

KAZAKHSTAN
UTILITY
SYSTEMS

ANNUAL REPORT

2015

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“...Effective business in the prospective market”

Kazakhstan Utility Systems LLP (KUS) is a successful vertically integrated company operating in the sector of electric and heat power engineering in the territory of the Republic of Kazakhstan.

The Group develops and implements its development strategy, which is in compliance with the governmental policy in the field of power engineering. Main factors of the KUS development are as follows: upgrading existing assets, extension of generating and power transmitting utilities as well as client-orientedness of the retail companies.

KUS Group member companies form a production chain ranging from generation of electric and heat power to its supply to the end user in the following two regions of the country – South Kazakhstan and Karaganda Regions.

KUS is a stable and trustworthy company. In August 2015, International Rating Agency Fitch Ratings assigned KUS Long-term foreign and local currency Issuer Default Ratings (IDR) of “BB-“. The Rating Agency also assigned a National Long-term Rating of “BBB+(kaz)” to the company. The Outlook is Stable.

OPERATING HIGHLIGHTS

GROSS PROFIT

24.63

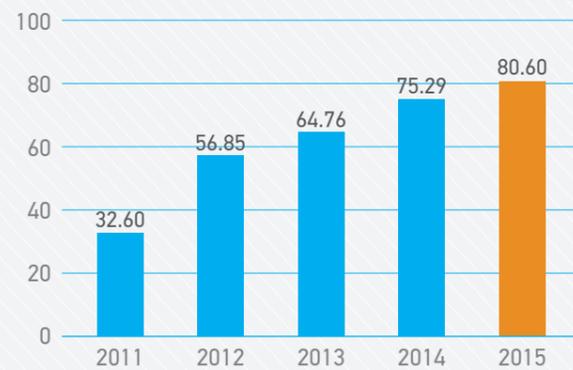
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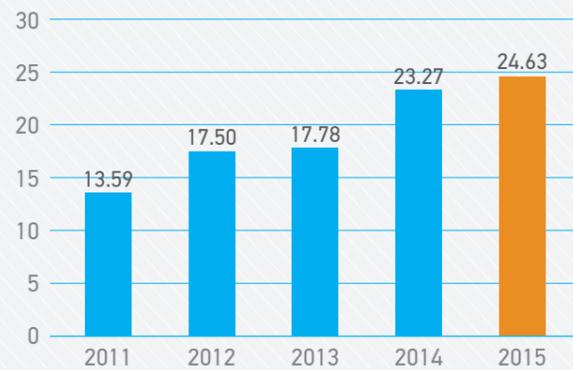
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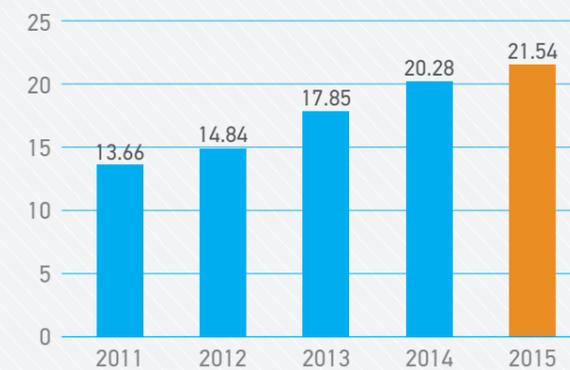
REVENUE
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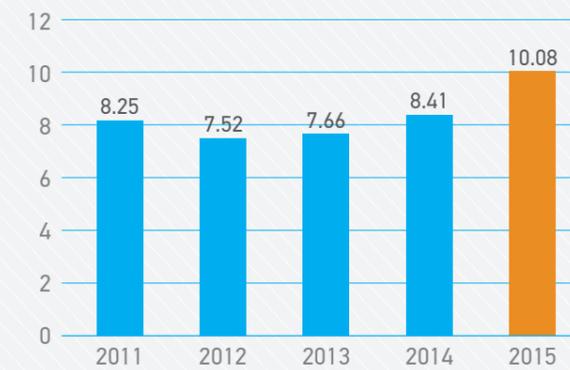
GROSS PROFIT
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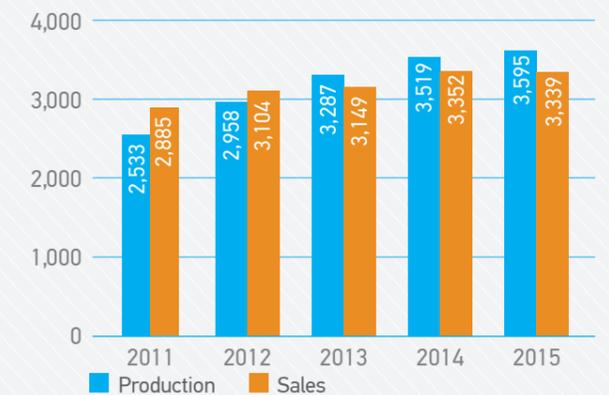
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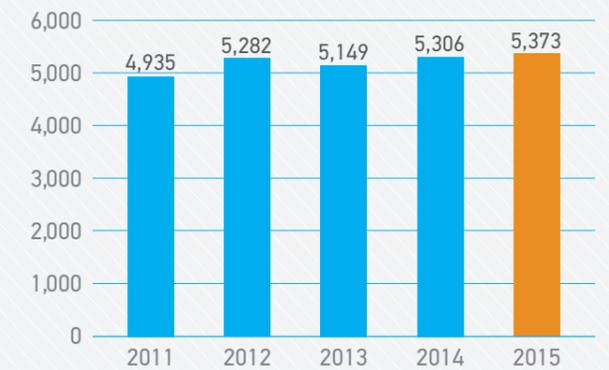
NET PROFIT
KZT bln



PRODUCTION AND SALES OF ELECTRIC POWER
mln kWh



ELECTRIC POWER TRANSMISSION
mln kWh





MESSAGE OF THE CHAIRMAN OF THE SUPERVISORY BOARD OF KAZAKHSTAN UTILITY SYSTEMS LLP

Idrisov
Dinmukhamet Appazovich

“...The Group can achieve its mid-term objective, i.e. to become one of the four largest energy companies of the country”

State of uncertainty gets stronger in the power engineering industry of Kazakhstan. Due to unstable foreign economy environment, the national economy development decelerated and there are now obvious all the signs of its stagnation. Due to the above, production and consumption of electric power decreased for the first time in a long run.

However, the current situation in electric power engineering industry may be described as an optimistic: on the whole, period of upgrading fixed assets and generating capacities in the industry extensively has been completed. Further development of the industry is connected with stable investment in increasing electric and heat power generating capacity of stations, reconstruction of electric and heat power networks and introduction of the high-end technologies of network management.

KUS group operated steadily in 2015 and completed it with increase in all key financial and production parameters. The Group's revenue increased by 7.1% and EBITDA increased by 6.2%. I would like to note it with the great pleasure that increase in the net profit of the Group was the highest for several past years — it increased almost by 20%. Generation of electric power, which is our main product, increased by 2.2%. That happened at the time when electric power generation on the whole reduced by 3.3% in the country.

The achieved results make us confident that the Group can achieve its mid-term objective, i.e. to become one of the four largest energy companies of the country. Both intensive and extensive measures aimed at our assets expansion will help us to achieve this objective. The first include implementation of a large-scale investment program using the existing facilities, while the second one includes creation of new and purchase of additional power generating assets in the market of the Republic of Kazakhstan.

The permanent task of KUS is to ensure an increase in capitalization of the companies, which we control, to form new objects of additional or new construction projects, as well as to increase the capacity of our traditional power industry. Taking into account the fact that Kazakhstan demonstrates stable development and progressive advance, power consumption will keep growing and the need for additional production facilities will arise. We plan to support this line of activity. Our objective is to construct production facilities in the areas experiencing shortage of power, which, among others, include southern areas of our country as well as Karaganda Region. In May 2016, we put into operation additional facility — a new power generating unit of 110 MW capacity at Karaganda Combined Heat and Power Plant (CHPP) No.3.

The group plans to implement the projects in the field of alternative power sources. There are currently two projects on agenda. The first one is a construction of a wind farm of 40 MW capacity in the South Kazakhstan Region. We have almost completed wind measurements and are considering possibility of the project implementation in 2017. The second project is a construction of three small hydroelectric power stations in Merke area of Zhambyl Region. Total capacity of the stations will be 18 MW.

Renewable power sources in Kazakhstan represent quite a promising line of activity. In accordance with the Republic of Kazakhstan Government's Decree on renewable power sources, a tariff program was developed for the further 15 years and an annual tariff indexation for inflation and change in KZT to foreign currencies exchange rate was provided, which guarantees return of investments to investors.

An extensive growth of KUS is still going on. The Group considers possibility of purchase of companies within the second wave of privatization of Samruk-Kazyna SWF JSC.

I face the future of the Group with confidence and wish success to its managers and employees in achieving their objectives and tasks.

Kind regards,
Dinmukhamet Idrisov



MESSAGE OF DIRECTOR GENERAL OF KAZAKHSTAN UTILITY SYSTEMS LLP

Aitzhanov
Nabi Yerkinovich

“...Over the several past years, the Group has been consistently developing and increasing production and sales of electric and heat power and it has been demonstrating stable improvement of financial results.”

Currently, KUS is at the stage of an aggressive growth. Over the several past years, the Group has been carrying out an integrated upgrade of all its assets both generating and transmitting ones and it has been implementing modern technologies of work with consumers.

The Group put into operation additional electric and heat power generating units. We are actively working on upgrade of the fixed assets of power grid companies. Over the past several years, we have commissioned 4 substations, and have been intensively working on upgrade of power transmission lines. For example, Karagandy Zharyk networks have been upgraded by 23% over the past five years.

Upgrading the Group management system is an important part of our strategy. Our task is to fully automate business processes and form internal control system. Currently, all business processes have been automated at all levels by 50%. We are going to increase this number up to 80% within the nearest one or two years. Our goal is to make sure that the budget is formed

automatically and the procurement process is transparent and effective.

Another priority of the Group is financial stability. Our borrowing policy may be called as conservative, which is confirmed by the reducing leverage ratio. Currently, the national companies mostly experience increase of the given parameter. High confidence to the Group is confirmed by credit ratings of the International Rating Agency Fitch Ratings that assigned KUS “BB-“ Long-term foreign and local currency IDR. The Rating Agency also assigned a National Long-term Rating of “BBB+(kaz)” to the company. The Outlook is Stable.

As a result, the Group has been consistently developing and increasing production and sales of electric and heat power and it has been demonstrating stable improvement of financial results over the several past years.

We are going to continue expansion of the existing generating facilities in 2016, namely: turbine plant No.6 of electric capacity of 110 MW and heat power of

185 Gcal/hour will be put into operation as well as a steam boiler of heat power of 400 Gcal/hour. Karaganda CHPP-1 and CHPP-3 main and auxiliary equipment reconstruction and upgrade still goes on. Reconstruction and upgrade of the Group's transformation facilities and power grid assets also continues. We plan to introduce SCADA system as an element of the further development of Smart Grid and to implement many other projects in the given sphere.

We still pay close attention to training and advance training of personnel thus showing commitment to the best practices of human capital development.

I would like to express my appreciation to the Supervisory Board of the Group for support and my colleagues — power engineers — for successful year of work for the good of the Group and regions, where our company operates. I am sure that 2016 will become another year of growth and development for all of us.

Kind regards,
Nabi Aitzhanov

GROUP INFORMATION

“...Efficiency and Responsibility”

1

1.1. MISSION, VISION, VALUES

MISSION

The Group's mission is to ensure reliable and high-quality electric power supply to each consumer and to contribute long-term economic development and social stability in the regions of the company's presence, their prosperity and progress. The Group also sees its mission in preservation and protection of environment subject to rational management of natural resources.

VISION

KUS Group is an actively developing structure leading in the key segments of electric and power engineering industry of Kazakhstan, such as electric power generation, transmission and sales.

KUS carries out its activity in densely populated areas of the country experiencing power shortages.

The Group constantly expands the list of assets and geography of its presence by means of inclusion of various power engineering industry companies using renewable power sources and supporting promising innovative projects.

VALUES

Reliability — ensuring reliability and high quality of the services rendered by the company;

Professionalism, team spirit — improvement of professional level of employees as one of the most important tasks of the company.

Human capital — faith in success of common business, mutual respect and assistance to professional growth and development of each employee, understanding of interests and needs of every employee;

Innovativeness — continuous aspiration to improve and optimize already existing approaches and technologies as well as strenuous support and promotion of development of new products and solutions.

1.2. STRATEGY

The Group is among the leading power generating companies of the country. Strategic objective of the KUS consists in **becoming one of the four largest power generating companies of Kazakhstan within the period of 5 years.**

Achieving the following tasks will help the Group to implement its strategy:

- ▶ The Group aspires to **develop and expand its existing generating utilities.** The key project aimed at development of this activity consists in increase in electric power generation in Karaganda Region through upgrade of the existing systems of Karaganda CHPP-3, namely: putting into operation of turbine plant of electric capacity of 110 MW and heat power of 185 Gcal/hour at electric power station No.6 as well as commissioning of a steam boiler of heat power of 400 Gcal/hour.
- ▶ Particular attention is paid to **reconstruction and upgrade of main and auxiliary equipment** of the following two electric power generating stations of the Group: Karaganda CHPP-1 and CHPP-3.
- ▶ **Electric power transmitting networks upgrade** is another task of the Group. The program for reconstruction and development of power supply network companies of KUS provides for optimization of transmission and distribution of electric power as well as minimization of electric line power losses.

The following work is planned to be performed within **Karaganda power generation and distribution system:**

- Reconstruction of 0.4 kV network using SIW;
- Reconstruction of "Tikhonovka" substation with transfer of substation into 110 kV class;
- Introduction of SCADA system as an element of the further development of Smart Grid;
- Construction of new substations: 220/110/10 kV "Zharyk" and 110/35/6 kV "Santechnicheskaya";
- Reconstruction and expansion of facilities of the existing substations for 35–110 kV;
- Upgrade of existing automated power supply monitoring and control systems to the final 4th level; construction of HVL 35–110 kV;
- Reconstruction and modernization of the existing networks.

The following work is planned to be performed within **South Kazakhstan power generating and transmitting system:**

- Expansion of transforming facilities in the load centers: at the substation No.5 — replacement of installed transformers of 40 MVA with transformers of 63 MVA; at Poltoratskoye substation — replacement of 20 MVA transformers with 40 MVA transformers;
- Reconstruction of "Sovetskaya" substation with transfer to 110 kV class;
- Reconstruction of 0.4 kV network using SIW and further development of automated power supply monitoring and control system;
- Construction of 110/10 kV Nursat substation;
- Reconstruction and upgrade of the existing electric power transmitting networks.

- ▶ Plan of an extensive development of the Group provides for acquisition of electronetwork companies belonging to Samruk-Kazyna SWF JSC in the course of the second stage of privatization.

- ▶ **Development of alternative and renewable power sources** is an important point of the Group's strategy. Kazakhstan undertook liability to implement the programs connected with reduction of emission of greenhouse gases (GG) into atmosphere. One of the ways of GG emission reduction consists in replacement of traditional carbon power sources with renewable power sources such as hydro-, wind and solar power. The Group plans to diversify production of electric power by means of putting into operation of a wind power plant in Zhuzimdyk (South Kazakhstan Region). Wind power plant (WPP) with an installed capacity of 40 MW will not only increase the share of WPP segment of the national power industry but also will allow for reduction of power shortage at the south of the country.

- ▶ **Activity diversification by means of entering coal mining industry.** Republic of Kazakhstan ranks among ten largest coal producers in the global market and ranks third in the market of CIS as regards coal reserves and the first as regards coal production per capita. KUS plans to produce power generating coal for the purpose of closing full cycle of vertical integration within the Group.

- ▶ The Group plans to **implement management innovations and international standards of corporate management.** What is meant here are the approaches to corporate management

allowing for achieving significant improvement of corporate culture quality and high efficiency of made decision over a short period of time. An effective corporate management improves investment attractiveness and contributes to attraction of long-term investors. Among innovative methods selected for implementation in the Group are as follows: Kaizen lean production, 5S working space management, Asset management program. Business processes and document flow will be automated.

- ▶ Emphasis is put on **stimulation of the flow of international investments in KUS and power industry of the country on the whole.** The Group constantly and efficiently cooperating with the Republic of Kazakhstan government aspires to get attractive tariffs for production, transfer, distribution and sales of electric power. On the other hand, KUS attracts international financial institutions such as EBRD, ADB, EDB etc. as investors.

- ▶ The Group aspires to maintain **development of human capital** building quality relations with its employees. Objectives of KUS consists in formation of system of professional personnel improvement, implementation of programs for attraction, retention, motivation and development of professional power engineers, creation of safe labour conditions.

- ▶ Creation of **positive image and strong brand** of the company will be carried by means of improvement of transparency and openness and through participation in social programs of the regions of the company operation.

STRATEGIC OBJECTIVE OF THE KUS CONSISTS IN BECOMING ONE OF THE FOUR LARGEST POWER GENERATING COMPANIES OF KAZAKHSTAN WITHIN THE PERIOD OF

5 YEARS



DEVELOPMENT OF ALTERNATIVE AND RENEWABLE POWER SOURCES IS AN IMPORTANT POINT OF THE GROUP'S STRATEGY

1.3. HISTORY OF DEVELOPMENT AND AREAS OF PRESENCE

1.3.1. History of Development

- ▶ Kazakhstan Utility Systems LLP management company was formed on November 3, 2008;
- ▶ The Group obtained control over 100% participation interest in Ontustik Zharyk Tranzit LLP and Karagandy Zharyk LLP for the purpose of creation of vertically integrated power generation and transmission company;
- ▶ In 2010, the Group became a participant of Karaganda Energy Center LLP (KEC) by means of making an additional contribution into authorized capital and redistribution of shares among participants.



2008–2010

- ▶ Construction of new ash-disposal areas for dry stockpiling of wastes at CHPP-1 and CHPP-3 of Karaganda Energocenter LLP;
- ▶ Construction of “Zharyk” substation (SS) of Karagandy Zharyk LLP;
- ▶ Ontustik Zharyk Tranzit LLP commenced construction of “Severnaya” SS and “Nursat” SS for 110 kV;
- ▶ Execution of work for reconstruction and technical upgrade of electric power transmission networks for 10/6/0.4 kV in accordance with developed working projects of Karagandy Zharyk LLP;
- ▶ Creation of Energy Center LLP. Statutory activity of the company consists in production of heat and electric power. 100% participation interest in the partnership belongs to the Group of KUS.

2012–2013



- ▶ Obtaining of control over 100% participation interest in Karagandy ZhyluSbyt LLP, Raschetnyi servisnyi center LLP, Energopotok LLP and Ontustik Zharyk LLP for the purpose of creation of vertically integrated power generation and transmission company;
- ▶ Decision on construction of a new power generating unit (boiler + turbine) for 110 MW and 185 Gcal/hour;
- ▶ Conclusion of agreement with Kazakhstan Development Bank JSC for opening a credit line for KZT 30 billion for Karaganda Energocenter LLP;
- ▶ Reduction of the rate of accidents at CHPP-3, CHPP-1 of Karaganda Energocenter LLP by 50%;
- ▶ Karagandy Zharyk LLP put two new substations into operation;
- ▶ Karagandy Zharyk LLP implemented an automated control and record-keeping system, 2nd stage;
- ▶ Construction of HVL-110 kV of SDPP-1 — CHPP-2 of Karagandy Zharyk LLP;

2011

- ▶ Ontustik Zharyk Tranzit LLP introduced an automated system of bases and consumers for the purpose of issue of technical specifications for as quick determining of connection points as possible;
- ▶ Conclusion of EPC contract for expansion of Karaganda CHPP-3, namely, for installation of power generating unit No.6;
- ▶ Commissioning of a new turbine No.5 of 120 MW power;
- ▶ Reconstruction of belt conveyor (lines 2A, 3A, 4B) at CHPP-3 of Karaganda Energocenter LLP;
- ▶ Commissioning of cooling tower No.4 of Karaganda Energo-center LLP;
- ▶ Implementation of automated control and record-keeping system by Karagandy Zharyk LLP, 3rd stage;
- ▶ Upgrade of transformers, development of external electric power networks for creation and maintaining of a reliable system of electric power supply.

- ▶ The process of Karaganda Energocenter LLP expansion through installation of turbine No.6 and boiler No.8 has been implemented since 2013;
- ▶ Karagandy Zharyk LLP put the following substations into operation: Zharyk SS 220/110/10 kV and Santechnicheskaya-2 SS 110/35/6 kV;
- ▶ Ontustik Zharyk Tranzit LLP put into operation Severnaya substation (2x40,000 kVA) and carried out construction and upgrade of 10/0.4 kV networks of different voltage classes;



2014

- ▶ “Construction of wind-powered generating plant in South Kazakhstan region” project;
- ▶ Extension of customer base and introduction of “Unified Billing System” of suppliers of all types of public utility services was carried out in subsidiary sales organizations; buildings were purchased for creation of contact centers;
- ▶ Engineering site investigations were conducted and feasibility study report was drawn up for the project of manufacturing and repair company of the Group.

1.3.2. Areas of Presence



The Group is represented in 2 of 14 regions of Kazakhstan, namely: Karaganda and South Kazakhstan ones. Total population size of those regions is 4.3 million people, which makes approximately 25% of the total population of the country.

Among consumers of KUS rendered services there are 953 thousand subscribers and above 29.8 thousand legal entities.

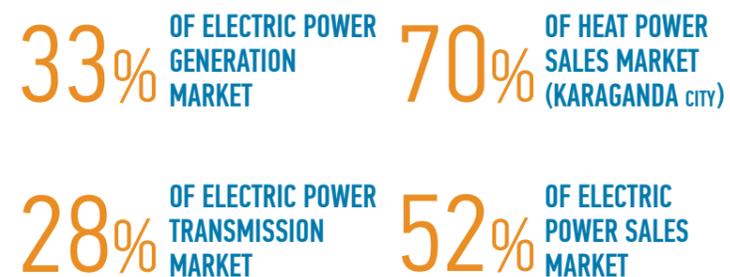
In Karaganda area, the Group is focused on production of heat and electric power and chemically pure water as well as transfer, distribution and sales of electric and heat power.

Activity of the Group in South Kazakhstan Region is focused only on transfer, distribution and sales of electric and heat power.

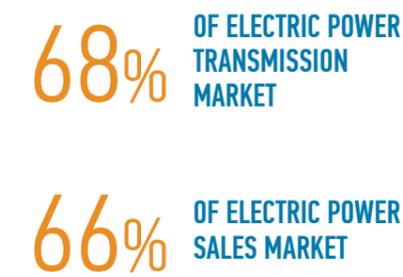
The Group accounts for 33% of electric power generation market, 28% of electric power transmission market, 70% of heat power supply (KUS supplies heat power to Karaganda City) and 52% of electric power consumption in Karaganda Region.

In South Kazakhstan Region, KUS accounts for 68% of electric power transmission market and 66% of electric power sales sector.

KARAGANDA REGION



SOUTH KAZAKHSTAN REGION

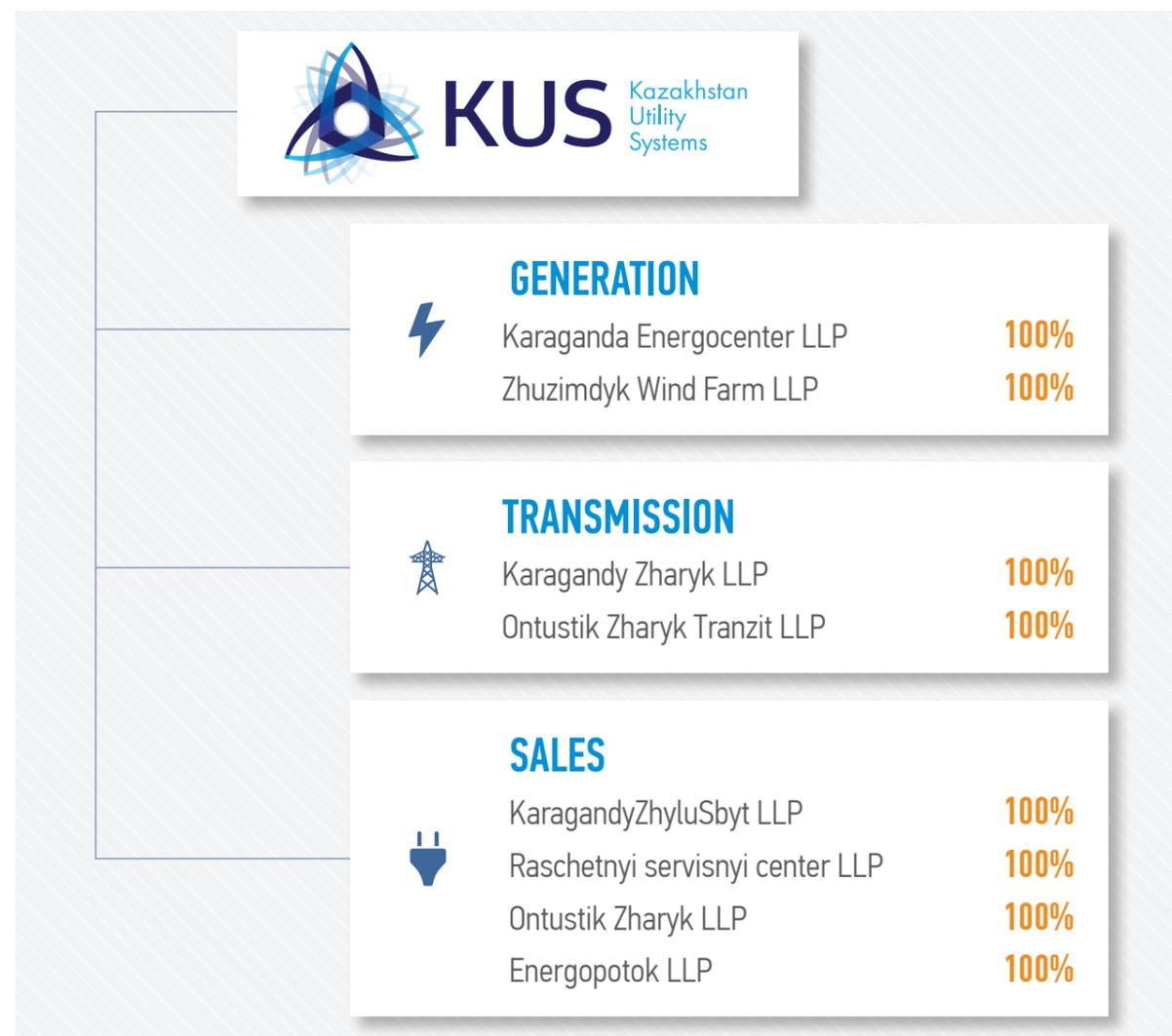


1.4. ORGANIZATIONAL STRUCTURE

1.4.1. Vertical Integration

The Group is a vertically integrated company represented by 8 power generating and transmitting companies.

Number of employees of the Group's companies — 7.3 thousand people.



1.4.2. Profiles of Subsidiary Companies

GENERATION

Karaganda Energocenter LLP — company combining two electric power plants of the Group — Karaganda CHPP-1 and CHPP-3.

CHPP-1

Electric power output:

- installed capacity — 32 MW,
- available capacity — 24 MW.

Heat power output:

- installed capacity — 460 Gcal/hour,
- available capacity — 234.5 Gcal/hour.

CHPP-3

Electric power output:

- installed capacity — 670 MW,
- available capacity — 478 MW.

Heat power output:

- installed capacity — 1,464 Gcal/hour,
- available capacity — 1,016 Gcal/hour.

Total number of employees — 1,338 people.

Zhuzimdyk Wind Farm LLP — project of alternative power industry development in South Kazakhstan Region (village Shayan, Baidibekskiy district of SKR) is currently at the stage of implementation. Expected installed power of Zhuzimdyk Wind Power Plant — 40 MW.

TRANSMISSION AND DISTRIBUTION

Karagandy Zharyk LLP — power grid company operating in Karaganda Region. Electric power networks for 0.4–110kV intended for electric power supply to municipal, industrial and agricultural consumers in Karagandy City and region:

- BHVL 0.4–110 kV — 5,016 km;
- CL 0.4–35 kV — 1,623 km;
- Substations 220/110/35 kV — 105 units;
- APT — 242 un.;
- TSS, PTSS, DSS 6–10/0.4 kV — 1,811 un.;
- Total number of employees — 1,646 people.

Ontustik Zharyk Tranzit LLP — power grid company operating in South Kazakhstan Region. Electric power transmitting networks 110/35/6–10/0.4 kV intended for power supply purposes:

- BHVL 0.4–110 kV — 22,298 km;
- CL 0.4–35 kV — 687 km;
- Substations 110–35 kV — 247 units;
- APT — 347 un.;
- TSS, PTSS, DSS 6–10/0.4 kV — 5,502 un.;
- Total number of employees — 1,646 people.

SALES

KaragandyZhylySbyt LLP — retail energy sales company operating in Karaganda Region.

- 2 district & 2 municipal sales departments.
- 330,461 subscribers — individuals.
- 4,868 subscribers — legal entities.
- Number of employees — 293 people.

Raschetnyi servisnyi center LLP — retail energy sales company operating in Karaganda Region.

- 2 district & 1 municipal sales departments.
- 51,165 subscribers — individuals.
- 1,597 subscribers — legal entities.
- Total number of employees — 44 people.

Ontustik Zharyk LLP — retail energy sales company operating in South Kazakhstan Region.

- 18 district & 1 municipal sales departments.
- 371,751 subscribers — individuals.
- 14,560 subscribers — legal entities.
- Total number of employees — 479 people.

Energopotok LLP — retail energy sales company operating in South Kazakhstan Region.

- 1 municipal sales unit.
- 170,340 subscribers — individuals.
- 8,747 subscribers — legal entities.
- Total number of employees — 237 people.

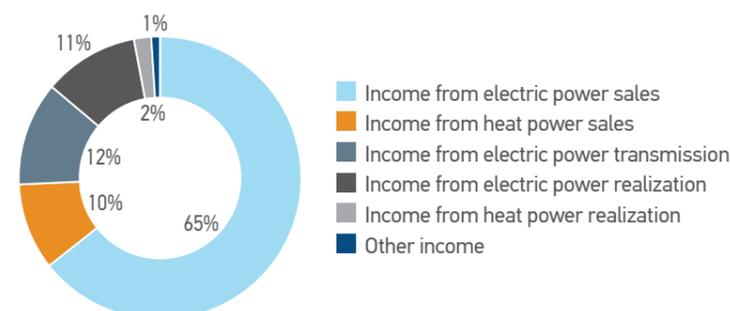
1.5. COMPETITIVE ADVANTAGES

- ▶ Strategic importance for the state — the Group and its subsidiaries cover with its electric power and heat power supply services 25% of Kazakhstan population (4.3 million people) residing in densely populated regions experiencing shortage of electric power.
- ▶ Advantages of vertical integration, large scale and diversification contribute to achievement by the Group of as efficient activity as possible in providing its services to its customers including more than 953 thousand subscribers-individuals and 29.8 thousand subscribers-legal entities. KUS dominates in the regions of its operation.
- ▶ The Group is a recipient of funds under the program of generating facilities investment from the facilities of the National Fund of RK supporting priority industries of the national economy.
- ▶ Electric power generating companies of the Group participate in the maximum tariffs program. The given tariffs ensure return of investments in upgrade of the main equipment.
- ▶ The Group proved itself to be one of the most attractive issuers of debt instruments among the companies of real sector represented in the national market of securities. In August 2015, International Rating Agency Fitch Ratings assigned KUS “BB-“ Long-term foreign and local currency IDR. The Rating Agency also assigned a National Long-term Rating of “BBB+(kaz)” to the company. The Outlook is Stable.
- ▶ In December 2015, KUS LLP entered the RK stock market using the operations transparency approach.
- ▶ The Group is successfully diversifying the sources of funding.

KUS LLP COVERS WITH ITS SERVICES OF ELECTRIC AND HEAT POWER SUPPLY

25% OF KAZAKHSTAN POPULATION

THE GROUP'S REVENUE BREAKDOWN BY DIFFERENT LINES OF ACTIVITY



1.6. KEY EVENTS OF 2015 YEAR

KARAGANDA ENERGOCENTER LLP carried out an extensive investment activity aimed at expansion of Karaganda CHPP-3, reconstruction and upgrade of equipment.

ONTUSTIK ZHARYK TRANZIT LLP successfully completed implementation of investment program, in the course of which KZT 4.7 mln were spent.

KARAGANDY ZHARYK LLP completed implementation of investment program for the period of 2011–2015 to the total amount of KZT 33 bln with the following results: electric power losses were reduced by 4.3%; number of power system disturbances was reduced; 7% of the total number of

substations were reconstructed; 20% of the total number of transformer substations (TSS (integrated (ITSS))); 13% of the total number of cable and overhead lines of 6–10 kV voltage; 26% of the total number of cable overhead lines of 0.4 kV voltage.

KARAGANDY ZHARYK LLP

Construction of Zharyk substation for 220/110/10 was completed and it was put into operation, which allowed for improvement of electric power supply reliability for all consumers in the south-east part of the city, which is the most promising in the town development plan. Approximately 55 MW of electric power necessary for extension of residential development of “South East” micro-district as well as new micro-districts planned for construction within the area between “South-East” and “Blue Ponds” micro-districts, around “Fyodorovskoye Water Reservoir” and continuation of “Kungei” micro-district development will be transferred additionally through Zharyk substation.

KARAGANDY ZHARYK LLP

110/35/10 kV Santechnicheskaya-2 substation was constructed and put into operation, which allowed for improvement of electric power supply to consumers of all categories and increase in the total transit of electric power by 25 MW. Approximately 70% of all electric power intended for Karagandy City is transferred through 110/35/10 kV Santechnicheskaya-2 substation.

ONTUSTIK ZHARYK TRANZIT LLP

Construction of the second overhead line for 110 kV of “input-output” scheme was carried out from HVL-110 kV L-108 to Samal SS 110/10 kV of 2.8 km length. The given measures resulted in separation of consumers of Shymkent City from rural consumers.

KARAGANDA ENERGOCENTER LLP

Installation work carried out for putting into operation of new power generating unit of 110 MW was completed. Trial start-up of the power generating unit at the maximum capacity with stage-by-stage acceptance of equipment was carried out and new mechanical cooling tower of 25,000 m³/hour capacity was put into operation. Adjusting and start-up procedures were carried out at boiler and turbine equipment. Based on the year results, investments amounted to KZT 18.03 bln Implementation of the plan of actions allowed for the company to ensure increase in the electric power output and reduction of own consumption of electric power, fuel and water.

JANUARY

AUGUST

OCTOBER

DECEMBER

JULY

For the purpose of the Group’s activity diversification through development of an alternative power industry, Zhuzimdyk Wind Farm LLP was established on **JULY 15, 2015**. KUS LLP owns 100% participation interest in this wind farm.



SEPTEMBER

ONTUSTIK ZHARYK TRANZIT LLP

Construction of 0.4–10 kV transmission networks was completed in the micro-district Taraz in the city of Shymkent and the existing networks on balance of the Group were reconstructed.



NOVEMBER

In order to facilitate convenience of consumers in Karaganda Region, unified payment document (UPD) introduction project was implemented jointly with ERC LLP. This project was developed in accordance with “single window” principle and implied for increase in the number of cash operating units and introduction of electronic queuing system.



ONTUSTIK ZHARYK TRANZIT LLP

Automated power supply control and record-keeping system 10/0.4 kV was implemented resulting in connection of 31 PTSS and 3,740 consumers in Turkestan City.

Due to the natural increase in the population size, development of small and medium-size business and increase in individual residential construction based on the perspective development of Shymkent City in the Nursat micro-district, construction of new residential housing estate with administrative business center was planned. For the purpose of the above specified construction, Nursat substation for 110/10–10 kV of enclosed type was designed, built and put into operation with installed capacity of power transformers of 2x40 MVA, which will be connected to 110/10–10 kV Severnaya SS over two cable lines of 110 kV and to 220 kV Bozaryk SS.

KARAGANDY ZHARYK LLP

Construction of 110 kV HVL of total length of 1.3 km and cable AS of 300 sq.mm. was completed, which resulted in increase in throughput capacity of the HVL by 25 MW.

New contact centers were set up in subsidiary sales organizations of South Kazakhstan Region and Shymkent City.

2015



MARKET ENVIRONMENT

"...Upgrade and preservation of values"

2.1. ABOUT KAZAKHSTAN

GENERAL INFORMATION

Kazakhstan is located at the heart of Eurasia. The Republic covers the area of **2,724,900** sq.km. This is the second largest in CIS and the ninth largest country in the world by covered area.

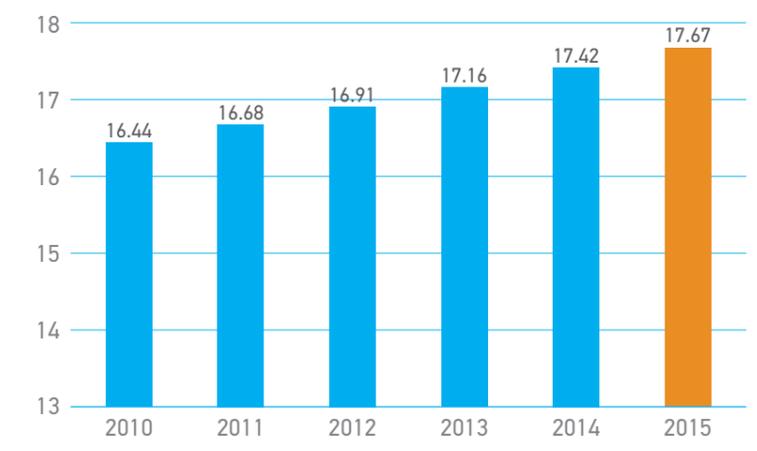
Kazakhstan shares borders with Russia, China, Kyrgyzstan, Uzbekistan and Turkmenistan. Total length of the boundary is **12,187** km.

Population size: **17,670,957** people (as of January 1, 2016)

Capital city: **Astana** (since December 10, 1997) with population of **872,655** people (as of January 1, 2016)

Administrative and territorial division: there are **14** regions, **84** cities, **159** districts and **2,042** villages in the Republic.

KAZAKHSTAN POPULATION SIZE
mln people



Source: RK NEM SC

KAZAKHSTAN POPULATION

17,670,957
PEOPLE

ECONOMIC AND GEOGRAPHICAL SUBDIVISION

There are three groups of regions that can be singled out in Kazakhstan.

The first group consists of the western regions specialized in production of hydrocarbons. The list of this regions includes Atyrau, Aktope, Mangystau and West Kazakhstan Regions.

The second group includes agricultural and industrial regions of the northern and eastern parts of the country, namely: Karaganda, Akmola, East Kazakhstan, Pavlodar, Kostanai, North Kazakhstan Regions.

The third group — agricultural south of the country, namely: South Kazakhstan, Almaty, Zhambyl and Kyzylorda Regions.

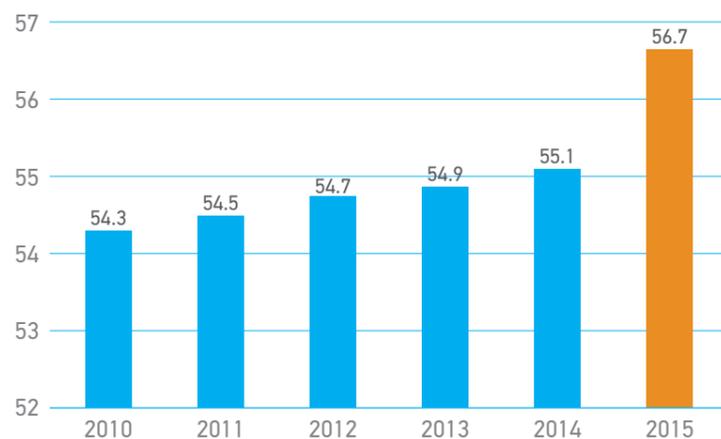


URBANIZATION

There is substantially high level of urbanization (57%) in the country which keeps on growing.

The tools of agglomeration stimulation policy, which implementation was commenced in 2012, are aimed at stimulation of urban population growth. In the long run, it is planned to form the following 4 agglomerations until 2020: Astana, Almaty, Shymkent and Aktope agglomeration.

URBANIZATION LEVEL IN KAZAKHSTAN, %



Source: RK NEM SC

2.2. MACROECONOMY

ECONOMY SPECIALIZATION

Kazakhstan specializes in production and export of hydrocarbons, metals as well as isotopes and grain to international market. The main trade partners of Kazakhstan are as follows: European Union, China and Russian Federation.

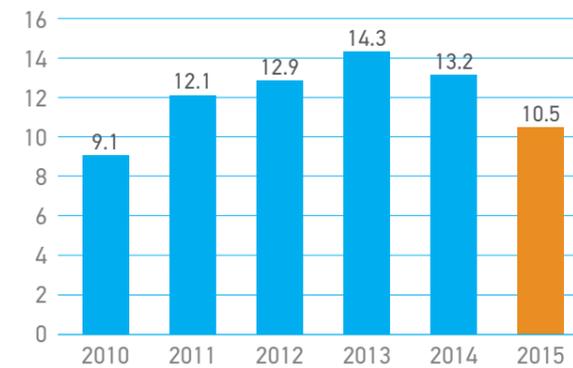
Kazakhstan has been participating in regional integrational associations with Russian Federation and Republic of Belarus since 2010. In 2014, the above three countries reached the new level of integration having created Eurasian Economic Union (EAEU), to which Kyrgyzstan and Republic of Armenia joint in 2015. Kazakhstan entered World Trade Organization in 2015.

POSITION IN THE REGION

Kazakhstan is one of dynamically developing economies. Growth of GDP per capita over the period of 2005 through 2015 was, on average, 12.7% and in 2013 reached the peak value of USD 14.3 thousand.

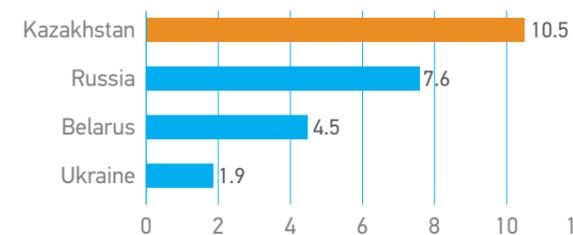
Among the post USSR republics, Kazakhstan is at the top of the rating of countries with high GDP per capita.

KAZAKHSTAN GDP PER CAPITA, USD thous.



Source: RK NEM SC

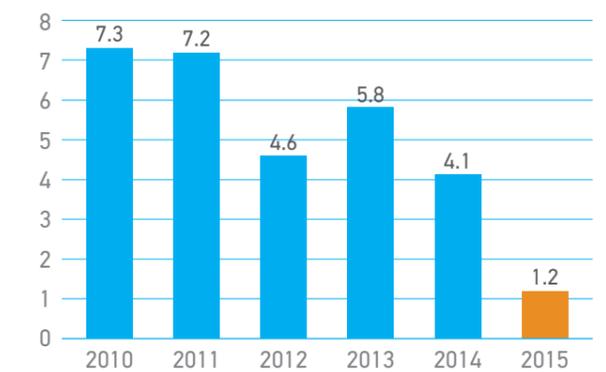
GDP PER CAPITA OF SOME FORMER USSR REPUBLICS (2015), USD thous.



RESULTS OF 2015

In accordance with information of the Ministry of National Economy of the Republic of Kazakhstan, increase of the national GDP in 2015 made 1.2%. For the first time over the past ten years, rate of national economy growth of Kazakhstan happened to be below the average global ones (see schedule). Slowdown was caused by reduction of global prices for energy resources and industrial metals forming the basis of the national export, reduction of physical volume of oil production as well as slowdown of Russian economy — the second largest trade partner of Kazakhstan.

KAZAKHSTAN GDP DYNAMICS, %



Source: RK NEM SC

Service sector, which dynamics was better than that of the real economy sector (2.3% versus 0.1%), happened to be the driving force of the national economy in 2015. Within the national GDP structure, service sector account for 57%, industry — for 25.5% and energy sector — for 1.8%.

At the year-end, industry of Kazakhstan shrank by 1.5%. Decline was connected with drop in mining industry output (-2.5%), slowdown in development of processing industry (to 0.2%) and reduction in the volume of electric power generation (-1.6%) and sector of water supply, sewerage, collection and distribution of wastes (-8.9%). Based on the year results, inflation increased by 13.6%.

INFLATION DYNAMICS IN KAZAKHSTAN, %



Source: RK National Bank

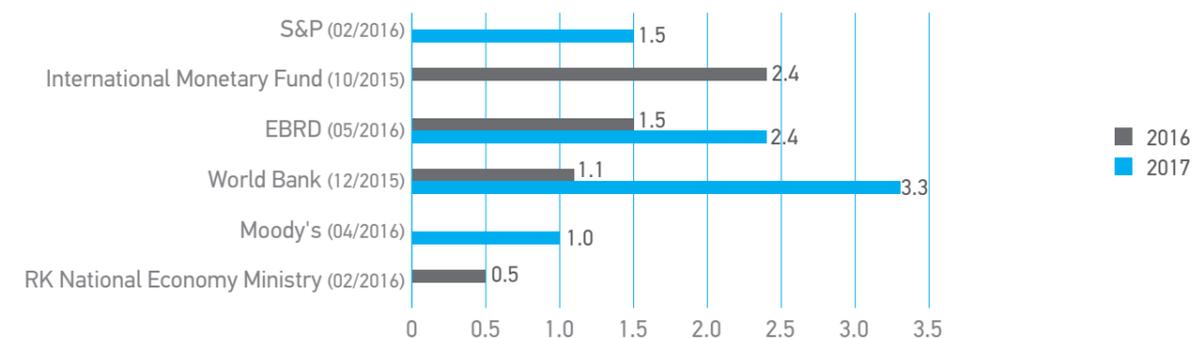
MACROECONOMIC FORECAST

In accordance with official forecast, the national GDP increase in 2016 will be by 0.5% (February forecast of the National Economy Ministry of the Republic of Kazakhstan). Nevertheless, international experts consider that the national economy results will be less positive. Rating agencies S&P and Moody's expect growth rate of 0.0% in 2016 and 1.5% and 1% correspondingly in 2017; International Monetary Fund forecasts increase by 2.4% in 2016; EBRD anticipates increase of 1.5% in 2016 and 2.4% in 2017.

In accordance with the RK National Bank expectations, inflation will remain within the range of 6–8% in 2016. Most likely, it will be closer to the top boundary of the range.

Difficult economic situation had its effect on the country rating. In the beginning of May 2016, International Rating Agency Fitch Ratings downgraded long-term IDR of Kazakhstan in foreign currency from BBB+ to BBB with forecasted stability. Additionally, the rating agency reconsidered IDR rating in the national currency from A– to BBB. RK debt liability rating as regards non-secured bonds of Kazakhstan was downgraded from BBB+ to BBB level.

FORECASTED GROWTH OF KAZAKHSTAN GDP, %



Source: open sources data

2.3. INDUSTRY REVIEW

Kazakhstan is the country with well-developed energy industry represented mainly by coal-fired power industry. Thereat, the country has huge potential in renewal power sphere — water, wind and solar power.

REGIONAL SPECIFICS OF THE NATIONAL ENERGY SYSTEM

In accordance with the energy industry map, Kazakhstan is subdivided into the following three zones: Northern, Southern and Western. The Northern zone remains the leader in production and consumption of electric power in Kazakhstan, which accounts for 65% of generating facilities of the country forming an excessive energy.

In the western zone of the country, oil and gas industry companies account for the most part of electric power consumption. Those companies have their own generating facilities with spare capacity.

In the southern zone, there is the highest deficit in energy balance, which is covered by the electric power supplied from the northern zone and import from the neighboring Kyrgyzstan and Uzbekistan.

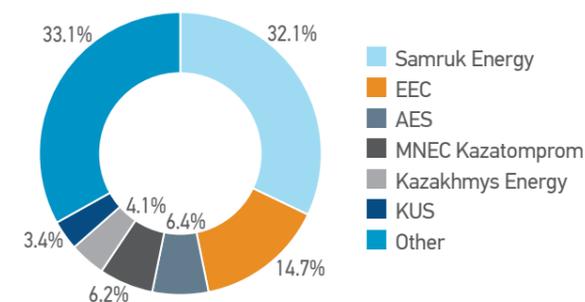
Within the structure of electric power consumption by the national economy sectors, industry remains the all-time leader with relatively stable share in the general consumption structure over the last 5 years remaining within the range of 61–62%. 11 companies of metallurgy industry located in the north of Kazakhstan account for over 25.2% of the total power consumption volume.

PRODUCTION OF ELECTRIC AND HEAT POWER

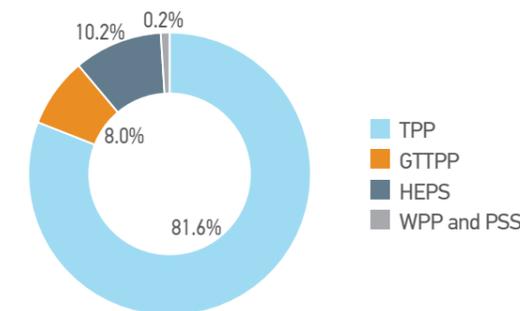
111 power generating stations account for production of electric power in Kazakhstan with total installed capacity of 21,307.2 MW and available power of 17,503.2 MW.

Up to the one third of the total generating capacity is under control of the Samruk Energy state-run holding that owns Ekibastuz State District Power Plant (SDPP) 1 and SDPP-2 (the first is the largest power plant of the country with installed power of 4,000 MW) followed by the energy section of the mining and metallurgic Eurasian Resources Group. Aksuskaya TPP belonging to the company has the power of 2,450 MW. AES Group ranks the third in Kazakhstan (1,360 MW) followed

INSTALLED ELECTRIC CAPACITY STRUCTURE, %



STRUCTURE OF ELECTRIC POWER GENERATION IN KAZAKHSTAN BREAKDOWN BY ENERGY SOURCES, %



Source: KEGOC.

by Central Asian Electric Power Corporation (CAEPCO) with 1,141 MW. KUS Group ranks the fifth in the country by electric power output.

Thermoelectric power plants account for 81.6% of the total installed capacity of the country; hydroelectric power stations account for 10.2% followed by gas turbine stations — 8.0% and by the renewable power sources. Pavlodar, Karaganda and East Kazakhstan regions account for the greatest capacity due to well-developed industrial infrastructure.

Average service life of the Kazakhstan EES TPPs is 32.8 years. Average service life of the Kazakhstan EES HESs generating equipment is 34.3 years.

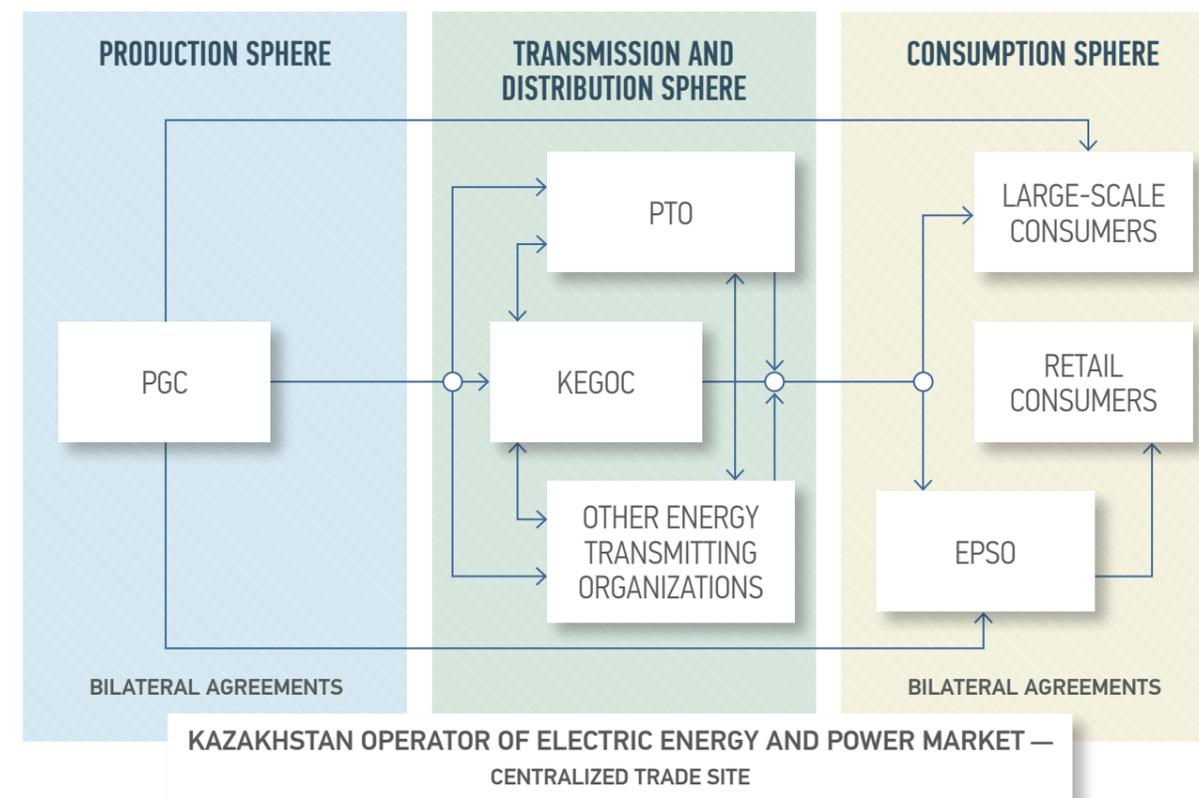
ELECTRIC POWER TRANSMISSION — INTERREGIONAL NETWORKS

KEGOS JSC having an exclusive right for electric power transmission over the national energy system's networks (>200 kV) is a system operator and an owner of the national energy system (NES).

There are electric power transmission lines of 35–1150 kV and length of up to 24.9 thousand km. as well as 77 electric power substations of installed capacity of transformers of 36.2 GVA forming NES on the balance of the Company.

The company is a natural monopolist in the field of electric power transmission among PTOs.

CURRENT MODEL OF ELECTRIC POWER MARKET OF KAZAKHSTAN



ELECTRIC POWER TRANSMISSION WITHIN REGIONS

Regional power grid companies are in charge of distribution of electric power on the balance of which there are electric power transmission networks of the regional level as well as 150 small scale transmitting companies.

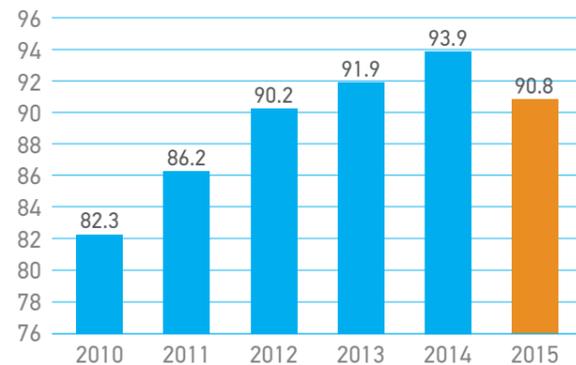
Currently, approximately 29 PTOs carry out its activity in the Republic of Kazakhstan. They carry out electric power distribution based on the corresponding agreements over their own or used electric power transmission network to the wholesale and retail market consumers or electric power supplying companies.

ELECTRIC POWER SUPPLY

Electric power supply sector consists of more than 180 electric power supplying organizations (EPSO) of which 40 companies are the dominating ones. EPSOs purchase electric power from electric power generating organizations or through centralized trading sessions and sell it further to the final retail consumers.

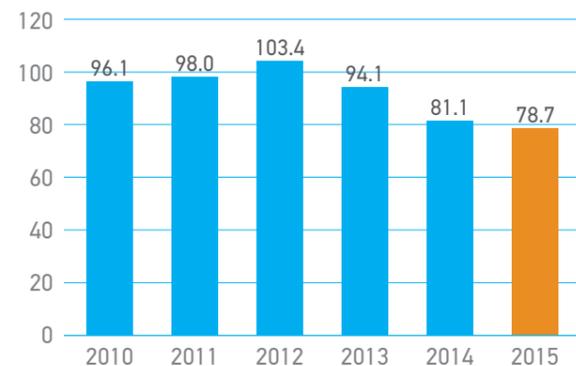
Some EPSO perform functions of guaranteeing suppliers of electric power.

ELECTRIC POWER GENERATION IN KAZAKHSTAN,
bln kWh



Source: KEGOC

HEAT POWER GENERATION IN KAZAKHSTAN,
mln Gcal



Source: RK NEM SC

RESULTS OF 2015

According to the data of the Statistics Committee under the RK Ministry of National Economy, based on the results of 2015, all electric power generating stations of the Republic of Kazakhstan generated 90.8 billion kWh of electric power, which is 3.3% less than the past year level (93.9 bln kWh) Reduction of production output was connected with optimization of the rate of consumption in the country and also with reduction of electric power export abroad.

The large-scale electric power generating companies such as Ekibastuz SDPP No.1 and SDPP No.2 and EAEC JSC, AIES ES reduced their production output.

Electric power generation output was increased by: SDPP of Kazakhmys Energy LLP, Pavlodarenergo, Sevkazenergo and Karaganda Energocenter LLP.

Thereat, regional structure of electric power generation remained unchanged. Up to 40% of electric power is generated in Pavlodar Region, where the largest power generating facilities are concentrated, namely: Ekibastuz SDPP No.1 and SDPP No.2 as well as Aksuskaya thermal power plant (TPP) and three Pavlodar CHPPs. Karaganda region, that ranks second in this list, accounts for 17%; 10% of electric power is generated by TPPs and HPSs of East Kazakhstan Region while 7% are generated by electric power generating stations of Almaty Region and Almaty City. The other 10 regions account for less than 30% of the total output of electric power.

In 2015, CHPPs and boiler stations of the country produced 78.74 mln Gcal of heat power, which means reduction by 3%. Heat power production has been declining for the third year in a row. An average annual rate of reduction of electric power generation of the last three years was 9%.

INVESTMENT MODEL

Inflow of investments in the electric power generation sector over the past 7 years was connected with implementation of marginal tariffs programs.

In March 2009, Government adopted Resolution No.392, which outlined the marginal tariffs for the period of 2009 through 2015 for 13 groups of stations (see table below). Over the period of 7 years, total increase of tariffs was supposed to make 64% on average (minimum — 32% (group 6), maximum — 144% (group 1)) at the average annual rate of increase of 8.6%. Stations were sub-divided into groups with due account for size of generating facilities and types of consumed fuel. In 2015, decision was made to continue the use of marginal tariffs until January 1 2019.

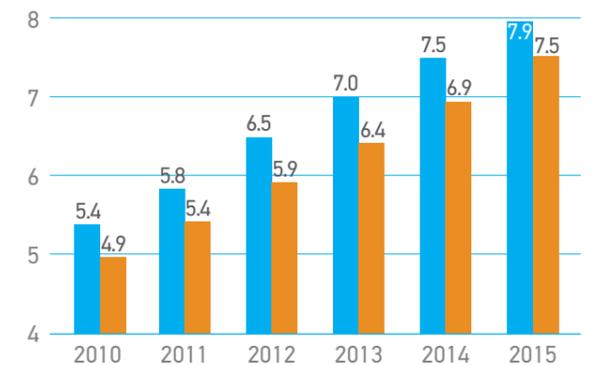
Ministry of Energy of the Republic of Kazakhstan announced the following results of marginal tariffs program implementation: approximately KZT 858.6 bln was invested in the electric power industry, which allowed for restoration and commissioning of new 2,892 MW of power generating facilities, which, in turn, completely covered the demand of economy for electric power.

It is planned to start capacity market in Kazakhstan in 2019 (new segment of wholesale market of energy) as an effective mechanism ensuring provision of electric power industry with sufficient level of investments and reliability of electric power system in the long run. As a result, there will be two types of market for all stations (new and existing ones) operating in parallel. Single purchaser mechanism is introduced in the wholesale electric power market. For this purpose, single purchaser shall mean an organization that purchases electric power from manufacturers on centralized and systematic basis and then distributing its costs incurred for purchase of electric power among consumers.

It was planned to subdivide wholesale market tariffs into two components: payment for capacity and payment for electric energy. Additionally, a national operator will be created — an organization that will carry out centralized export and import of electric power and participate on behalf of Kazakhstan in implementation of projects beyond the country boundaries.

In order to ensure transparency and stable functionality of electric capacity market, the market Board will be established.

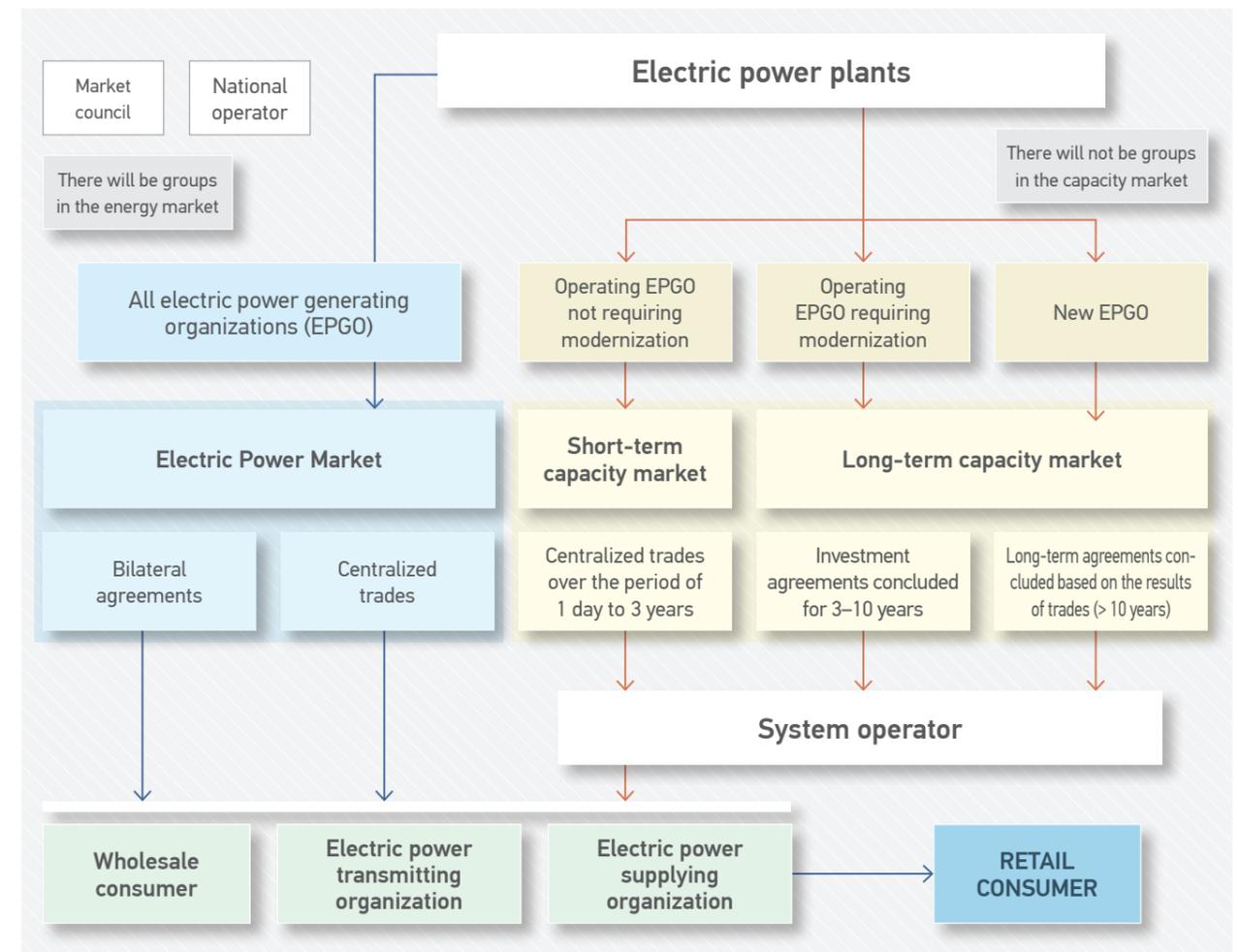
RATES WITHIN THE MARGINAL TARIFFS PROGRAM FOR 2009–2015,
KZT per kWh



■ Average tariffs for 13 groups of electric power stations
■ Tariffs for Karaganda CHPP-1 and CHPP-2

Source: KEGOC

CAPACITY MARKET MODEL



3

OPERATING ACTIVITY

“...Scaling success up”

3.1. PRODUCTION

PRODUCTION FACILITIES

Production facilities of the Group in 2015 were represented by electric and heat power generating facilities as well as electric power transmitting networks, district heating plants and substations.

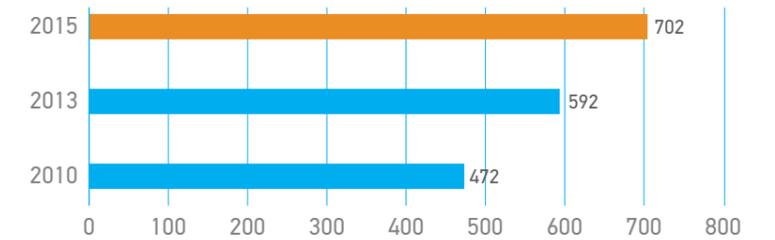
Generation:

- ▶ Installed electric power generating capacity of sources — 702 MW; available capacity — 502 MW.
- ▶ Installed heat power capacity — 1,924 Gcal/hour; available capacity — 1,241 Gcal/hour.

Transmission :

- ▶ 0.4–110 kV electric power network length — 27,314 km;
- ▶ 0.4–35 kV electric power network — 2,310 km;
- ▶ Number of substations — 352 units.

INSTALLED ELECTRIC POWER CAPACITY, MW



INSTALLED HEAT POWER CAPACITY, Gcal/h



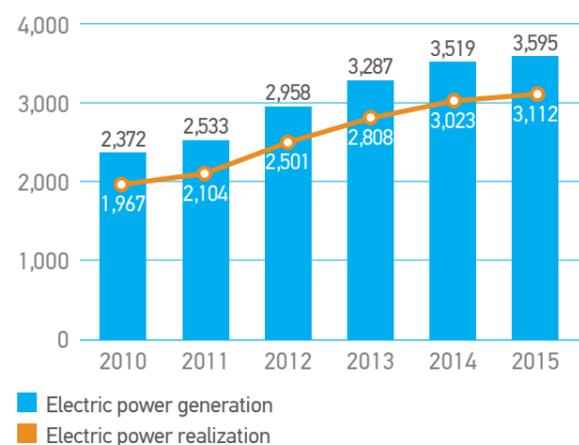
PRODUCTION

The Group ended the past year with the growth of the following key production indexes:

- ▶ Production of electric power – 3,595 mln kWh, which was 2.2% above the same parameter of the previous year;
- ▶ Sales of electric power – 3,112 mln kWh, which was 2.9% above the same parameter of the previous year;

- ▶ Production of heat power – 3,133 thousand Gcal, which was 9.8% below the results of the past year;
- ▶ Sales of heat power – 3,128 thousand Gcal, which was 9.8% below the results of the past year.

ELECTRIC POWER GENERATION AND REALIZATION, mln kWh



PRODUCTION AND REALIZATION OF HEAT POWER, thous. Gcal



3.2. INVESTMENT PROJECTS OF 2015

Over the period of 2010 through 2015, the Group invested over KZT 140 bln, which resulted in substantial improvement of equipment operation efficiency.

Installed capacity factor increased from 0.48% to 0.72% (on average for Kazakhstan — 0.53%).

Introduction of automated system and modernization of the existing equipment and investments made resulted in reduction of losses two-fold from 20% to current 10–10.5%.

Karaganda Energocenter LLP carried out an extensive investment activity aimed at expansion of Karaganda CHPP-3, reconstruction and modernization of its equipment. Based on the year results, investments amounted to KZT 18 bln implementation of the plan of actions allowed for the company to ensure increase in the electric power output and reduction of own consumption of electric power, fuel and water.

Ontustik Zharyk Tranzit LLP investment program of 2015 amounted to KZT 4.8 bln. Measures taken under the investment program resulted in increase in the volume of rendered services of electric power transmission comparing to the results of

2014, reduction of excessive losses of electric power and increase in the number of consumers.

Karagandy Zharyk LLP completed implementation of investment program of 2015 to the total amount of KZT 10.6 bln. Based on the results of the investment program implementation, electric power losses in the networks reduced by 4.3% and power system disturbance events numbers reduced too. 7% of the total number of substations, 20% of the total number of transformer substations (TSS (integrated (ITSS)) were reconstructed as well as 13% of the total number of cable overhead lines of 6–10 kV voltage; 26% of the total number of cable overhead lines of 0.4 kV voltage.

Introduction of automated system and modernization of the existing equipment and investments made resulted in reduction of losses two-fold from 20% to current 10–10.5%.

ELECTRIC POWER GENERATION
3,595
mln kWh



HEAT POWER PRODUCTION
3,133
thous. Gcal



4

FINANCIAL STANDING AND THE RESULTS OF FINANCIAL AND ECONOMIC ACTIVITY

*“...Continuous growth
of business capitalization”*

4.1. KEY PERFORMANCE INDICATORS

KEY INDICATORS OF FINANCIAL
AND ECONOMIC ACTIVITY
KZT bln

	2011	2012	2013	2014	2015	Dynamics of 2015/2014	Dynamics of 2015/2011
Revenue	32.61	56.85	64.76	75.30	80.60	7.1%	147.2%
Gross Profit	13.59	15.50	17.78	23.27	26.63	5.9%	81.2%
EBITDA	13.67	14.84	17.85	20.28	21.55	6.2%	57.6%
EBIT	11.39	11.68	12.85	14.90	15.47	3.8%	35.8%
Net Profit	8.25	7.52	7.66	8.41	10.08	19.9%	22.1%

According to the results of 2015, increase in the revenue made 7.1%. Revenue was growing at the rate comparative to the cost of goods sold, which allowed for the company to preserve high gross income that also increased by 5.9%. Increase in EBITDA turned out to be at the level of 6.2%.

Increase in the net profit turned out to be the most significant — 19.9% — up to KZT 10.08 bln.

Over the past 4 years, the Group's capitalization increased two-fold; cost of assets also increased two-fold.

4.2. BUSINESS ENVIRONMENT

Key factor of business environment for the Group consists in the level of tariffs for the products sold.

Tariffs for transmission, distribution and sales of electric power are regulated by the Committee on Regulation of Natural Monopolies and Protection of Competition (CRNM and CP).

According to the provisions of the current legislation, the tariffs of power grid companies shall ensure the compensation of operating costs (necessary for provision of regulated services) as well as capital costs (investment program).

Tariffs for population of Kazakhstan grow steadily; on average, an annual growth over the period of the past six years made 6%. It is anticipated that over the period of 2016–2017 an increase in the tariffs for electric power in a number regions of Kazakhstan will make 7–8%.

The given growth derives from an increase in tariffs for production of electric power as well as for the services of transmission and distribution of electric power over regional and interregional networks.

Tariffs cannot be reconsidered more than once a year. Starting from 2016, power grid and heat power supplying companies transferred to formation of tariffs in accordance with 5-year marginal tariffs. This approach gives more confidence to all participants of the market: energy market participants can plan their investment programs, while consumers can plan their expenditures.

In accordance with the data of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, in 2015 the final sales prices for electric power increased by 8.3% and for heat power — by 14%. Prices for electric power showed one of the minimum increases over the past decade.

DYNAMICS OF TARIFFS FOR ELECTRIC AND HEAT POWER, %



■ Electric power ■ Heat power

Source: RK NEM SC

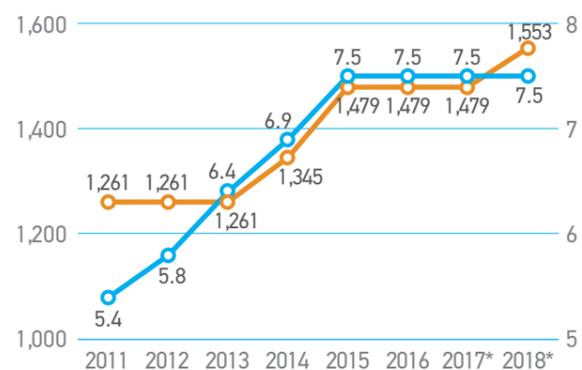
Tariffs for heat, on the contrary, demonstrated the highest increase over the past years. Tariffs for subsidiaries of the Group show steady and long-term growth.

KARAGANDA ENERGOCENTER LLP (KEC)

Tariffs for electric power increased by 8.7% in 2015. Tariffs for electric power are determined for the company until 2018 and based on the results of seven-year period the growth will make 38.9%.

Tariffs for heat power increased by 10.0% in 2015. Tariffs for heat power are determined for the company until 2018 and, based on the results of seven-year period the growth will make 23.1%.

TARIFFS FOR HEAT AND ELECTRIC POWER GENERATED BY KEC



* forecast

■ Tariffs for heat power generated by KEC, KZT per Gcal
■ Tariffs for electric power generated by KEC, KZT per kWh

KARAGANDY ZHARYK LLP (KZH)

Tariffs for transmission of electric power did not change in 2015. Tariffs for electric power are determined for the company until 2020 and based on the results of seven-year period the growth will make 19%.

KZH TARIFF FOR ELECTRIC POWER TRANSMISSION, KZT per kWh



* forecast

ONTUSTIK ZHARYK TRANZIT LLP (OZHT)

Tariffs for electric power increased by 9.6% in 2015. Tariffs for electric power were determined for the company until 2020 and based on the results of seven-year period will make 44%.

OZHT TARIFF FOR ELECTRIC POWER TRANSMISSION, KZT per kWh

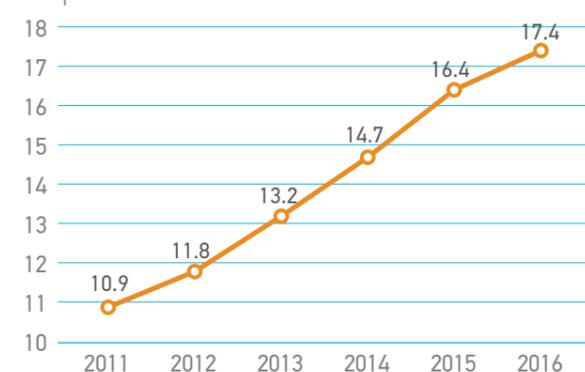


* forecast

ONTUSTIK ZHARYK LLP (OZH)

Tariffs for sold electric power increased by 11.6% in 2015. Tariffs for electric power were increased for the company by 6.1% on average in 2016.

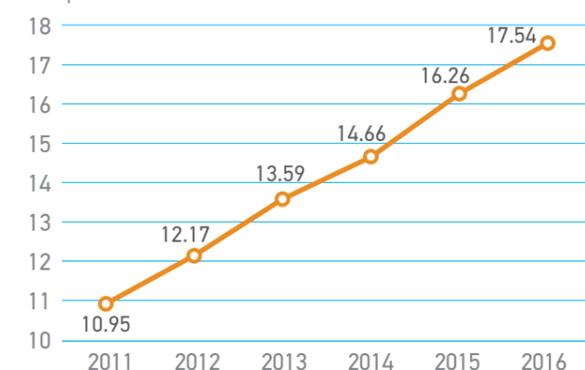
OZH TARIFF FOR ELECTRIC POWER, KZT per kWh



ENERGOPOTOK LLP (EP)

Tariffs for sold electric power increased by 10.9% in 2015. Tariffs for electric power were increased for the company by 7.9% in 2016.

EP TARIFF FOR ELECTRIC POWER, KZT per kWh

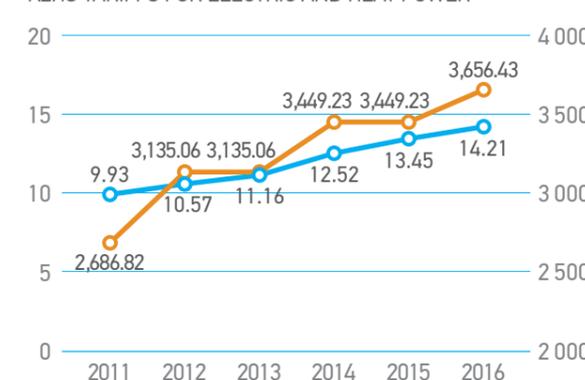


KARAGANDYZHYLUSBYT LLP (KZHS)

Tariffs for sold electric power increased by 7.4% in 2015. Tariffs for electric power were increased for the company by 5.7% in 2016.

Tariffs for heat power did not change in 2015. Tariffs for heat power were increased for the company by 6.0% in 2016.

KZHS TARIFFS FOR ELECTRIC AND HEAT POWER

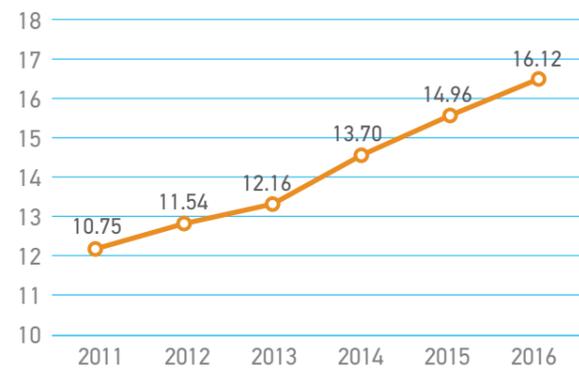


■ Tariffs for electric power generated by KZHS, KZT per kWh
■ Tariffs for heat power generated by KZHS, KZT per Gcal

RASCHETNYI SERVISNYI CENTER LLP (RSC)

Tariffs for sold electric power increased by 9.2% on average in 2015. Tariffs for electric power were increased for the company by 7.8% on average in 2016.

RSC TARIFF FOR ELECTRIC POWER, KZT per kWh



In accordance with the data of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, in 2015 the final sales prices for electric power increased by 8.3% and for heat power — by 14%. Prices for electric power showed one of the minimum increases over the past decade. Tariffs for heat, on the contrary, demonstrated the highest increase over the past years

4.3. OPERATING ACTIVITY RESULTS

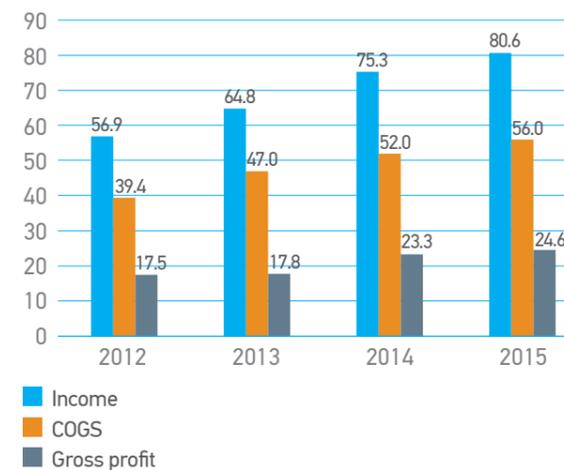
The given section contains the results of discussion and analysis allowing for identification and assessment of the main tendencies and significant changes in the results of activity and financial standing of Kazakhstan Utility Systems LLP. The present review is based on consolidated annual financial statement of Kazakhstan Utility Systems LLP and it shall be considered along with consolidated financial statements and accompanying

notes as well as any information specified in other sections of the given document. All financial data and its discussion are based on audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards (hereinafter — IFRS) adopted by the International Accounting Standards Board.

BASIC CONSOLIDATED RESULTS OF KAZAKHSTAN UTILITY SYSTEMS LLP FOR 2015 AND 2014, mln KZT

	2015	2014	Changes in 2015 compared to 2014, %
Income	80,602	75,289	7.06%
Cost of goods sold (COGS)	(55,970)	(52,020)	7.59%
Gross Profit	24,632	23,269	5.86%
General and administrative expenses	(5,276)	(4,955)	6.47%
Selling costs	(1,575)	(1,450)	8.62%
Financial costs	(2,398)	(3,369)	(28.84%)
Foreign exchange loss	(2,646)	(2,019)	31.07%
Other operating income (net)	544	167	225.60%
Profit from operating activity	13,281	11,643	14.07%
Income tax costs	(3,202)	(3,237)	(1.06%)
Net profit for the period	10,079	8,406	19.90%

DYNAMICS OF INCOME, COGS AND GROSS PROFIT, KZT bln



Main part of the Group's income is generated through sales of electric power. Share of electric power sales in the structure of income for 2015 made 76% or KZT 60.87 bln (in 2014, share made 75% or KZT 56.28 bln). Over the year, this segment in revenue increased by KZT 4.6 bln or by 8% — due to increase in the sales volume and increase in tariffs for electric power.

In 2015, income of the Group from transmission of electric power amounted to KZT 9.45 bln, which was KZT 8.5 bln or 47% less comparing to 2014. Reduction of revenue amount under the "Electric Power Transmission" item in auditor's report for 2015 comparing with 2014 was connected with reclassification of revenue items.

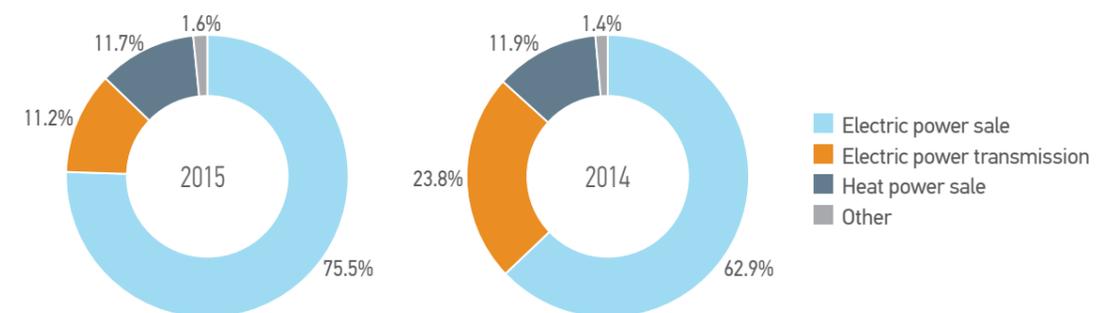
In 2015, in accordance with the provisions of the clause 45(a) of the IAS standard 1 "Financial Statements Submission", item "Electric Power Transmission" item was reclassified into "Electric Power Sales" and "Electric Power Transmission" items.

In 2014, revenue from sales of electric power by Karaganda Energocenter LLP was accounted under the "Electric Power Transmission" item.

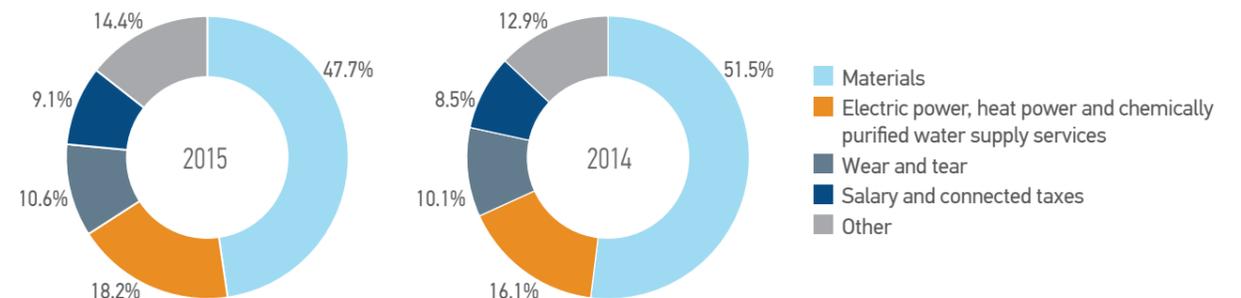
Income from sale of heat power increased by 0.5% and amounted to KZT 9.01 bln (2014 — KZT 8.96 bln). This was connected with reduction of consumed heat power and increase in tariffs for this product.

Resulting increase in the company's income was 7%.

INCOME STRUCTURE

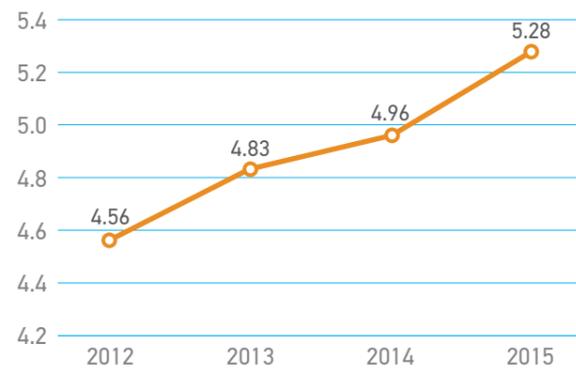


COGS BREAKDOWN



Share of materials in the structure of COGS makes up to 50%. In 2015, costs for materials amounted to KZT 26.69 bln. Despite total increase in the volume of sold goods and services, this parameter decreased by 0.36%. Electric power transmission, heat power and chemically purified water costs showed

higher rates of growth — by 22%, depreciation — by 13% and the salary and connected taxes costs — by 15.75%. Total rate of growth of COGS happened to be at the same level with revenue dynamics — 7.6%.

ADMINISTRATIVE COSTS,
KZT bln

Total administrative costs in 2015 comparing with 2014 increased by KZT 320 mln or by 6.5% and amounted to KZT 5.28 bln. Salary and connected taxes costs prevailed in the structure of general and administrative costs — approximately 44% of the total amount of administrative costs or KZT 2.33 bln. Salary and connected taxes costs increased by 14% comparing to 2014.

Foreign exchange loss suffered by the Group in 2015 amounted to KZT 2,646 mln, which was 31% higher than in the previous year. Presence of a large loss was connected with devaluation of the RK national currency over the past year by 86%.

Book value of the accounts payable of the Group expressed in foreign currency reduced almost fourfold — from KZT 17,561 mln to KZT 4,665 mln. This is connected with accelerated repayment of liabilities in foreign currency including that to Falah Investment B.V., which, in turn had effect on reduction of financial costs by 28.84%.

KEY PERFORMANCE INDICATORS

	2015	2014
I Liquidity ratios:		
Current liquidity ratio	0.53	0.35
Quick liquidity ratio	0.42	0.29
II Benefit-cost ratios:		
Net profit rate, %	12.5%	11.2%
Gross profit rate, %	30.6%	30.9%
Basic earnings power	13.7%	14.2%
Return on assets, ROA	7.3%	6.6%
Return on equity, ROE	14.1%	15.4%
EBITDA in KZT mln	21,546	20,278
EBITDA margin	26.7%	27.0%
III Capital structure ratios:		
Equity ratio	52.0%	42.7%
Leverage ratio	37.4%	43.1%
IV Efficiency ratios:		
Inventory turnover ratio	22.32	21.76
Accounts receivable turnover period (in days)	29.49	26.43
Fixed assets turnover ratio	0.66	0.68
Assets turnover ratio	0.58	0.59
Interest coverage ratio	7.87	5.42
Return on capital employed (ROCE)	19.7%	19.8%

NET PROFIT MARGIN, %

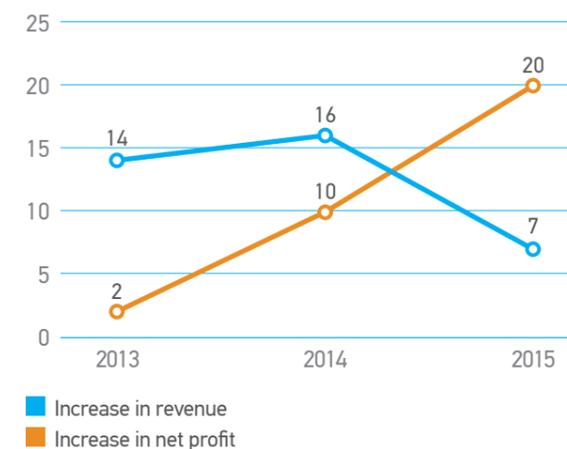


The Company's liquidity may be considered limited but manageable. Comparing to 2014, there was positive dynamics of current and quick liquidity ratios. Thus, current liquidity ratio increased from 0.35 to 0.53 in 2015 and quick liquidity ratio reached 0.42 in 2015 (in 2014 the given parameter reached the level of 0.29). It is necessary to take into account that the Company allocates the main part of funds for funding of capital projects (fixed assets) thus, it uses all its available funds to the maximum possible extent for the purpose of investments in the investment projects.

In 2015, return on equity (ROE) made 14.1%, which was below the value of 2014 (15.4%). The given reduction was due to the following reasons:

1. Reduction of capital multiplier in 2015 from 1.92 to 2.34 or by 17.8%, which was due to reduction of the Company's leverage ratio by 13.3% in 2015.
2. At the very same time, in 2015 return on the Company's assets (ROA) increased, which made 7.3% in 2015 (2014 - 6.6%). The given increase was, first of all, connected with increase in the return on sales from 11.17% (2014) to 12.5% in 2015 or increase by 12%. Increase in return on sales was due to increase in revenue by 7% and operating costs — by 5% (see calculation [a]). Nevertheless, in 2015 insignificant reduction of "assets turnover" from 0.59 (2014) to 0.58 happened in 2015. Assets turnover ratio reduction by 0.5% in 2015 was due to increase in assets by 7.6% and revenue of the Company — by 7.1%. This means that in 2015, assets of the Company increased greater than the Company's revenue over the same period (see calculation [b]).

INCREASE IN REVENUE AND NET PROFIT, %



■ Increase in revenue
■ Increase in net profit

BENEFIT-COST AND EFFICIENCY RATIOS

	2015	2014	% of change
ROE, %	14.06%	15.35%	(8.40)%
[a]			
Return on Sales:	12.50%	11.17%	11.99%
Net Profit, KZT thous.	10,078,630	8,406,171	19.90%
Operating Costs	(70,523,206)	(66,882,996)	5.44%
Revenue, KZT thous.	80,601,836	75,289,167	7.06%
[b]			
Assets turnover:	0.58%	0.59%	(0.47)%
Revenue, KZT thous.	80,601,836	75,289,167	7.06%
Assets, KZT thous.	137,947,490	128,251,644	7.56%

5

RISK MANAGEMENT

*“...Stake on predictable
sustainable development”*

5.1. GENERAL PRINCIPLES OF THE GROUP'S RISK MANAGEMENT

The Group's risk management system is based on international system COSO ERM.

Risk accounting is carried out in the risk register, which is a systemized list of risks and events.

Risks are systemized by the following 4 categories: strategic, operating, financial and legal.

Risk assessment is carried out based on the qualitative method in accordance with approved matrix of risk effect and occurrence probability assessment. After the qualitative assessment, risks are specified on the Map of risks, which is subdivided into several areas designated by different colors: red zone — critical risks, yellow zone — medium risks, green zone — low risks.

Listed below are the risks, prevention of which is under special control of the Group:

- ▶ Implementation of large-scale investment projects;
- ▶ Protection of labour and occupational safety rules;
- ▶ Technological disturbances caused by wear and tear of equipment;
- ▶ Timely payment from consumers;
- ▶ Lawsuits on counterparty claims.

Thanks to preventive measures taken by the Group, neither of the risks of the special control zone approaches the highest rate.

5.2. RISKS AND RISK MANAGEMENT SYSTEM

RISK OF INCREASE OF PRICES FOR STRATEGIC GOODS (RED ZONE)

Risk description: increase of prices for strategic goods (coal, fuel oil, water — for the need of generating organizations; electric power — for the need of energy transmitting and energy sales organizations).

Risk factors:

- ▶ Monopoly (dominating) position of suppliers;
- ▶ Long period of artificial tariff containment and/or termination of tariff containment policy by the state;
- ▶ Termination of governmental programs (quotas) on supplying cheap fuel oil to socially meaningful facilities.
- ▶ Reduction of volumes and/or time of investment programs implementation.

Measures of control:

- ▶ In accordance with the current legislation of the Republic of Kazakhstan, in the event of significant increase in the cost of strategic goods, generating organization may file an application to the Committee on Regulation of Natural Monopolies and Protection of Competition (CRNM and CP) under the Ministry of National Economy of the Republic of Kazakhstan to increase the tariffs for heat and electric power (regulated service) as an extraordinary regulating measure;
- ▶ Marginal tariffs for production, distribution and transmission of electric power were approved for long term period until 2019 for electric power generating and electric power transmitting organizations by the order No.679 of the Minister of Energy dated November 30, 15 (CRNM and CP). Tariffs for electric power are approved with due account for investment programs. In the event of failure to fulfill obligations provided for by the investment program the corresponding response measures may be taken, namely: adoption of compensating tariff to the amount of unauthorized use of funds provided for in the approved tariff card;
- ▶ Participation in governmental programs on supplying cheap fuel oil to socially meaningful facilities.

STRATEGIC RISKS

Investment Risks (Red Zone):

- ▶ Control over execution and authorized use of monetary funds;
- ▶ Optimization of the scheme of mutual settlements with contracting organizations (prepayment ~30%; payment against actually performed work ~60%; payment after warranty period ~10%).

Loss of a Market Share (Red Zone):

- ▶ Market share protection - introduction of an automated control and monitoring system (ACMS), questioning survey, measures for improvement of public service;
- ▶ Monthly monitoring of electric power consumption dynamics by the groups of consumers;
- ▶ Implementation of the plan of actions aimed at liquidation of above-standard electric power losses;
- ▶ Pursuing of a common tariff policy.

Regulating Risks (Yellow Zone):

- ▶ Participation in the governmental support programs;
- ▶ Participation in development of a legislative framework.

Reputational Risks (Yellow Zone):

- ▶ Implementation of the plan of measures aimed at population awareness about activity of the Group;
- ▶ Implementation of the Group's information policy and measures aimed at protection and promotion of values, reputations and interests of the Group in the public space for achievement of strategic objectives;
- ▶ In response to risk situations, measures are taken for protection of the Group's position, namely: immediately over the day from the moment of obtaining information on possible distribution of negative information within public area, information sharing department shall be set up.

OPERATING RISKS

Violation of the Labour Protection and Occupational Safety Rules (Red Zone):

- ▶ Industrial safety examination;
- ▶ Periodic study with passing of exams on electrical installations safe operation rules (EISOR), production equipment safe operation rules (PESOR) and operation and maintenance rules (OMR) in specialized training centers for managers, specialists involved in production, transmission and distribution of electric and heat power and its purchase for the purpose of power supply.

Risks of technological disturbances caused by high rate of wear and tear of equipment (red zone):

- ▶ Implementation of investment program on upgrading and reconstruction of the fixed assets;
- ▶ Current and overhaul repair execution;
- ▶ Equipment examination and testing keeping logs on defects.

Risks of untimely payments by consumers (red zone):

- ▶ Card prepayment control devices;
- ▶ Timely disconnection for debts.

Losses and theft of electric power, corrupt practices and fraud (red zone):

- ▶ Installation of communal and individual electric power consumption metering devices of "1" accuracy class;
- ▶ Reconstruction of electric power transmission lines;
- ▶ Control over receipt, installation and writing off of inventories.

Environmental Risks (Red Zone):

- ▶ Introduction and control over the program of reduction of emissions;
- ▶ Quarterly environmental audit.

FINANCIAL RISKS

Interest Risks (Yellow Zone):

- ▶ Credit financing at fixed interest rates;
- ▶ Attraction of interest-free financial aid from connected parties, if necessary;
- ▶ Interaction with banks and governmental institutions for the purpose of optimization of financial costs (interest rate reduction).

Exchange Risks (Red Zone):

- ▶ Attraction of loans in the national currency.

Inflation Risks (Red Zone):

- ▶ Forecasting and approval of tariffs with due account for inflation changes.

Liquidity Risks (Red Zone):

- ▶ Working capital management: tracking consumer payments; optimization of working conditions with suppliers;
- ▶ Receiving daily information on cash balance from all companies of the Group;
- ▶ Monitoring promptitude in payments;
- ▶ Quarterly monitoring covenants fulfillment;
- ▶ External and internal audit of the Group's companies;
- ▶ An implemented uniform budgeting system of the Group companies and consolidation;
- ▶ Overdrafts attraction.

LEGAL RISKS

Risks of lawsuits on counterparty claims (red zone):

- ▶ Monitoring alterations and/or additions to laws and regulations of the Republic of Kazakhstan, regulating the activities of the Group;
- ▶ Legal examination of the draft agreements to be concluded by the Group;
- ▶ Consideration and discussion of draft agreements by all interested departments.

Risks of violation of antimonopoly, tax and ecological legislation (red zone):

- ▶ Accounting and environmental audits;
- ▶ Monthly control over tariff estimates implementation;
- ▶ Control over observance of legislative requirements.



RISK ASSESSMENT IS CARRIED OUT BASED ON THE QUALITATIVE METHOD IN ACCORDANCE WITH APPROVED MATRIX OF RISK EFFECT AND OCCURRENCE PROBABILITY ASSESSMENT

6

CORPORATE MANAGEMENT

*“...Adherence to the best standards of
business management”*

6.1. CORPORATE MANAGEMENT PRINCIPLES AND STRUCTURE

PRINCIPLES

Corporate management plays an important part in improvement of competitiveness and economic efficiency of the Group. Given below are the most important principles of corporate management:

- ▶ Ensuring a balance between the influence on management decisions , responsibility for the decisions made and interests of corporate relations participants;
- ▶ Setting standards of reasonable and qualified management and proper control;
- ▶ Optimization of production structure and maximum efficiency of the Group's capital usage;
- ▶ Ensuring transparency of financial and economic activity of the Group and accuracy of reporting parameters;
- ▶ Building investors' trust, improving investment climate and increasing the volume, improving structure and quality of investments.

STRUCTURE

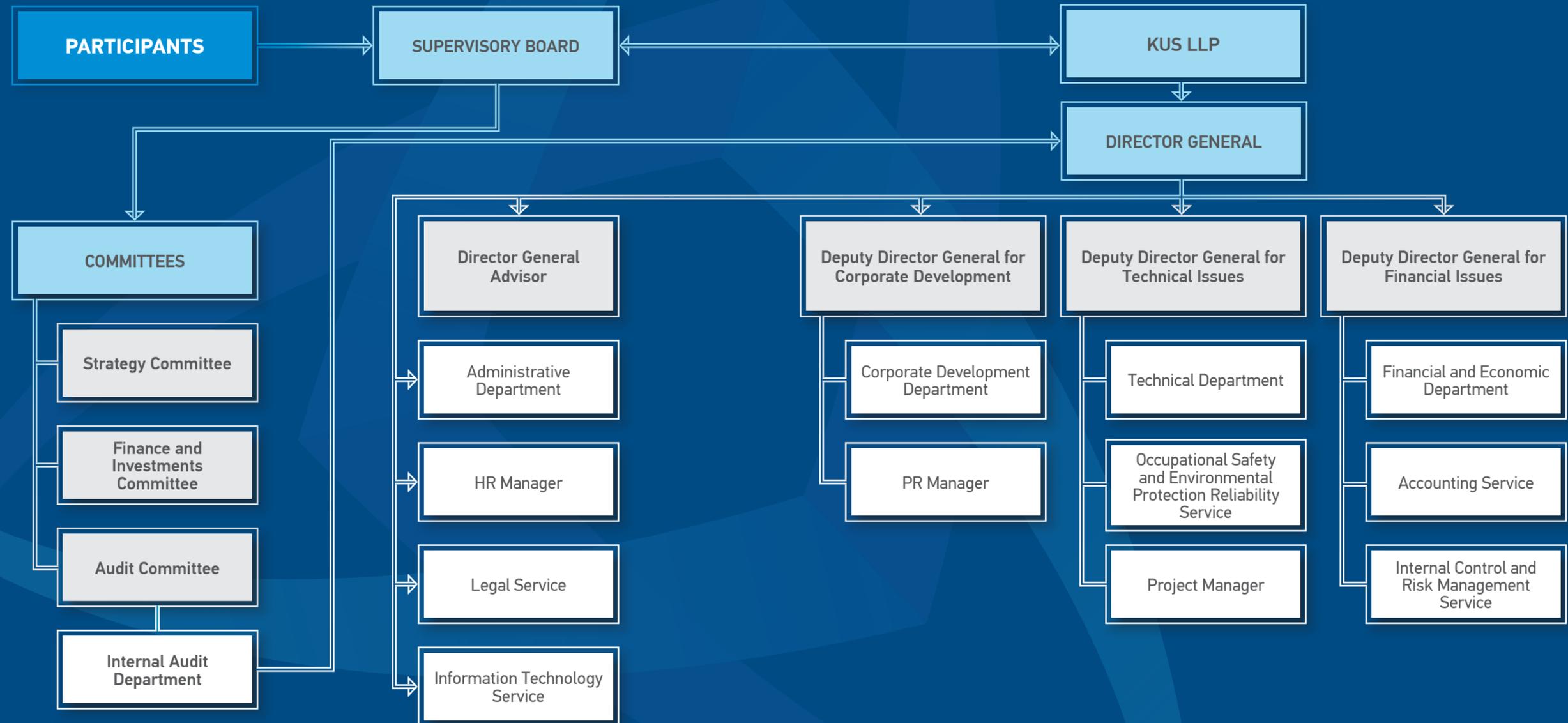
The Group's corporate management structure shall ensure:

- ▶ Protection of participants' rights;
- ▶ Recognition of the interested parties' rights recognized by law;
- ▶ Timely and accurate disclosure of information on all material issues related to the corporation;
- ▶ Effective control over Executive Body by the Supervisory Board as well as its accountability to the KUS participants.

There are four blocks in the structure of the Group: General Meeting of Participants, Supervisory Board and its committees, Executive Body.

General Meeting of Participants — supreme body of KUS that makes decisions on the most important issues of the Group's activity: alteration of the Charter, changes in the authorized capital, official name, formation of Executive Body, preterm termination of its powers, election or termination of the Supervisory Board's activity, approval of financial statements, pledging of the Group's property, etc.

COMPANY'S CORPORATE MANAGEMENT SYSTEM



6.2. SUPERVISORY BOARD

6.2.1. About the Supervisory Board

Supervisory Board of the Group has overall charge of the Group's activity, exercises control over activity of the Group's Executive Body and control over its financial and economic activity. Exclusive terms of reference of the Group's Supervisory Board include the following issues:

- ▶ Determining the priority lines of the Group's activity;
- ▶ Making decisions on conclusion of one or several successive transactions for acquisition and/or alienation by the Group of the property, total cost of which makes twenty-five and more percent of the total book value of all fixed assets belonging to the Group;
- ▶ Determining production and financial policy of the Group in the form of approval of certain financial and production doc-

uments of the Group, financial and production/technical rules and regulations;

- ▶ Determining the size of payment for the auditor services;
- ▶ Other issues provided for by the internal rules of the Group.

Kazakhstan Utility Systems LLP does not pay remuneration to members of the Supervisory Board, but shall pay compensation of travel expenses to the members of the Supervisory Board during the fulfilment of their duties related to execution of the functions of the Supervisory Board members and members of the Committees under the Supervisory Board of the Partnership, in the manner prescribed by the legislation of the Republic of Kazakhstan, on basis of supporting documents (approved by

the minutes of the General meeting of KUS LLP participants as of 02.06.2015).

Objective of the Supervisory Board: control over activity of the Supervisory Board of the Company including ensuring of the Group's interests implementation and protection of the participants' rights, setting the principles and rules of the Group's activity as well as ensuring understanding and observation of the Group's obligations to the participants and other entities. In 2015, meeting of the Supervisory Board was convened and held 9 times.

Strategy Committee makes recommendations on the issues of determining strategic and priority lines of the Group development and assesses perspectives of investment projects and their effect on increase in the value of the Group. Strategy Committee meetings are convened no less than once in half a year.

Finance and Investments Committee is responsible for raising of funds, effective assessment of attracted funds, assessment of investment projects, control over financial and economic activity of the Group. The Committee's meeting is convened no less than once a quarter.

Assignments and Compensations Committee. As of the current date, the Assignments and Compensations Committee has not been established. According to the Charter provisions, the Committee's meeting shall be convened no less than once a quarter.

The Audit Committee is in charge of analysis of the process of the Group's financial statements preparation, analysis of reliability and efficiency of internal control and risk management systems efficiency as well as efficiency and independence of external and internal audit. The Committee's responsibility includes ensuring observance of the current legislation of the Republic of Kazakhstan by the Group.

6.2.2. Members of the Supervisory Board and Its Committees



**Idrisov
Dinmukhamet Appazovich**

Chairman of
the Supervisory Board

Date of birth: December 29, 1964

- ▶ February 6, 2014 — present time: Chairman of the Supervisory Board of Kazakhstan Utility Systems LLP;
- ▶ April 1, 2010 — present time: Chairman of the Supervisory Board of Ordabasy Group LLP.



**Kanafin
Askar Akhilbekovich**

Member of the Supervisory Board,
Member of Strategy Committee

Date of birth: November 27, 1972

- ▶ February 6, 2014 — present time: Member of the Supervisory Board of Kazakhstan Utility Systems LLP;
- ▶ November 1, 2013 — present time: Chairman of the Management Board of Ordabasy Group LLP;
- ▶ September 2006 — January 2012: Director General of Resmi Group of Companies JSC;
- ▶ August 1, 2005 — August 31, 2012: Member of the Supervisory Board of Innova Investment LLP;
- ▶ May 3, 2004 — August 31, 2012: Member of the Board of Directors of Resmi Investment Finance House JSC.



**Salimova
Assiya Moldabayevna**

Member of the Supervisory Board;
Chairman of Audit Committee

Date of birth: October 13, 1970

- ▶ February 6, 2014 — present time: Member of the Supervisory Board of Kazakhstan Utility Systems LLP;
- ▶ November 20, 2013 — present time: Deputy Chairman of the Management Board — Compliance Director of Ordabasy Group LLP;
- ▶ November 1, 2006 — February 1, 2013: Finance Director of Kazfarm LLP.



**Karimullin
Askar Amangeldiyevich**

Member of the Supervisory Board;
Chairman of Finance and Investments
Committee; Member of Strategy
Committee

Date of birth: December 27, 1976

- ▶ October 9, 2015 — present time: Member of the Supervisory Board of Kazakhstan Utility Systems LLP;
- ▶ September 7, 2015 — present time: Deputy Chairman of the Management Board — Finance Director of Ordabasy Group LLP;
- ▶ February 28, 2014 — September 29, 2015 — Deputy Chairman of the Management Board; Member of the Management Board of Kazyna Capital Management JSC;
- ▶ April 2011 — January 2012 — Director of Financial Assets Management of Samruk-Kazyna SWF JSC.



**Bokenbayev
Zhakyp Kuttybekovich**

Independent Member of the
Supervisory Board

Date of birth: January 7, 1969

- ▶ February 6, 2014 — independent member of the Supervisory Board of Kazakhstan Utility Systems LLP;
- ▶ September 2013 — present time: chairman of the Management Board of Institute of Electric Power Generation and Supply Development JSC (Kazakhenergoexpertiza) under the Ministry of Investments and Development of the Republic of Kazakhstan;
- ▶ June 2010 — September 2013: Director of Electrical Energy and Coal Industry Department of the Ministry of Industry and New Technology of the Republic of Kazakhstan.

Members of the Supervisory Board's Committees:

AUDIT COMMITTEE

**Salimova
Assiya Moldabayevna** —
Chairwoman of the Committee;

**Nurmukhambetova
Lazzat Tuleukhanovna** —
Member of the Committee;

**Ussenko
Vladimir Ivanovich** —
Member of the Committee;

**Baizhanov
Dinmukhamed Orynbassarovich** —
Member of the Committee.

STRATEGY COMMITTEE

**Idrisov
Dinmukhamet Appazovich** —
Chairman of the Committee;

**Kanafin
Askar Akhilbekovich** —
Member of the Committee;

**Aitzhanov
Nabi Yerkinovich** —
Member of the Committee;

**Karimullin
Askar Amangeldiyevich** —
Member of the Committee.

FINANCE AND INVESTMENTS COMMITTEE

Karimullin Askar Amangeldiyevich —
Chairman of the Committee;

Bokenbayev Zhakyp Kuttybekovich —
Member of the Committee;

Suzhikova Zhuldyz Bakhytovna —
Member of the Committee;

**Nurmukhambetova
Lazzat Tuleukhanovna** —
Member of the Committee;

Muratova Saule Malikaidarovna —
Member of the Committee.



6.3. EXECUTIVE BODY

6.3.1. About the Executive Body

Executive Body of the Group is headed by the Director General who is accountable to the participants and acts on behalf and for the benefit of the Group and makes decisions on the current issues of the Group's activity save for those that are included in the terms of reference of the General Meeting of Participants.

Director General represents interests of the Group, manages its property and funds, concludes agreements (contracts)

including labour ones, issues powers of attorney, opens current and other accounts with banks, approves manning table and issues orders and instructions binding upon all employees of the Group.

Remuneration to the members of the executive body represented by the Director General of Kazakhstan Utility Systems LLP for 2015 amounted to 33 924 thousand Tenge (in the form of wages according to the manning table).

6.3.2. Director General and Deputies



**Aitzhanov
Nabi Yerkinovich**

Director General

Date of birth: September 11, 1980

- ▶ April 12, 2010 — present time: Director General of Kazakhstan Utility Systems LLP;
- ▶ 2008 — April 2010 — Director General of Ontustik Zharyk Tranzit LLP;
- ▶ 2006–2008 — Director of Energosbyt LLP;
- ▶ 2005–2006 — Deputy Director, Director of Energopotok LLP.



**Ussenko
Vladimir Ivanovich**

Deputy Director General
for Technical Issues

Date of birth: June 7, 1960

- ▶ January, 2010 — present time: Deputy Director General for Technical Issues of Kazakhstan Utility Systems LLP;
- ▶ January, 2009 — January 2010 — Head of the Corporate Management Department of Kazakhstan Utility Systems LLP;
- ▶ June 2008 — September 2008 — Head of Power Stations Department of Kazakhstan Utility Systems LLP;
- ▶ September 2003 — March 2008 — Senior Dispatcher of the Regional Dispatching Control Center of KEGOC JSC — Almaty Inter-regional electric networks.

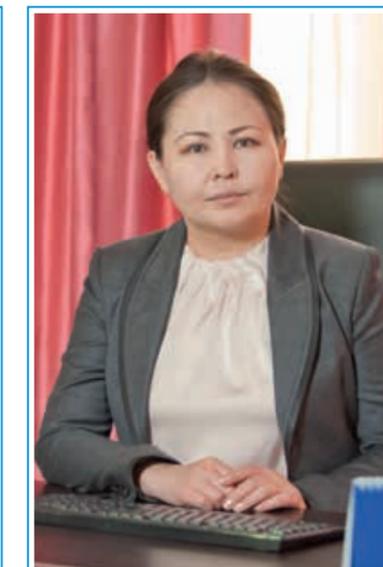


**Nurmukhambetova
Lazzat Tuleukhanovna**

Deputy Director General
for Financial Issues

Date of birth: February 28, 1973

- ▶ January 2011 — present time: Deputy Director General for Financial Issues of Kazakhstan Utility Systems LLP;
- ▶ November 11 2008 — January 2011 — Chief Accountant of Kazakhstan Utility Systems LLP;
- ▶ October 2007 — November 2008 — Chief Accountant of Kazakhstan Utility Systems JSC;
- ▶ 2006 — October 2007 — Head of Business Accounting Office of the Department of Accounting and Reporting of Halyk Bank Retirement Savings Plan JSC.



**Muratova
Saule Malikaidarovna**

Deputy Director General
for Corporate Development

Date of birth: May 27, 1974

- ▶ March 2015 — June 2016 — Deputy Director General for Corporate Development of Kazakhstan Utility Systems LLP;
- ▶ December 2013 — March 2015 — Head of Mergers and Acquisitions Transactions Office of Asyl-Invest LLP;
- ▶ August 2009 — December 2012 — Senior Analyst of the Corporate Finance Department of Verny Investments Holding LLP;
- ▶ August 2005 — July 2009 — Manager — Transaction Advisory Services (TAS) Ernst & Young.

SOCIAL RESPONSIBILITY AND ENVIRONMENTAL PROTECTION

*“...Creating value
for kazakhstani people”*

7.1. GENERAL PRINCIPLES OF SOCIAL POLICY

- ▶ The Group consists of 8 companies totally accounted for 7.3 thousand jobs.
- ▶ The Group operates in two regions of the country.
- ▶ The Group's responsibility to personnel of its companies consists of ensuring stable and competitive level of salary, establishing decent and safe labour conditions, professional growth opportunities as well as help to vulnerable social groups.
- ▶ The Group's companies supply heat, a social commodity, on uninterrupted supply of which depends vital activity both of households and social sector organizations, public and private companies.
- ▶ Generating facilities of KUS use coal and fuel oil as fuel and, therefore, they realize responsibility for environmental situation in the region where electric power plants of the Group are located.
- ▶ The Group's environmental policy is based on understanding of the need for uninterrupted mitigation of negative environmental effect. This objective is achieved through implementation of environmentally friendly and safe technologies of electric power generation and transmission, supply and improvement of the Group's environmental protection management efficiency.

7.2. SOCIAL POLICY OF THE GROUP

Set of tools of the Group's social policy is quite extensive and includes both measures of direct material support of employees and compensation of their expenses on meals and transportation and partial reimbursement of sanatorium-resort therapy cost and vouchers for their kids to summer health camps.

Payment of bonuses on certain national holidays as well as on a professional holiday Power Engineers' Day, is common.

Social policy of the Group provides for financial support of charity funds as well as bonuses to veterans of the Great Patriotic War.

Tools (Measures) of Social Policy Implemented by the Group's Companies

KAZAKHSTAN UTILITY SYSTEMS LLP

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. Mandatory insurance of the employer's responsibility to the employees; 2. Voluntary health insurance of employees; 3. Payment of bonus on Power Engineers' Day; | <ol style="list-style-type: none"> 4. Welfare assistance (on a jubilee day, in connection with disease, on retirement, compensation of sanatorium-resort therapy vouchers at the rate of 50%, etc.); 5. Compensation of meals/cellular communication costs; 6. Training, advance training of personnel. |
|--|--|

KARAGANDA ENERGOCENTER LLP

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Personnel training and retraining; 2. Training of officials and workers involved in dangerous production in the field of industrial safety in accordance with the rules of knowledge examination on the issues of safety and labour protection; 3. Mandatory training and retraining of professional electric and gas welders; 4. Advance training in the field of metrology; 5. Training on standards and certificates; 6. Training — specialized training courses on the use of network disc; 7. Advance training in the field of ecology — new aspects of legislation development in the field of environmental protection; 8. Decreed group of population training in the field of hygiene; 9. Retraining and advance training of specialists of financial system; advance training of business accounting specialists; | <ol style="list-style-type: none"> 10. Rendering of a lump sum welfare assistance to veterans of the Great Patriotic War and homefront workers on the Victory Day on May 9th, celebration and charity assistance to the Board of Veterans; 11. Participation in arranging for and holding of Nauryz holiday celebration; 12. Arranging for and ensuring of set meals for employees of CHPP-1 and CHPP-3 at knockdown prices. 13. Availability of free-of-charge dentist's office at CHPP-3; 14. Rendering of free-of-charge medical services to employees of the company; 15. Discounted passenger fare for employees of Karaganda CHPP-1 and CHPP-3 for approved transportation routes within the city boundaries in the main districts of the city; 16. Payment of insurance coverage; 17. Welfare assistance paid on the International Day of Senior Citizens. |
|--|---|

KARAGANDY ZHARYK LLP

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Payment of educational leaves; 2. Partial compensation of the cost of heat power consumed by employees; 3. Payment of welfare assistance to employees; | <ol style="list-style-type: none"> 4. Additional payment to employees residing in Karkaralinsk district of Karaganda Region; 5. Paid social leaves (in the event of marriage registration of employees, marriage of employee's children, birth of children, etc.). |
|---|--|

ONTUSTIK ZHARYK TRANZIT LLP

- | | |
|---|---|
| <ol style="list-style-type: none"> 1. Mandatory insurance of the employer's responsibility to the employees; 2. Mandatory annual medical examination of employees; 3. Payment of bonus on the Day of Powerman (Power Engineering); | <ol style="list-style-type: none"> 4. Welfare assistance (on a jubilee day, in connection with disease, on retirement, compensation of sanatorium-resort therapy vouchers at the rate of 50%, etc.); 5. Recreative and sports events arranging and holding through trade union committee. |
|---|---|

KARAGANDYZHYLUSBYT LLP

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. Mandatory social insurance and insurance of civil liability for harm caused to life and health of employees in the course of discharge by them of their job duties; 2. Training only on the corresponding specialties; 3. Payment of an annual bonus on Power Engineers' Day celebration; | <ol style="list-style-type: none"> 4. Bonus payment on the 8th of March (International Women's Day) celebration; 5. Employees vaccination against flue; 6. Annual medical examinations. |
|--|--|

RASCHETNYI SERVISNYI CENTER LLP

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Mandatory insurance of employees against occupational accidents that may happen in the course of discharge of their labour (service) duties; 2. Discounted rate of payment for electric power granted to the veterans of the Great Patriotic War (annual volume at the rate of 120 kWh per veteran); | <ol style="list-style-type: none"> 3. Bonus payment on the 8th of March (International Women's Day) celebration; 4. Payment of bonus on Power Engineers' Day; 5. Payment for seminars; 6. Charity assistance to the Fund of Assistance to People Suffered from Flood in Karaganda region. |
|--|---|

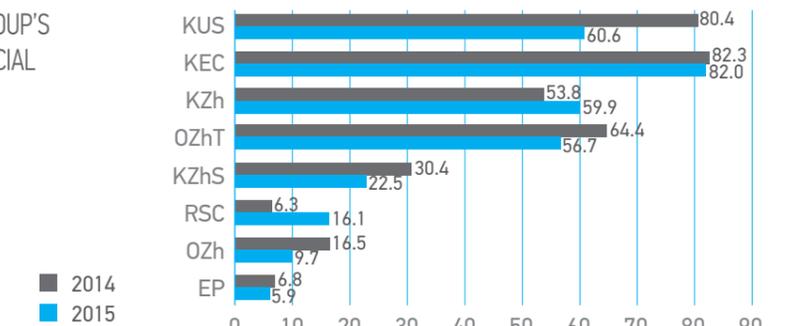
ONTUSTIK ZHARYK LLP

- | | |
|---|---|
| <ol style="list-style-type: none"> 1. Mandatory insurance of employees against occupational accidents that may happen in the course of discharge of their labour (service) duties; 2. Free of charge passenger fare for transportation by bus in winter time; 3. Welfare assistance by trade union committee in connection with death of a close relative or birth of the first child of an employee, etc.; 4. Coverage of 50% of sanatorium-resort therapy cost by trade union committee (only for the members of the trade union); 5. Payment of vouchers to health camps (together with trade union committee — only for the members of trade union); | <ol style="list-style-type: none"> 6. New year celebration gifts, gifts on the 8th of March celebration, gifts on Nauryz celebration (by trade union committee); 7. Medical examination cost paid by the employer; 8. Bonus payment on the 8th of March (International Women's Day) celebration; 9. Organizational arrangements for Power Engineers' Day celebration; 10. Discounts on payment for consumed electric power (30 kW are free of charge) granted to the Great Patriotic War; 11. Personnel training and retraining at the expense of the employer. |
|---|---|

ENERGOPOTOK LLP

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Arranges training and advance training of personnel; 2. Lump sum payments, namely: incentive payments in connection with celebration of holidays (8th of March, Power Engineers' Day), jubilee dates, retirement of employees, other payments (from net income of the company); 3. Bonus payment in the event of achieving by employees of high performance results and perfect discharge of their job duties; | <ol style="list-style-type: none"> 4. Mandatory insurance of employees against occupational accidents that may happen in the course of discharge of their labour (service) duties; mandatory social insurance of employees (sick leave payment); 5. Medical examination of all employees of the company is carried out annually at the expense of the company. |
|---|--|

TOTAL AMOUNT OF FUNDS SPENT BY THE GROUP'S COMPANIES WITHIN THE FRAMEWORK OF SOCIAL POLICY IMPLEMENTATION, KZT mln



From year to year the Group pays even closer attention to development of its social policy and carries out an active charity activity rendering assistance to poor people, orphans, veterans of the Great Patriotic War (GPW), veterans of military actions in Afghanistan, liquidators of Chernobyl NPP disaster as well as veterans of labour and pensioners previously working in power engineering industry.

Prior to the Victory Day, the Group arranges for holiday celebration and renders targeted support to veterans of the Great Patriotic War, internationalist soldiers and liquidators of Chernobyl NPP disaster. Many of veterans are provided with opportunity to install electric power metering devices free of charge as a gift.

7.3. HUMAN RESOURCES MANAGEMENT POLICY

HUMAN RESOURCES MANAGEMENT POLICY PRINCIPLES

HR policy of the Group is based on the principles ensuring reliability of interaction and functioning of all subsidiaries by means of effective management of human resources capable of achieving strategic objectives and tasks of the Group.

Human resources management policy determines rights and liabilities of employees and management of the Group, main requirements to labour discipline, development and implementation of personnel development programs; it regulates employees labour remuneration conditions, employment procedure, career advancement and position change. It also establishes responsibility for violation of the given policy and also allows for professional assessment of employees and their motivation.

Administrative Department is an authorized body of KUS coordinating labour relations with personnel and developing human resources policy. The department's objective consists in participation in ensuring success of the Group by means of implementation of strategies aimed at involvement, retaining, motivation and development of highly professional employees.

Production of electric and heat energy is connected with risks and, therefore, the Group sets high requirements to professional and moral qualities of employees as well as to strict observance of discipline, rules and standards of labour protection.

The Group is interested in involvement of highly qualified purposeful employees capable of working as a part of team, solving of new and substandard problems and ready for improvement of their professional skills.

Involvement of young specialists that have successfully graduated from higher education institutions is of special interest for the Group.

Being a responsible employer and acting in accordance with applicable provisions of the current legislation of the Republic of Kazakhstan, the Group takes care about ensuring the corre-

Close attention is paid to support of orphanages that are supported materially within the Children's Day celebration on an annual basis. In 2012, Karaganda companies of the Group took Kulyshak orphanage under their patronage and made pet's corner complex specially for children with problems with locomotive system.

In 2010, Karaganda EnergoCenter LLP allocated KZT 63 mln to the Shapagat-Karagandy Social Initiative Fund for construction of a new mosque.

Many employees of the Company render assistance to the needy people through Red Crescent charity organization.

sponding labour conditions and social wellbeing of its employees and aspires to provide opportunity for career development and fulfillment of personal potential of each employee.

Therefore, the following defining principles form the basis of the Group's personnel management system:

- ▶ Involvement of all management echelons in the process of personnel management; building the system of teaching principles and methods of personnel management to managers; development of documents on work with personnel for managers of all levels;
- ▶ Selection, appointment and nomination of employees based on professional, business and psychological qualities on the basis of objective assessment of their activity;
- ▶ Reasonable combination of internal and external resources upon filling the vacancies;
- ▶ Creation of conditions for professional and personal development of employees;
- ▶ Improvement of living standards of employees and their family members; setting-up the system of social and labour guarantees improving current status of the Group's employees forming awareness of corporate affiliation and improving its attractiveness;
- ▶ Creation of a favorable psychological climate in the Group's companies;
- ▶ Implementation of modern personnel management technologies and computerization of personnel management processes to the maximum possible extent;
- ▶ Flexible, dynamic development of human resources management policy adequately meeting the current interests of the Group;
- ▶ Formation of the Group's positive image.

HUMAN RESOURCES MANAGEMENT POLICY PRINCIPLES IMPLEMENTATION

Efficiency of energy generating and distributing companies' activity is, to a large extent, determined by qualification of employees and their professionalism, therefore, all companies pursue an active human resources management policy.

Currently, highly qualified personnel work for every subsidiary of the Group. They constantly improve their professional skills and master new and advance methods and techniques in the sphere of energy to be able to render professional services to consumers.

Highly qualified specialists make the personnel of the Group's companies. They are able to pass their invaluable experience on to new generation of employees. There are approximately 100 honored power engineers of Kazakhstan and CIS among the leading research officers of the company.

Over the period of 2010 through 2013, programmers, economists, accountants and lawyers of the Group's companies underwent advance training for improvement of their qualification at the special courses, seminars and trainings in the following fields: taxes and business accounting, planning and budget development, legal practice, analysis of financial statements, the legislation on competition of the Republic of Kazakhstan, IFRS, effective conflict-free communication, training of internal auditors of integrated management system based on requirements of international standards ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007 and many others.

"KARAGANDA ENERGOCENTER" LLP CASE

In 2015, in Karaganda EnergoCenter LLP only 883 employees underwent training under the training and advance training

program including: 633 representatives of production personnel and 250 representatives of engineering and technical staff.

Agreements for training and retraining of personnel in 2015 were concluded with the following educational institutions:

Spetspromobrazovaniye LLP — 438 people to the amount of KZT 2,068,667.00 for the mandatory personnel training and retraining services;

Spetspromobrazovaniye LLP — 392 people — KZT 1,897,950.00 for industrial safety training of officials and workers involved in dangerous production in accordance with the rules of knowledge examination on the issues of safety and labour protection.

Karagandaenergoremont JSC — 21 people (KZT 513 thousand) — certified electric and gas welders;

Kazakhstan Center for Training and Consulting Services LLP, Scientific and Technical Center for Standardization and Certification LLP — 4 people (KZT 200 thous.) — metrologists;

Training Attache LLP — 2 people (KZT 180 thousand) — ecologists;

Fast Lane Kazakhstan LLP — 1 person (KZT 240 thousand) — network disc use training at specialized training courses;

GIO TRADE LLP — 18 people (KZT 8,748.00) — training of decreed group of population in the field of hygiene;

Financial System Bodies' Specialists Training and Advance Training LLP under the Republic of Kazakhstan Ministry of Finance, Nurikon Company, Cisco LLP — 5 people (KZT 2,014,689.00) — advance training of financial accounting specialists.



THE GROUP SETS HIGH REQUIREMENTS TO PROFESSIONAL AND MORAL QUALITIES OF EMPLOYEES AS WELL AS TO STRICT OBSERVANCE OF DISCIPLINE, RULES AND STANDARDS OF LABOUR PROTECTION

7.4. HEALTH AND LABOUR SAFETY

Management of the Group considers introduction of measures aimed at protection of labour, protection of health and ensuring safety of employees as an integral part of its activity and paramount obligation of managerial personnel at all levels.

From the moment of the Group foundation, amount of funds annually allocated to labour protection and occupation safety has been growing constantly.

The Group set the following tasks to itself in the field of occupational safety and labour protection:

- ▶ Creation of healthy and safe labour conditions at each workplace;
- ▶ Reduction of the occupational accidents level;
- ▶ Reduction of the occupational diseases incidence level.

For the purpose of achievement of the above specified objectives, Security Service, Occupational Safety, Civil Defense and Emergency Response Services were established by each company of the Group. These services carry out their activity in accordance with the current legislation of the Republic of Kazakhstan as well as provisions of regulating and guidance materials on the issues of occupational safety and labour protection, system of occupational safety standards, common and industry rules of safety in different spheres of industrial activity, rules and means of control over compliance of technical condition of equipment with the requirements of safe work execution, rules, requirements, instructions and other regulatory legal acts of labour protection and occupational safety.

Every subsidiary has developed its internal code of occupational safety and labour protection practices. Nevertheless, principle of employees' life and health priority over the results of production activity is the only and main principle for all companies of the Group.

7.5. ENVIRONMENTAL PROTECTION

For the population of the KUS activity areas, the Group is not only a supplier of socially meaningful services of high quality but also a guarantor of preservation of the existing ecological equilibrium.

CONTROL

Power generation sector represented by Karaganda Energo-center LLP concludes agreement for mandatory environmental insurance in accordance with the provisions of the Article 107 of Kazakhstan Environmental Code on an annual basis.

Independent accredited laboratories constantly conduct monitoring of the following parameters:

- Atmospheric air — at the boundary of sanitary protection zone of CHPP and ash disposal areas;
- Ash disposal area — monitoring of the secondary land pollution;
- Potable and delivery water — monitoring of water quality;
- Ash disposal wastes, fuel oil and coal — monitoring of radiation background.



**POWER GENERATION
SECTOR REPRESENTED BY
KARAGANDA ENERGO-CENTER
LLP CONCLUDES AGREEMENT
FOR MANDATORY
ENVIRONMENTAL INSURANCE**

EMISSION OF ASH AND OTHER POLLUTANTS BY KARAGANDA CHPP-1 AND CHPP-3 OVER THE PERIOD OF 2014–2015.
(by Quarters), mg/nm³

	2014											
	1 st Quarter			2 nd Quarter			3 rd Quarter			4 th Quarter		
	Ash	NO _x	SO ₂									
Karaganda CHPP-1												
BKZ-50 St. No.1	188	170	615							154	162	597
BKZ-50 St. No.2	187	148	545							173	153	529
BKZ-50 St. No.3	150	157	429							174	152	541
BKZ-50 St. No.4	189	156	485							175	156	542
BKZ-50 St. No.5	180	164	510							163	153	551
Average	178.8	159	516.8							167.8	155.2	552
PTVP-100 St. No.1										154	50	395
PTVP-100 St. No.2	154	51	398							174	51	409
PTVP-100 St. No.3	1,125.6	50	435									
Average	639.8	50.5	416.5							164	50.5	402
Karaganda CHPP-3												
BKZ-420 St. No.1	253	512	430	312	531	512	284	612	541	312	685	541
BKZ-420 St. No.2	3,284	342	572	3,215	541	721	2,854	612	745	2,810	692	801
BKZ-420 St. No.3	3,120.5	471	684	3,457	571	712	2,854	512	755	3,120	624	935
BKZ-420 St. No.4							256	504	577	284	610	717
Average	2,219	442	562	2,328	548	648	1,562	560	655	1,632	653	749
BKZ-420 St. No.5	389	427	513	402	431	696	415	475	622	395	541	710
BKZ-420 St. No.6	393	457	847	428	508	693	412	600	845	406	612	1,063
BKZ-420 St. No.7	412	510	645	437	586	711	427	658	847	433	663	978
Average	398.0	464.7	668.3	422.3	508.3	700.0	418.0	577.7	771.3	411.3	605.3	917.0
2015												
Karaganda CHPP-1												
BKZ-50 St. No.1	200	186	945							204	252	947
BKZ-50 St. No.2	198	192	910							193	250	977
BKZ-50 St. No.3	198	175	760							188	257	1,071
BKZ-50 St. No.4	197	246	670							221	260	1,028
BKZ-50 St. No.5	201	171	815							236	135	763
Average	198.8	194	820							208.4	230.8	957.2
PTVP-100 St. No.1	199	67	985									
PTVP-100 St. No.2												
PTVP-100 St. No.3	1,326	58	881							217	175	651
Average	762.5	62.5	933							217	175	651
Karaganda CHPP-3												
BKZ-420 St. No.1	277	582	675	330	592	735				316	514	513
BKZ-420 St. No.2	3,233	507	710	3,108	486	623				3,217	536	506
BKZ-420 St. No.3	3,103	569	714				296	489	604	301	567	504
BKZ-420 St. No.4	321	474	630				306	477	610	288	557	517
Average	1,734	533	682	1,719	539	679	301	483	607	1,031	544	510
BKZ-420 St. No.5	339	606	875	348	609	706				402	562	618
BKZ-420 St. No.6	381	523	747	346	572	626	364	463	615	379	486	514
BKZ-420 St. No.7	388	751	872	370	545	868	371	491	612	420	669	703
Average	369	627	831	355	575	733	368	477	614	400	572	612

ACTIONS

For the purpose of environment in Karaganda Region and prevention of negative effect on environment, Karaganda Energo-center LLP carries out the following activities:

- Annual removal of ash and slag wastes from ash damp of Karaganda CHPP-1 (for reclamation of disturbed land of Karagandaugol PA);
- Repair and quarterly manipulation and calibration tests of dust extraction plants of CHPP-1 and CHPP-3;
- Landscape and shade gardening of ash damp and industrial sites.

On September 10, 2010, Karaganda Energo-center LLP received certificate of compliance with requirements of RK ST ISO 14001–2006 “Environmental Management Systems. Requirements”.

The leading engineer of Karaganda Energo-center LLP analyses the reports on accounting of environmental emissions, water consumption and removal as well as on positioning, burial and elimination of production wastes submitted by CHPP-1 and CHPP-3 for reliability, completeness and compliance with the current instructions on a monthly basis.

Environmental control is carried out at CHPP-1 and CHPP-3 on a quarterly basis, in the course of which reports of the stations are inspected. Additionally, an independent accredited organization conducts audit of ISO international standards’ requirements on an annual basis. In the course of the audit, all reports are inspected and data are verified against business accounting data. In accordance with the Republic of Kazakhstan environmental legislation, an independent third-party accredited organization carries out verification and validation of greenhouse gases emission reports on an annual basis.

All subsidiary companies of the Group take measures for prevention or restriction of direct or indirect effect on environment by atmospheric pollutants emission and wastewater discharge into water bodies.

Operation of electrical installations, industrial equipment, motor vehicles and special mechanisms is carried out in accordance with set sanitary norms and environmental protection requirements.

Exhaust and waste water is discharged into sewerage system and industrial activity wastes are removed into special places for their elimination and burial.

Oil catchers and receivers are operated at the substations with oil-immersed equipment.

RESULTS

The taken measures lead to reduction of dynamics of environmental pollution. For example, over the recent years Karaganda Su LLP has substantially reduced emission of pollutants into water bodies due to the measures aimed at reconstruction of the main structures and implementation of new air-stripping system “Polipor” in aeration tanks ensuring improved treatment of waste waters.

At every stage of the production process, the Group makes every effort for minimization of negative impact on environment preserving its cleanness and primevalness of nature for the future generations.

The leading engineer of Karaganda Energo-center LLP analyses the reports on accounting of environmental emissions, water consumption and removal as well as on positioning, burial and elimination of production wastes submitted by CHPP-1 and CHPP-3 for reliability, completeness and compliance with the current instructions on a monthly basis.

PART PLAYED BY SOCIETY

Upon development and approval of environmental protection projects, public hearings are arranged for and held in accordance with the requirements of the current legislation of the Republic of Kazakhstan. Opinions on the projects take into account the remarks given as the result of hearings both by population and interested governmental authorities.

Complaints of neighbors and local governmental authorities are registered by Karaganda prosecutor’s office without fail and controlled till complete elimination of detected negative effect and its consequences.

7.6. CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) makes an integral part and very important component of the Group’s activity.

This is, first of all, due to the fact that life quality in the regions of KUS operation is determined, to a great extent, by quality of products manufactured by the company.

PRINCIPLES

The Group’s CSR principles are as follows:

- ▶ High quality of rendered services being ultimately an earnest of an active social and economic development of the regions of the Group activity;
- ▶ Fair and timely labour remuneration to the company’s employees as well as ensuring safe labour conditions and

also all conditions necessary for career development, personal and professional development of each employee;

- ▶ Responsibility for preservation of environment to the government and society on the whole.

CSR principles are observed in all business processes of the Group and make an integral part of business planning and indispensable tool for prevention of off-normal and conflict situations.

The Group tends to conduct transparent open business and faultlessly observe applicable provisions of the current legislation of the Republic of Kazakhstan as well as those of international standard CSR.



THE GROUP TENDS TO CONDUCT TRANSPARENT OPEN BUSINESS AND FAULTLESSLY OBSERVE APPLICABLE PROVISIONS OF THE CURRENT LEGISLATION OF THE REPUBLIC OF KAZAKHSTAN AS WELL AS THOSE OF INTERNATIONAL STANDARD CSR

CONSOLIDATED FINANCIAL STATEMENTS

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STATEMENT BY THE MANAGEMENT ON RESPONSIBILITY FOR PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015.

Management is responsible for preparation of consolidated financial statements containing fair presentation of financial standing of Kazakhstan Utility Systems Limited Liability Partnership and its subsidiaries (hereinafter referred to as the Group) as of December 31, 2015, as well as consolidated results of its activity, cash flow and changes in equity for the year ended on this date in accordance with the International Financial Reporting Standards (hereinafter referred to as the IFRS).

Upon preparation of consolidated financial statements, management bears responsibility for:

- Correct selection and application of business accounting principles;
- Presentation of information including the data on accounting policy in the form ensuring adequacy, reliability, comparability and understandability of such information;
- Disclosure of additional information in the events when observance of IFRS requirements turns out to be insufficient for understanding by the users of the statements of the effect that some transactions or others as well as other events or conditions exert on consolidated financial standing and consolidated financial results of the Group activity; and
- Assessment of the Group ability to continue activity in the foreseeable future.

Management is also responsible for:

- Development, implementation and maintenance of an effective and reliable system of internal control in all companies of the Group;
- Keeping records in the form allowing for disclosure and explanation of the Group's transactions as well as presentation of information of sufficient accuracy at any time on consolidated financial standing of the Group and allowing for ensuring compliance of consolidated financial statements with IFRS standard requirements;
- Maintaining accounting records in accordance with the applicable provisions of the Republic of Kazakhstan current legislation and with provisions of the IFRS;
- Taking all possible reasonable measures aimed at safekeeping of the Group's assets; and
- Identification and prevention of the facts of financial and other misuses.

Consolidated financial statements of the Group for the year ended on December 31, 2015 were approved by the management on May 6, 2016.

On behalf of the Management of the Group:



N.Y. Aitzhanov
Director General
May 6, 2016
Astana, Kazakhstan

L.T. Nurmukhambetova
Financial Director
May 6, 2016
Astana, Kazakhstan

INDEPENDENT AUDITOR REPORT

To the participants of Kazakhstan Utility Systems Limited Liability Partnership:

We have conducted audit of consolidated financial statements of the Limited Liability Partnership Kazakhstan Utility Systems (hereinafter referred to as the Company) and its subsidiaries (hereinafter jointly referred to as the Group) consisting of consolidated statement of financial standing as of December 31, 2015 and consolidated statements on income and loss and other aggregate income, on cash flows and on changes in equity for 2015 as well as notes consisting of the main provisions of the accounting policy and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's management bears responsibility for preparation and reliability of the given consolidated financial statements in accordance with the provisions of the International Financial Reporting Standards, as well as for the internal control system that the management may consider necessary for preparation of consolidated financial statements, which do not contain any material misstatements resulting from unfair acts or errors.

AUDITOR'S RESPONSIBILITY

Our responsibility consists in expression of an opinion on reliability of the given consolidated financial statements based on the results of conducted audit. We have conducted audit in accordance with International Audit Standards. These standards

require observance by auditors of ethic rules as well as planning and carrying out of audit in such a way that gives sufficient reasonable assurance that the audited consolidated financial statements do not contain any material misstatements.

Audit includes the measures aimed at obtaining audit evidences confirming figures specified in the consolidated financial statements and information disclosed therein. Selection of procedures depends on professional judgment of auditor, including assessment of risk of material misstatement of consolidated financial statements because of unfair acts or errors. In the course of those risks assessment, auditor considers the system of internal control over preparation and accuracy of consolidated financial statements in order to develop adequate audit procedures, but not for the purpose of expression of opinion on efficiency of internal control system. Audit also includes assessment of adequacy of applied accounting policy and justification of accounting valuations made by the management as well as assessment of presentation of the consolidated financial statements on the whole.

We believe that audit evidences obtained by us are sufficient and adequate for expression of our opinion.

OPINION

In our opinion, the enclosed consolidated financial statements fairly presents in all material aspects consolidated financial standing of the Group as of December 31, 2015 as well as its consolidated financial results and cash flows for 2015 in accordance with the International Financial Reporting Standards.

CONSOLIDATED STATEMENT OF INCOME AND LOSS AND OTHER AGGREGATE INCOME FOR THE YEAR ENDED DECEMBER 31, 2015. (KZT thous.)

	Notes	2015	2014
Revenue	6	80,601,836	75,289,167
Cost of sales	7	(55,970,113)	(52,019,953)
Gross Profit		24,631,723	23,269,214
Administrative expenses	8	(5,276,165)	(4,955,336)
Selling expenses	9	(1,574,792)	(1,449,764)
Finance costs	10	(2,397,817)	(3,369,382)
Finance income		212,444	112,797
Foreign exchange loss	25	(2,646,249)	(2,018,938)
Other income, net		331,881	54,377
PROFIT BEFORE INCOME TAX EXPENSE		13,281,025	11,642,968
Income tax expenses	11	(3,202,395)	(3,236,797)
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		10,078,630	8,406,171

On behalf of the Management of the Group:



N.Y. Aitzhanov
Director General
May 6, 2016
Astana, Kazakhstan

L.T. Nurmukhambetova
Financial Director
May 6, 2016
Astana, Kazakhstan

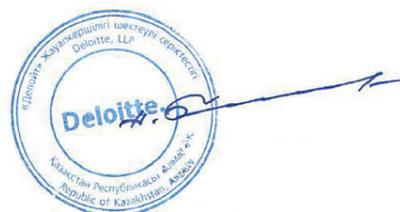


Olga Belonogova

Engagement Partner
Certified Public Accountant
State of Oregon, USA
License No.10687
dates 2 December 2003

Ekaterina Abdrashitova

Auditor in-charge
Qualified Auditor
Qualification Certificate
No.MF-0000209
dated 1 October 2014
Republic of Kazakhstan



Deloitte LLP

State license on auditing
activities in the Republic of
Kazakhstan
No.0000015, type MFU-2
issued by the Ministry of Finance
of the Republic of Kazakhstan
on 13 September 2006

Nurlan Bekenov

General Director
Deloitte, LLP

May 6, 2016
Almaty, Republic of Kazakhstan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015.
(KZT thous.)

	Notes	December 31 2015	December 31 2014
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	121,905,687	111,259,506
Long-term advances paid	13	2,517,829	3,294,206
Investment property		28,305	290,958
Intangible assets		290,623	148,787
Goodwill		128,334	128,334
Other non-current assets		—	1,146
		125,125,523	115,133,251
CURRENT ASSETS:			
Inventories	15	2,678,976	2,336,132
Trade receivables	14	6,990,084	6,032,607
Advances paid	13	71,868	1,300,602
Corporate income tax prepaid		359,098	46,391
Other taxes receivables		48,178	114,393
Other current assets	16	915,754	892,745
Cash	17	1,111,197	1,978,004
		12,821,967	13,118,393
TOTAL ASSETS		137,947,490	128,251,644
EQUITY AND LIABILITIES			
EQUITY:			
Charter capital	18	11,636,404	4,802,304
Additional paid-in capital	18	9,239,137	9,239,137
Retained earnings		50,792,359	40,713,729
		71,667,900	54,755,170
NON-CURRENT LIABILITIES:			
Bank borrowings	19	26,772,043	23,593,803
Deferred tax liabilities	11	14,998,666	12,093,469
Other non-current liabilities	20	123,803	227,759
		41,894,512	35,915,031
CURRENT LIABILITIES:			
Trade payables	21	9,155,157	10,126,811
Bank borrowings	19	10,789,891	8,551,407
Current portion of non-current liabilities	20	—	14,380,970
Corporate income tax payable		135,703	14,474
Other taxes payable		630,616	632,232
Other accounts payable and accrued liabilities	22	3,673,711	3,745,283
		24,385,078	37,581,443
TOTAL EQUITY AND LIABILITIES		137,947,490	128,251,644

On behalf of the Management of the Group:



N.Y. Aitzhanov
Director General
May 6, 2016
Astana, Kazakhstan

L.T. Nurmukhambetova
Financial Director
May 6, 2016
Astana, Kazakhstan

CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY FOR THE YEAR
ENDED DECEMBER 31, 2015.
(KZT thous.)

	Charter capital	Additional paid-in capital	Retained earnings	Total
As at January 1, 2014	4,802,304	9,239,137	32,307,558	46,348,999
Net profit and total comprehensive income for the year	—	—	8,406,171	8,406,171
As at December 31, 2014	4,802,304	9,239,137	40,713,729	54,755,170
Contribution to the charter capital (see Note 18)	6,834,100	—	—	6,834,100
Net profit and total comprehensive income for year	—	—	10,078,630	10,078,630
As at December 31, 2015	11,636,404	9,239,137	50,792,359	71,667,900

On behalf of the Management of the Group:



N.Y. Aitzhanov
Director General
May 6, 2016
Astana, Kazakhstan

L.T. Nurmukhambetova
Financial Director
May 6, 2016
Astana, Kazakhstan

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR
ENDED DECEMBER 31, 2015.

(KZT thous.)

	2015	2014
OPERATING ACTIVITIES:		
Sales of service and goods	80,268,510	77,680,560
Advances received	8,330,893	4,784,554
Other proceeds	55,991	3,317,657
Total cash inflow	88,759,313	85,782,771
Payments to suppliers for goods and services	(25,686,407)	(21,257,400)
Payroll payments	(6,771,285)	(6,306,235)
Other payables to the budget	(5,126,761)	(4,110,831)
Advances paid	(27,120,943)	(27,925,379)
Other payments	(1,546,162)	(3,130,883)
Total cash outflow	(66,251,558)	(62,730,728)
Cash generated by operations	22,507,755	23,052,043
Interest paid	(3,261,185)	(2,192,460)
Corporate income tax	(22,743)	(394,785)
Net cash generated from operating activities	19,019,140	20,464,798
INVESTMENT ACTIVITIES:		
Sale of property, plant and equipment	179,141	7,273
Return of advances for fixed assets	—	1,469,772
Return of financial aid	1,300,400	140
Other cash inflows	70,496	233,839
Total cash inflow	1,550,037	1,850,884
Advances given for acquisition of non-current assets	(6,070,345)	(11,575,950)
Acquisition of property, plant and equipment and materials for capital repair	(10,155,129)	(18,806,400)
Financial aid given	(1,163,323)	(465)
Acquisition of intangible assets	(32,978)	(5,655)
Total cash outflow	(17,421,775)	(30,853,005)
Net cash used in investment activities	(15,871,738)	(29,002,121)
FINANCIAL ACTIVITIES:		
Loans received	39,550,270	18,983,193
Contribution to the charter capital	6,834,100	—
Total cash inflow	46,384,370	18,983,193
Loans repaid	(34,206,298)	(9,922,125)
Repayment of liabilities to Falah Investment B.V.	(16,191,120)	—
Total cash outflow	(50,397,418)	(9,922,125)
Net cash (used in)/generated from financial activities	(4,013,048)	9,061,068
NET CHANGE IN CASH	(865,646)	523,745
CASH at the beginning of the year	1,978,004	1,452,557
Effects of exchange rate changes on the balance of cash held in foreign currencies	(1,161)	1,702
CASH at the end of the year	1,111,197	1,978,004

On behalf of the Management of the Group:



N.Y. Aitzhanov
Director General
May 6, 2016
Astana, Kazakhstan

L.T. Nurmukhambetova
Financial Director
May 6, 2016
Astana, Kazakhstan

EVENTS AFTER THE REPORTING DATE

The Group agreed with the Committee increase in the tariffs for the services of transmission and distribution of electric power from KZT 5.23 to KZT6.01 per kWh (in South Kazakhstan Region) and from KZT 4.51 to KZT 5.34 per kWh (in Karaganda Region), electric power supply by Energopotok LLP from KZT 16.26 to KZT 17.54 per kWh, by Ontustik Zharyk LLP — from KZT 16.35 to KZT 17.28 per kWh (in South Kazakhstan Region), by Settlement and Service Center LLP — from KZT 14.90 to KZT 16.12 per kWh, by KaragandyZhyluSbyt LLP — from KZT 13.45 to KZT 14.21 per kWh (in Karaganda Region) and

from heat power supply from KZT 3,449,23 to KZT 3,656,43 per Gcal (in Karaganda Region) starting from January 1, 2016.

On January 8, 2016, the Company acquired 6.23% of the ordinary shares of JSC Mangistau Electricity Distribution Network Company of KZT 249,054,768.

On March 2016, the Company issued the bonds of 100,000 shares with a par value of KZT 1,000 for 10 years.

9. GLOSSARY

APR	Accidents Prevention Rules
ASCAE	Automated System for Commercial Accounting of Electric power consumption
CHPP	Combined heat and power plant
CL	Cable line
CSR	Corporate Social Responsibility
DP	Distribution Point
EAEU	Eurasian Economic Union
EBIT	Earnings before interest, taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBRD	European Bank for Reconstruction and Development
EP	Envirionmental Protection
EP	Energopotok LLP
EPPN TOR	Electric Power Plants and Networks Technical Operation Rules
EPPOSr	Electric Power Plants Occupational Safety Rules
EPSO	Electric Power Supplying Organization
Gcal	Gigacalorie
Gcal/h	Gigacalorie per hour
ITS	Integrated Transformer Substation
KEC	Karaganda EnergoCenter LLP
kWh	Kilowatt-hour
KZh	Karagandy Zharyk LLP
KZHS	Karagandy ZhyluSbyt LLP

KUS	Kazakhstan Utility Systems LLP
LE	Legal entity
LLP	Limited Liability Partnership
MW	Megawatt
OHL	Overhead line
OS	Occupational safety
OSROHMEEPPHN	Occupational Safety Rules for Operation of Heat Mechanical Equipment of Electric Power Plants and Heat Networks
OZh	Ontustik Zharyk LLP
OZHT	Ontustik Zharyk Tranzit LLP
PGC	Power Generation Company
PP	Physical person
PTL	Power transmission line
PTO	Power transmitting organization
RK NEM SC	Republic of Kazakhstan National Economy Ministry Statistics Committee
RPS	Renewable power sources
RSC	Raschetnyi servisnyi center LLP
SCADA	Supervisory Control And Data Acquisition
SDPP	State district power plant
SS	Substation
SSIC	Self-supporting insulated conductor
TPP	Thermal power plant
TSS	Transformer Substation
WPP	Windpower plant

10. CONTACT INFORMATION

Kazakhstan Utility Systems LLP

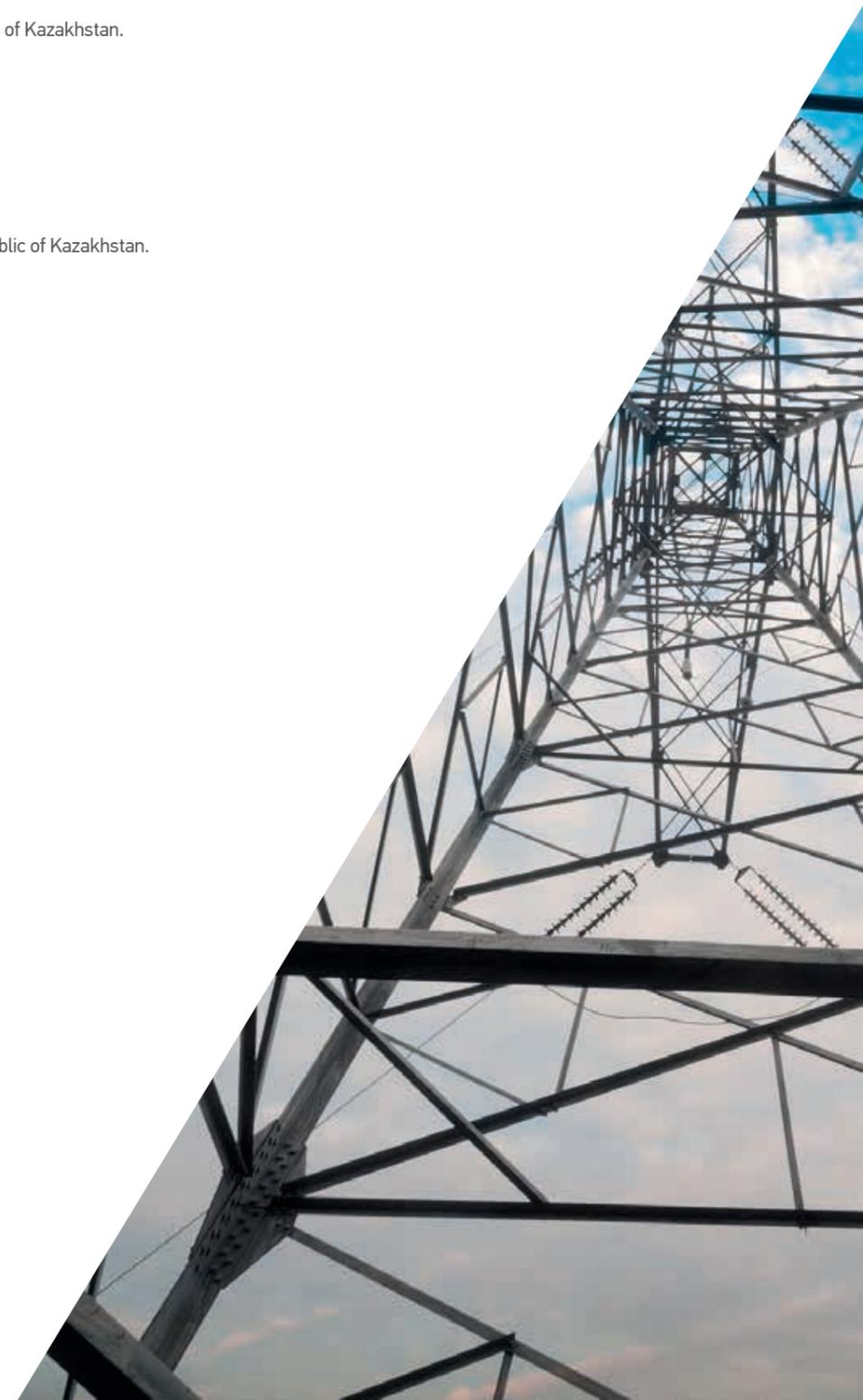
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