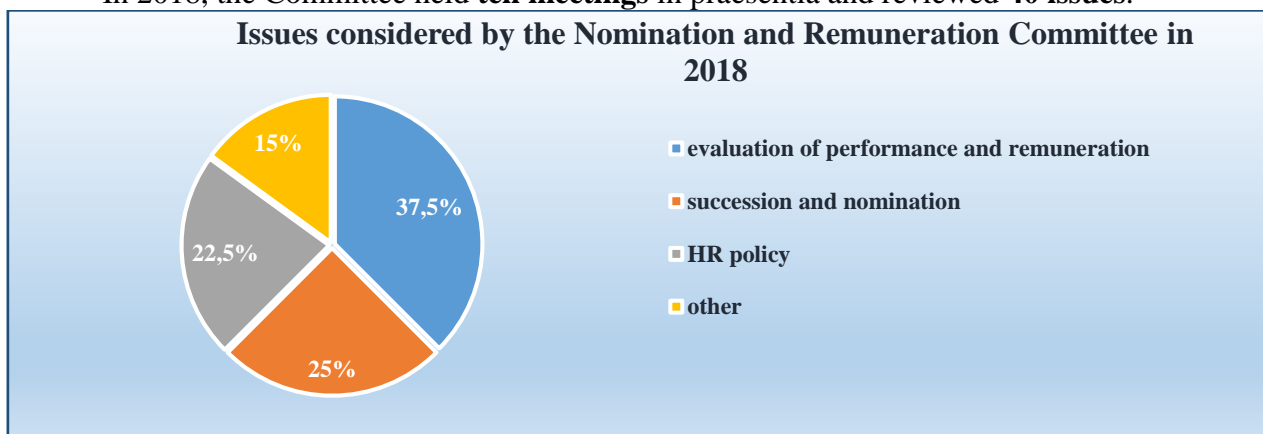
- 1) Janusz Bialek, Chairman of the Committee, Independent Director;
- 2) Yermek Kudabayev, member of the Committee, Independent Director;
- 3) Zhanna Yegimbayeva, member of the Committee;
- 4) Daulet Karimov, Expert without the right to vote.

Functions of the Committee:

Work out and submit to the Board of Directors the recommendations relating to:

- the membership, terms of powers of the Management Board, election of the Chairman of the Management Board and its members and early termination of powers based on the evaluation of their performance results and skills;
- planning of succession of the Board of Directors and the Management Board;
- ensuring continuing and objective assessment of the performance of the Board of Directors and the Corporate Secretary;
- ensuring effective HR policy, labour payment and remuneration system, as well as social support of employees.

In 2018, the Committee held **ten meetings** in praesentia and reviewed **40 issues**.



Information on attendance at the meetings of the Nomination and Remuneration Committee of KEGOC's Board of Directors in 2018

Members of the Committee	Attendance									
	26.01.	02.03	30.03.	26.04.	01.06.	29.06.	24.08.	28.09	02.11.	29.11.

Janusz Bialek Independent Director	+	+	+	+	+	+	+	+	+	+	100
Luca Sutera Independent Director	+	+	+	+	<i>the term of office expired on 27 April 2018</i>						100
Dominique Fache Independent Director	<i>elected on 27 April 2018</i>				+	+	+	<i>excluded on 24 August 2018</i>			100
Zhanna Yegimbayeva Representative of Samruk-Kazyna	+	+	+	+	+	+	+	+	+	+	100
Yermek Kudabayev Independent Director	<i>elected on 24 August 2018</i>							+	+	+	100
Daulet Karimov Expert without the right to vote	+	+	+	+	+	+	+	+	+	+	100

Occupational Health, Safety and Environmental Protection Committee

The committee's operations are governed by the Regulations on the Occupational Health, Safety and Environmental Protection Committee.

Composition of the Committee:

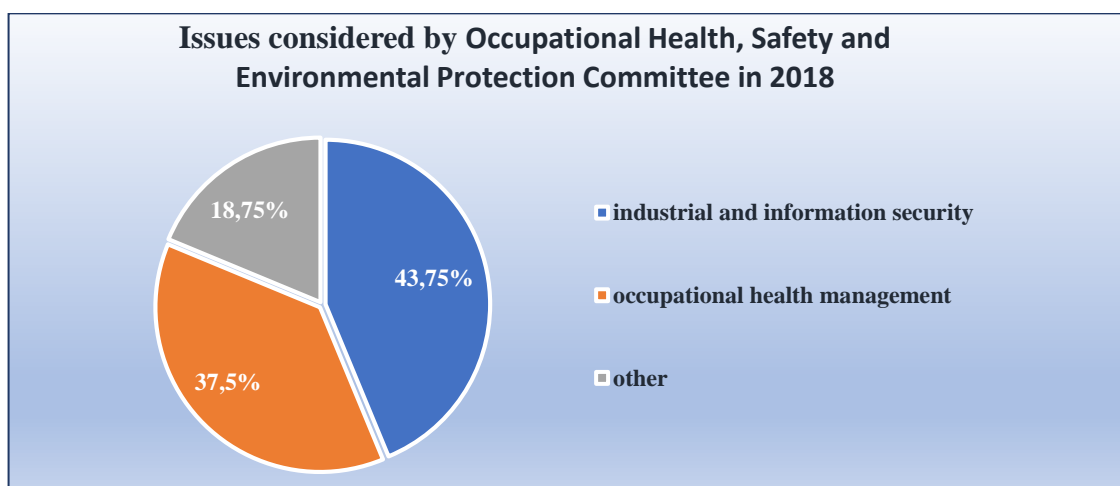
- 1) Dominique Fache, Chairman of the Committee, Independent Director;
- 2) Suinshlik Tiyyessov, member of the Committee;
- 3) Zhanna Yegimbayeva, member of the Committee;
- 4) Daulet Karimov, Expert without the right to vote.

Functions of the Committee:

Work out and submit to the Board of Directors the recommendations relating to:

- the policy and procedures for ensuring occupational health, safety and environmental protection;
- monitoring of strategic KPIs of KEGOC relating to the occupational health, safety and environmental protection, and achievement of goals in this area;
- sustainability in terms of occupational health, safety and environmental protection.

In 2018 the Committee held **eight meetings** in praesentia and reviewed **16 issues**.



Information on attendance at the meetings of the Occupational Health, Safety and Environmental Protection Committee of KEGOC's Board of Directors in 2018

Members of the Committee	Attendance								
	02.03.	26.04.	01.06.	29.06.	24.08.	28.09.	02.11.	30.11.	%
Dominique Fache Independent Director	+	+	+	+	+	+	+	+	100

Suinshlik Tiyessov	+	+	+	+	+	+	+	+	+	100
Zhanna Yegimbayeva Representative of Samruk-Kazyna	+	+	+	+	+	+	+	+	+	100
Daulet Karimov Expert without the right to vote	+	+	+	+	+	+	+	+	+	100

Audit Committee

The Committee's operations are governed by the Regulations on the Audit Committee.

Composition of the Committee

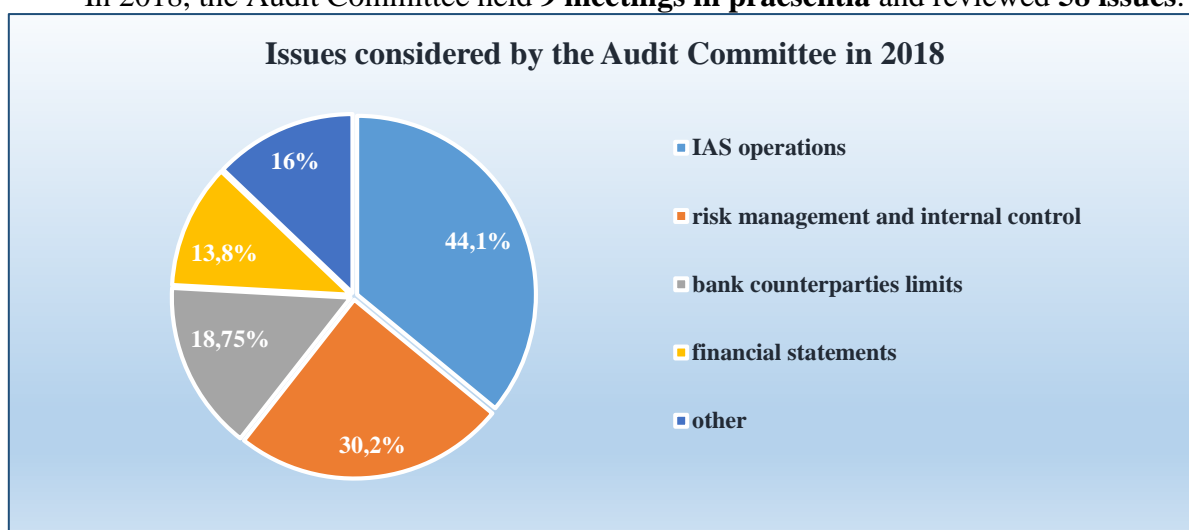
- 1) Yermek Kudabayev, Chairman of the Committee, Independent Director;
- 2) Dominique Fache, member of the Committee, Independent Director;
- 3) Janusz Bialek, member of the Committee, Independent Director;
- 4) Saltanat Satzhan, member of the Committee, (Expert without the right to vote).

Functions of the Committee:

Work out and submit to the Board of Directors the recommendations relating to:

- establishment of effective control system for financial and economic activities of the Company (including the completeness and accuracy of financial statements);
- control over reliability and effectiveness of the internal control and risk management systems and over execution of corporate governance documents;
- control over internal and external audit independence, and over the process ensuring enforcement of the laws of the Republic of Kazakhstan.

In 2018, the Audit Committee held **9 meetings in praesentia** and reviewed **58 issues**.



Information on attendance at the meetings of the Audit Committee of KEGOC's Board of Directors in 2018

Members of the Committee	Attendance									
	26.01.	02.03	30.03.	26.04.	01.06.	29.06.	24.08.	28.09.	29.11.	%
Luca Sutera Independent Director	+	+	+	+	<i>the term of office expired on 27 April 2018</i>					100
Anatoliy Spitsyn Independent Director	+	+	+	+	<i>the term of office expired on 27 April 2018</i>					100
Dominique Fache Independent Director	+	+	+	+	+	+	+	+	+	100
Janusz Bialek Independent Director	+	+	+	+	+	+	+	+	+	100
Yermek Kudabayev Independent Director	<i>elected on 24 August 2018</i>							+	+	100

Satzhan Saltanat Expert without the right to vote	+	-	+	+	+	-	-	+	+	56
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On the whole, the performance of the committees of the Board of Directors in 2018 contributed to the efficient development of the Company, the achievement of strategic goals and objectives determined by the Company for short-term, medium-term and long-term periods. The committees of the Board of Directors played an active role in the improvement of the corporate governance in KEGOC, the internal control and risk management mechanisms, issues of industrial and information security, occupational health, sustainable development, prospective investment projects relating to a wide range of business processes.

Management Board

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

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

Membership of KEGOC Management Board:

Bakytzhan Kazhiyev,

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

Education: Alma-Ata Power Engineering Institute majoring in Power Systems and Networks (1986); Karaganda State Technical University majoring in Economics (2007); Almaty Management University, Doctor of Business Administration (2018).

Experience in the sector is 32 years.

Work experience for the last five years:

Since 31 May 2011, Chairman of the Management Board at KEGOC.

Shares owned in KEGOC or its subsidiaries and affiliates: none.

Bakytzhan Zhazykbayev,

Managing Director for Operations, born in 1968, citizen of the Republic of Kazakhstan.

Education: Ryskulov Kazakh State Academy of Management majoring in Marketing and Commerce (1994), Toraigyrov Pavlodar State University majoring in Electrical Power Systems and Grids (2005).

Experience in the sector is 18 years.

Work experience for the last five years:

Since February 2017, Managing Director for Business Assets Management;

December 2015 – February 2017, Deputy Chairman of Management Board of KEGOC for Operations;

February 2012 – December 2012, First Deputy Chairman of Management Board of KEGOC.

Functions at KEGOC: plan activities on operation, repair, maintenance of operational assets; elaborate policies and procedures for assets management including the assets maintenance standards; develop and implement the medium-term development programme of MES branches; ensure reliable and efficient operation of MES branches, operation and rehabilitation of relay protection and substation automation, and metrological support of operations.

Shares owned in KEGOC or its subsidiaries and affiliates: none.

Askerbek Kuanysbayev,

Managing Director for Strategy and Development, born in 1955, citizen of the Republic of Kazakhstan.

Education: Alma-Ata Power Engineering Institute majoring in Power Supply of Industrial Enterprises and Cities (1977). PhD in Economics, Associate Professor - Economics.

Experience in the sector is 41 years.

Work experience for the last five years:

Since February 2017, Managing Director for Technological Development;

December 2015 – February 2017, Deputy Chairman of Management Board – NPG Development and Corporate Governance;

April 2011 – December 2015, Managing Director for NPG Development, Managing Director for NPG Development and System Services, KEGOC.

Functions at KEGOC: manage the technical policy of KEGOC; develop NPG, elaborate plans and projects, feasibility researches, feasibility studies for NPG development projects; develop Kazakhstan UPS electricity and capacity balance forecasts for the 7-year period; cooperate with integration associations and organizations in the power industry; manage research and development; monitor, analyse and rate technological consumption (losses) of electricity in the NPG; coordinate renewable development activities; coordinate the approval by the System Operator of technological connection to the UPS of Kazakhstan, power delivery designs for power plants, external power supply designs for consumers, approve and issue technical specifications for connection to the grid.

Member of the Supervisory Board of FSC RES.

Shares owned in KEGOC or its subsidiaries and affiliates: none.

Tolegen Safuani,

Managing Director for Legal Support and Risks, born in 1979, citizen of the Republic of Kazakhstan.

Education: Kazakh State Law Academy majoring in Legal Science (2000), Kazakh University of Technology and Business majoring in State and Local Administration, Master of Economics (2013), Almaty Management University, Master of Business Administration (2018).

Experience in the sector is 14 years.

Work experience for the last five years:

Since June 2017, Managing Director for Legal Support and Risks of KEGOC;

April 2012 – June 2017, Head of Legal Department, KEGOC.

Functions at KEGOC: legal issues, introduce and improve the systems of risk management, internal control, corporate governance, business continuity and IMS; ensure economic, technical and information security; manage claims-related work; obtain and maintain a corporate governance rating.

Member of EnergoInform Board of Directors and Supervisory Board of FSC RES.

Shares owned in KEGOC or its subsidiaries and affiliates: none.

Aibek Botabekov,

Managing Director for Finance and Accounting, born in 1976, citizen of the Republic of Kazakhstan.

Education: Buketov Karaganda State University majoring in International Relations and Economics (1997), Nazarbayev University (2016), Master of Business Administration.

Experience in the sector is 21 years.

Work experience for the last five years:

Since February 2017, Managing Director for Finance and Accounting;

June 2009 – February 2017, Managing Director for Economics, KEGOC.

Functions at KEGOC: manage financial and economic issues, pricing, manage and coordinate KEGOC's shares listing at KASE; interact with minority shareholders and other holders of KEGOC securities; prepare the consolidated audited annual financial statements of KEGOC, cooperate with financial institutions and audit companies, manage the management reporting system.

Chairman of the Supervisory Board of FSC RES and member of the Board of Directors of associate Batys Transit JSC.

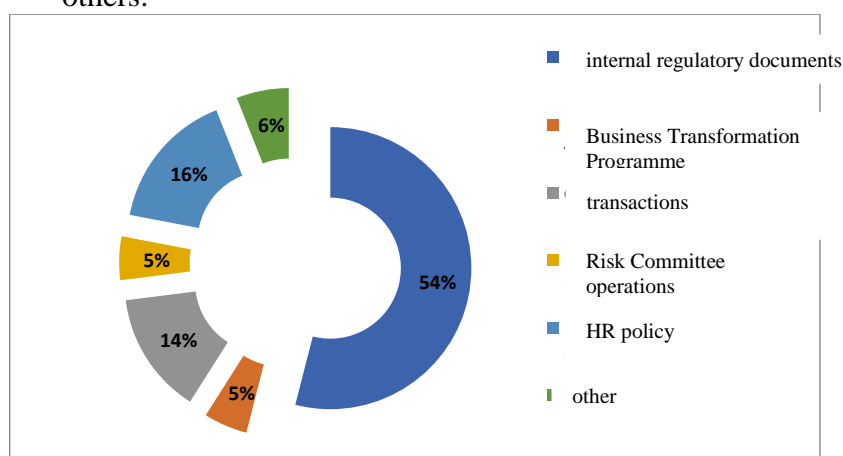
Shares owned in KEGOC or its subsidiaries and affiliates: none.

Management Board Performance Report

The main principles of the Management Board activity are to serve interests of shareholders to the maximum extent, ensure fairness, good faith, expertise, prudence, objectivity, soundness and regularity.

In 2018, 29 meetings considered and made relevant decisions on 243 issues as follows:

- approved and amended the internal documents elaborated to organize the Company's activities;
- some issues of implementation of the Business Transformation Programme;
- decisions on conclusion of transactions;
- Risk Committee performance;
- human resources management;
- others.



In order to preliminarily review, take collegial decisions and prepare recommendations on the supervised issues to KEGOC's Management Board, the Company operates the following advisory bodies:

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

Assessment of performance of the Board of Directors and the Management Board

The performance of the Board of Directors and its members for 2018 was assessed by Samruk-Kazyna together with PricewaterhouseCoopers LLP under the independent corporate governance diagnostics of KEGOC in accordance with the Rules for performance assessment of the Board of Directors and its committees, the Chairman, the members of the Board of Directors of KEGOC.

In 2018, the members of the Board of Directors -Independent Directors were paid in accordance with the Rules of remuneration and reimbursement of expenses of the members of the Board of Directors of KEGOC as follows:

- annual fixed fee;
- additional remuneration for participation in the meetings in praesentia of the committees of the Board of Directors.

In addition, in 2016 the General Meeting of Shareholders decided to determine a fixed annual remuneration and compensation of expenses for members of the Board of Directors elected as representative of major shareholder (Samruk-Kazyna).

The remuneration system for the Chairman and the members of the Management Board includes a salary and a year-end bonus. A year-end bonus in KEGOC is paid within the limits of cash assets 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 the consolidated total income for the reporting period. The performance of the Chairman and members of the Management Board is assessed using the motivational key performance indicators to be developed through KEGOC strategic goals cascading by specific indicators on business processes/areas of KEGOC operations in the form of KPI maps. The right to remuneration for the year-end results are owned by the members of the Management Board who actually worked during the reporting period not less than five (5) months, based on the KPI achievements for the reporting period. The maximum remuneration for the planned period is approved by the Board of Directors.

Thus, the total amount paid in 2018 to the members of the Board of Directors and the Management Board of KEGOC amounted to approximately KZT 346 million (KZT 372 million in 2017).

Internal Audit Service

Since 2006 the Company has had efficient Internal Audit Service (IAS or the Service) consisting of eight qualified auditors whose mission is to provide necessary support to the Board of Directors and the Management Board of KEGOC in performance of their duties to achieve the strategic objectives of the Company. The main objective of the Service is to provide the Board of Directors with independent and objective information to secure efficient management of the Company by applying a system approach to improving the risk management, internal control and corporate governance systems.

All audit engagements in 2018 were planned with respect to the mission and the main objective of the Service. The risk-based approach was used to plan the internal audit, i.e. the priority was given to the business processes that are most vulnerable to negative events.

The annual audit plan of the Service for 2018 envisages the fulfilment of 18 engagements. The audit engagements covered the comprehensive inspections of the Company's branches, audit of business processes relating to functioning of bank payment systems, reflecting bank operations in the accounting system, crediting, payment and accounting of wages as well as assessment of efficiency of annual inventory of accounts payable/receivable, procurement of the Company, risk management, information technology, projects, etc. All engagements have been performed.

Under implementation of the instruction of Samruk-Kazyna's Audit Committee, as well as the initiative of the Fund's Internal Audit Service relating to synergistic audits at the Fund's group of companies, the Service in 2018 took part in the audit engagement 'Audit of Automatic Control System for Technological Processes and IT at KazMunayGas Branch, Atyrau Oil Refinery'.

In addition, the Service participated in the Audit of Business Transformation Programme implementation at Samruk-Kazyna group of companies, conducted by the Fund's Internal Audit Service.

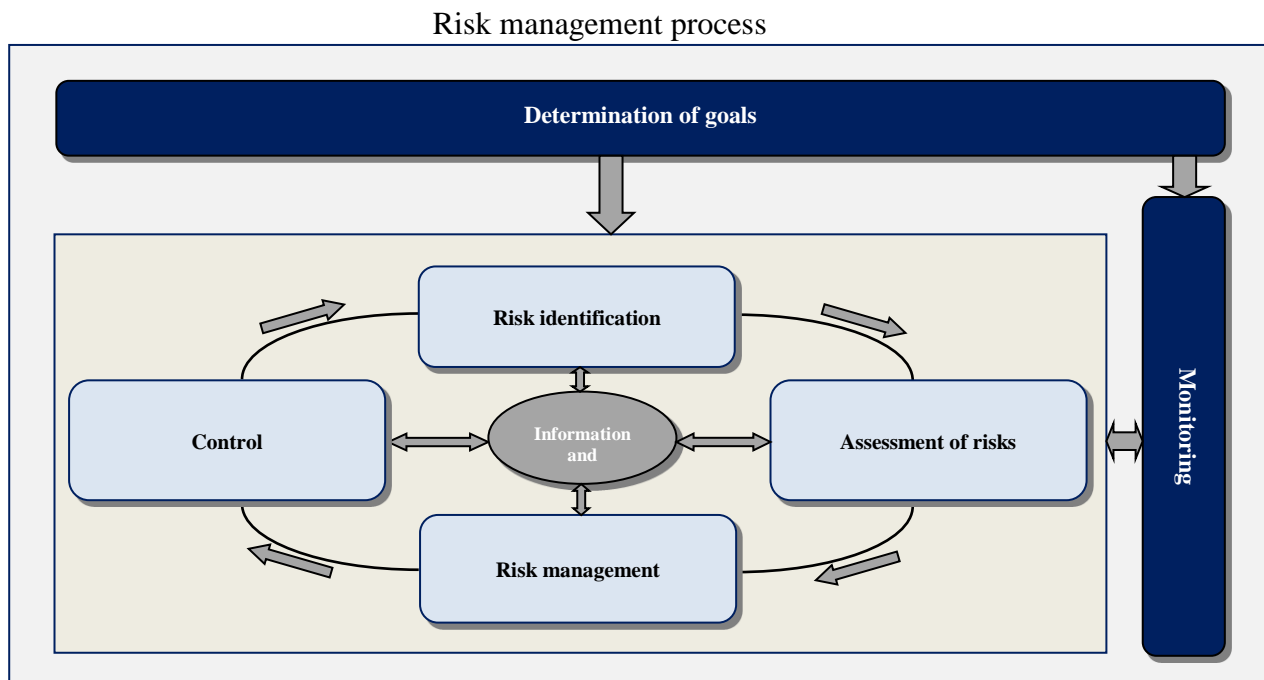
In 2018 the Service also conducted an investigation of four appeals submitted to the Audit Committee. Based on the investigation results, the Audit Committee gave relevant recommendations to KEGOC's Management Board.

Risk Management and Internal Control

Since 2007 KEGOC has successfully implemented and been operating the risk management system formed on the basis of generally accepted conceptual models of risk management developed by the Committee of Sponsoring Organizations of the Treadway

Commission - COSO ERM ‘Risk Management. Integrated model (COSO)’ and requirements of Samruk-Kazyna.

The corporate risk management system (CRMS) is a key component of the corporate governance system aimed at timely identification of risks, their evaluation and development of risk management measures that could adversely affect the achievement of strategic and operational objectives of KEGOC.



The objective of the current corporate risk management system (CRMS) is to ensure continuity and stability of operations through hedging the influence of internal and external adverse effects on KEGOC’s activity.

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 integrity in submitting reports and risk escalation.

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

Also, the Risks Committee, which is responsible for preparation of risk management recommendations to KEGOC’s Management Board, performs its functions. In 2018, the Committee held 13 meetings.

KEGOC in its operations takes into account a wide range of business-related risks in categories: strategic risks, financial risks, operational risks, legal and compliance risks. Following the risks identification and assessment, 51 risks were included into the Company’s Risk Register for 2019. Risk management measures were developed, and risk owners were identified for each risk. The dynamics of key risks and implementation of measures for their mitigation are monitored on a regular basis by quarterly reporting of risks to the Management Board and the Board of Directors of the Company.

The material risks which KEGOC incurred in 2018:

Key Risk	Risk management
The risk of work-related accidents	During the Company activities the personnel is exposed to the accidental risk during operations as a result of safety or traffic regulations violation. The risk to be mitigated,

	KEGOC trains drivers on the basics of traffic rules, prepares and provides videos and slides to MES branches to raise awareness of the personnel for their own safety at the work place, provides video recording of operational switching and repairing works to detect violations with regard to the occupational health and safety with further elaboration of measures thereon, conducts inspections of the technical conditions, operation of power networks, work and fire safety to detect violations, ensures the conduction of facilities certification for working conditions in branches by qualified organizations, studies and analyses the foreign and local companies' practices on occupational and environmental safety.
Currency risk	Fluctuation of the exchange rates of USD and other currencies to tenge can have a negative effect on the Company's business, its financial standing and performance. The Company's revenues are in tenge and the major part of its loan proceeds and interest expenses are in USD and euro. That is why the growth of the market exchange rates of USD and(or) EUR to KZT can decrease the Company's revenue as compared to its expenses and affect its performance. In order to regulate the currency risk KEGOC holds its funds on deposits in foreign currency. Thus, the deposit accounts as of 31 December 2018 hold USD 46.29 million (KZT 17,715,898 thousand), which would secure the debt service for 2 years.
Asset failure risks	This risk can be caused by natural hazards, damage or depreciation of SS equipment and transmission lines, erroneous actions of personnel, acts of unauthorised persons and other factors not related to available defects on electric grid facilities. For the purpose to regulate the assets failure risk, KEGOC performs repair and maintenance works on power grid facilities in accordance with the requirements of regulatory documents, identifies and eliminates defects during the operation process, if required rehabilitates and upgrade assets, trains personnel on repair methods and technologies at advanced training courses, works with population and organizations on observance of Rules establishing buffer zones for electric grid facilities and special conditions for land use located in the borders of such zones.

The Company's Internal Audit Service on an annual basis conducts an assessment of the CRMS performance.

The Internal Control System (ICS) of KEGOC allows the Company to build the management system capable to promptly response to risks, control the main and supporting business processes and daily operations, as well as immediately inform the executives of the appropriate level of any material deficiencies and areas to improve.

In accordance with the Regulations on arrangement and performance of works on the Internal Control System of KEGOC, the competences of units included in ICS is differentiated depending on their role in the processes of development, approval, implementation and assessment of ICS performance. ICS participants are the Board of Directors, the Management Board, Audit Committee, Internal Audit Service, the business units - owners of business processes, control procedures performers, and a structural unit responsible for risk management.

In 2018, in order to improve ICS, the Board of Directors of KEGOC approved amendments to the Regulations on arrangement and performance of works on the Internal Control System of KEGOC.

Under the independent corporate governance diagnostics of KEGOC conducted in 2017-2018, Samruk-Kazyna together with PwC evaluated the efficiency of RMS and ICS. Based on the diagnostics results the component 'Risk Management and Internal Control' was rated at BB, i.e. as corresponding in all material respects to the majority of established criteria.

Information Policy

In 2018, KEGOC continued to implement the information policy following the principles of equitable, complete, fair and prompt disclosure of information to shareholders, investors and other stakeholders.

KEGOC actively interacts with the investment community, so in 2018, in addition to timely disclosure of information on KEGOC activities affecting the interests of shareholders and investors, the Company held activities ('Issuer Day') at the Kazakhstan Stock Exchange (KASE) to discuss the results of operation and business activities for 2017 and H1 2018 with the

participation of representatives of key investment companies of the Republic of Kazakhstan, experts of the securities market and the media.

To ensure an 'investment image', KEGOC pursues a constructive dialogue between KEGOC and market experts, the negotiation process and interaction with investors, provision of information and analytical data for investors, and development of trusting relations between shareholders and investors, and the management.

To execute the rights of shareholders and provide high efficiency and availability of essentially important information for users, KEGOC ensured the publication of materials in the mass media, on the corporate website and the Company's pages in the social media Facebook and Twitter about the Company's operating and financial activities, the meeting of the CIS Electric Power Council held at KEGOC's headquarters and launch of the largest infrastructure project in the power sector - North-East-South 500 kV Electricity Transmission Construction Project during the national teleconference with the head of the state.

Also, in order to deliver the information about investment activity and implementation of state programs, KEGOC arranged interviews and public speaking of the Company management through briefings, industry specialized exhibitions, forums and other rating increase promotions, in particular, the Central Communications Service held a briefing of KEGOC's Management Board Chairman Bakytzhan Kazhiyev titled 'Power Industry: New Technologies - New Opportunities'.

To ensure the comprehensive rating assessment of main target groups awareness of operations and overall transparency of KEGOC before shareholders and other concerned parties of KEGOC among stakeholders, as well as to evaluate the information transparency and reveal the information disclosure efficiency, in 2018 an independent party conducted a reputation audit. The report delivered among population, personnel of KEGOC and experts (representatives of central and local government bodies, employees of financial organizations, representatives of the industry and business) contains information on transparency, perception of KEGOC's operations and efficiency of processes regulating information disclosure and significantly influencing KEGOC's image. The reputation audit results show the overall favourable perception of KEGOC. The report contains recommendations on improvement/correction of KEGOC's business reputation. Thus, in the reporting year the Company's reputation score made 80.4%, showing the growth of all main reputation parameters.

When disclosing information, KEGOC remains guided by protection of the information constituting commercial, official and other secret protected by the laws, as well as information of limited distribution.

Appendix 1

KEGOC's Subsidiaries

Energoinform JSC

The mission is to 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. The sole shareholder is KEGOC.

The core operations: maintenance of information telecommunication complex of KEGOC, including commercial metering system, SCADA, balancing electricity market, information management system, PLC, radio relay links, satellite communication, guaranteed power supply, branch exchange, fibre optic links, fire and security alarm systems and corporate services.

The charter capital of Energoinform is KZT 2,179.700 million. The number of issued shares is 700,000; the nominal value of one share is KZT 10,000. The number of the placed shares is 217,970.

The revenues of the Company in 2018 amounted to KZT 4,260.3 million, including operating income – KZT 4,150.7 million. Compared to 2017 the revenues increased by 10.8% or 416 million.

Following the 2018 performance the net income amounted to KZT 412.975 million, which is higher than in 2017 (KZT 273.1 million) by KZT 139.8 million or 51.2%.

Financial Settlement Centre for Renewable Energy Sources Support LLP

The Financial Settlement Centre for Renewable Energy Sources Support (FSC RES) was established in accordance with the decision of the Board of Directors of KEGOC dated 12 August 2013 and registered in the Saryarka Justice Administration under Nur-Sultan Justice Department on 27 August 2013.

Kazakhstan Energy Minister Order No. 256 dated 31 March 2015 'On determination of Financial Settlement Centre for Renewable Energy Sources Support' determined FSC RES LLP.

The core activity is to ensure the centralised purchase and sale of the electricity produced by renewable energy facilities and delivered to the electric networks of Kazakhstan UPS.

KEGOC is the only founder and sole partner.

As of 31 December 2018, FSC RES concluded 114 contracts with RES participants. In 2018 FSC RES sold electricity generated by RES entities to conventional consumers to the amount of 779.3 million kWh.

The total income of FSC RES based on 2018 results amounted to KZT 21,232.1 million, which is by KZT 5,756.3 million or 37.2 % higher than in 2017. Expenses amounted to KZT 21,161.7 million exceeding 2017 by 40.3 %. Net income based on 2018 results amounted to KZT 56.2288 million (vs. plan - KZT 174,278.7 million), which is KZT 261.2 million or 82.3 % lower than in 2017.

Subsidiaries have no significant influence on KEGOC's performance.

Appendix 2

KEGOC's Corporate Events Calendar for 2019

Item No.	Corporate events	Periods (date, month)
1	Extraordinary General Meeting of KEGOC's Shareholders	8 January 2019
2	Report to consumers on KEGOC's activities on rendering regulated services	by 1 May 2019
3	Annual General Meeting of Shareholders of KEGOC	by 31 May 2019
4	Provision of financial statements for 2018 to the Kazakhstan Stock Exchange	by 31 May 2019
5	Provision of financial statements for Q1 2019 to the Kazakhstan Stock Exchange	by 15 May 2019
6	Provision of annual report for 2018 to the Kazakhstan Stock Exchange	by 31 July 2019
7	Provision of financial statements for Q2 2019 to the Kazakhstan Stock Exchange	by 14 August 2019
8	Provision of financial statements for Q3 2019 to the Kazakhstan Stock Exchange	by 14 November 2019

*actual dates and the nature of the events may vary irrespective of the best efforts of KEGOC.

Appendix 3

Information on Compliance with KEGOC's Corporate Governance Code Provisions in 2018

KEGOC observes the Corporate Governance Code principles and plans to further focus on the issues of corporate governance, sustainable development, risk management system, internal control, strategic and business planning, etc.

On 28 February 2019, the Board of Directors reviewed the Report on compliance/non-compliance with the principles and provisions of KEGOC's Corporate Governance Code for 2018. The complete report is available at: https://www.kegoc.kz/sites/default/files/content-manager/informaciya_o_soblyudenii_nesoblyudenii_kodeksa_korporativnogo_upravleniya.pdf.

In accordance with the Corporate Governance Code, below are clarifications given on partial compliance with one of the provisions.

Code Provisions No.	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/Partially complied	Information on compliance/non-compliance with the principles
	<p>The Company shall have a sustainable development management system that includes, but is not limited to, the following elements:</p> <ol style="list-style-type: none"> 1) commitment to the sustainable development principles at the level of the Board of Directors, the executive body and employees; 2) analysis of the internal and external situation by three components (economy, environment and social issues); 3) identification of the sustainable development risks in social, economic and environmental areas; 4) building a stakeholder map; 5) defining the sustainable development goals and KPI, development of an action plan and determination of responsible people; 6) integration of the sustainable development into the key processes, including risk management, planning, human resources management, investments, reporting, operational activities, etc., as well as the development strategy and decision-making processes (<i>to be improved</i>); 7) training of the officials and employees on sustainable development (<i>to be improved</i>); 8) regular monitoring and evaluation of the sustainable development activities, evaluation of the achievement of goals and KPI, taking corrective measures, introducing the culture of continuous improvements. <p>The Company's Board of Directors and the executive body shall ensure the formation of a proper sustainable development system and its implementation.</p> <p>All employees and officials at all levels contribute to sustainable development.</p>	<p>Partially complied</p>	<p>6) In 2019, the Company plans to work more effectively to integrate the sustainable development areas with main management systems: corporate governance, risk management, internal control, strategic and business planning, etc.</p> <p>In addition, for the purpose of integrating the sustainable development into the Company's investment activity, among other objectives, according to the approved schedule, in 2019 it is planned to implement the Technical Policy of the Company considering also the requirements on energy-saving and improvement of energy efficiency during development of documents on investment activity.</p> <p>7) In future the Company plans to improve the sustainable development qualification of the members of the Board of Directors and newly hired employees. For the purpose of ensuring its business sustainable development transparency for stakeholders, KEGOC annually develops and publishes the sustainability report. KEGOC's Sustainability Report 2018 will be published in July 2019.</p>

	Holding companies are responsible for sustainable development principles implementation in the whole group.		
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Appendix 4

FINANCIAL STATEMENTS

The audit services for external audit of KEGOC's financial statements for 2016-2018 were procured in accordance with Clause 139 of the Rules for Procurement of Goods, Works and Services by Samruk-Kazyna Sovereign Wealth Fund JSC and organizations of which Samruk-Kazyna holds directly or indirectly fifty or more per cent of shares (equity interest) either in ownership or under trust management, upon approval by the Audit Committee of KEGOC's Board of Directors. The contract was concluded with independent auditing organization Ernst and Young LLP, the member of the Chamber of Auditors of the Republic of Kazakhstan auditing KEGOC's financial statements since 2012.

For the purpose of preserving the independence and according to the External Audit Policy of the Company, if one audit organization carries out an audit during five successive years, the audit partner shall be changed. The last change of the audit partner was made in 2014. The total amount of audit service fee made KZT 138,656,000 for 3 years including VAT.

Appendix 5 Glossary

	Definition
Samruk-Kazyna JSC	Sovereign Wealth Fund Samruk-Kazyna joint-stock company
KEGOC/Company	Kazakhstan Electricity Grid Operating Company (KEGOC) joint-stock company
EnergoInform	EnergoInform joint-stock company
FSC RES	Financial Settlement Centre for Renewable Energy Sources Support LLP
ALFC	Automatic Load-Frequency Control
Branches	KEGOC branches: MES and NDC SO
CEAS	Centralized Emergency Automation System
CIS	Commonwealth of Independent States
CRMS	Corporate risk management system
CRNMPCCR	Committee for Regulation of Natural Monopolies and Protection of Competition and Consumers' Rights of the Republic of Kazakhstan
ECR Pool	Kazakhstan Electric Capacity Reserve Pool
EMS	Environmental Management System
GRES	State regional power plant
HPP	Hydro power plant
IAS	Internal Audit Service
ICS	Internal control system
IFRS	International financial reporting standards
IMS	Integrated Management System
IPS	Integrated power system
IT	Information and telecommunication complex
ITC	information and telecommunication complex
KPI	Key performance indicator(s)
kV	Kilovolt
kWh	Kilowatt-hour
LLP	Limited liability partnership
MES	Interconnection Electric Networks, KEGOC branches
MVA	Megavolt-ampere
MW	Megawatt
NDC SO	National Dispatch Centre of the System Operator, KEGOC branch
NPG	National Power Grid
OHTL	Overhead transmission line
OPGW	Combined ground wire cable with optical fibres
PCB	Polychlorinated biphenyl
RDC	Regional Dispatch Centre
REC	Regional electric network company
RES	Renewable energy sources
RMS	Risk Management System
Solar	Solar power plant
SS	Substation
STC	Scientific and Technical Council
TPP	Thermal power plant
UPS	Unified Power System
VAT	Value-added tax

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