KEGOC

Reliable Energy –
Strong Kazakhstan

Annual Report

2016

KEGOC JSC

KEGOC

2016 Annual Report

KEGOC JSC

Table of Contents

ABOUT COMPANY 04
MESSAGE FROM THE CHAIRMAN OF KEGOC'S BOARD OF DIRECTORS 08
MESSAGE FROM THE CHAIRMAN OF KEGOC'S MANAGEMENT BOARD 10
KEY EVENTS IN 2016 12

MARKET OVERVIEW 14

- **State Regulation. Structure of Power Industry in Kazakhstan** 16
- **Kazakhstan Electricity Market** 17
- **Electricity Balance** 18

KEGOC's Development Strategy 19

GOAL 1. ENSURE RELIABLE OPERATION OF THE UNIFIED POWER SYSTEM OF KAZAKHSTAN 20

- **Operating Activity** 22
  - Electricity Transmission 22
  - Technical Dispatch Control 23
  - Management of Electricity Production and Consumption Balancing 23
  - Electricity Purchase/Sale Activities 24
- **Investment Activity** 24
- **Technological Development** 26

GOAL 2. ENSURE STABLE FINANCIAL POSITION OF THE COMPANY AND CASH FLOWS FOR SHAREHOLDERS AND DEVELOPMENT 28

- **Financial and Economic Indicators** 30
- **Tariff Policy** 33
- **Corporate Governance** 34
  - Equity 34
  - General Meeting of Shareholders 35
  - Dividend Policy 35
  - Report on the Board of Directors Activities 36
  - KEGOC's Management Board 47
  - Internal Audit Service 52
  - Risk Management and Internal Control 53
  - Information Policy 54
  - Information on Compliance with KEGOC's Corporate Governance Code in 2016 56
- **International Cooperation** 84

GOAL 3. SUSTAINABLE DEVELOPMENT 86

HR Policy 88
Environmental Protection 90
Operational Safety 91

KEGOC's Business Transformation Programme 92

FINANCIAL STATEMENTS 94
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 107

APPENDICES 158

Appendix 1. KEGOC's Subsidiaries 158
Appendix 2. Corporate Calendar for 2017 159
Appendix 3. Glossary 160

CONTACTS 162

About Company

Kazakhstan Electricity Grid Operating Company (KEGOC) joint-stock company (hereinafter referred to as 'KEGOC', the 'Company') was established in accordance with Resolution of the Government of the Republic of Kazakhstan No. 1188 dated 28 September 1996 on Some Measures to Restructure Power System Management in the Republic of Kazakhstan. The date of initial state registration of KEGOC is 11 July 1997.

Until 2006, 100% of KEGOC shares had been owned by the Government. In 2006, state share (100%) was transferred to Samruk JSC (the Kazakhstan holding company for management of public assets) as a payment for the placed shares. In 2008, Samruk-Kazyna JSC (the sovereign wealth fund) was established through merger of Kazyna JSC (the sustainable development fund) and Samruk (Kazakhstan holding for management of state assets). Samruk-Kazyna became a legal successor of Samruk.

On 18 December 2014 as part of the Programme for public offering of shares of affiliates and subsidiaries of Samruk-Kazyna Sovereign Wealth Fund (hereinafter referred to as 'Samruk-Kazyna') on the stock market, KEGOC placed 25,999,999 authorized ordinary shares on the Kazakhstan Stock Exchange through subscription.

As of 31 December 2016, KEGOC declared and placed 260,000,000 ordinary shares in total, including 234,000,001 of them (90 % plus one ordinary share) owned by Samruk-Kazyna, 25,998,609 shares belonging to minority shareholders and 1,390 shares repurchased by KEGOC at request of minority shareholder.

Address: 59, Tauyelsizdik Ave., Almaty District, 010010, Astana.

The mission of the Company is to ensure the reliable operation and effective development of Kazakhstan Unified Power System (UPS) in accordance with state-of-the-art technical, economic, environmental requirements and occupational health-and-safety standards.

In accordance with the laws of the Republic of Kazakhstan in electric power industry as System Operator of the Unified Power System KEGOC performs the following core operations:

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

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

KEGOC operates throughout the territory of the Republic of Kazakhstan. The structure of the Company includes 9 intersystem electric networks branches (MES branches), the National Dispatch Centre of the System Operator branch (NDC SO) and the Representative Office in Almaty. MES branches render system services in operational control of the branch. The NDC SO performs the centralized dispatch control of the UPS of the Republic of Kazakhstan. The centralized operational and dispatch control is organised as direct operational subordination of nine regional dispatch centres (RDCs) to NDC SO; these RDCs are the structural subdivisions of MES branches.

Akmolinskiye MES	Aktyubinskiye MES	Almatinskiye MES	Vostochnye MES	Zapadnye MES
10 substations	7 substations	11 substations	6 substations	5 substations
8,137 MVA	2,426 MVA	4,229 MVA	3,695 MVA	950 MVA
4,230 km OHTL	967 km OHTL	3,551 km OHTL	1,161 km OHTL	1,682 km OHTL

Sarbaiskiye MES	Severnye MES	Tsentralnye MES	Yuzhnye MES	NDC SO
8 substations	8 substations	10 substations	13 substations	9 RDCs
6,570 MVA	3,521 MVA	3,742 MVA	3,395 MVA	
2,444 km OHTL	3,379 km OHTL	3,482 km OHTL	4,201 km OHTL	

As of 31 December 2016 the MES branches own:

- **360** electricity transmission lines of **0.4 – 1,150 kV** with the total length of **25,096.597 km** (circuits);
- **78** electric substations, **35 – 1,150 kV,** with transformer installed capacity of **36,662.55 MVA.**

KEGOC's substations have in total:

- **273** power transformers and autotransformers of **1,150-10 kV** (8 of them are owned by third parties);
- **184** shunt reactors of **1,150-35 kV** (9 of them are owned by third parties);
- **1,570** circuit breakers of **1,150-35 кV** (air-blast, oil, SF6, vacuum) (97 of them are owned by third parties);
- **1,581** phases of **1,150-35 kV** voltage transformers (75 of them are owned by third parties);
- **3,699** phases of **1,150-35 kV** current transformers (238 of them are owned by third parties);
- **111** storage batteries (2 of them are owned by third parties);
- **52** compressor units;
- **108** devices and tools for the treatment of solid insulation and transformer oil;
- **62,199** relay protection and automation and emergency automation devices;
- **31,194** metering tools.

KEGOC is a parent company of subsidiaries EnergoInform JSC and Financial Settlement Centre for Renewable Energy Sources Support LLP. EnergoInform provides informational support of the Company activity. The Financial Settlement Centre for Renewable Energy Sources Support LLP was established in 2013 to encourage investments in renewable energy sector and increase the share of renewable energy in the Kazakhstan energy mix through government-guaranteed and centralized electricity purchase from all renewable energy resources (who have chosen such support scheme) in accordance with the fixed rates. More detailed information about subsidiaries is given in ***Appendix 1.***

In addition, KEGOC is a co-founder (20% of shares) of Batys Transit JSC established in 2005 to to implement the project for the construction of inter-regional power transmission line linking the North Kazakhstan with Aktobe Oblast.

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

GEOGRAPHY OF OPERATIONS

Message from the Chairman of KEGOC's Board of Directors

In 2016 KEGOC fully met the expectations of its major shareholder, Samruk-Kazyna Sovereign Wealth Fund.

The Company's performance confirmed the adequate choice for management model, which conforms to the highest corporate standards. The reporting year expanded KEGOC's Board of Directors with the Fund's representatives Suinshlik Tiyessov and Zhanna Yegimbayeva demonstrating a balanced number of independent directors and Samruk-Kazyna's representatives.

The coordinated work between the Board of Directors and Company's top managers resulted in positive financial performance. The Company reported 2016 profits exceeding KZT 27.59 billion. This is the highest level in the entire KEGOC's development history.

The results of 2016 justified the confidence of KEGOC's shareholders. Currently KEGOC's shares are among the most liquid financial instruments on the Kazakhstan Stock Exchange. The shares are attractive due to resilience and sustainability of the Company along with the effective dividend policy. Since public offering on the stock market the Company paid KZT 17.5 billion as dividends.

KEGOC has an extensive experience in implementing infrastructural projects aimed at developing the National Power Grid and ensuring the overall energy security in Kazakhstan. In 2016 again KEGOC's team proved its high professional status having completed, one year ahead of schedule, the commissioning of the 500 kV OHTL Ekibastuz – Semey – Ust-Kamenogorsk.

KEGOC has successfully been implementing the Business Transformation Programme initiated by the Fund. Thus, the results of 2016 showed financial benefits from the Programme amounting to over KZT 7,150 million, this exceeded the planned figures by KZT 1,920 million.

The Board of Directors is confident that KEGOC will successfully perform all objectives planned for 2017 and take a significant step towards achieving the strategic objective to become a worldwide Company and the regional centre of expertise in the power industry.

Kuanysh Bektemirov

Chairman of KEGOC's Board of Directors

Message from the Chairman of KEGOC's Management Board

The year of 2016 was the anniversary year for the Republic of Kazakhstan and will remain momentous in KEGOC's development history. It was filled with events, which received due attention of all concerned parties.

As a System Operator KEGOC has successfully completed the main objective, i.e. ensured the reliable operation of the Unified Power System of the Republic of Kazakhstan.

The reporting period demonstrated the electricity increased generation and consumption volumes in Kazakhstan compared to 2015. The electricity generation grew by 3.6% or 3.3 billion kWh reaching 94.1 billion kWh. The electricity consumption increased by 1.6% or 1.4 billion kWh reaching 92.3 billion kWh. The volumes of rendered services increased for electricity transmission via the National Power Grid, technical dispatch of electricity supply to network and electricity consumption, and electricity generation and consumption balancing.

Despite some negative external impacts, the year of 2016 ended with positive financial indicators. As a result of effective management and prompt response to challenges the Company received the highest profit in its history amounting to KZT 27.59 billion.

The Company proceeds living up to the expectations of shareholders. Based on H1 of the year results the dividends were paid to the amount of approximately KZT 6.5 billion making nearly KZT 25 per one ordinary share. Overall, KEGOC's shares were among most quoted on the Kazakhstan Stock Exchange, and as of the end of 2016 one share priced approximately KZT 1,160, this twice as much its initial cost.

As part of the investment programmes KEGOC is expediting the construction of 500 kV high-voltage transmission line North – East – South as instructed by the head of the state. The first phase of the 500 kV OHTL Ekibastuz – Semey – Ust-Kamenogorsk project was complete one year ahead of schedule and commissioned on 6 December 2016 shortly before the 25th Anniversary of Independence of the Republic of Kazakhstan.

Our Company is successfully developing international cooperation. In 2016 KEGOC became a member society of the International Council on Large Electric Systems (Conseil International des Grands Reseaux Electriques – CIGRE) bringing together over 1,000 organisations and over 6,000 experts in all areas of the electricity industry.

Chaired by KEGOC, Astana held one of the most important regional events in the power industry, namely the 25th anniversary meeting of the Coordination Electric Power Council of Central Asia (CEPC CA) attended by the top managers of Kazakhstan and Central Asia power systems.

One of KEGOC's key development areas is social and labour relations. In 2016 KEGOC signed with its employees a new Collective Bargaining Agreement for 2016-2020, which was prepared with due account of the changes in labour laws of the Republic of Kazakhstan and a stronger role of social partnership in relations between the employer and the employees.

In general, the HR policy implemented by KEGOC delivers positive results as evidenced by the social stability rating (82%), which is traditionally the highest one at the Samruk-Kazyna group of companies.

The high level of the Company performance is also evidenced by the fact that in 2016 TUV NORD Cert (Germany) certification body confirmed KEGOC's IMS compliance with regard to the requirements of international standards for quality management systems (ISO 9001), environmental management systems (ISO 14001), management systems of professional health and safety (OHSAS 18001) and information security management system (ISO/IEC 27001).

In 2017 we will continue implementing the second phase of large-scale investment project for construction of 500 kV OHTL North – East – South Transit. In future we plan to implement a number of investment projects for development of the National Power Grid to integrate Zone West and Kazakhstan UPS.

Work is continuing under KEGOC's Business Transformation Programme and in 2017 we will launch the third and decisive stage of the programme to implement the project portfolio including 23 projects. The projects implementation will allow for effective use of reserves and focus on most promising business areas with high potential to increase the value of the Company, ensure the growth of labour productivity and introduce advanced management practices.

In 2017 KEGOC will continue to improve efficiency of all business areas and certainly retain leadership in the industry and trust of shareholders and partners.

Bakytzhan Kazhiyev

Chairman of KEGOC's Management Board

Key Events in 2016

29 January

The extraordinary General Meeting of KEGOC's Shareholders approved Ernst&Young LLP as the auditor of KEGOC's financial statements for 2016-2018

11 February

The Chairman of KEGOC's Management Board Bakytzhan Kazhiyev delivered report to the employees on the Company's performance in 2015 and plans for 2016

15 February

The Transformation Roadmap for 2016 was discussed at the session with participation of Umirzak Shukeyev, the Chairman of Samruk-Kazyna's Management Board, where the plan of personal engagement of the Chairman of KEGOC's Management Board in business transformation for 2016 was signed and handed over. The plan included key results of the Business Transformation Programme Roadmap and periods for their implementation

17 February

Following the downgrade of the sovereign credit ratings on Kazakhstan to 'BBB-/A-3' and the outlook on sovereign ratings 'Negative', the Standard&Poor' (S&P) rating agency revised ratings of several Kazakhstan companies including KEGOC from BB+/ Outlook Negative to BB/ Outlook Negative

15 March

The headquarters of the Company hosted a session to discuss KEGOC's Transformation Roadmap for 2016, which was attended by Umirzak Shukeyev, the Chairman of Samruk-Kazyna's Management Board of and Bakytzhan Kazhiyev, the Chairman of KEGOC's Management Board

29 April

The annual General Meeting of KEGOC's Shareholders reviewed and approved the KEGOC's annual financial statements for the year ended on 31 December 2015

July

KEGOC became a member society of the International Council on Large Electric Systems (Conseil International des Grands Reseaux Electriques – CIGRE)

9-11 September

KEGOC's team took the 2nd place in the IV Sports Competition among employees of Samruk-Kazyna group of companies taking part in volleyball, futsal, armwrestling, chess and ping-pong competition

9 September

KEGOC signed a new Collective Bargaining Agreement for 2016-2020 with its employees

23 Sep.

KEGOC's team won the first place in the XIII International competition for the professional skill of electric power industry experts from the CIS countries

4 October

The Kazakhstan Stock Exchange (KASE) held the Issuer Day dedicated to KEGOC aimed at increasing investors' interest to issuer and seeking feedback of the issuer with the shareholders

28 October

The extraordinary General Meeting of KEGOC's Shareholders approved the interim financial statements, reviewed the net profit distribution, decided to pay dividends on ordinary shares and the amount of dividends per one KEGOC's ordinary share for H1 2016. The decision was also made to elect two more directors to KEGOC's Board of Directors.

17 Nov.

Participation in the 25th anniversary meeting of the Coordination Electric Power Council of Central Asia held in Astana.

18 Nov.

KEGOC paid dividends on KEGOC's ordinary shares for H1 2016.

6 December

The Company launched the constructed facilities under the 500 kV Ekibastuz – Shulbinsk HPP (Semey) – Ust-Kamenogorsk Electricity Transmission Project

12 December

The extended meeting of KEGOC's Modernization Board with the participation of Umirzak Shukeyev, the Chairman of Samruk-Kazyna's Management Board discussed KEGOC's business transformation programme roadmap for 2017, the portfolio of projects and projected financial performance of KEGOC's business transformation programme for 2015-2020.

29 December

KEGOC became 'Best Sustainability Report' and 'Best Interactive Annual Report' winner and 'Design and Graphic Art' nominee in the Competition of Annual Reports organized by RAEX (Expert RA Kazakhstan) in 2016.

Market Overview

GEOGRAPHY OF OPERATIONS

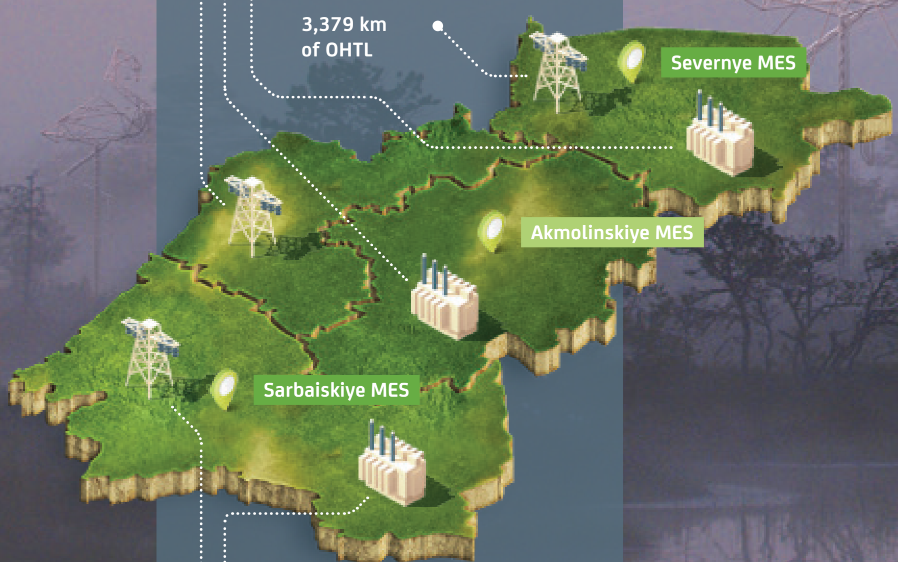
Northern Kazakhstan:

10 substations
8,137 MVA

4,230 km of OHTL

8 substations
3,521 MVA

3,379 km of OHTL



2,444 km of OHTL

8 substations
6,570 MVA

The greater or pink **flamingo** *(Phoenicopterus roseus)* is rare, decreasing and the only bird species living in the territory of the former Soviet Union. Resides in Kazakhstan lakes, such as Tengiz, Chelkartengiz and Ashchitastyssor. Listed in the World Red Book as Least Concern in the nearest 10 years (IUCN - LC) and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES II).

Market Overview

STATE REGULATION. STRUCTURE OF POWER INDUSTRY IN KAZAKHSTAN

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

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

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

The electric power industry in Kazakhstan includes the following sectors:

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

Electricity generation

Electricity in Kazakhstan is generated by 118 power plants of various forms of ownership. As of 1 January 2017, the total installed capacity of the power plants in Kazakhstan is 22,055.5 MW; and the available capacity is 18,789.1 MW.

Electricity transmission

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

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

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

Electricity supply

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

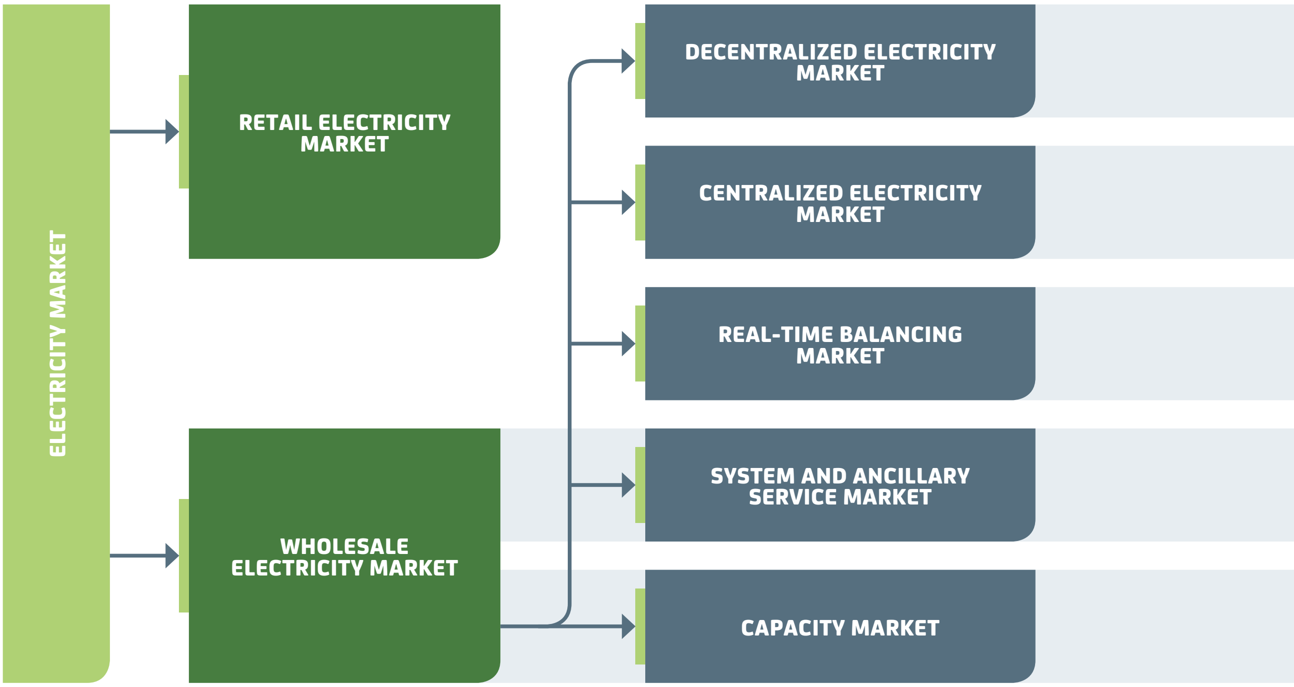
Other activities in electric power industry

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

Research and design institutes, such as ***KazNIPIEnergoprom, Energiya, KazSelEnergoProyekt, Chokin Kazakh Research Institute of Power Engineering and Almaty University of Power Engineering & Telecommunications*** are engaged in research and design developments in power industry, market researches and forecasting, managing the issues of adopting new energy-efficient and environmentally friendly technologies for power generation and supply.

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

KAZAKHSTAN ELECTRICITY MARKET



The electricity market has two levels: wholesale and retail. The functional design of the wholesale electricity market in Kazakhstan includes:

- *decentralized electricity purchase and sale market;*
- *centralized electricity market,* which is based on electricity purchase and sale transactions;
- *real-time balancing market* operating for physical and subsequent financial settlement of hourly imbalances arising within the operating day between actual and contractual generation and consumption of electricity in the Unified Power System of Kazakhstan with the reference generation and consumption schedule approved by the System Operator. Currently the balancing electricity market in Kazakhstan operates in simulation mode (up to 1 January 2019).
- *system and ancillary service market,* where the System Operator renders the system services and acquires the ancillary services from the Kazakhstan electricity market participants in order to comply with the state standards established for reliable operation of Kazakhstan UPS and electric power quality.
- *capacity market* operating to attract investments in the new electrical capacity that is sufficient to meet the demand for electricity and maintain the forecasted level of the electric capacity in Kazakhstan UPS. Pursuant to Order of the Minister of Energy the capacity

market is planned to be commissioned on 1 January 2019.

The participants of the wholesale electricity market are:

- power generating organisations that supply electricity to the wholesale market in the amount of not less than 1 MW of the daily average (baseline) capacity;
- power transmission organisations;
- power supply organisations that do not have their own electrical networks and buy electricity on the wholesale electricity market with a view to resale it in the amount of not less than 1 MW of the daily average (baseline) capacity;
- consumers who buy electricity on the wholesale market in the amount of not less than 1 MW of the daily average (baseline) capacity;
- system operator (KEGOC);
- the operator of the centralized electricity trading market (KOREM);
- the Financial Settlement Centre for Renewable Energy Sources Support (FSC RES);
- the national operator.

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

ELECTRICITY BALANCE

In 2016 the electricity generation in Kazakhstan exceeded the consumption by 1,764.9 million kWh making 94,076.5 million kWh, this 3,279.9 million kWh or 3.6% more compared to 2015.

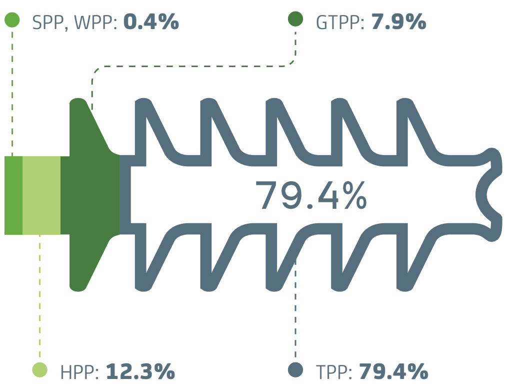
The electricity generation increased at following power plants:

- Ekibastuz GRES-2 power station JSC, by 1,765.1 million kWh or 55.0%;
- SevKazEnergoPetropavlovsk LLP, by 398.8 million kWh or 14.2%;
- Kazakhmys Energy LLP Zhezkazgan CHPP, by 267.4 million kWh or 27.0%.
- PavlodarEnergo JSC CHPP-3, by 162.9 million kWh or 5.5%;
- Kazakhmys Energy LLP Balkhash CHPP, by 145.4 million kWh or 20.1%.

Compared to 2015, the highest electricity generation decrease was at:

- Nurzhanov Ekibastuz GRES-1 LLP, by 1,691.3 million kWh or 15.8%;
- EEK JSC, by 799.1 million kWh or 5.4%;
- Kazakhmys Energy LLP GRES, by 726.8 million kWh or 14.2%;
- Zhambyl GRES JSC, by 406.7 million kWh or 14.2%;
- Arselor Mittal Temirtau JSC CHPP-2, by 295.5 million kWh or 15.6%.

Electricity generated by power plants



The hydropower production in Kazakhstan compared to 2015 increased by 2,355.6 million kWh or 25.5% and amounted to 11,605.9 million kWh. The gas-turbine power production in Kazakhstan increased by 128.1 million kWh or 1.8% and amounted to 7,407.6 million kWh.

The electricity consumption in Kazakhstan in 2016 compared to 2015 increased by 1,451.6 million kWh or 1.6% and amounted to 92,311.6 million kWh. Consumption increased in Zone North by 1,369.1 million kWh (2.3 %) and Zone West by 475.7 million kWh (4.3 %). In Zone South of Kazakhstan the consumption decreased by 393.2 million kWh (2.0%).

Compared to 2015 consumption increased at:

- Aktobe ferrous alloy plant Transnational Company Kazchrome JSC, by 330.5 million kWh or 17.1%;

- Kazakhstan electrolytic plant JSC, by 176.3 million kWh or 5.5%;
- Arselor Mittal Temirtau JSC, by 168.5 million kWh or 4.5%;
- Aluminium of Kazakhstan JSC, by 44.9 million kWh or 4.9%.
- Electricity consumption decreased at:
- Kazphosphate LLP, by 685.3 million kWh or 35.5%;
- Kazakhmys Corporation LLP, by 308.9 million kWh or 19.7%;
- Sokolovsk-Sarbai mining and processing production enterprise JSC, by 136.1 million kWh or 7.6%;
- Aksu ferrous alloy plant Transnational Company Kazchrome JSC, by 52.2 million kWh or 0.9%.

In 2016 in comparison with 2015 the most significant electricity consumption growth was registered in Pavlodar Oblast by 635.3 million kWh (3.7%), Aktobe Oblast by 474.5 million kWh (9.9%) and Atyrau Oblast by 438.6 million kWh (10.3%). Maximum consumption reduction was registered in Kostanai Oblast (by 88.7 million kWh or 1.9%) mainly due to reduction in consumption by Sokolovsk-Sarbai mining and processing production enterprise JSC, Zhambyl Oblast (by 603.5 million kWh or 15.9%) mainly due to reduction in consumption by Kazphosphate LLP.

According to the Minutes of negotiations between the representatives of water-economy and power authorities of the Republic of Kazakhstan and the Kyrgyz Republic (held in August 2016 in Bishkek), the Electric Power Plants JSC (Kyrgyz Republic) supplied electricity to Kazakhstan consumers, such as Kazphosphate OJSC, ZhambylZharykSauda-2030 LLP and TemirZholEnergo LLP as barter. Overall received electricity totalled to 197.504 million kWh with further return of electricity in September-November 2016. The net power flow in the Russian Federation in 2016 was 1,640.2 million kWh (471.4 million kWh from Russian Federation in 2015). At that the electricity exported to the Russian Federation was 2,773.1 million kWh (1,034.6 million kWh in 2015), the increase by 1,738.5 million kWh is due to electricity supply since 17 March 2016 from Ekibastuz GRES-2 Power Station JSC to Inter RAO networks. The electricity imported from the Russian Federation was 1,132.9 million kWh (reduction by 373.1 million kWh or 24.8%). The net power flow to Central Asia (Kyrgyz Republic) amounted to 124.7 million kWh. The export of electricity to the Kyrgyz Republic was 335.3 million kWh, the import was 210.6 million kWh.

KEGOC'S DEVELOPMENT STRATEGY

Power industry in the Republic of Kazakhstan is of great importance as the key national industries such as metallurgy and oil and gas production are the highly energy intensive industries. Accordingly, the competitiveness of the production industries in Kazakhstan and the living standards are highly dependent on the reliability and quality of energy supply to consumers. Based on the functions performed by KEGOC in the electric power industry in accordance with the laws of the Republic of Kazakhstan and taking into account governmental programme documents and expectations of Samruk-Kazyna as a major shareholder the Company developed KEGOC's Long-term Development Strategy to 2025. According to KEGOC's Long-term Development Strategy KEGOC faces strategic goals:

I Reliable operation of the Unified Power System of Kazakhstan through:

- high-quality performance of the functions of the System Operator of Kazakhstan UPS;
- high-quality maintenance, repair and modernization of the existing assets;
- NPG transmission capacity improvement through construction of new transmission lines and substations;
- technological development.

II Stable financial position of the Company and cash flows for shareholders and development through:

- positive EVA;
- corporate governance development;
- international cooperation development.

III Sustainable development through:

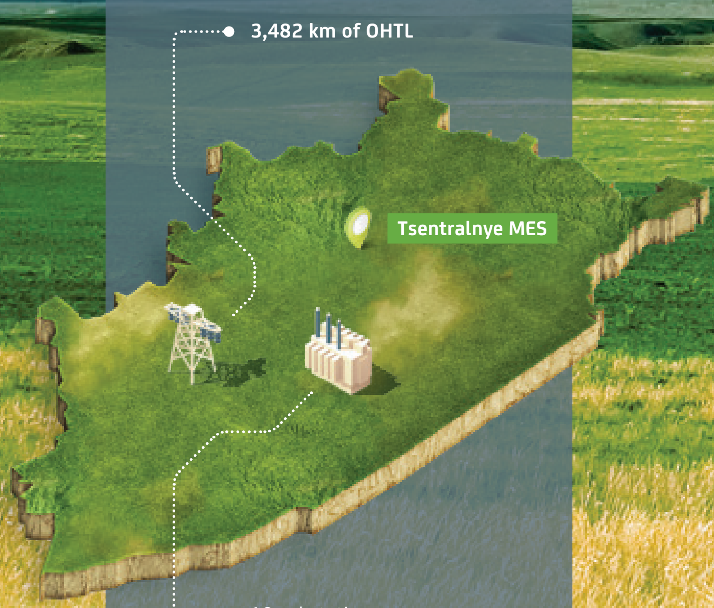
- human resources management system improvement;
- environmental protection;
- occupational safety system improvement.

Implementation of the specified goals, achievement of strategic production, financial and economic and social indicators will allow KEGOC to achieve to 2025 the vision of the strategy: become a world-class company and the regional centre of expertise in the power industry.

Goal 1. Ensure Reliable Operation of the Unified Power System of Kazakhstan

GEOGRAPHY OF OPERATIONS

Central Kazakhstan:



Saiga *(Saiga tatarica)* is an artiodactyl mammal from true antelopes' subfamily.
In 2002 the International Union for Conservation of Nature (IUCN) assigned this species to 'CR' category, i.e. 'critically endangered'.
Individuals of Saiga tatarica tatarica live in Russia (North West Precaspian area) and three oblasts of Kazakhstan (Volgo-Ural sands, Ustyurt and Betpak-Dala).

Goal 1. Ensure Reliable Operation of the Unified Power System of Kazakhstan

OPERATING ACTIVITY

Electricity Transmission

The actual volume of services for transmission of electricity via the NPG in 2016 amounted to 39,213.5 million kWh. In comparison with 2015 it grew by 1,316.5 million kWh or 3.5%, which is associated with the resumed electricity export to Russian Federation and Kyrgyz Republic; there was no export in 2015. The volume of electricity exported in 2016 amounted to 1,991.7 million kWh.

In 2016, KEGOC and FGC UES in accordance with the contract arranged for electricity transmission (transit) through KEGOC's networks from the Russian Federation through the Republic of Kazakhstan back to the Russian Federation. The scope of services rendered by KEGOC for this transit amounted to 3,630.6 million kWh, which is 30.9 million kWh less than in 2015.

Large consumers of services in 2016	million kWh
Federal Grid Company of Unified Energy System (FGC UES) PJSC	3,630.6
TemirZholEnergo LLP	3,057.4
KazZinc LLP	2,067.3
AlmatyEnergoSbyt LLP	1,850.9
ShygysEnergoTrade LLP	1,747.4
Almaty Power Stations JSC	1,706.0
Transnational Company Kazchrome JSC	1,658.4
Kazphosphate LLP	1,298.9
Ontustik Zharyk LLP	1,078.3
AstanaEnergoSbyt LLP	914.5

Technical Dispatch Control

The actual volume of technical dispatching of electricity supply and consumption in the grid in 2016 was 85,738.6 million kWh. The volume of services in comparison with 2015 increased by 2,929.7 million kWh or 3.5%, which was due to increase in the generation and electricity supply to network by energy producing organisations of the Republic of Kazakhstan.

Large consumers of services in 2016	million kWh
Eurasian Energy Corporation JSC	13,140.0
Nurzhanov Ekibastuz GRES-1 LLP	8,473.7
Kazakhmys Energy LLP	5,666.5
Almaty Power Stations JSC	5,281.2
Ekibastuz GRES-2 Power Station JSC	4,722.6
MAEK-KazAtomProm LLP	4,189.5
Karaganda Energocenter LLP	3,809.7
KazZinc LLP	3,684.7
PavlodarEnergo JSC	3,234.2
SevKazEnergo JSC	2,813.2

Management of Electricity Production and Consumption Balancing

The actual amount of electricity generation and consumption balancing services in 2016 amounted to 161,616.0 million kWh. The volume of services as compared to 2015 increased by 4,577.9 million kWh or 2.9% due to the overall increase in electricity production and consumption on the wholesale market of the Republic of Kazakhstan.

Large consumers of services in 2016	million kWh
Eurasian Energy Corporation JSC	22,331.3
Nurzhanov Ekibastuz GRES-1 LLP	8,473.7
Kazakhmys Energy LLP	5,920.4
ArcelorMittal Temirtau JSC	5,817.0
AlmatyEnergoSbyt LLP	5,767.7
KazZinc LLP	6,346.0
Astana – Regional Electricity Network Company JSC	5,607.4
MAEK-KazAtomProm LLP	4,933.4
Almaty Power Stations JSC	5,348.0
PavlodarEnergo JSC	4,379.8

In order to improve the quality of the services provided, KEGOC conducted a questionnaire survey on 2016 performance results to assess consumer satisfaction. The average annual score of consumer satisfaction in 2016, particularly the satisfaction with KEGOC's personnel performance, reliability of provided business and technical information, efficiency of customers' requests processing, quality of services, and the quality of RDC operation with respect to operational dispatch management was 4.55 out of five.

Electricity Purchase/Sale Activities

Under international agreements KEGOC is performing the electricity purchase/sale activities with power systems of neighbouring countries.

Thus, in 2016 KEGOC:

Sold electricity:

- to the Russian Federation to cover hourly deviations of the actual interstate net power flow balance versus the scheduled one amounting to 854.923 million kWh, this 134.7 million kWh less than in 2015;
- to Kyrgyz Republic to settle the unscheduled electricity flows between power systems of the Republic of Kazakhstan and Kyrgyz Republic amounting to 4.7 million kWh.
- purchased electricity:
- from the Russian Federation and Kazakhstan power plants to cover hourly deviations of the actual interstate net power flow balance versus the scheduled one amounting to 854.923 million kWh, this 134.7 million kWh less than in 2015;
- from Kyrgyz Republic to compensate technical transmission losses to the amount of 13.1 million kWh;
- from Kazakhstan power plants to manage unscheduled electricity flows from Kazakhstan UPS to Kyrgyzstan power system to the amount of 4.7 million kWh.

In 2016, the Company also purchased electricity for technical transmission losses compensation and NPG auxiliary needs to the amount of 2,509.006 million kWh including 71.8 million kWh from the Russian Federation and 13.1 million kWh from the Kyrgyz Republic. In 2016, the volume of electricity purchased to cover the losses increased by 59.958 million kWh compared to 2015 (from 2,449.049 million kWh in 2015 to 2,509.006 million kWh in 2016).

INVESTMENT ACTIVITY

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

As part of Nurly-Zhol State Programme, KEGOC is implementing large-scale project for construction of 500 kV OHTL North-East-South Transit. The Project shall be implemented in two phases:

- Phase I: Construction of 500 kV Ekibastuz – Shulbinsk HPP (Semey) – Ust-Kamenogorsk transmission line.
- Phase II: Construction of 500 kV Shulbinsk HPP (Semey) – Aktogai – Taldykorgan – Alma transmission line.

500 kV Ekibastuz – Shulbinsk HPP (Semey) – Ust-Kamenogorsk Electricity Transmission Project is aimed to increase the transmission capacity of the grid in North – East direction, cover deficits in the East Kazakhstan region by making it independent of the electricity transported through the Russian network, and ensure delivery of all power generated at Shulbinsk HPP after Bulak HPP, the counter regulator of Shulbinsk HPP, is put into operation. The project is financed out of KEGOC's own funds.

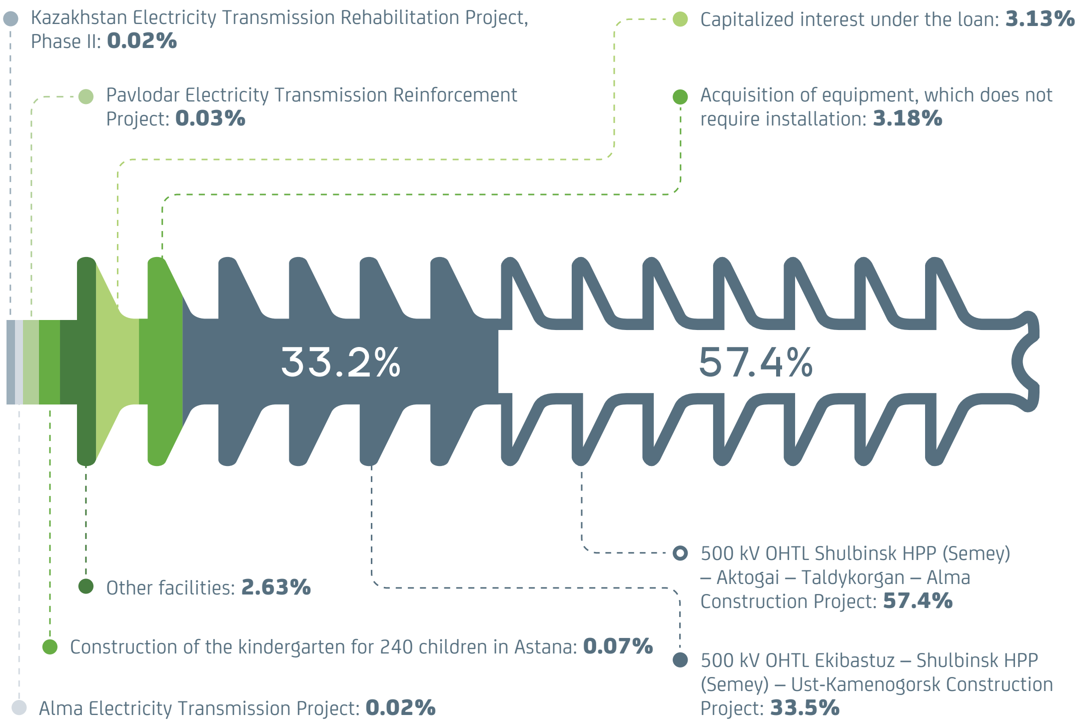
All construction and erection works of the project are successfully completed in 2016 ahead of work schedule instead of scheduled completion period in 2017. The project constructed 500 kV OHTL Ekibastuz – Shulbinsk HPP (Semey) – Ust-Kamenogorsk with the total length of 598.5 km and 220 OHTL Semey – Shulbinsk HPP including Semey cross-connection lines with the total length of 106 km. In addition, new 500 kV Semey SS was constructed, existing 500 kV Ust-Kamenogorskaya SS, 1,150 kV Ekibastuzskaya SS and 220 kV Shulbinsk HPP SS were extended. The facilities were launched on 6 December 2016 during the national teleconference held under the Industrialization Day with the participation of the head of the state.

500 kV Shulbinsk HPP (Semey) – Aktogay – Taldykorgan – Alma Construction Project shall increase the transmission capacity of the national power grid in North-South direction, cover the needs of electrified rail roads, energy intensive facilities of metal mining industry, create conditions for development of the cross-border territories and large scale development of renewable energy potential and strengthen the link with Zone East of the Kazakhstan Unified Power System. The project is financed from equity funds and funds received from the Unified Accumulative Pension Fund JSC through sale of coupon bonds issued by KEGOC. As of 1 September 2016 the coupon bonds were completely placed, the funds were raised to the amount of KZT 47.5 billion. The second phase of project for construction of 500 kV Shulbinsk HPP (Semey) – Aktogai – Taldykorgan – Alma transmission line is being implemented in accordance with the works schedule. Currently the construction and installation works at all sites of the project are in progress. In 2016, 164 km lines were constructed out of total 883 km of project lines. All works under the project are planned to be complete in 2018.

In addition, in 2016 the Company proceeded with the implementation of the following investment projects:

- **Pavlodar Electricity Transmission Reinforcement Project** is aimed to improve reliability of the power system in Pavlodar power region by construction of 220 kV electricity link between the region and Kazakhstan UPS. The project is financed out of KEGOC's own funds;
- **National Power Grid Rehabilitation Project** is aimed at reconstruction of the NPG transmission lines that are considerably worn out as a result of long operational life.

In 2016 the Company disbursed more than KZT 44,001.05 million exclusive of VAT including KZT 40,035.46 million for large strategic projects implementation, KZT 2,586.89 million for renovation and replacement of existing assets and KZT 1,378.70 million for payment of capitalized interest under the loan.



Stable national economy growth requires faster development of the entire electric power industry. To ensure balanced and sustainable growth of the power industry in Kazakhstan with due account for the strategic interests of the government, which shall take into account the necessity in further economic growth, improvement of the living standards and energy security in Kazakhstan, KEGOC plans the following future projects:

- integrate Zone West and Kazakhstan UPS in the territory of the Republic of Kazakhstan to improve the reliability of power supply in Zone West and include unused flexible generating capacity in the Kazakhstan UPS structure;
- ensure the reliable power supply to some territorial regions;
- ensure power delivery from large generating facilities under construction;
- rehabilitate and ensure the technological development of the NPG.

TECHNOLOGICAL DEVELOPMENT

In the medium and longer term the technological development is one of the main factors of utility competitiveness, as it ensures the improvement of efficiency, manageability and security of power facilities operation and of the reliability of services they render. The main global trend in the technological development of the power industry is introduction of various intellectual control devices for grid facilities (metering, monitor and control systems), which can be a basis for new generation grids. In 2016, jointly with Almaty University of Power Engineering and Telecommunications, the Company implemented the pilot solutions for installation of WAMS (Wide Area Measurement System), which currently includes two PMUs at 500 kV Alma SS and 1,150 kV Ekibastuzskaya SS and installed relevant software at the Almaty RDC. In 2015-2016 the WAMS system data were online gathered, analysed and compared with the running operating parameters. Having analysed the received results the Company made a decision to necessarily implement full-fledged WAMS pilot project on 500 kV North-South transit.

In 2016 the upgraded Commercial Metering System (CMS) became fully operational. The upgrading covered installation of modern microprocessor-based metering devices and data transmission devices. Flexible two-way CMS communications with users were implemented using WEB-technologies. The innovative technologies improved the reliability of the energy measurements, automated administration of all system levels, access to internal CMS interfaces of different producers, flexible preparation of reports and solving necessary electrical tasks by system users. Moreover, the key moment is the support of a wide range of metering devices and associated equipment, this provides equal conditions to different producers equipment and facilitates connection of new enterprises to the National Power Grid.

At the moment of the system creation, the latest available technologies were used to solve main tasks being urgent for the first period of establishing the wholesale electricity market. However, the launch of balancing electricity market and capacity market in future significantly increase and expand the requirements to the CMS as a main instrument to build legitimate and reliable data to account electricity and capacity. This required certain upgrading of the hardware-software package of KEGOC's CMS being the basis for integrated CMS of the Kazakhstan wholesale electricity market.

Applied technologies and equipment energy efficiency increase, energy-saving programme development and technological power consumption optimization are among the Company's main objectives. The technical electricity loss means the electricity loss resulting from the physical processes in conductors and electrical equipment that occur during the electricity transmission across transmission lines; therefore, planning and introduction of measures to reduce electricity losses are aimed at optimizing the actual technical loss amounts. The actual electricity losses in KEGOC's networks in 2016 amounted to 2,513.2 million kWh or 6.1% of electricity supplied to the grid, this being within the standards established by the Committee on Regulation of Natural Monopolies and Protection of Competition. This indicator is strategic for the Company and reflects the efficiency of its operations.

In 2016 the Company proceeded with the Feasibility Study of Corona Losses Mitigation in Kazakhstan NPG. The work is carried out with participation of NURIS (Nazarbayev University's scientific subdivision). The work researches possible corona losses in 500 kV KEGOC's networks by using nano-technologies to treat the surface of high-voltage overhead transmission line conductors. Corona losses reach 30% of total losses in KEGOC's grid. Accordingly, positive research developments and relevant NPG-wide technological solutions can bring significant economic effect.

The Company actively uses satellite-linked monitoring devices (GPS sensors) to enhance vehicle use efficiency. As of today there are 637 installed satellite-linked vehicle monitoring devices. The system provides permanent real time monitoring (online monitoring) of KEGOC's vehicles. In addition, the monitored vehicles and traffic routes are simultaneously displayed in online monitoring mode for the required time period. Various forms of analytical reports and graphs can be created and uploaded. The reports contain data on a route trail, distance, travel speed, parking, stops, engine running time, storage battery sensor readings, and others. The vehicle location error does not exceed 100 m.

The Company pays much attention to rationalisation and inventive activity by encouraging personnel's technical creativity. In 2016 the Company's employees developed 30 rationalisation proposals aimed at improving operational efficiency, labour productivity and reliable power supply. Thus, the spacer installation method proposed by Severnye MES branch employees prevents the spacer displacement and conductor convergence in high winds and further OHTL conductor damage development and improves the grid reliability. This rationalisation proposal is recommended to be used in other branches of the Company. Tsentralnye MES branch employees developed rationalisation proposal implemented in six other Company branches, which identifies the equipment damage prior to emergency and reduces the number of outages. Another rationalisation proposal by the Severnye MES branch employees improves the relay protection equipment, prevents voltage jumps at false activation of circuit-breaker and thereby increases the equipment lifetime. This proposal was implemented in four branches. The listed rationalisation proposals were recognized as the best at the annual contest conducted by the Company; the authors were rewarded.

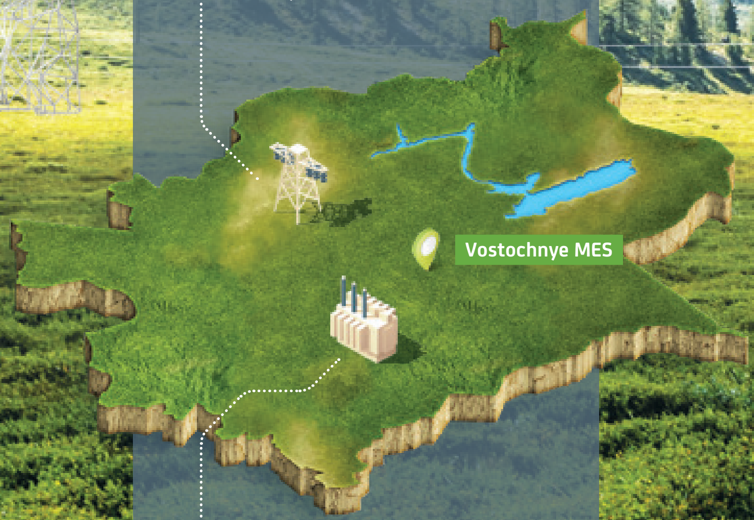
KEGOC's Scientific and Technical Council (hereinafter – STC) operates on a permanent basis. The STC is a working body of KEGOC established to take decisions on the following issues: develop KEGOC, implement the Innovation and Technology Strategy, develop and arrange for introduction of new methods and technologies in projects for new construction, rehabilitation and technical upgrade of grid facilities, improve the NPG operation modes and develop domestic scientific and production potential. In 2016 the Committee held three meetings. In addition, the Innovation and Technology Development Committee operates on a permanent basis under the STC. Its main objective is to review and prepare conclusions on information proposed for review by the STC, take decisions on rationalisation proposals of the Company's employees. In 2016 it held four meetings.

The Company defined SML (System Minutes Lost) and WWP (Percentage of Work Without Problems) to assess the network reliability level. In 2016 SML was 0.24 minutes and WWP was 99.83% corresponding to the reliability values similar to system operators' of electric networks based on results of conducted benchmarking.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development

GEOGRAPHY OF OPERATIONS

Eastern Kazakhstan:



The Himalayan brown **bear** *(Ursus arctos isabellinus)* is a distinct subspecies of the brown bear (Ursus arctos) inhabiting the Pamir, the Tien Shan and the Himalayas mountains.

It is protected in the Aksu-Jabagly and Alma-Ata reserves, and the Alma-Ata, Lepsinsk and Toktinsky preserves. A rare species, the habitat and population of which is declining.

One of two subspecies of the brown bear is in the fauna of Kazakhstan and from six to seven subspecies are in the fauna of the CIS.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development

FINANCIAL AND ECONOMIC INDICATORS

Consolidated income based on 2016 results amounted to KZT 188,716.3 million and increased by 12.5% (or KZT 20,982.8 million) compared to 2015 indicators.

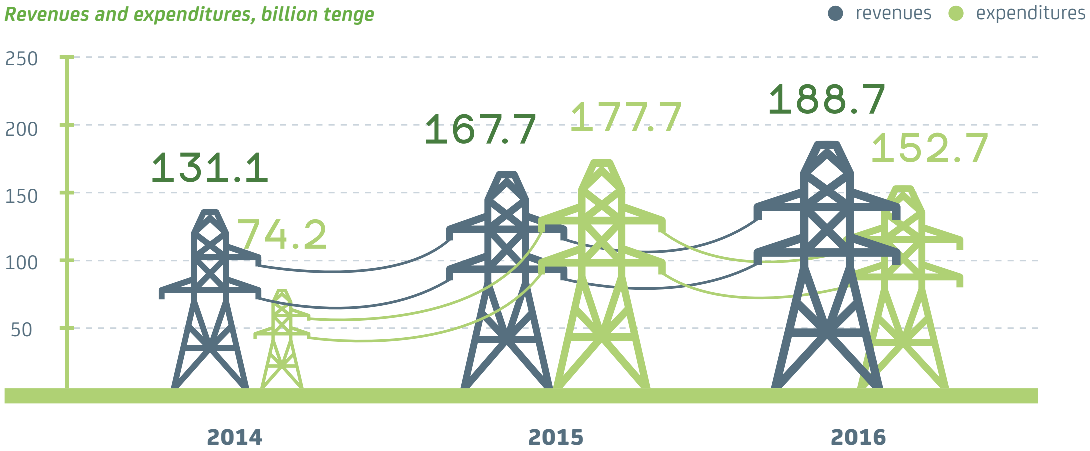
Operating revenues amounted to KZT 130,001.4 million. The operating revenues growth by 18.1% (or KZT 19,940.0 million) was due to the increase in tariffs for regulated services, increase in regulated services volumes, increase in volume of electricity purchase/sale transactions of FSC RES LLP and power regulation service revenues.

Non-operating revenues for 2016 amounted to KZT 58,714.8 million increasing by 1.8% (or KZT 1,042.9 million) compared to 2015 mainly due to increase in deposit operations revenues and revenues from the fixed assets non-repayable receipt. At the same time, there is decrease in revenues from fixed assets sale as well as revenues from fines and penalties under economic activity contracts.

Consolidated expenditures in 2016 amounted to KZT 152,741.4 million, this 14% (or KZT 24,939.1 million) less than in 2015. Cost of sale of services rendered in 2016 was KZT 79,388.8 million, increasing by 5,1% (or KZT 3,846.2 million) compared to 2015 mainly due to higher expenditures for purchase of electricity generated by renewable energy sources, labour payment for the operating personnel and depreciation. And, expenditures reduced for electricity purchase to compensate technical loss.

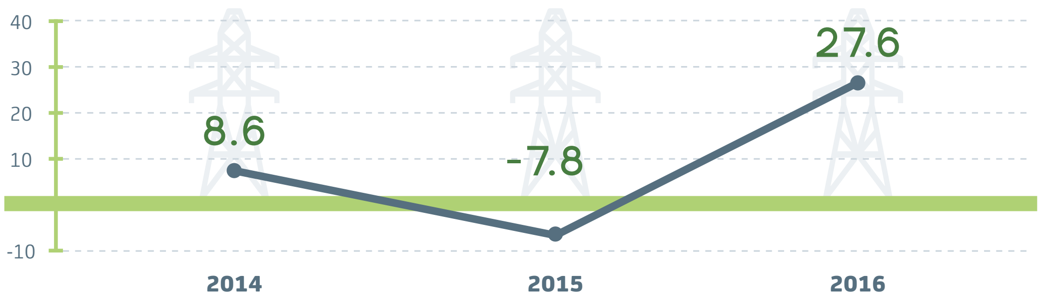
General and administrative expenditures in 2016 amounted to KZT 17,640.4 million, this twice (or KZT 9,075.7 million) less than in 2015. The increase is mainly due to higher expenditures for provision for accounts receivable, property tax, labour payment, consultancy and business transformation centre services.. Other expenditures totalled to KZT 49,439.3 million, reducing by 43.6% (or KZT 38,288.1 million) compared to 2015 mainly due to decrease in currency exchange losses.

Revenues and expenditures, billion tenge



Based on 2016 results, net income was received to the amount of KZT 27,590.2 million, as compared to losses amounting to KZT 7,779.6 million received based on 2015 results. Additionally, it should be noted that 2014-2015 financial indicators were affected by change in tenge to dollar exchange rate and fixed assets revaluation in 2014.

Net income, billion tenge



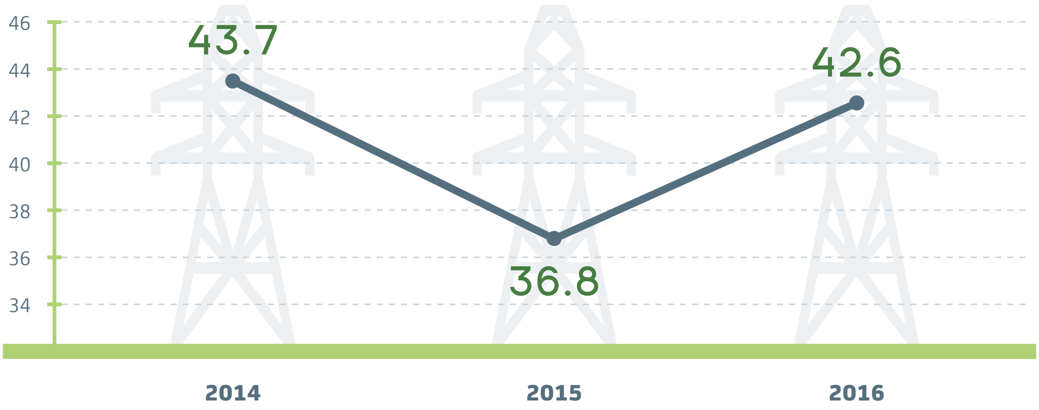
In 2017, the expected revenues are KZT 156,975.6 million, including KZT 153,887.5 million of operating revenues and KZT 3,088.1 million of non-operating revenues. Expenditures are estimated at the amount of KZT 122,505.2 million, including KZT 102,923.4 million of sale costs, and KZT 14,288.7 million of general and administrative expenses. The total profit expected in 2017 based on the operating results amounts to KZT 27,479.5 million.

All factors listed above influenced the change in value of strategic indicators of the Company's financial and economic performance.

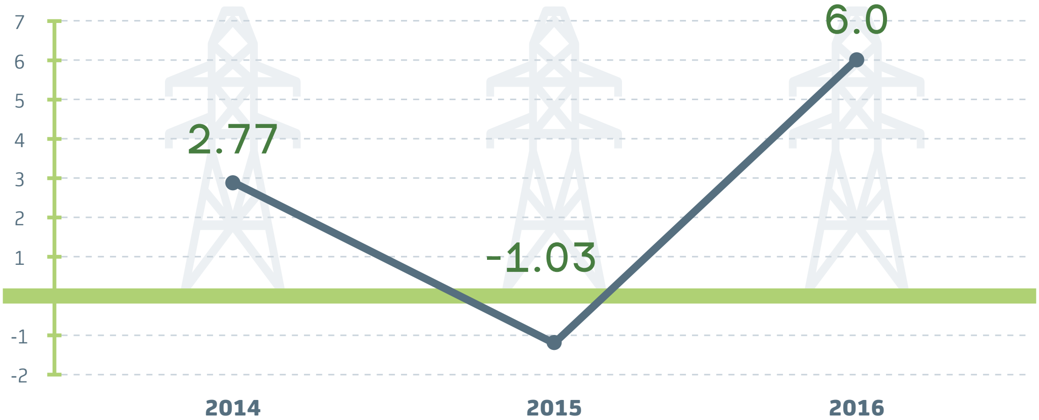
As measure of performance KEGOC uses EBITDA margin, ROACE (Return on Average Capital Employed), operation profitability, which can assess the efficiency of invested capital use, consider the most of influencing factors, risk factors, determine actual value and profitability of the Company, improve quality of financial analysis and as a result manage the Company in a more effective way.

Thus, in 2016 EBITDA margin was 42.6% million reducing by 1.1 percentage points compared to 2015 due to growth of volume of transactions on purchase/sale of electricity generated by renewable energy sources with low profitability.

EBITDA margin,%

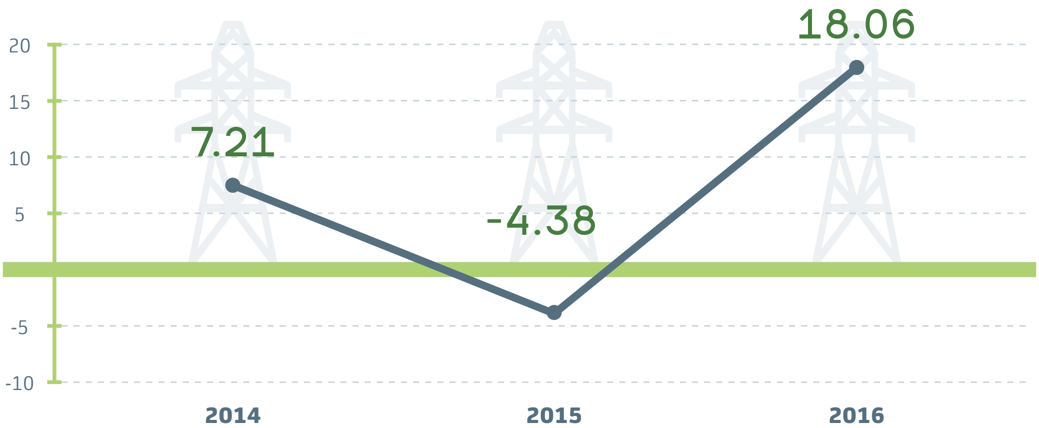


ROACE,%



The received net income based on 2016 results enabled ROACE positive values (6.0%) and operation profitability (18.1%) compared to 2015 negative values caused by occurred loss.

Profitability of operations, %



TARIFF POLICY

From the moment of its establishment, KEGOC has been consistently improving the tariff policy of regulated services, and playing an active role in activities of relative organisations to improve the tariff policy. KEGOC's operations are governed by the Law of the Republic of Kazakhstan On Natural Monopolies whereunder the Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan (CRNMPC) shall approve tariffs for regulated services: electricity transmission via the NPG, technical dispatch control of electricity supply to the grid and consumption, and electricity generation and consumption balancing. The Company's tariffs are set on a 'costs-plus basis', whereby the Company, in order to set a tariff for a certain period of time, considers the corresponding estimates of operating and financial costs and a fair rate of return on capital. Cap tariffs have been subject to approval since 2013. The principles of calculating cap tariffs are similar to the calculation of annual tariffs except that the cap tariffs shall be approved for a period of several consecutive years and make it possible for the Company to plan its capacity for long periods, and shareholders have the opportunity to get information about the Company's perspectives.

Under the set procedures the Committee on Regulation of Natural Monopolies and Protection of Competition by its Order No. 388-ОД dated 21 September 2015 has approved the cap tariffs and tariff estimates for regulated services of KEGOC for 2016-2020.

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

In April 2016 KEGOC arranged annual public hearings on the activities of the Company in 2015 for consumers and other stakeholders to strengthen the protection of consumers' rights, ensure operations transparency for consumers and other stakeholders. The basic principles of such hearings are publicity, transparency of the

Company's activities and observance of the balance of consumer interests.

CORPORATE GOVERNANCE

In accordance with the Strategy the Company made its mission to achieve the corporate governance level of leading world companies. To further improve the corporate governance, implementation and compliance with the Corporate Governance Code approved by the General Meeting of Shareholders in 2015, the Company directs its efforts to ensure:

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

Equity

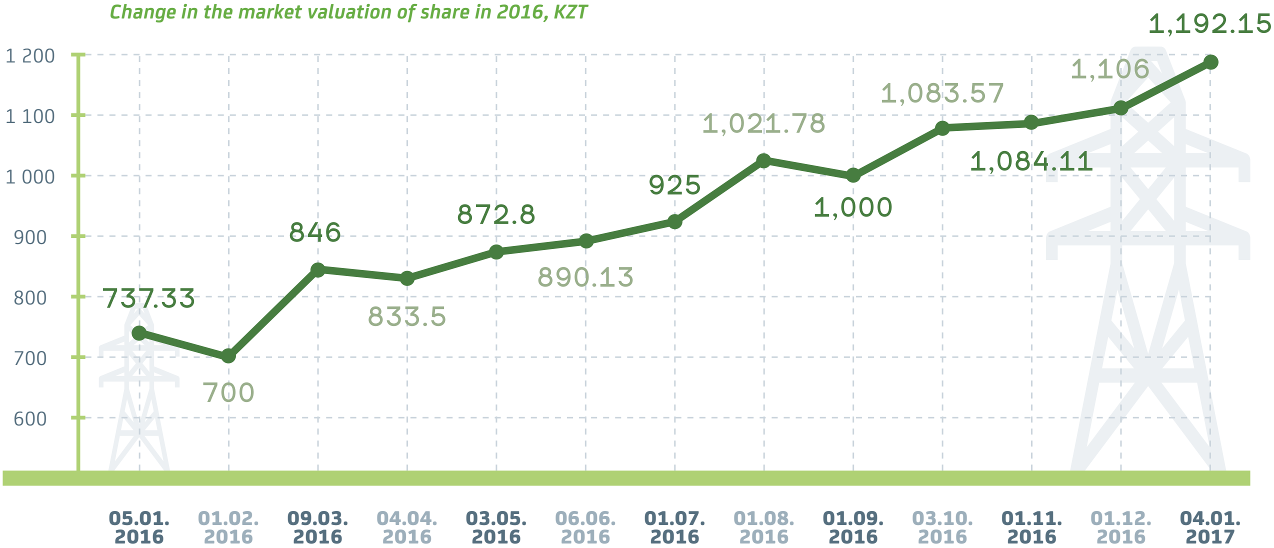
The number of KEGOC's ordinary shares placed on the Kazakhstan established securities market was 10% less one share or 25,999,999 (twenty-five million nine hundred and ninety-nine thousand nine hundred and ninety-nine). The price per KEGOC's ordinary share was five hundred and five (505) tenge.

As of 31 December 2016, the total number of the declared and placed ordinary shares of KEGOC was 260,000,000, of which 234,000,001 (90 % plus one ordinary share) are owned by Samruk-Kazyna, 25,998,609 shares belong to minority shareholders and 1,390 shares are repurchased by KEGOC at the request of the minority shareholder.

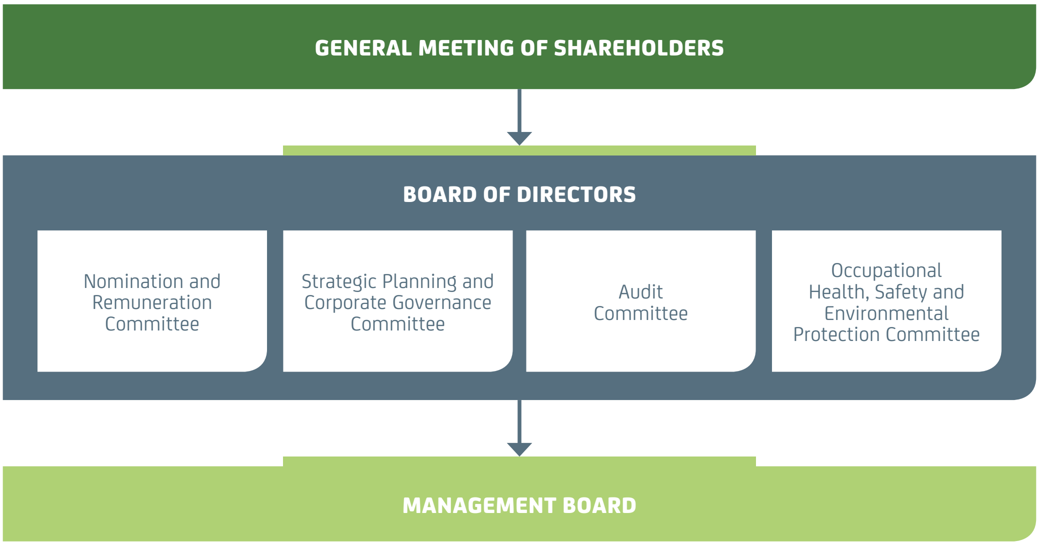
In accordance with Article 27.1.2) of the Law of Kazakhstan On Joint Stock Companies, in 2016 KEGOC received a statement from the minority shareholder with the request to repurchase the Company's shares owned by the shareholder in the amount of 1,390 shares (0.0006%). The Board of Directors made a decision to repurchase the shares of KEGOC's shareholder in the amount of 1,390 shares at the price of 669.38 tenge per ordinary share.

In 2016 there was no material transaction or changes to shares and shareholders that own five or more per cent of the number of the placed shares of the Company. There was no IPO in 2016.

Change in the market valuation of share in 2016, KZT



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



General Meeting of Shareholders

The General Meeting of Shareholders is the superior body of KEGOC and shall run its activities in accordance with the Law of the Republic of Kazakhstan On Joint Stock Companies, the Charter and the Regulations on the General Meeting of KEGOC's Shareholders. In 2016 KEGOC held three General Meetings of Shareholders.

1. On 29 January 2016 the extraordinary General Meeting of Shareholders was hold to assign Ernst&Young LLP as an auditor of KEGOC financial statements for 2016-2018, and the audit service fee amounting to one hundred and twenty-four million tenge (KZT 124,000,000), exclusive of VAT.
2. On 29 April 2016 the annual General Meeting of Shareholders was hold where:
    - The annual financial statements were approved, and the decision not to pay dividends for 2015 on ordinary shares of KEGOC was made;
    - Claims from the shareholders in relation to KEGOC's activities and its officers and results of consideration of such claims were reviewed.
3. On 28 October 2016 the extraordinary General Meeting of Shareholders was held where:
    - The decision was made regarding the change in the number of members of KEGOC's Board of Directors, election of new members of KEGOC's Board of Directors, determination of the term of office, the amount and terms of remuneration and compensation of expenses for new members of KEGOC's Board of Directors;
    - Amendments and addenda were made to the Regulations on the KEGOC's Board of Directors;
    - The interim financial statements and distribution of net income was approved, the decision on payment of dividends on ordinary shares and the amount of dividends per KEGOC's ordinary share for H1 2016 was made.

Dividend Policy

The dividend policy of KEGOC shall observe the interests of shareholders in respect to the amount of dividend payments, contribute to KEGOC's investment attractiveness and its capitalization; respect and strictly observe the rights of shareholders stipulated by the Laws of the Republic of Kazakhstan. The dividends shall be paid in case of the availability of net profit of the Company for a reporting period, or retained profits, the absence of restrictions on payment of dividends envisaged by the laws of the Republic of Kazakhstan, and given the decision of the General Meeting of Shareholders.

The source of dividends shall be net income for the appropriate financial year or half-year or retained profits accrued on the basis of the consolidated financial statements of KEGOC prepared in accordance with the

IFRS. A proposal on allocation of the net income for the fiscal year or half-year is prepared by the Company's Board of Directors. The amount allocated for payment of dividends shall be at least 40% of the net income. The decision to pay dividends on KEGOC's ordinary shares based on the results of the year shall be made by the annual General Meeting after the Company's annual financial statements have been approved. The decision to pay dividends on KEGOC's ordinary shares based on the results of the half-year shall be made by the extraordinary General Meeting of Shareholders within three (3) months after the Company's annual financial statements have been audited for the corresponding period.
The General Meeting of Shareholders, having reviewed proposals of the Board of Directors, at its discretion, shall make a decision to pay dividends on KEGOC's ordinary shares, approve the amount of dividend per KEGOC's ordinary share, and define a date of dividend payment.

Dividend History

	2014	H1 2015	H1 2016
Amount of the dividend per ordinary share, KZT	33.13	9.40	24.93
Total amount of accrued dividends, KZT thousand	8,613,800	2,444,000	6,481,765
Share of net profit as per IFRS assigned for payment of dividends, %	99.97%	40.01%	40.00%

Report on the Board of Directors Activities for 2016

From 01 January to 28 October 2016, KEGOC's Board of Directors included the following members: Chairman of the Board of Directors – K.Bektemirov, Chairman of the Management Board – B.Kazhiyev, independent directors – A.Spitsyn, L.Sutera, D.Fache and Ya. Bialek.
Based on the decision of the extraordinary General Meeting of Shareholders of KEGOC dated 28 October 2016 (Minutes No. 5) the Board of Directors is newly formed of eight (8) members to ensure a balanced membership of the Board of Directors with account of fair treatment to shareholders as follows:

Chairman of KEGOC's Board of Directors.
Born in 1970, citizen of the Republic of Kazakhstan.

Kuanysh Bektemirov

- **Elected on 31 January 2012, on 8 May 2012 by the decisions of the Management Board of Samruk-Kazyna , on 30 April 2015 by the General Meeting of Shareholders of KEGOC;**
- **owns no shares of KEGOC or subsidiaries.**

Positions:

- Since 2012 – Chairman of the Board of Directors at Samruk Energy, Tau-Ken Samruk National Mining Company, member of the Board of Directors of Kazatomprom JSC.
- 2014-2016 – Chief Asset Management Officer, Samruk-Kazyna.
- 2012-2014 – Managing Director, Samruk-Kazyna JSC.
- 2011-2012 – CEO at AstanaEnergoContract.

Independent Director, Chairman of the Strategic Planning and Corporate Governance Committee, member of the Audit Committee, the Nomination and Remuneration Committee and the Occupational Health, Safety, and Environmental Protection Committee.
Born in 1939, citizen of the Russian Federation.

Anatoliy Spitsyn

- **Elected on 24 October 2011, on 8 May 2012 by the decisions of Samruk-Kazyna's Management Board, on 30 April 2015 by the General Meeting of Shareholders;**
- **owns no shares of KEGOC or its subsidiaries.**

Positions:

- Since 2013 – Director of the Institute of Strategic Studies of the Eurasian Economic Community Integration Problems.
- 2010-2013 – Professor of Economics and Finance Department, Public Sector, IIPAM, Russian Presidential Academy of National Economy and Public Administration.
- Chairman of the Supervisory Board of Karagandy Compound Alloy Plant.

Luca Sutera

Independent Director, Chairman of the Audit Committee, the Nomination and Remuneration Committee and the Occupational Health, Safety and Environmental Protection Committee under KEGOC's Board of Directors.
Born in 1971, citizen of Italy.

- **Elected on 8 May 2012 by the decision of Samruk-Kazyna's Management Board, on 30 April 2015 by the General Meeting of Shareholders;**
- **owns no shares of KEGOC or its subsidiaries.**

Positions:

- Since 2015 – Chief Financial Officer, member of the Management Board at Nebras POWER (Qatar National Energy Company);
- 2011-2015 – Senior Vice President & Chief Financial Officer at Global power & water business. Abu Dhabi National Energy Company (TAQA), Abu Dhabi, UAE.
- 2007-2011 – Chief Financial Officer and Deputy CEO, Member of the Management Board at ENEL RUSSIA (ENEL Group), Moscow, Russia.

Dominique Fache

Independent Director, Chairman of the Nomination and Remuneration Committee, Chairman of the Occupational Health, Safety, and Environmental Protection Committee, member of the Strategic Planning and Corporate Governance Committee under KEGOC's Board of Directors.
Born in 1949, citizen of France.

- **Elected on 30 April 2015 by the General Meeting of Shareholders;**
- **owns no shares of KEGOC and its subsidiaries.**

Positions:

- Since 2016 – Chairman of RTF Board of Directors.
- Since 2013 – Member of the Board of Directors at Sophia Antipolis Science Park, Nice, France.
- 2008-2013 – Chairman of the Board of Directors, President of EnelOGK-5.

Independent Director, Member of the Nomination and Remuneration Committee and the Occupational Health, Safety, the Environmental Protection Committee and the Audit Committee under KEGOC's Board of Directors.
Born in 1955, citizen of the United Kingdom, Poland and Northern Ireland.

Janusz Bialek

- **Elected on 30 April 2015 by the General Meeting of Shareholders;**
- **owns no shares of KEGOC and its subsidiaries.**

Positions:

- Since 2014 – Director of the Skoltech Center for Energy Systems, Skolkovo Institute of Science and Technology.
- 2009-2013 – Chair of Electrical Power and Control, Director for research work at the School of Engineering and Computing Sciences, Durham University, UK;
- 2003-2009 – Bert Whittington Chair of Electrical Engineering, Director of master's programmes for green energy systems, the University of Edinburgh, UK.

Member of KEGOC's Board of Directors, representative of Samruk-Kazyna.
Born in 1946, citizen of the Republic of Kazakhstan.

Suinshlik Tiyessov

- **Elected on 28 October 2016 by the General Meeting of Shareholders;**
- **owns no shares of KEGOC and its subsidiaries.**

Positions:

- 2004-2016 – Chairman of the Management Board of KOREM JSC.
- 2000-2001 – Vice President at KEGOC OJSC, Almaty.
- 2001-2004 – Head of KEGOC's Akmola Branch, Astana.

Zhanna Yegimbayeva

Member of KEGOC's Board of Directors, representative of Samruk-Kazyna, member of the Occupational Health, Safety, and Environmental Protection Committee of KEGOC's. ***Board of Directors, born in 1953, citizen of the Republic of Kazakhstan.***

- **Elected on 28 October 2016 by the General Meeting of Shareholders;**
- **owns no shares of KEGOC and its subsidiaries.**

Positions:

- Since February 2016 – Advisor at Baiterek National Holding JSC.
- Since June 2016 – Independent Director – member of the Board of Directors, KazAgro National Management Holding joint-stock company.
- 2011-2016 – Deputy Head of the Office of the Prime Minister of the Republic of Kazakhstan.

Bakytzhan Kazhiyev

Member of the Board of Directors of KEGOC, Chairman of the Management Board of Kazakhstan Electricity Grid Operating Company (KEGOC). ***Born in 1964, citizen of the Republic of Kazakhstan.***

- **Elected on 31 May 2011, on 8 May 2012 by the decisions of the Management Board of Samruk-Kazyna, the Sole Shareholder, on 30 April 2015 by the General Meeting of Shareholders;**
- **owns no shares of KEGOC or its subsidiaries.**

Positions:

- Since 2011 – Chairman of the Management Board, KEGOC JSC.
- 2009-2011 – Vice President of Kazakhstan Electricity Grid Operating Company, KEGOC JSC.
- 2008-2009 – Executive Director, KEGOC JSC.
- 2007-2008 – Head of the Capital Construction Department, KEGOC JSC.

In 2016, the Board of Directors held 12 meetings in praesentia and three meetings in absentia, where 153 issues were considered with relevant decisions made. The major issues are as follows:

Strategic, financial, economic and investment issues:

- amendments and addenda to KEGOC's Long-Term Development Strategy 2025 were approved;
- annual/interim financial statements, proposals for payment/non-payment of dividends on ordinary shares and the amount of dividends per KEGOC's ordinary share were considered;
- progress reports on KEGOC's Long-Term Development Strategy, Investment Programme, large investment projects, Innovation and Technology Development Strategy of KEGOC were considered;
- KEGOC Development Plan for 2017-2021 was approved, and quarterly reports on the implementation of KEGOC Development Plan were considered;
- the letter regarding Samruk-Kazyna's expectations was reviewed and the Action Plan to meet the expectations of Samruk-Kazyna for 2017-2021 was approved;
- Guidelines on the sustainable development management system were approved;
- the new revision of KEGOC's Accounting Policy was approved;
- the first Bond Programme of KEGOC was approved, the decision was made on the first issue of bonds under the first Bond Programme of KEGOC and determination of the issue conditions and increase of KEGOC's liabilities by 10 (ten) or more per cent of the equity capital.

Corporate governance and risks issues:

- the Annual Report and the Sustainability Report for 2015, the Action Plan of the Board of Directors and the Annual Audit Plan of the Internal Audit Service were approved;
- the Report on assessment of performance of the Board of Directors and its committees, the Chairman and members of the Board of Directors, the Management Board, Internal Audit Service and its Head, the Corporate Secretary of KEGOC based on 2015 results prepared by an independent organization was reviewed;
- the Action Plan for KEGOC Corporate Governance Improvement and KEGOC Corporate Governance Code introduction for 2016-2020 was approved; the reports on the plan implementation were reviewed;
- the new revision of the Introduction Programme for newly elected members of KEGOC's Board of Directors was approved;
- amendments and addenda to the Regulations on the Board of Directors of KEGOC were reviewed;
- the new revision of the Rules of selection and election of the members of KEGOC's Board of Directors and the Rules of remuneration and reimbursement of expenses of the members of KEGOC's Board of Directors were reviewed;
- the new revision of the Rules on assessment of performance of the Board of Directors and its committees, the Chairman and members of the Board of Directors and employees of the Internal Audit Service of KEGOC were approved;
- the Occupational Health, Safety and Environmental Protection Committee of the Board of Directors of KEGOC was established, the Regulations on the Committee of the Board of Directors of KEGOC and changes and additions to the Regulations on the Strategic Planning and Corporate Governance Committee of the Board of Directors of KEGOC were approved;
- the new revision of the Regulations on the Management Board of KEGOC was approved;
- the Risk Registries and Risk Maps, the Key Risk and Risk Appetite Management Action Plan were approved, and also quarterly risk reports were reviewed.

HR policy:

- the organizational structure and overall number of employees of KEGOC's Executive Administration (head office) were approved;
- job descriptions, position assessment (grades) and salary schedule for the senior executives of KEGOC were approved;
- the Plan of transition to the new organizational structure of KEGOC was approved;
- the Action Plan to maintain the high level of the KEGOC social stability in 2016-2018 was approved;
- the recommendations to include representatives of Samruk-Kazyna on the Board of Directors of KEGOC were reviewed;
- the new revision of the List of positions of KEGOC employees which shall be elected or approved by KEGOC's Board of Directors was approved;
- the remuneration policy for the members of KEGOC's Management Board was reviewed.

Operations of subsidiaries:

- the number of members and terms of office of EnergoInform's Board of Directors were determined, its chairman and members were elected, the salary rates and terms of remuneration and compensation for expenses to the members of EnergoInform's Board of Directors were defined;
- the auditor to conduct an audit of EnergoInform in 2016-2018 was assigned;
- amendment agreements to the securities contracts with Batys Transit were concluded;
- the issues regarding the extraordinary General Meeting of Batys Transit JSC shareholders were reviewed;
- the new revision of EnergoInform's Charter and amendments to the Charter of Financial Settlement Centre for Renewable Energy Sources Support (FSCS RES) were approved;
- financial statements of EnergoInform and FSCS RES for 2015 were approved;
- payment of dividends on ordinary shares and approval of the amount of dividend per EnergoInform's ordinary share for 2015 were reviewed.

One of the important events in the Board of Directors activity in 2016 was the establishment of the Occupational Health, Safety and Environmental Protection Committee of the Board of Directors of KEGOC. The Committee was established to prepare recommendations to the Board of Directors on health, safety and environment issues and on the system of reporting to the Board of Directors of the Company; monitoring of the Company's strategic KPIs relating to the occupational health, safety and environmental protection and achievement of goals in this area set by the Board of Directors, analysis of the investigation results for large technological failures, group accidents with severe outcomes and provision of recommendations on the necessary measures.

In addition, on 30 June – 1 July 2016 the Board of Directors held a meeting with the members of the Management Board and responsible employees of KEGOC to discuss the Long-Term Development Strategy of KEGOC 2025, introduction of the power market in the Republic of Kazakhstan, investment projects and renewables market development prospects.

Participation and attendance by the members of the Board of Directors of KEGOC at meetings in 2016

	Attendance												
Members of the Board of Directors	**29.01**	**26.02**	**25.03**	**29.04**	**24.05**	**01.07**	**26.08**	**30.09**	**28.10**	**05.12**	**09.12**	**23.12**	**%**
K. Bektemirov	+	+	+	+	+	+	+	+	+	+	+	+	100
A. Spitsyn	+	+	+	+	+	+	+	+	+	+	+	+	100
L. Sutera	+	+	+	+	+	+	+	+	+	+	+	+	100
D. Fache	+	+	+	+	+	+	+	+	+	+	+	+	100
J. Bialek	+	-	+	+	+	+	+	+	+	+	+	+	91.6
S. Tiyessov	elected on 28 October 2016								+	+	+	+	100
Z. Yegimbayeva	elected on 28 October 2016								+	+	+	+	100
B. Kazhiyev	+	+	+	-	+	+	+	+	+	+	-	+	83.3

Committees of the Board of Directors

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

- Audit Committee;
- Nomination and Remuneration Committee;
- Strategic Planning and Corporate Governance Committee;
- Occupational Health, Safety and Environmental Protection Committee.

The Committees are advisory bodies of the Board of Directors. All proposals worked out by the Committees are recommendations that shall be submitted to KEGOC's Board of Directors for review.

Audit Committee:

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

The Audit Committee was established for in-depth working out of necessary recommendations to the Board of Directors on the following issues:

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

The Audit Committee shall operate in accordance with the Regulations on Audit Committee under KEGOC Board of Directors. In 2016 the Audit Committee held 10 meetings in praesentia, reviewed 52 issues, and provided the appropriate recommendations to the Board of Directors.

Participation and attendance at the meetings by the members of the Audit Committee in 2016

	Attendance										
Members of the Audit Committee	29.01	26.02	25.03	28.04	23.05	30.06	26.08	30.09	28.10	05.12	%
Luca Sutera	+	+	+	+	+	+	+	+	+	+	100
Anatoliy Spitsyn	+	+	+	+	+	+	+	+	+	+	100
Janusz Bialek	+	-	+	+	+	+	+	+	+	+	90

The Audit Committee reviewed: the quarterly performance reports of the Internal Audit Service, the issues relating to financial statements, internal control and risk management, internal and external audit, HR issues of the Internal Audit Service, and internal regulations governing the activities of the Internal Audit Service. The Audit Committee members held three meetings with the representatives of Ernst & Young that audited financial statements to discuss the preliminary audit results, the Management Letters on the audit results, and the financial statements review results for Q1, H1 and 9M 2016.

In 2016 the Audit Committee fully accomplished its goals and tasks in accordance with the Regulations on the Committee, as well as the Action Plan of the Committee for 2016. The Committee reviewed in detail all issues of meeting agendas, provided carefully considered and comprehensive recommendations which were adopted by the Board of Directors of KEGOC.

Nomination and Remuneration Committee:

- Dominique Fache – Chairman of the Committee, Independent Director;
- Anatoliy Spitsyn – Member of the Committee, Independent Director;
- Janusz Bialek – Member of the Committee, Independent Director.

The Nomination and Remuneration Committee was established to work out and submit to the Board of Directors the recommendations relating to the policies of selection, election, remuneration, assessment, succession planning of the members of the Board of Directors, the Management Board, IAS and its Head, and Corporate Secretary. The Nomination and Remuneration Committee shall perform its functions in accordance with the Regulations on the Nomination and Remuneration Committee under KEGOC Board of Directors.

In 2016, the Committee held nine meetings in praesentia, reviewed 41 issues and provided recommendations to the Board of Directors.

Participation and attendance at the meetings of the Nomination and Remuneration Committee members in 2016

Members of the Nomination and Remuneration Committee	Attendance									
	29.01	26.02	25.03	23.05	30.06	26.08	30.09	28.10	05.12	%
Dominique Fache	+	+	+	+	+	+	+	+	+	100
Anatoliy Spitsyn	+	+	+	+	+	+	+	+	+	100
Janusz Bialek	+	-	+	+	+	+	+	+	+	88.8

The Committee reviewed and made recommendations to the Board of Directors on:

- inclusion of two representatives of Samruk-Kazyna on the Board of Directors of KEGOC;
- motivational KPIs for KEGOC senior executives;
- the assessment results of performance of the Board of Directors and its committees, the Chairman and members of the Board of Directors, the Internal Audit Service and its Head;
- KEGOC's Succession Plan;
- determination of the number of KEGOC's Management Board members, early termination of powers of some members of the Management Board and determination of the terms of powers of KEGOC's Management Board;
- appointment of KEGOC senior executives and determination of their salaries amounts;
- the list of KEGOC employees' positions, which shall be elected or approved by KEGOC Board of Directors;
- grades and Salary Schedule for KEGOC senior executives;
- the Organizational Structure and the staff number of KEGOC's Executive Administration (head office);
- efficiency of the remuneration policy for the members of KEGOC's Board of Directors and Management Board;
- the Rules of remuneration and reimbursement of expenses of the members of the Board of Directors of KEGOC;
- the Rules for Selection and Election of the members of the Board of Directors of KEGOC.

In 2016 the Committee fully accomplished its goals and tasks in accordance with the Regulations on the Committee, as well as the Action Plan of the Committee for 2016. The Committee reviewed in detail all agenda issues of the Committee meetings and provided carefully considered and comprehensive recommendations to the Board of Directors of KEGOC.

Strategic Planning and Corporate Governance Committee:

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

The Strategic Planning and Corporate Governance Committee is a consultancy and advisory body of the Board of Directors established to work out and submit to the Board of Directors the recommendations relating to:

- priority areas of the Company's activities, Development Strategies, Development Plan and investment programmes;
- improvement of KEGOC Corporate Governance Code.

The Committee shall operate in accordance with the Regulations on the Strategic Planning and Corporate Governance Committee under KEGOC's Board of Directors. In 2016 the Committee held eight meetings in praesentia. As per the agendas of meetings the Committee reviewed 22 issues and provided recommendations to the Board of Directors.

Participation and attendance at the meetings by the members of the Strategic Planning and Corporate Governance Committee in 2016

	Attendance								
Members of the Strategic Planning and Corporate Governance Committee	**29.01**	**26.02**	**25.03**	**23.05**	**30.06**	**26.08**	**28.10**	**05.12**	**%**
Anatoliy Spitsyn	+	+	+	+	+	+	+	+	100
Luca Sutera	+	+	+	+	+	+	+	+	100
Dominique Fache	+	+	+	+	+	+	+	+	100

The Committee reviewed and made recommendations to the Board of Directors on:

- the Development Plan of KEGOC;
- the Action Plan for KEGOC Corporate Governance Improvement and introduction of the Corporate Governance Code for 2016-2020;
- the reports on implementation of Development Plan of KEGOC, Innovation and Technology Strategy for 2015, the Long-term Development Strategy 2025, the Action Plan for KEGOC's Corporate Governance Improvement and introduction of the Corporate Governance Code for 2016-2020;
- amendments to KEGOC's Long-term Development Strategy 2025.

In 2016 the Committee fully accomplished its goals and tasks in accordance with the Regulations on the Committee, as well as the Action Plan of the Committee for 2016. The Committee reviewed in detail all agenda issues of the Committee meetings and provided carefully considered and comprehensive recommendations to the Board of Directors of KEGOC.

The Occupational Health, Safety and Environmental Protection Committee was established on 28 October 2016 comprising as follows:

- Dominique Fache – Chairman of the Committee, Independent Director;
- Janusz Bialek – Member of the Committee, Independent Director;
- Luca Sutera – Member of the Committee, Independent Director;
- Anatoliy Spitsyn – Member of the Committee, Independent Director;
- Zhanna Yegimbayeva – Member of the Committee, representative of major shareholder.

The Occupational Health, Safety, and Environmental Protection Committee was established to work out and submit to the Board of Directors the recommendations relating to:

- the policy and procedures for ensuring occupational health, safety and environmental protection including the reporting system;
- strategic KPIs relating to the occupational health, safety and environmental protection, and achievement of goals in this area;
- analysis of the results of investigation of major technological failures, group accidents with severe outcomes and provision of recommendations on the necessary measures;
- compliance of the practice accepted in KEGOC with the advance practice in occupational health, safety and environmental protection.

The Committee shall operate in accordance with the Regulations on the Occupational Health, Safety and Environmental Protection Committee under KEGOC's Board of Directors.

In 2016, the Committee held one meeting in praesentia to review the Regulations on the Occupational Health, Safety and Environmental Protection Committee of the Board of Directors of KEGOC and Occupational Health and Security Report of KEGOC.

Participation and attendance of the members of the Occupational Health, Safety and Environmental Protection Committee in 2016

The members of the Occupational Health, Safety and Environmental Protection Committee	Attendance	
	09.12	%
Dominique Fache	+	100
Janusz Bialek	+	100
Luca Sutera	+	100
Anatoliy Spitsyn	+	100
Zhanna Yegimbayeva	+	100

The Committee reviewed and made recommendations to the Board of Directors to approve the Regulations on the Occupational Health, Safety and Environmental Protection Committee of the Board of Directors of KEGOC and Occupational Health and Security Report of KEGOC.

Assessment of the Board of Directors' performance

KEGOC's Corporate Governance Code requires the annual assessment of the Board of Directors' performance, and at least once every three years it shall be conducted by independent consultants. In 2016 Dostyk Advisory LLP (the auditing company) conducted an independent external assessment of the performance of the Board of Directors, its committees, the Chairman and members of the Board of Directors, the Internal Audit Service and its head, and the Corporate Secretary of KEGOC. Based on the assessment findings, the independent consultants assigned the rating of compliance of the Board of Directors performance with the best practices at the 80.37% level. The obtained assessment findings suggested that the work of the Board of Directors and its committees was at an adequate level, and qualification of the members of the Board of Directors, employees of the Internal Audit Service and Corporate Secretary complied with the goals and objectives of KEGOC.

On the whole, the performance of the Board of Directors in 2016 contributed to the efficient development of the Company, the achievement of strategic goals and objectives determined by the Company for short-term, medium-term and long-term periods. The Board of Directors played an active role in strategic planning, the improvement of the corporate governance in KEGOC, the internal control and risks management systems in respect of wide range of business-processes.

In accordance with the decision of the General Meeting of Shareholders dated 30 April 2015 the independent members of the Board of Directors shall be remunerated for the duration of their assignment, and the expenses associated with the performance of the functions of KEGOC's Board of Directors shall be compensated.

The remuneration of the independent directors of KEGOC includes:

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

The annual fixed fee shall be paid to an independent director for his/her duties as a member of the KEGOC Board of Directors in the amount determined by the General Meeting of Shareholders in accordance with the laws of the Republic of Kazakhstan. The additional fee shall be paid to the independent members of the Board of Directors for participation in meetings in praesentia of the committees of the Board of Directors. Based on the decision of the General Meeting of Shareholders dated 28 October 2016, a member of the Board of Directors elected as representative of KEGOC's major shareholder (Samruk-Kazyna) for performance of the duties shall be paid a fixed annual remuneration. Payment of additional remuneration is not provided. So, in 2016 the annual fixed fee for the members of KEGOC's Board of Directors amounted to KZT 55,633 million. Remuneration for participation in the meetings in praesentia of the committees for the Independent Directors of KEGOC's Board of Directors amounted to KZT 36.907 million.

The members of the Board of Directors shall be compensated for the expenses associated with his/her travel to the meetings of the Board of Directors, committees of the Board of Directors and the meetings initiated by the Chairman of the Board of Directors and/or the Chairman of the Management Board of Samruk-Kazyna, the Chairman of the Management Board of KEGOC held beyond the place of permanent residence of the member of the Board of Directors: (transport including transfer, accommodation, daily allowance, telephone services (except mobile) in Kazakhstan, documents scan, copy, fax, print, type services, access to the internet in Kazakhstan, courier and mail services).

KEGOC's Management Board

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

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

COMPOSITION OF KEGOC'S MANAGEMENT BOARD AS OF 31 DECEMBER 2016:

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

Bakytzhan Kazhiyev

- **Experience in the sector is 30 years.**
- **Shares owned in KEGOC or its subsidiaries: none.**

Education:

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

First Deputy Chairman of Management Board.
born in 1973, citizen of the Republic of Kazakhstan.

Education:

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

Functions in KEGOC: issues of financial and economic activity, pricing, cooperation with financial institutions, the provision of system services, interaction with power systems and energy companies of neighbouring countries, procurement, logistics, operational dispatch management, and project management. Member of the Board of Directors of EnergoInform JSC.

- **Experience in the sector is 23 years.**
- **Shares owned in KEGOC or its subsidiaries: none.**

Serik Ospanov

Deputy Chairman of Management Board for Operations.
Born in 1968, citizen of the Republic of Kazakhstan.

Education:

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

Functions in KEGOC: repairs and maintenance of business assets, reliable and uninterrupted transmission of electricity through the NPG, development and implementation of the investment program, work with affiliates.

- **Experience in the sector is 16 years.**
- **Shares owned in KEGOC or its subsidiaries: none.**

Bakytkhan Zhazykbayev

Askerbek Kuanyshbayev

Deputy Chairman of Management Board for NPG Development and Corporate Governance.
Born in 1955, citizen of the Republic of Kazakhstan.

Education:

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

Functions in KEGOC: NES development, technical policy, cooperation with international organizations, technical policy, innovation and technological development, energy saving and energy efficiency, cooperation with shareholders and organizations with regard to the Company's shares on KASE, corporate governance, risk management system, integrated management system and environmental protection. Chairman of the Supervisory Board of FSC RES.

- **Economics. Experience in the sector is 39 years.**
- **Shares owned in KEGOC or its subsidiaries: none.**

Abat Akmurzin

Managing Director for Branches and Affiliates.
Born in 1958, citizen of the Republic of Kazakhstan.

Education:

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

Functions in KEGOC: operation of branches and EnergoInform, repair and maintenance of business assets, investment program, development of information technologies and systems, diagnostics of electric equipment, control over construction and commissioning of facilities. Member of the Board of Directors of Batys Transit JSC, EnergoInform JSC.

- **Experience in the sector is 36 years.**
- **Shares owned in KEGOC or its subsidiaries: none.**

Muktar Bekenov

Managing Director for System Services.
Born in 1958, citizen of the Republic of Kazakhstan.

Education:

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

Functions in KEGOC: system services, dispatch and process control of operation modes of the Kazakhstan UPS, customs clearance of power flows, operation and rehabilitation of relay protection and substation automation and metrological support of operations.

- **Experience in the sector is 35 years.**
- **Shares owned in KEGOC or its subsidiaries: none.**

Kairat Zhakipbayev

Managing Director for Legal Support and Security.
Born in 1964, citizen of the Republic of Kazakhstan.

Education:

- Kirov Kazakh State University, majoring in Legal Science. Experience in the sector is 9 years.

Functions in KEGOC: legal issues, economical, technical and information security, interaction with governmental and non-governmental organizations, documentation record management. Member of the Board of Directors of EnergoInform JSC.

- **Experience in the sector is 9 years.**
- **Shares owned in KEGOC or its subsidiaries: none.**

Managing Director for Technical Supervision and Supply.
Born in 1964, citizen of the Republic of Kazakhstan.

Bolat Temirbekov

Education:

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

Functions in KEGOC: procurement, logistics, customs support to contracts, sale of intangible commodities and materials, service and administrative support, technical control and labour protection.

- **Experience in the sector is 25 years.**
- **Shares owned in KEGOC or its subsidiaries: none.**

Managing Director for Economics.
Born in 1976, citizen of the Republic of Kazakhstan.

Aibek Botabekov

Education:

- Buketov Karaganda State University majoring in International Economic Relations, Nazarbayev University major in Business Administration.

Functions in KEGOC: financial and economic issues, pricing, cooperation with financial institutions and audit companies, maintenance of the Management Accounting System.

- **Experience in the sector is 19 years.**
- **Shares owned in KEGOC or its subsidiaries: none.**

In 2016 KEGOC's Management Board held 27 meetings and reviewed 195 issues. In addition to the issues related to the competence of KEGOC's Board of Directors and pre-reviewed by the Management Board, the Management Board made some main decisions to:

- approve 11 internal documents and make amendments to 13 internal documents of the Company;
- approve the Image Improvement and Corporate Communications Development Program of KEGOC for 2017 – 2021;
- for KEGOC to join the Association of Competition Development Commodity Markets;
- approve the Action Plan for Engineering and Technical Reinforcement and Equipment with Security Systems of KEGOC facilities for 2017-2025;
- approve the candidature of KEGOC representative as a member of the Board of Directors of Kazakhstan Generation Reserve-Sharing Pool (GRS Pool);
- conclude a contract with EnergoInform for purchase/sale of electricity on the balancing electricity market of the Republic of Kazakhstan in 2016-2018;
- review the reports on the Risk Committee and the Human Resource Development Committee performance in 2015 and the results of assessment of the Risk Committee performance in 2015, and approve the Action Plan of the Risk Committee in 2016;
- provide financial support to veterans of the Great Patriotic War and equated persons registered in KEGOC, as well as payment for medical treatment of the Company's employees.

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

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

The labour payment and remuneration procedure for KEGOC Management Board members shall be outlined in the Regulations on KEGOC Management Board, as well as the Rules for labour payment and remuneration to the executive employees, employees of the Internal Audit Service and the Corporate Secretary of KEGOC. The remuneration system for the Chairman and members of the Management Board includes a salary and a year-end remuneration. Thus, the total salary accrued for the members of KEGOC's Management Board from 01 January 2016 to 31 December 2016 amounted to KZT 119.45 million.

The year-end remuneration to KEGOC executive employees shall be paid within the limits of cash assets provided in KEGOC's budget upon approval of the results of financial and economic performance based on the audited financial statements. The payment of remuneration is mainly conditioned by the consolidated total income for the reporting period. The remuneration is not accrued on a constant basis. The performance of executive employees shall be assessed using the motivational key performance indicators which shall be developed through KEGOC strategic goals cascading by specific indicators on business processes/ areas of KEGOC operations in the form of KPI maps. The right to remuneration following the year-end performance results shall be entitled to executive employees who actually worked during the reporting period not less than five (5) months, based on the KPI achievements for the reporting period. The maximum remuneration for the year-end results for executive employees cannot exceed three-fold annual amount of salary. According to the KPI performance results in 2016, KEGOC executive employees are planned to be remunerated under the approved decision of the Board of Directors of KEGOC.

Internal Audit Service

The Internal Audit Service (IAS) of KEGOC was established in accordance with the decision of KEGOC Board of Directors in 2006. As of 31 December 2016, the approved IAS staff number was eight. There were no vacancies.

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

As required by the International Standards for the Professional Practice of Internal Auditing, the external assessment of IAS performance shall be carried out at least once every five years by an independent external expert or a group of appraisers who are not employees of the organization. In 2016 consultants of KPMG Tax and Advisory conducted an independent external assessment of IAS performance to assess the compliance of IAS performance with 97 international professional standards of internal audit. Based on the assessment results the consultants of KPMG Tax and Advisory made a conclusion that the IAS performance 'complies' with the international professional standards of internal audit.

In 2016 the IAS activities were regulated by the following documents:

- international professional standards of internal audit;
- Regulations on the IAS approved by KEGOC's Board of Directors;
- the Rules of KEGOC's Internal Audit Management as approved by the Board of Directors of KEGOC;
- job descriptions of the IAS employees approved by the Chairman of the Audit Committee;
- the IAS' annual audit plan for 2016 was approved by the Board of Directors of KEGOC.

All audit engagements in 2016 were planned on account of the mission and the main objective of the IAS. The risk-based approach was used to plan the internal audit, i.e. the priority was given to the business processes that are most vulnerable to negative events. The plan provided for execution of 19 engagements, which included the combined checks of the Company's branches, financial statements, external audit, procurement, risk management, information technologies, projects and etc. All the engagements were performed. Moreover, under implementation of the instruction of the Fund's Audit Committee, as well as the initiative of the Fund's IAS relating to synergistic audits at the Fund's group of companies, the IAS in 2016 took part in the following audit engagements:

- 'The status report on the review of implementation of the Transformation Program (PMO) in KazMunaiGas JSC';
- 'Testing/evaluation of controls in the financial accounting system, and the formation of the consolidated financial statements of Samruk-Energo JSC'.

Besides, IAS in 2016, upon the request of the Company's units, performed the additional audit assignment 'Check of actual KPI values and calculation of remuneration to the executive employees of KEGOC in 2015'.

Also, the IAS in 2016 conducted an investigation of four appeals submitted to the Audit Committee through the 'hot line'. Based on the investigation results, the Audit Committee gave relevant recommendations to KEGOC's Management Board.

Following the results of the performed audit engagements in 2016, the IAS submitted to the Company 189 recommendations; among them 172 recommendations were accepted by the audited entities, and 17 recommendations were not accepted (i.e. heads of the audited entities accepted the risk of their non-fulfilment). The audited entities together with the IAS prepared the Corrective Action Plans. Every quarter the IAS monitored the execution of the issued recommendations, the results of which revealed that as of 31 December 2016 the Company had executed 45 out of 172 accepted recommendations, and 127 recommendations were under implementation.

Risk Management and Internal Control

The risk management system (RMS) has been successfully implemented and operating at KEGOC. This system is aimed at continuity and stability of the activity by limiting the impact of the external and internal negative factors on KEGOC's activity. KEGOC's RMS is formed on the basis of generally accepted conceptual models of risk management developed by the Committee of Sponsoring Organizations of the Treadway Commission – COSO ERM 'Risk Management Organization. Integrated model (COSO)'. The Company annually carries out risk identification and assessment, and develops risk management measures. The main principles of the risk management system are:

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

The risk management involves the Board of Directors, the Management Board, the Internal Audit Services, structural units – the risk owners and the structural unit responsible for the risk management. The Risks Committee which is responsible for the preparation of recommendations to the KEGOC Management Board with regard to the Company's risk management also performs its functions. In 2016 the Committee held 10 meetings. The Committee's members analysed the occurred risks, reports on the risk management system, Risk Register and Risk Map, risk appetite, etc. To manage key risks, the Key Risk Management Action Plan, the tolerance levels and key risk indicators were approved. KEGOC in its operations takes into account a wide range of business-related risks in categories: strategic risks, financial risks, operational risks, and legal risks.

The material risks which KEGOC incurred in 2016:

- Risk of non-payment for unscheduled electricity flows and power control services by the IPS of Central Asia. The main factor of such risk is a breach of contract obligations by UzbekEnergo to pay for the electricity and power regulation services. In order to eliminate this risk the Company carries on the correspondence with UzbekEnergo relating to timely payment and settle of the arrears for the delivered electricity and power regulation services. Moreover, KEGOC carries out the claims work regarding the settle of the arrears by UzbekEnergo under the contracts for power regulation services and unscheduled electricity.
- Work safety risk. With respect to the Company's activities the personnel is exposed to the accidental risk during operations, as a result of safety regulations violation or occupational diseases. With a view to mitigate such risk at KEGOC the specialists carry out

visits and inspections, assessment of working places, technical training of operations and maintenance staff, emergency protection and fire safety trainings, pre-shift medical inspection, instructions, knowledge assessment in terms of safety regulations, as well as lectures and seminars on injuries prevention and accidents in industries.

- Decrease in the scope of system services. A risk occurring due to reduction of the electricity transmission by the electricity wholesale market entities in the Republic of Kazakhstan, and due to lower electricity transit from the Russian Federation. This risk shall be managed by correction of the planned indicators.

The Company carries out a regular assessment of the corporate RMS effectiveness. The assessment method is based on the provisions of COSO concepts, best practices and approaches, principles of risk management.

The Internal Audit Service of KEGOC on a regular basis, independently or involving external experts, conducts an independent assessment of the corporate RMS performance.

In 2016, Dostyk Advisory consultants conducted an independent assessment of the corporate RMS performance by the components:

1. Organization of risk management processes.
2. Risk identification.
3. Risk assessment.
4. Risk management.
5. Monitoring.

Based on the assessment results, the level of KEGOC RMS conformity to the best world practice was 74.79 %.

The Internal Control System (ICS) of KEGOC allows the Company to build the management system capable to promptly response to risks, control the main and supporting business processes and daily operations, as well as immediately inform the executives of the appropriate level of any material deficiencies and areas to improve. In accordance with the Standard 'Internal Control System of KEGOC', the competences of units included in ICS is differentiated depending on their role in the processes of development, approval, implementation and assessment of ICS performance. ICS participants are the Board of Directors, the Management Board, Audit Committee, Internal Audit Service, the business units – owners of business processes, a structural unit responsible for risk management.

In 2016, Dostyk Advisory consultants conducted an independent assessment of the ICS performance. The Dostyk Advisory consultants examined the components, the internal control system is based on:

1. Control Environment
2. Risk assessment.
3. Control procedures.
4. Information and its transfer.
5. Monitoring.

Based on the assessment results, the level of ICS conformity to the best world practice was 81.62%.

Information Policy

In 2016 KEGOC continued implementing the information policy abiding by the principles of fair and prompt disclosure of information to shareholders, investors and other stakeholders. To execute the rights of shareholders, and provide high efficiency and availability of essentially important information for users, KEGOC ensured the publication of materials about the Company's operating and financial activities in the media. Also, in order to deliver the information about investment activity and implementation of state programs, KEGOC arranged interviews and public hearings of the Company management through briefings, press tours, industry and specialized exhibitions and other rating increase promotions.

In 2016, the Company upgraded and updated the Information Policy to improve the integrated approach to the information disclosure in accordance with the legislation and best international practices of corporate governance. When disclosing information, KEGOC shall abide by the principles of protection of information constituting commercial, official and other secret protected by the laws, as well as information of limited distribution.

On 15 April 2016 KEGOC management held a meeting with the professional participants of the securities market and discussed the results of KEGOC operations in 2015 to ensure 'the investment image' of KEGOC and the constructive dialogue between KEGOC and securities market experts. Also, on 4 October 2016 Kazakhstan Stock Exchange (KASE) held 'The Issuer Day' dedicated to KEGOC to discuss the results of KEGOC operating and financial activities during the first half of 2016.

To ensure the comprehensive assessment of KEGOC image among stakeholders, as well as to evaluate the information transparency and reveal the information disclosure efficiency, in 2016 an independent party conducted a reputation audit. The Company's reputation score compared to 2015 increased by 0.3% to 6.7 rating points, showing the growth of all main assessment parameters. The assessment results show the improvement of the Company's image among both staff and external experts, and the population of the Republic of Kazakhstan, as well as their favourable perception of KEGOC.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development
Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 1. The Government as a shareholder of the Fund			
1	The main strategic goal of the Company is the growth of long-term value and sustainable development, as reflected in the Company's development strategy. All decisions and actions shall be consistent with the development strategy. Organizations shall carry out their activities as part of their core (principal) activities. New activities are permitted, provided that there is no competition in this market or the Company's participation will contribute to the development of small and medium business.	*Compliance*	In 2016, the Board of Directors approved changes in KEGOC's Long-Term Development Strategy 2025, which has the following strategic objectives: reliable operation of the Unified Power System of Kazakhstan; stable financial position of the Company and cash flows for shareholders and development; sustainable development. All decisions and actions are in line with the Strategy, which includes the following areas of activities: investment, innovation, technological and social. In order to monitor the implementation of the Strategy, the Board of Directors and the Management Board of the Company shall hold strategic sessions, in the course of which the main areas of activities, tasks, concerns, risks and corrective measures are discussed. The investment activity of the Company is carried out under the Strategy. In 2016, the Company carried out its activities in accordance with the Law of the Republic of Kazakhstan On Natural Monopolies and the Rules for Submission and Consideration of Applications for Consent for Natural Monopoly Entities to Exercise Other Activities approved by Order of the Chairman of Agency for Regulation of Natural Monopolies of Kazakhstan dated 19 July 2013 No. 216-ОД.
5	The Government shall grant the Company complete operating autonomy and prevent interference from the Government and public bodies in operational (current) and investment activities, except for cases stipulated by laws, regulatory acts and instructions of the President of the Republic of Kazakhstan. Bodies of the Company are completely autonomous and independent in decision-making and implementing any action within their competence.	*Compliance*	In 2016, there were no facts of direct interference in the operational activities of the Company by the Government and public bodies. All decisions on strategic and operational issues were taken by the Board of Directors and the Management Board independently, taking into account the government's policy and regulatory documents.
8	The Company's investment activities shall be carried out on the market principles in accordance with the Strategy and aim to increase the value and optimal structure of the assets. Implementation of low-profit and socially significant projects by the Company shall be disclosed in the Company's annual report indicating the sources of funding for such projects.	*Compliance*	KEGOC's Development Strategy approved by the Board of Directors, contains a portfolio of investment projects implemented to fulfil the Company's mission in the State economy. Information about the Company's investment activity is described in detail in the Annual Reports.
14	The Company shall adhere to high ethical standards and introduce the necessary procedures to ensure that all employees and partners in the Company apply these standards in a consistent manner. Notices of alleged violations shall be sent directly to the IAS or the Board of Directors. Executive body and all of its structural divisions, including the security service, shall not impede the transfer of notices of alleged violations to the IAS or the Board of Directors.	*Partial Compliance*	The Company (officials and employees) adheres to high ethical standards and complies with the Business Ethics Code approved by the Board of Directors. All members of the Board of Directors, the Management Board and the Company's employees are familiar with the provisions of the Business Ethics Code. The Board of Directors provided a mechanism to collect and confidentially review the violation of the Company's policies by organizing a hotline under the Audit Committee. Using the details published on the Company's website, stakeholders can notify the Audit Committee of alleged violations of the law, etc. through the IAS. The confidentiality of the applicants is maintained. In addition, the Company has established an ombudsman, and stakeholders can contact the ombudsman regarding the violation of the Business Ethics Code. The Board of Directors periodically receives reports on messages (complaints) received, actions taken, etc. To ensure a unified approach through IAS to the confidential reporting system, it is planned to introduce and implement a uniform confidential reporting policy within the Company and its subsidiaries in 2017.
Chapter 2. Interaction of the Fund and organizations. The role of the Fund as the national management holding			
1	The corporate governance system in the Company ensures the proper management and control of their activities and aims to increase long-term value and sustainable development.	*Compliance*	The major shareholder sends letters of expectations to the Chairman of KEGOC's Board of Directors, which are communicated to the Board of Directors. In accordance with the Charter of the Company, the Board of Directors determines the activity areas of the Company, approves the Development Strategy and medium-term development plan for 5 years, including the implementation of the major shareholder's expectations. In December 2016, the Board of Directors updated KEGOC's Long-Term Development Strategy 2025. The Strategy was developed taking into account state plans and programmes, as well as the Samruk-Kazyna Development Strategy and shareholder's letters of expectations. KEGOC's Development Strategy determined the following strategic goals: Reliable Operation of the Unified Power System of Kazakhstan, Stable Financial Position of the Company and Cash Flows for Shareholders and Development and Sustainable Development. The Management Board ensures the implementation of Strategy and development plans and the achievement of the approved strategic KPIs and periodically report to the Board of Directors.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development

Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 2. Interaction of the Fund and organizations. The role of the Fund as the national management holding			
2	The Company's corporate governance system is a set of processes that provide management and control over the activities of the Company, as well as a system of relations between the executive body, the Board of Directors, shareholders and stakeholders. Competence of the bodies and decision-making procedures shall be clearly defined and set in the Charter.	*Compliance*	The Company's corporate governance system provides: 1. respect for the hierarchy of the issues consideration procedure and decision-making: all issues submitted for consideration by the Board of Directors are carefully considered by the relevant specialized Committees of the Board of Directors; 2. clear delineation of authority and responsibility between the Board of Directors, the Management Board, officials and employees: competence, authority and responsibility of the bodies are defined by the Charter, the Regulations on the GMS, the Board of Directors and the Management Board; the Order of the Chairman of the Board On Responsibilities and Authority Allocation clearly delineates areas of responsibility of members of KEGOC's Management Board; structural subdivisions of the Company, including branches, carry out their activities under the Regulations on subdivisions; every job position has job descriptions. 3. The Board of Directors and the Management Board make decisions in good and timely manner; 4. compliance with the laws and internal documents of the Board of Directors and the Management Board.
4	The Fund shall participate in the management of companies through the implementation of the shareholder functions, as well as through the Board of Directors, in the manner determined by the Company's Charter and the Code. The Fund shall annually send to the Chairman of the Board of Directors and representatives of the Fund in the Board of Directors of the Company the shareholder expectations for the coming fiscal year. The Board of Directors of the companies shall have full autonomy in making decisions within their competence established by the Charter of the Company. The position of the Fund on individual issues shall be communicated by representatives of the Fund in the Board of Directors.	*Compliance*	Samruk-Kazyna, as a major shareholder of the Company, participates in the management of the Company by sending the major shareholder's letters of expectations and also through participation of its representatives in the Boards of Directors. In 2016, the major shareholder sent to the Chairman of KEGOC's Board of Directors a letter of expectations for the medium term, on the basis of which the Development Plan was developed. The Board of Directors includes three representatives of the major shareholder, and the presence of four independent directors ensures that decisions are taken in a balanced and independent manner.
6	Distribution of net income to the advantage of the Fund as a shareholder shall be performed in the form of dividends on the basis of a formalized and transparent dividend policy.	*Compliance*	The Company approved the Regulations on the Dividend Policy: a document that formalized the most transparent procedures for determining and payment of dividends. Other redistributions, except dividends to shareholders, are not provided. In 2016, according to Q1 results, KEGOC paid 40% of dividends from net income, including the major shareholder.
7	The Company management shall be implemented by the Company bodies in accordance with the competence and procedure defined by the Charter.	*Compliance*	The Bodies of the Company are: The Supreme Body: the General Meeting of Shareholders, the Management Body: the Board of Directors, the Collegial Executive Body: the Management Board. The competence of each body and the Chairpersons of the Board of Directors and the Management Board is determined by KEGOC's Charter, as well as by the relevant regulations. There is no duplication of functions of the Company's bodies.
8	The Company and its officials shall be responsible for the growth of long-term value and sustainable development of the Company, and also for the decisions and actions/inactions in accordance with the laws of the Republic of Kazakhstan and internal documents. The main element of assessment of the performance of the Company and an executive body is the KPIs system. The Fund, through its representatives in the Board of Directors shall send to the Company its expectations regarding KPIs. The list and the target values of the Company's KPIs shall be approved by the Company's Board of Directors. In order to achieve the KPIs, the Company shall develop appropriate development plans. Assessment of achievement of the Company's KPIs compared to the approved development plan shall be performed on an annual basis. This assessment shall affect the remuneration of head and members of the executive bodies, be taken into account in case of their re-election, and may also be the basis for their early removal from office.	*Compliance*	The development strategy of the Company defined strategic goals, including the Stable Financial Position of the Company and Cash Flows for Shareholders and Development and Sustainable Development, as well as indicators of their achievement. To implement the Strategy a mid-term development plan, ensuring the efficient implementation of the Strategy was developed. Performance assessment of KEGOC's Management Board members is carried out with the use of motivational KPIs that contribute to achievement of the Company performance targets which characterise efficiency of its financial and economic activity and the level of achieving its strategic goals; the responsibility for implementation of the KPI plans is allocated by the Board of Directors to specific job positions of executive employees. The values of indicators affect the remuneration of the Management Board members, are taken into account in case of their re-election, and may also be the basis for their early removal from office.
9	The holding company's Board of Directors shall ensure efficient management, the growth of long-term value and sustainable development in all legal entities within its group. The results of efficient management in the group of the holding company shall be improvement of operational efficiency, improvement of the quality of reporting, improved business culture and ethical standards, more openness and transparency, reduction of risks and appropriate internal control system.	*Compliance*	In accordance with the Charter, KEGOC's Board of Directors takes decisions regarding activities, approves documents governing the asset management issues and develops policy regarding the appointment of officials to subsidiaries. The Company approved the Rules for cooperation on maintenance of KEGOC representatives' activities in the Boards of Directors of affiliates and subsidiaries. Charters of subsidiaries delineated the powers and competence of the subsidiaries' bodies. KEGOC, being the sole shareholder/founder of subsidiary, determines the general policy in the main areas of activity for the entire Group. KEGOC's subsidiaries, being independent organizations, can develop their own IRDs (in planning, risk management, etc.) to complement/detail them.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development

Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

<table>
<tr><th>No. of the Code provision</th><th>Principles of KEGOC's Corporate Governance Code</th><th>Compliance/Non-Compliance/ Partial Compliance</th><th>Information on compliance/non-compliance with the Code provisions</th></tr>
<tr><td colspan="4">Chapter 3. Sustainable development</td></tr>
<tr><td>1</td><td>The Company realizes the importance of its impact on the economy, environment and society, pursues the long-term sustainable development and shall increase the long-term value and maintain the balance of stakeholders' interests. The approach of responsible, thoughtful and rational interaction with stakeholders will contribute to the sustainable development of the Company.</td><td>Compliance</td><td rowspan="5">The development strategy of KEGOC defined strategic goals, including the Stable Financial Position of the Company and Cash Flows for Shareholders and Development and Sustainable Development, including objectives for the growth of the long-term value of the Company, environmental protection, labour safety, personnel management and determined the KPIs in these areas. The comprehensive Strategy implementation plan includes measures aimed at achieving these goals and values, planned by the KPIs. The Company has adopted the Risk Register and Risk Map for 2016, which provides preventative and reactive measures to prevent the realization of risks in three given areas. The Board of Directors approved the Guidelines on the sustainable development management system, according to which KEGOC's Board of Directors of shall define, revise and approve the general principles of activity of KEGOC and its subsidiaries in sustainable development, ensure the formation of an adequate system in Sustainable Development and its implementation.

KEGOC's Management Board ensures the implementation of goals and objectives and the achievement of sustainable development indicators defined by KEGOC's Board of Directors. All employees and officials at all levels contribute to the Sustainable Development. KEGOC's Management Board, in the course of the activity of the Coordinating Council for Sustainable Development and IMS, provides a thorough, in-depth and thoughtful analysis of the internal and external situation in three areas: economic, environmental and social; based on such analysis the Management Board ensures the formation of relevant plans and programmes for achieving the objectives and goals, and the indicators identified by KEGOC's Board of Directors.

These Guidelines also apply to the Company's subsidiaries.
The provisions of this document are sent for review/as reminders to the members of the Board of Directors and to all employees of the Company on a quarterly basis (in the form of a specially designed guidance manual).</td></tr>
<tr><td>2</td><td>The Company shall strive to increase the long-term value, while ensuring its own sustainable development, and balance the interests of stakeholders. Sustainable development activities shall be in line with the best international standards.</td><td>Compliance</td></tr>
<tr><td>3</td><td>The Company shall ensure the consistency of its economic, environmental and social objectives for sustainable development in the long term, which includes, inter alia, the growth of long-term value for shareholders and investors. Sustainable development of the Company shall consist of three components: economic, environmental and social. The Company shall carry out an analysis of its activities and risks in these three aspects, and strive to prevent or reduce the negative impact of the results of its activities on stakeholders.</td><td>Compliance</td></tr>
<tr><td>4</td><td>Sustainable development principles shall be openness, accountability, transparency, ethical behaviour, respect for stakeholder interests, rule of law, respect for human rights, intolerance of corruption, the inadmissibility of conflict of interest and personal example.</td><td>Compliance</td></tr>
<tr><td>5</td><td>The Company shall organize the management system in sustainable development, which includes, but is not limited to, the following elements:
1. commitment to the principles of sustainable development at the level of the Board of Directors, the executive body and employees;
2. analysis of the internal and external situation based on three components (economic, environmental and social issues);
3. identification of risks in sustainable development in the social, economic and environmental spheres;
4. stakeholders mapping;
5. definition of goals and KPIs in sustainable development, development of an action plan and definition of responsible persons;
6. integration of sustainable development into key processes, including risk management, planning, human resources management, investment, accounting, operations, and others processes, as well as strategy development and decision-making processes;
7. training of officials and employees in sustainable development;
8. regular monitoring and assessment of activities in sustainable development, assessment of achievement of objectives and KPIs, adoption of corrective measures and introduction of a culture of continuous improvement..
The Board of Directors and the executive body of the Company shall ensure the formation of an adequate system in sustainable development and implementation of this system.
All employees and officials at all levels shall contribute to the sustainable development.
Holding companies shall be responsible for the implementation of sustainable development principles throughout the group.</td><td>Compliance</td></tr>
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Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development
Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 3. Sustainable development			
6	The Company shall annually publish reports on sustainable development in order to ensure clarity and transparency of its activities to stakeholders, taking into account the protection of information constituting official, commercial and other secrets protected by law. Report on sustainable development shall be approved by the Board of Directors.	*Compliance*	To ensure the transparency of its activities in sustainable development for the stakeholders, since 2009 KEGOC has been annually developing and publishing the Sustainability Report (hereinafter the Report). Protection of information constituting official, commercial and other secrets protected by law is provided during development of the Report. The Report presents the consolidated information on the sustainable development of KEGOC. During preparation of the Sustainability Report, KEGOC is guided by internationally recognized standards: International Integrated Reporting Standard (IIRC), reporting standards in sustainable development of Global Reporting Initiative (GRI); AA1000 series standards. Since 2011, the Report has been certified by independent auditors for compliance with standards. The Report is approved by the Board of Directors and communicated to the stakeholders by posting on the corporate internet resource and providing on paper and electronic media. KEGOC's Sustainability Report 2015 is approved by KEGOC's Board of Directors.
7	The Company shall strive to encourage and facilitate the application of the sustainable development principles to partners.	*Compliance*	In 2016, typical contracts with suppliers of goods, works and services started to contain compliance with the requirements in environmental legislation, occupational safety, health, labour relations and anti-corruption laws. Requirements to comply with the internal rules of the Company regarding safety, health, fire safety and environmental protection during work and at the facilities of KEGOC were also included into the contracts.
Chapter 4. Rights of shareholders and fair treatment			
1	Observance of shareholders' rights is a key condition for attracting investments into the Company. The Company shall ensure the enjoyment of the shareholders' rights. If there are several shareholders in the organization, there shall be a fair treatment for each shareholder.	*Compliance*	Corporate governance in the Company shall is designed to ensure equal rights and fair treatment of all shareholders. In accordance with the laws of the Republic of Kazakhstan, the shareholders are entitled to participate in the General Meeting of Shareholders and to vote in person or through his/her representative against a power of attorney. Also, shareholders have the right to: receive dividends in the amount and terms defined by the General Meeting of Shareholders; receive statements from the registrar of the Company or nominal holder confirming his/her ownership of securities; participate in determining the number, term of office of the Board of Directors, the election of its members and termination of their powers, as well as in determining the amount and terms of remuneration; make proposals in the established order to the agenda of the General Meeting of Shareholders, as well as to demand the convening of the extraordinary General Meeting of Shareholders; propose to the General Meeting of Shareholders of the Company a candidate for election to the Board of Directors of the Company; challenge in court the decision taken by the bodies of the Company; apply to the Company with written inquiries about its operations and get reasoned responses within thirty days; for a part of the assets in case of liquidation of the Company; when holding five or more per cent of voting shares of the Company solely or together with other shareholders, apply to the courts on their behalf in cases provided for in Articles 63 and 74 of the Law on Joint-Stock Companies, with a claim for the Company officials to compensate losses caused to the Company and to return to the Company by the officials and (or) their affiliated entities of income (profit) received by them as a result of conclusion of (proposals to conclude) major transactions and (or) non-arms length transactions; pre-emption of shares or other securities of the Company convertible into shares, in the manner prescribed by the Law, except for the cases stipulated by the laws; request and receive copies of documents provided by the laws; request for convening an extraordinary General Meeting of Shareholders; propose to the Board of Directors to include additional items in the agenda of the General Meeting of Shareholders; request for convening a meeting of the Board of Directors of the Company; require the Company be audited by an audit organization at the expense of the Company. In 2016, there were no complaints and appeals regarding violation of shareholders' rights.
2	The rights, duties and competence of the shareholders shall be determined according to the current laws, foundation documents and set therein. Shareholders' rights shall include, but not limited to, the timely receipt of information sufficient to make a decision, in accordance with the procedure established by laws of the Republic of Kazakhstan, the Charter and internal documents of the organization regarding disclosure of information; participation in the General Meeting of Shareholders and vote on items of their competence; participation in the determination of the composition, the term of office of the Board of Directors, election of its members and termination of their powers, and determination of the amount and conditions of remuneration; receipt of dividends in the amount and terms defined by the General Meeting of Shareholders on the basis of a clear and transparent dividend policy.	*Compliance*	
3	If there are several shareholders in the organization, including minority shareholders, the corporate management system shall ensure fair treatment of all shareholders and the enjoyment of their rights, which shall be set in the charter of the organization.	*Compliance*	

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development
Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 5. The efficiency of the Board of Directors and executive body			
1	The Board of Directors is a governing body, which shall report to the General Meeting of Shareholders and ensure the strategic management of the Company and control over the activities of the Management Board. The Board of Directors shall ensure the implementation of all the provisions of this Code. The executive body shall be accountable to the Board of Directors, supervise the daily activities of the organization and ensure its compliance with the strategy, development plan and the decisions taken by the General Meeting of Shareholders and the Board of Directors. The Board of Directors and executive body shall cooperate in the spirit of cooperation, act in the interests of the organization and make decisions based on the principles of sustainable development and the fair treatment to all shareholders. The Board of Directors and executive body shall ensure the growth of long-term value and sustainable development of the Company.	*Partial Compliance*	In accordance with the Charter and Regulations on the Board of Directors, the Board of Directors is the governing body accountable to the General Meeting of Shareholders, providing strategic management of the organization. The Management Board is accountable to the Board of Directors, supervises the daily activities and ensures the implementation of the strategy, development plan and the decisions taken by the General Meeting of Shareholders and the Board of Directors. The Board of Directors and the Management Board cooperate in the spirit of cooperation, act in the interests of the organization and make decisions based on principles of sustainable development and the fair treatment to all shareholders. See above In 2016, the Company did not formalize the Rules of selection of the members of the Board of Directors. The draft document was developed and approved by the Board of Directors. Its consideration by the GMS is expected in Q2 2017.
2	The Board of Directors shall be empowered with sufficient authority to manage the organization and control the activities of the executive body. The Board of Directors shall carry out its functions in accordance with the Charter and pay particular attention to the following issues: 1. definition of the development strategy (directions and results); 2. setting and monitoring of key performance indicators for the development plan; 3. organization and supervision of the efficient functioning of the risk management and internal control systems; 4. approval and monitoring of efficient implementation of major investment projects and other key strategic projects within the competence of the Board of Directors; 5. election, remuneration, succession planning and supervision of the activities of head and members of the executive body; 6. corporate governance and ethics; 7. compliance with the provisions of the Code and corporate standards for business ethics of the Fund (Business Ethics Code) in the organization.	*Partial Compliance*	In accordance with KEGOC's Charter, the following issues fall within the exclusive competence of the Board of Directors: **1.** identification of priority areas of activities, as well as approval of development strategy and monitoring of its implementation; **2.** approval of the development plan, as well as amendments and additions thereto; **3.** monitoring of implementation of the key indicators of the Development Plan, reviewing quarterly reports of the Development Plan; **4.** approval and monitoring of efficient implementation of major investment projects and other key strategic projects within the competence of the Board of Directors; **12.** determination of the manning level, terms of powers of the Management Board, election of the Chairman of the Management Board and its members and early termination of their powers; **13.** approval of labour payment and bonus payment rules, salary rate schedule and determine the salary rates for the Chairman of the Management Board, members of the Management Board **27.** enforcement and assessing of the efficiency of the risk management system and approval of documents governing the risk management system, including, but not limited to, the Risk Management Policy, Rules for Risk Limiting; **28.** approval of quarterly risk reports; **29.** approval of the risk register and risk map; **30.** approval of risk appetite and tolerance levels for each key risk; **62.** monitoring of the efficiency of the corporate governance practices in the Company; **65.** approval of the business ethics code. In 2016, in accordance with the new Code of the Company, changes and additions were made to the Regulations on the Board of Directors, with respect to the responsibilities of members of the Board of Directors and they shall adhere to the following principles in their activities: to act within the limits of their powers; to allot enough time to prepare and participate in the meetings of the Board of Directors, and its committees; to promote the growth of the long-term value and sustainable development; to maintain high standards of business ethics; to avoid conflicts of interest. The competence of the Board of Directors is supplemented with the following functions: approval and monitoring of efficient implementation of major investment projects and other key strategic projects; succession planning for the Management Board members; monitoring of compliance with the Code and corporate standards for business ethics (Business Ethic Code) in the Company; approval of the induction programme for the newly elected members of the Board of Directors, and professional development programme for each member of the Board of Directors. For a thorough preliminary consideration of sustainable development issues related to the environment and labour safety, in 2016 the Board of Directors established the Occupational Health, Safety, and Environmental Protection Committee. The Board of Directors plans to revise the Business Ethics Code for compliance with the Corporate Governance Code, and taking into account the changes in legislation and in the external environment.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development

Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 5. The efficiency of the Board of Directors and executive body			
3	The members of the board of directors shall properly perform their duties and ensure the growth of the long-term value and sustainable development of the organization. The Board of Directors of the organization shall be accountable to shareholders. This accountability shall be implemented through the mechanism of the General Meeting of Shareholders.	*Compliance*	According to the Regulations on the Board of Directors, decisions of the General Meeting of Shareholders, within its competence, are mandatory for the Board of Directors. The Board of Directors reports annually on its activities to the General Meeting of Shareholders by submitting a progress report for the previous year, as well as the Company's Annual Report for the past year. The annual report of the Board of Directors on the progress, that is submitted for approval to the General Meeting of Shareholders, contains the following information as part of the annual report: 1. the composition of the Board of Directors, criteria for selection of independent directors, the Chairman of the Management Board and members of committees; 2. information about each director; 3. the number of meetings of the Board of Directors and its committees, as well as visits of the meetings by each director; 4. report of the committee on the implementation of their functions; 5. consideration of information on the work of the Board of Directors; 6. assessment of the Company's position and prospects for its development; 7. the process of performance assessment of the Board of Directors; 8. the measures taken by the Board of Directors to take into account the views of the General Meeting of Shareholders regarding the Company.
4	The Board of Directors and its committees shall maintain the balance of skills, background and knowledge that will ensure independent, impersonal and efficient decision-making for the benefit of the organization and with due account of fair treatment to all shareholders and sustainability principles.	*Compliance*	The Board of Directors is composed of eight members, including four independent directors: Anatoliy Spitsyn, Luca Sutera, Dominique Fache and Janusz Bialek. Independent directors are specialists in finance, accounting, auditing, engineering, strategic management and power engineering. Also, in 2016, two directors were elected: Suinshlik Tiyessov and Zhanna Yegimbayeva, representatives of the major shareholder with in-depth knowledge in law, engineering, power engineering, with prior experience in the industry. Number of independent directors is 50%, the diversity of the gender composition is also provided. The Chairman of the Board of Directors is Kuanysh Bektemirov, who has impeccable reputation, skills and experience in the management and the industry, and efficiently manages the Board of Directors (according to the members of the Board of Directors following the assessment results of performance of the Board of Directors).
5	It is necessary to provide a variety of experiences, personal characteristics and gender in the composition of the Board of Directors. The Board of Directors shall include independent directors, in an amount sufficient to ensure the independence of decision-making and fair treatment of all shareholders. The recommended number of independent directors in the Board of Directors of the Company shall be up to fifty percent of the total number of members of the Board of Directors.	*Compliance*	

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development

Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 5. The efficiency of the Board of Directors and executive body			
6	The General Meeting of Shareholders shall elect the members of the Board of Directors based on clear and transparent procedures with due consideration of the competencies, skills, achievements, business reputation and professional background of the candidates. When individual members or all the members of the Board of Directors are re-elected for another term, their contribution to the efficient operation of the Board of Directors of the organization shall be taken into account. In organizations with several shareholders, the process of electing the members of the Board of Directors and the Chairman of the Board of Directors shall be carried out in accordance with the procedure established by the Law of the Republic of Kazakhstan On Joint Stock Companies and the charter of the organization. In these organizations, involvement of the Nomination and Remuneration Committee of the Board of Directors in the determination of the composition, necessary skills and competencies to the Board of Directors and candidates for the Board of Directors is recommended. Government servants and officials from governmental bodies are not allowed to the members of the Board of Directors of the organization. Term of office of members of the Board of Directors shall coincide with the term of office of the entire Board of Directors and shall terminate when the General Meeting of Shareholders makes a decision to elect the new membership of the Board of Directors. The members of the Board of Directors shall be elected for up to three (3) years. In future, provided that the performance results are satisfactory, a member can be elected for another three year period. Any term on the Board of Directors of more than six (6) years successively (for example, two (2) three-year terms) shall require special consideration based on the requirement for qualitative update of the Board of Directors' membership. An independent director cannot be elected to the Board of Directors for more than nine years successively. In exceptional cases election can be made for more than nine years, the election of an independent director to the Board of Directors shall take place annually with a detailed clarification why this member shall be re-elected to the Board of Directors and how it will impact the independence of decision making. Nobody shall participate in the decision making on his/her own appointment, election and re-election.	*Compliance*	In accordance with the Regulations on the GMS, the GMS shall elect the members of the Board of Directors, approve the qualification criteria for members of KEGOC's Board of Directors and the independence criteria based on skills, achievements, reputation and professional experience of the candidates. A member of the Board of Directors can only be an individual person. Prior to forming a list of candidates to the Board of Directors, the Nomination and Remuneration Committee shall consider materials on the candidates. The Board of Directors shall send nominations to the Board of Directors to the General Meeting of Shareholders with the description of biography, assessments and recommendations of the Committee on the candidates proposed for election to the Board of Directors. In accordance with the Regulations on the Board of Directors, members shall be elected for a period not exceeding three (3) years. In future, provided that the performance results are good, a member can be elected for another three (3) year period. Any term on the Board of Directors of more than six (6) years successively (for example, two (2) three-year terms) shall require special consideration based on the requirement for qualitative update of the Board of Directors' membership. An independent director cannot be elected to the Board of Directors for more than nine (9) years successively. In exceptional cases, election for a period of more than nine (9) years is allowed. Term of office of members of the Board of Directors shall coincide with the term of office of the entire Board of Directors. Nobody shall participate in the decision making on his/her own appointment, election and re-election. In 2016, the GMS introduced two directors to the Board of Directors on the proposal of KEGOC's Board of Directors after a preliminary examination of the candidates by the Nomination and Remuneration Committee and the preliminary approval of the candidates by the Board of Directors. , . The term of office of the Board of Directors and the members of the Board of Directors coincides; it is three years and ends in April 2018. There are no representatives of the Government and public bodies in the composition of the Board of Directors of KEGOC.
7	The Board of Directors shall approve the induction programme for the newly elected members of the Board of Directors, and professional development programme for each member of the Board of Directors. The Corporate Secretary shall ensure the implementation of these programmes.	*Compliance*	KEGOC has the Induction Programme for newly elected members of the Board of Directors. In addition, to introduce a mechanism for monitoring of implementation of this programme, in 2016 it was updated with regard to the procedure formalisation . KEGOC's Corporate Secretary provided the induction programme to the new members of the Board of Directors elected in 2016. KEGOC has the Policy for professional development of the members of KEGOC's Board of Directors and engagement of external experts as members of KEGOC's Board of Directors, according to which, and to the assessment results of performance of the Board of Directors, development (training) plans for the coming year are developed. The professional development program for each member of the Board of Directors was approved in 2016.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development

Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 5. The efficiency of the Board of Directors and executive body			
8	The Chairman of the Board of Directors shall be responsible for overall management of the Board of Directors, ensure the members of the Board of Directors fulfil their duties in a complete and efficient manner, and construct a meaningful dialogue among the members of the Board of Directors, major shareholders and the executive body.	*Compliance*	In accordance with the Regulations on the Board of Directors, the Chairman of the Board of Directors is responsible for overall management of the Board of Directors, ensures the members of the Board of Directors fulfil their duties in a complete and efficient manner, and constructs a meaningful dialogue among the members of the Board of Directors, shareholders and the Management Board. Chairman of the Board of Directors: • bear responsibility for governance of the Board of Directors, ensure its efficient operation in all aspects of its responsibility, ensure an efficient connection with shareholders; • be responsible for providing the respective interaction with shareholders; • ensure efficient contribution of the members of the Board of Directors to the activities of the Board of Directors, as well as constructive relations between members of the Board of Directors and the Management Board; • ensure efficient interaction with shareholders, and deliver the views of shareholders of the Company to the Board of Directors in general. According to the results of independent assessment of the Board of Directors held in 2016 by an independent auditing company, it was concluded that the Chairman of the Board of Directors shall: • is an experienced person with extensive experience in the energy industry; • has professional and personal authority, which makes it easy to coordinate the work of the members of the Board of Directors; • provides the necessary level of interaction with shareholders, including the major shareholder.
9	Role and functions of the Chairman of the Board of Directors and the head of the executive body shall be clearly delineated and set in the charter of the organization, Regulations on the Board of Directors and the executive body.	*Compliance*	Role and functions of the Chairman of the Board of Directors and the head of the executive body are clearly delineated by the Charter, Regulations on the Board of Directors and the Regulations on KEGOC's Management Board.
10	The level of remuneration of the Board members shall be sufficient to attract, retain and motivate each member of the Board of Directors at the level required for the successful management of the organization. Determination of remuneration to a member of the Board of Directors of the organization shall be in accordance with the methodology developed by the Fund and shall take into account the expected positive effect for the organization from the participation of the person in the Board of Directors. In organizations with multiple shareholders, the relevant rules of remuneration for members of the Board of Directors are developed on the basis of the Fund methodology and approved by the General Meeting of Shareholders. The Nomination and Remuneration Committee of the Board of Directors shall submit proposals on the amount of remuneration of candidates for independent directors. Nobody shall participate in the decision-making on his/her own remuneration.	*Partial Compliance*	Remuneration is paid only to independent directors and consists of the following components: • fixed remuneration; • additional remuneration for participation in the meetings in praesentia of the committees of the Board of Directors. Should the Independent Director participate in less than a half of all the meetings in praesentia and in absentia held by the Board of Directors during the reporting period (without due cause) the fixed remuneration is not be paid. Member of the Board of Directors is also compensated for the travel expenses associated with participation in the meetings of the Board of Directors. According to the Regulations on the Nomination and Remuneration Committee of the Board of Directors, the Committee conducts comparative analysis of the level and efficiency of policy for remuneration to directors, and provides recommendations to the Board of Directors. Nobody participates in the decision-making on his/her own remuneration.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development

Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 5. The efficiency of the Board of Directors and executive body			
11	The Committees of the Board of Directors contribute to the profound and careful consideration of issues within the competence of the Board of Directors and improvement of the quality of decisions, particularly in areas such as audit, risk management, the proper and efficient application of the Rules for procurement of goods, works and services, the appointment and remuneration of the members of the Board of Directors and the executive body, sustainable development, including the occupational health, safety, and environmental protection. The committees do not relieve the members of the Board of Directors from responsibility for decisions taken within the competence of the Board of Directors.	*Compliance*	All issues submitted for consideration by the Board of Directors are carefully considered beforehand by the specialized committees. In 2016, the Audit Committee considered such key issues as: financial statements, sustainability report, risk issues and reports of the Internal Audit Service. In addition, the Audit Committee held three meetings with the external auditor that audited financial statements of the Company. The Strategic Planning Committee considered such key issues as the Company's Development Strategy (three strategic sessions) and the report on its implementation, the development plan and reports on its implementation, the corporate governance improvement plan. The Nomination and Remuneration Committee considered such key issues as the organizational structure of KEGOC, issues regarding the appointment of the members of the Board of Directors, the report on the work with the talent pool, implementation of motivational KPIs by executives and succession plans. Established in 2016, the Occupational Health, Safety and Environmental Protection Committee considered Company's activities in environmental and occupational health. The Committees of the Board of Directors are advisory bodies; all proposals worked out by the Committees are recommendations. The Board of Directors makes the final decision with regards to the issues put for discussion, and the members of the Board of Directors are responsible for their decisions. During procurement of goods, works and services KEGOC is guided by Fund's Rules for procurement approved by the Board of Directors of Samruk-Kazyna.
12	The preparation and holding of the meetings of the Board of Directors shall ensure maximum efficiency of its activity. To perform their duties, the members of the Board of Directors shall have access to complete, relevant and timely information. The Board of Directors shall hold its meetings regularly to ensure the efficient fulfilment of its duties. Meetings of the Board of Directors shall be held in accordance with the work plan approved before the beginning of the calendar year. Meetings of the Board of Directors and its committees shall be held in praesentia or absentia, and the number of meetings in absentia shall be minimal. Review and decision-making on particularly important and strategic issues shall only be done at the meetings of the Board of Directors in praesentia. Exceptionally, combination of both meeting forms of the Board of Directors and its Committees is possible. Meetings of the Board of Directors and its Committees shall be duly minuted by the Corporate Secretary, indicating the discussion results and made decisions.	*Compliance*	Materials and information on the upcoming meeting of the Board of Directors are in advance (10 days before the meeting) on a specially designed website for members of the Board of Directors. Since 2016, the Board of Directors has been using laptops (tablets) with all the materials and information necessary for decision-making by the Board of Directors on the agenda items at the meetings to maximize the performance. The Board of Directors approves the work plan with estimated dates of meetings for the coming year. Thus, in 2016 the Board of Directors scheduled to hold 12 meetings, with 118 issues. In total, the Board of Directors held 12 meetings in praesentia and 3 meetings in absentia in 2016 and considered 153 issues at these meetings. All key issues, a list of which is determined by the Company's Charter, were considered by the Board of Directors only in praesentia. In addition, on 30 June – 01 July 2016 a visiting meeting with the members of the Board of Directors, the Management Board and engaged employees of the Company was held to discuss the issues of the Company's development strategy, the capacity market, further development of the Kazakhstan National Power Grid, the Company's investment program scenarios and renewable energy. The purpose of this meeting was to exchange views and develop further directions for the development of the Company. All meetings of the Board of Directors and its Committees are minuted in detail by the Corporate Secretary and Secretary of the Audit Committee.
13	The Board of Directors, committees, and members of the Board of Directors shall be assessed on an annual basis as part of a structured process, approved by the Board of Directors of the organization. This process shall comply with the Fund's methodology. Whereas no less than once every three years the assessment shall be carried out with the assistance of independent professional organization.	*Compliance*	Each year, the Board of Directors undertakes a self-assessment of the performance of the Board of Directors, its Committees, the Chairman and members of the Board of Directors, the IAS, and the Corporate Secretary by questionnaire survey in accordance with the relevant rules, based on the Fund's methodology. In 2016, in accordance with the Code of Corporate Governance, an external auditor carried out independent assessment. The assessment was conducted through interviews and using questionnaires. Based on analysis of the responses received, the audit organization made recommendations on improving performance efficiency of the Board of Directors, the Committees, the IAS and the Corporate Secretary. Assessment findings were reviewed by the Board of Directors and measures to improve the management of the Company are being taken.
14	The assessment shall measure the contribution of the Board of Directors and each of its members to the growth of long-term value and sustainable development of the organization, and establish trends and recommend measures for improvement. Results of the assessment shall be taken into account in the re-election or the early termination of powers of members of the Board of Directors.	*Compliance*	

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development
Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 5. The efficiency of the Board of Directors and executive body			
15	To efficiently organize activity of the Board of Directors and interaction between the Board of Directors and the executive body with shareholders, the Board of Directors shall appoint the Corporate Secretary. The Board of Directors shall make decision on appointment of the Corporate Secretary, determine the term of his/her office, functions and activities, the salary amount and terms of remuneration, and decide on the establishment of the Corporate Secretary Service (Secretariat) and determine the budget of the service specified. The Corporate Secretary is accountable to the Board of Directors and is independent from the executive body. The main duties of the Corporate Secretary shall include contribution to a timely and quality corporate decision-making by the Board of Directors, the sole shareholder, acting as advisor to the members of the Board of Directors on all issues of their activity and application of the provisions of this Code, as well as monitoring of the implementation of this Code and participation in improvement of the corporate governance. The Corporate Secretary shall also prepare a report on compliance with the principles and provisions of this Code, which is included in the annual report. This report shall contain a list of principles and provisions of the Code that are not observed, with appropriate explanations.	*Compliance*	In accordance with the Charter and internal documents of KEGOC, the Board of Directors makes decision on appointment of the Corporate Secretary, determines the term of his/her office, functions and activities, the salary amount and terms of remuneration. The Corporate Secretary is fully accountable to the Board of Directors. Appointed in 2015, KEGOC's Corporate Secretary monitors the preparation and holding of meetings of the Board of Directors of the Company, provides compilation of materials for the meeting of the Board of Directors and controls the materials accessibility. The Company established the Corporate Secretary Service to ensure execution of functions by the Corporate Secretary; the Service consists of two people. The main duties of the Corporate Secretary: contribution to a timely and quality corporate decision-making by the Board of Directors, the General Meeting of Shareholders, acting as advisor to the members Board of Directors on all issues of their activity. Changes and additions to the Regulations on the Corporate Secretary were made in respect to complementing functions of the Corporate Secretary with monitoring of the implementation of KEGOC's Corporate Governance Code, participation in improvement of the corporate governance, preparation of a report on compliance with the principles and provisions of this Code, which is included in the annual report approved by the Board of Directors on 10 December 2015 (Minutes No. 8).
16	Companies shall establish a collegial executive body, in other organizations, and in the case of a joint venture company, it may be collegial or sole at the discretion of the shareholders. Senior manager and members of the executive body shall have high professional and personal characteristics, as well as impeccable reputation and adhere to high ethical standards.	*Compliance*	The Management Board is a collegial executive body of the Company, which manages its current activity, reports to and acts in the interest of the General Meeting of Shareholders and the Board of Directors. The Management Board consists of nine members. All of them have highly professional skills and management experience in finance, law, engineering, power engineering, corporate governance, procurement, and have an impeccable reputation and long record of service. Functions and obligations of the Management Board members are defined by the Charter, the Regulations on the Management Board, the Order on Responsibilities and Authority Allocation.
17	The executive body shall be accountable to the Board of Directors, supervise the daily activities of the organization, responsible for the implementation of the strategy, development plan and the decisions taken by the Board of Directors and the General Meeting of Shareholders.	*Compliance*	The Management Board manages its current activity, reports to the Board of Directors and the GMS, responsible for the implementation of the strategy, development plan, investment plan, as well as for the implementation of the decisions taken by the General Meeting of Shareholders and the Board of Directors.
18	The Board of Directors shall elect a head and members of the executive body, determine the term of office, the salary amount and the wage conditions. The Nomination and Remuneration Committee plays key role in the search and selection of candidates for the executive body and determination of their remuneration. Proposals on the candidates to be elected to the collegial executive body shall be submitted by the Head of the executive body to the Board of Directors' Nomination and Remuneration Committee for consideration. In case the Board of Directors declines the candidate proposed by the Head of the collegial executive body for the same vacant position in the executive body for the second time, the right to propose a candidate for this vacant position shall pass to the Board of Directors. The Board of Directors can terminate the office of the Head and members of the executive body at any time. It is recommended to elect the Head and members of the executive body of the organization for a period of up to three years. Terms of office of the Head and members of the executive body shall coincide with the term of office of the executive body as a whole.	*Partial Compliance*	In accordance with the Charter and internal documents of KEGOC, the Board of Directors determines the quantitative composition and term of office of the Management Board, elects the Chairman and members of the Management Board, early terminates their powers, approves labour payment and bonus payment rules, salary rate schedule and determines the salary rates for the Chairman of the Management Board, members of the Management Board, approves motivational KPIs of members of the Management Board. When electing members of the Management Board, the Board of Directors shall follow the provisions of the Company internal documents specifying the qualification requirements for candidates and the election procedure. Shareholders and employees of the Company who are not its shareholders can be elected as the Management Board members. The Internal Audit Service employees cannot be elected as the Management Board members. Proposals on the candidates to be elected to the Management Board shall be submitted by the Chairman of the Management Board to the Board of Directors for its consideration. The Chairman of the Management Board shall be entitled to propose a candidate for consideration by the Board of Directors for the same position not more than two times. The Management Board members shall be selected and elected based on the most transparent and clear procedures defined by the Board of Directors. The Board of Directors can terminate the office of the Head and members of the executive body at any time. In accordance with the Corporate Governance Code, the Management Board shall be elected for a term of three years. In 2016, the appropriate changes were made to the Regulations on KEGOC's Management Board. In 2017, when the planned formation of KEGOC's Management Board and the appointment of members of the Management Board in accordance with the new organizational structure, members of the Management Board members will be elected for a three-year term.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development
Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 5. The efficiency of the Board of Directors and executive body			
19	A candidate for the position of the CEO of the Company shall be agreed with the President or the Administration of the President of the Republic of Kazakhstan in case of inclusion of the Company in the relevant list, approved by the Decree of the President of the Republic of Kazakhstan. In such a case, the companies shall apply the procedure established by the Code for the search and election of the Head of the executive body.	*Partial Compliance*	The process of appointment of the Chairman of the Management Board in accordance with the provisions of the Corporate Governance Code is planned to be formalized in 2017.
20	The Head and members of the executive body shall be assessed by the Board of Directors. The main assessment criterion is achievement of KPIs. Motivational KPIs of the Head and members of the executive body shall be approved by the Board of Directors. Proposals on motivational KPIs of members of the executive body shall be submitted by the Head of the executive body to the Board of Directors for consideration. The assessment results have an impact on the amount of remuneration, incentives, re-election (appointment) or early termination of powers.	*Compliance*	In accordance with the Charter and internal documents of KEGOC, the Board of Directors approves labour payment and bonus payment rules, salary rate schedule and determines the salary rates for the Chairman of the Management Board, members of the Management Board, approves motivational KPIs of members of the Management Board. The decision of the Board of Directors (Minutes No. 3) approved the motivational maps of members of the Management Board for 2016. Monitoring of KPIs performance shall be carried out by the Board of Directors to determine the remuneration, incentives, re-election (appointment) or early termination of powers of the Management Board members. KPIs performance based on 2016 results, according to internal documents of the Company, is planned to be submitted for consideration by the Board of Directors in Q1 2017.
21	The Head of the executive body shall inform the Board of Directors of cases of violations of the Business Ethic Code by members of the executive body. Member of the executive body, who allowed violation of the Business Ethic Code, cannot be a member of the executive body of any other organization.	*Compliance*	In 2016, there was no cases of violation of the Business Ethic Code by the members of KEGOC's Management Board.
22	In cases of corporate conflicts, the parties shall seek to resolve them through negotiations to ensure the efficient protection of the interests of the organization and stakeholders. The efficiency of corporate conflict prevention and settlement requires, first of all, a complete and early identification of such conflicts and clear coordination of the actions of all bodies of the organization. Corporate conflicts shall be considered by the Chairman of the Board of Directors of organization with the assistance of the Corporate Secretary. In the case of the involvement of the Chairman of the Board of Directors in the corporate conflict, such cases shall be considered by the Nomination and Remuneration Committee.	*Compliance*	The Company developed mechanisms for the settlement of corporate conflicts that are reflected in internal document 'KEGOC's Corporate Conflict Settlement Policy', which establishes policies and procedures for the settlement of corporate conflicts between the participants by KEGOC. This document applies to all divisions of the Company including the branches and is included in the IMS documentation. The Company's Corporate Conflict Settlement Policy presumes that the conflict settlement procedure shall ensure compliance and protection of the Annual General Meeting's rights as well as protection of valuable interests and goodwill of the Company. The competence of the Company's managing bodies relating to consideration of the Corporate Conflicts is differentiated according to the subject matter of the Corporate Conflict falling within the competence of one or another body. The Board of Directors considers Corporate Conflicts, the subject matter of which is an act (omission) of the Management Board, the Chairman of the Management Board, and other Employees of the Company who were delegated relevant authority or decisions taken by them. The Board of Directors participates in the settlement of Corporate Conflicts. If it is impossible to settle the Corporate Conflict by the Chairman of the Management Board its settlement shall be submitted for consideration by the Board of Directors. Based on 2016 results, no corporate conflicts have been identified.
Chapter 6. Risk management, internal control and audit			
1	The Company shall establish a well-functioning risk management and internal control system, designed to provide reasonable confidence in achieving the Company's strategic and operational objectives, and representing a set of organizational policies, procedures, rules of conduct and actions, methods and management tools that are created by the Board of Directors and the executive body. The Board of Directors and the executive body shall ensure the introduction of appropriate risk management culture in the Company. The implementation and operation of the risk management and internal control system in the Company shall have a clear regulatory framework based on best practices (COSO) and the methodology (policies) of the Fund.	*Compliance*	One of the main objectives of the risk management system (hereinafter – the RMS) and the internal control system (hereinafter – the ICS) of the Company is to increase the competitiveness of KEGOC and achieve the strategic objectives of KEGOC by enhancing the efficiency of the RMS. The Company has established a regulatory framework based on the COSO international standard and the Fund's methodology, such as: • Policy on Corporate Risk Management; • Guidelines on Risk Management System; • Standard on Internal Control System. To assign the roles and duties on timely risk identification and management a cooperation model was developed based on the concept of three levels of RMS: • The Board of Directors and the Internal Audit Service • The Management Board and structural units. • The Risk Committee and structural subdivision responsible for the risk management.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development
Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 6. Risk management, internal control and audit			
2	The Board of Directors of the Company shall determine the principles and approaches to the organization of the risk management and internal control system based on the objectives of this system and taking into account the best practices of the work and methodology of the Fund in the risk management and internal control.	*Compliance*	The Board of Directors approved the following main principles: 1. Risk management system: • engagement of KEGOC's executives in risk management; • continuous improvement of the risk management system; • continuous learning and knowledge sharing by the Company employees in risk management sphere; • transparency and integrity in submitting reports and risk escalation. 2. Internal control system: • entirety; • complexity; • functioning continuity; • responsibility; • segregation of duties; • reporting of the internal control system participants; • methodological procedures unity; • operations appropriate approval and confirmation; • timeliness of reporting on any significant deficiencies and weaknesses in control; • continuous development and improvement.
3	The executive body of the Company shall ensure the establishment and maintenance of an efficient risk management and internal control system. The risk management process shall be integrated with the planning processes (development strategy and plans, annual budget) and assessment of the organization's performance (management reporting). Each official shall ensure that the risks are properly considered in decision-making. The executive body shall ensure the implementation of risk management procedures by employees with relevant qualifications and experience.	*Compliance*	In accordance with the Guidelines on Risk Management System, KEGOC's Management Board is obliged to prepare, maintain and use the procedure for risk identification, assessment and management, organize the efficient operation of the RMS and the ICS, support the structural subdivisions when introducing the risk management processes into their activity. The risk management process is integrated with the planning processes (strategy and development plans, annual budget) and assessment of the organization's performance (management reporting). Structural subdivisions are the risk owners and bear the responsibility for risks identification, analysis, assessment, management, preparation of proposals for key risks mitigation and KEGOC key risks reports.
4	The Company's risk management and internal control system shall be based on a high risk management culture conducted by the executive body, which stipulates the mandatory procedures for identifying, assessing and monitoring all significant risks, as well as taking timely and adequate measures to reduce the level of risks that could adversely affect achievement of strategic goals, implementation of operational objectives and the Company's reputation. Risk management procedures shall ensure rapid response to new risks, their clear identification and identification of risk owners. In the event of any unforeseen changes in the competitive or economic environment, an urgent reassessment of the risk map and its compliance with risk appetite shall be carried out.	*Compliance*	The Company's risk management system is based on a high risk management culture conducted by the executive body, which stipulates the mandatory procedures for identifying, assessing and monitoring all significant risks, as well as taking timely and adequate measures to reduce the level of risks that could adversely affect achievement of strategic goals, implementation of operational objectives and the Company's reputation. Risk management procedures established by KEGOC ensure rapid response to new risks, their clear identification and identification of risk owners. In the Company, the Board of Directors on an annual basis reviews and approves the risk appetite, the risk register, the risk map, the key risk management action plan and levels of tolerance with regard to key risks in KEGOC. In the event of any unforeseen changes, an urgent reassessment of the risk map and its compliance with risk appetite is carried out. The Company provides for a permanent information interchange between the RMS levels in order to raise the risk awareness, develop the risk-culture and efficient risk management.
5	The Company shall develop, approve, formalize and document the control procedures in three key areas: operational activities, preparation of financial statements and compliance with the requirements of the laws of the Republic of Kazakhstan and internal documents.	*Compliance*	In 2016, KEGOC's Business Process Classifier was revised, a process map was developed and all the Company's business processes and their control procedures that cover three key areas were described: operational activities, preparation of financial statements and compliance with the requirements of the laws of the Republic of Kazakhstan and internal documents.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development

Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 6. Risk management, internal control and audit			
6	The Company shall implement transparent principles and approaches in risk management and internal control, training practice of employees and officials about the risk management system, as well as the process of identifying, documenting and promptly communicating the necessary information to officials.	*Compliance*	The Company has introduced the basic principles set out in Clause 2 hereto. In order to increase risk-culture in KEGOC, trainings and workshops in the RMS and ICS for risk owners, risk-coordinators and risk managers of KEGOC are organized on an annual basis. Members of KEGOC's top management also take part in specialized trainings and workshops on risk management organized for top management. In 2016, the Company organized trainings and workshops in the RMS and ICS for employees responsible for risk management and internal control, risk coordinators, risk owners of structural subdivisions of Executive Administration / branches / Subsidiaries and members of the Risk Committee.
7	The Board of Directors of the Company shall take appropriate measures to ensure that the current risk management and internal control system complies with the principles and approaches to its organization defined by the Board of Directors and functions efficiently. Risk reports shall be submitted at the meetings of the Board of Directors at least once a quarter and discussed properly in full.	*Compliance*	In accordance with the Guidelines on Risk Management System, in 2016 the Board of Directors reviewed and approved risk reports on a quarterly basis. In 2016, the consultants of Dostyk Advisory LLP company conducted an independent assessment of the RMS and the ICS efficiency; the results of the assessment were reviewed at a meeting of the Board of Directors.
8	The Company shall create the IAS for a systematic independent assessment of the reliability and efficiency of the risk management and internal control system, and corporate governance practices.	*Compliance*	The Internal Audit Service was established by the decision of the Board of Directors of KEGOC (Minutes No. 3 dated 31 May 2006). The mission of the Service is to provide necessary support to the Board of Directors and Executive Body in performance of their duties to achieve the strategic objectives of the Company. The main objective of the Service is to provide the Board of Directors with independent and objective information needed to secure efficient management of the Company by introducing the system approach to improvement of the risk management, internal control and corporate governance systems.
9	Internal audit in the Company shall be carried out by creating a separate structural subdivision: the IAS. The goals, powers and responsibilities of the IAS, qualification requirements (requirements for the professionalism of internal auditors) shall be defined in the Company's internal document (Regulations on IAS). The Regulations on IAS shall be developed and approved in accordance with the requirements of the International Standards for the Professional Practice of Internal Auditing and corporate standards of the Fund in the internal audit. The responsibility of the Board of Directors of the organization is to ensure full compliance of the Regulations on IAS with specific business needs of organization.	*Compliance*	The Regulations on IAS defines the goals, powers, responsibilities of the IAS and qualification requirements. The Regulations on IAS is developed taking into account the requirements of the International Professional Standards of Internal Audit and corporate standards of the Fund in the internal audit. The Regulations on IAS fully meets the specific needs of the Company.
10	To ensure the independence and objectivity of internal audit, IAS shall be organizationally subordinated and functionally accountable to the Board of Directors. The Board of Directors shall make decisions on the approval of plans and strategies for the operation of the IAS, budget of the IAS, determine the quantitative composition, amounts and terms of labour payment, bonus payments for the IAS employees.	*Compliance*	Organizational subordination and functional accountability of the IAS to the Board of Directors is achieved by the following terms: 1. approval by the Board of Directors of the provisions and other policies in internal audit that regulate the goals, objectives, functions and activities of the IAS (to be preliminarily reviewed by the audit committee); 2. approval by the Board of Directors of a risk-oriented annual audit plan (to be preliminarily reviewed by the audit committee); 3. provision to the Board of Directors (audit committee) of quarterly and annual reports on the implementation of the annual audit plan and other information regarding the activities of internal audit; 4. approval by the Board of Directors of decisions on appointment, termination of appointment and remuneration of the head and employees of the internal audit department (to be preliminarily reviewed by the audit committee); 5. approval by the Board of Directors (audit committee) of the budget of the IAS; 6. consideration by the Board of Directors (audit committee) of significant limitations on the authority of the IAS or other restrictions that may adversely affect the implementation of internal audit.
11	The head of the IAS in the organizations shall develop internal documents regulating the activities of the subdivision on the basis of corporate standards of the Fund in internal audit and ensure their consideration and approval by the Audit Committee and the Board of Directors.	*Compliance*	In KEGOC, based on the Fund's corporate standards in internal audit, internal regulatory documents that regulate the activities of the IAS are developed, these documents are reviewed and approved by the Audit Committee and the Board of Directors.

Goal 2. Ensure Stable Financial Position of the Company and Cash Flows for Shareholders and Development
Annual Report // 2016

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 6. Risk management, internal control and audit			
12	The IAS shall operate in accordance with the risk-oriented annual audit plan approved by the Board of Directors. The results of audit reports and key findings are submitted quarterly to the Board of Directors for consideration.	*Compliance*	The Company's Risk Register, developed by KEGOC, serves as the basis for compiling the IAS plan for the year, since the resources shall be concentrated on those business processes and lines of business of the Company that have the highest (high) risks (factor: exposure to risk).
13	In exercising its duties the IAS shall assess the efficiency of internal control and risk management systems, assess corporate governance using generally accepted standards of internal audit and corporate standards, and the Fund's recommendations in corporate governance assessment, internal control and risk management efficiency assessment.	*Compliance*	The IAS periodically assesses the efficiency of internal control system and risk management system, assess corporate governance using generally accepted standards of internal audit and corporate standards, and the Fund's recommendations in corporate governance assessment, internal control and risk management efficiency assessment.
14	The Head of the IAS shall develop and maintain a program of quality assurance and improvement that covers all types of internal audit activities and provides for mandatory internal and external assessment of the IAS. The assessment of performance of the IAS, its Head and employees shall be carried out by the Board of Directors on the basis of review of the IAS reports, compliance with the deadlines for the implementation of the annual audit plan and reporting, assessment of compliance of the reports with the standards and internal regulatory documents of the IAS.	*Compliance*	The Company has developed and implementing KEGOC IAS's Quality Assurance and Improvement Program approved by the Audit Committee (Minutes No. 14 dated 12 December 2013), covering all types of internal audit activity and providing for mandatory internal and external evaluation of the IAS. The Head of the Internal Audit Service bears full responsibility for the Quality Assurance and Improvement Program, which covers all activities of the Internal Audit Service, including advisory.
Chapter 7. Transparency			
1	In order to comply with the interests of stakeholders, the Company shall in a timely and reliable manner disclose information on all important aspects of its activities, including financial standing, performance, ownership and management structure.	*Compliance*	The Company created Investors and Shareholders section on its website, where all information is disclosed in accordance with the laws of the Republic of Kazakhstan and the Listing Rules of the Exchange, affecting the interests of KEGOC's shareholders. All the information is published on time. There were no facts of violation of terms, quality of information on KASE in 2016.
2	The company discloses in a timely manner the information provided for in the laws of the Republic of Kazakhstan and internal documents. The Company shall approve internal documents defining the principles and approaches for disclosure and protection of information, as well as a list of information to be disclosed to stakeholders. The Company shall determine the procedure for classifying information to access categories, the conditions for storing and using information, including the circle of persons who have the right of free access to information constituting commercial and official secrets, and take measures to protect its confidentiality.	*Compliance*	According to the Rules for KEGOC insider information management, the insider information is information about the Company's securities, transactions with them, as well as the Company that issued the securities, its activities, constituting a commercial secret, as well as other information that is not known to third parties, and disclosure of which could affect the change in value of the securities of the Company and the Company's operations. KEGOC approved regulatory documents governing principles and approaches for disclosure and protection of information, as well as a list of documents: • Information Policy; • Rules for KEGOC insider information management; • Order of the Chairman of the Management Board On the list of information subject to disclosure; • List of issues by decision of the Board of Directors, subject to communication to investors and shareholders; • Rules for protection and preservation of confidential information in KEGOC.
3	The Company shall publish audited annual financial statements on its Internet resource in a timely manner, prepared in accordance with the International Financial Reporting Standards (hereinafter the IFRS), as well as financial statements prepared in accordance with the IFRS for the first quarter, for the first half and for the first nine months of the reporting period. In addition to the main forms of financial reporting, it is recommended to disclose additional information about the financial status of the Company.	*Compliance*	The Investors and Shareholders section on the Company's website contains audited annual financial statements, prepared in accordance with International Financial Reporting Standards (hereinafter the IFRS), as well as financial statements prepared in accordance with the IFRS for the first quarter, for the first half and for the first nine months of the reporting period. All such statements are published on time, in accordance with the established deadlines.
4	The Company shall conduct annual audit of financial statements by engaging an independent and qualified auditor who, as a third party, provides objective opinion to stakeholders on the reliability of financial statements and their compliance with the IFRS. Standards in the part of the annual audit shall apply if the auditing of the annual financial statements is provided for by the laws of the Republic of Kazakhstan and / or internal documents of the organization.	*Compliance*	In 2016, the audit of financial statements was carried out by independent auditing organization Ernst and Young LLP, the member of Chamber of Auditors of the Republic of Kazakhstan since 11 January 2006. The contract with the auditor is concluded for the period from 2016 to 2018, in accordance with the Rules for procurement of goods, works and services by Samruk-Kazyna Sovereign Wealth Fund and by organisations in which Samruk-Kazyna holds fifty per cent or more of voting shares (participation interest) either directly in ownership or indirectly under trust management , as approved by the Board of Directors of Samruk-Kazyna. The Company provides a quarterly review of the financial statements, as well as auditor performs an audit of financial statements for the half year and year.

Information on Compliance with KEGOC's Corporate Governance Code in 2016 (continued)

No. of the Code provision	Principles of KEGOC's Corporate Governance Code	Compliance/Non-Compliance/ Partial Compliance	Information on compliance/non-compliance with the Code provisions
Chapter 7. Transparency			
5	The company shall prepare an annual report in accordance with the provisions of this Code and the best practice of information disclosure. The annual report shall be approved by the Board of Directors.	*Compliance*	Each year, the Company prepares an annual report, which is a key source of information for shareholders and other stakeholders. The annual report for 2015 was prepared, approved by the Board of Directors and published on the website before the annual GMS. The annual report is prepared in accordance with provision of KEGOC's Corporate Governance Code, the requirements of the Listing Rules of Kazakhstan Stock Exchange and with the global trends in the reports development. KEGOC's annual reports for several years have been awarded prizes in Republican Competition of Annual Reports organized by RAEX (Expert RA Kazakhstan), supported by the Kazakhstan Stock Exchange. In 2016, the Company became the winner in the nomination Best Sustainability Report, Best Interactive Annual Report and the silver medallist in the nomination Design and Graphic Art among 137 companies. KEGOC's Annual Report entered the top five annual reports of Kazakhstan companies.
6	The Internet resource shall be well structured, easy to navigate and contain the information necessary for stakeholders to understand the Company's activities.	*Compliance*	The official site of the Company www.kegoc.kz was upgraded using a modern interface, convenient site and individual pages navigation (usability). Hacking protection in the site's engine of BITRIX CMS platform was enhanced. The information Search function (it was not available on the old site), new elements for the web-site administration, as well as new modules Slider With Changing Photos and Scrolling Text were used. A schedule of filling out the external site of KEGOC was developed and approved, which is aimed at timely and qualitative disclosure of information to all stakeholders. Monitoring is carried out constantly through mailing reminders to subdivisions on the need to update information on competence, in accordance with the Schedule.

INTERNATIONAL COOPERATION

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

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

In 2016 KEGOC continued relations with the Russian counterparts with respect to the agreements for parallel operation signed in 2010 in pursuance with the Intergovernmental agreement on some measures to ensure the parallel operation of the unified energy systems of Kazakhstan and Russia dated 20 November 2009. The above agreements govern the basic technical and financial obligations of the parties in parallel operation of Kazakhstan UPS and Russian UES:

- agreement for parallel operation of power systems of the Republic of Kazakhstan and the Russian Federation;
- agreement for purchase and sale to cover the hourly deviations of the actual interstate net power flow balance from the scheduled one between KEGOC and Inter RAO;
- agreement for electricity transmission (transit) services across KEGOC network.

In 2016, there was purchase and sale of electric power under the agreements between KEGOC and Inter RAO to cover the hourly deviations of the actual net power flow balance from the scheduled one on the border of Kazakhstan UPS and the Russian UES.

In 2016, KEGOC and FGC UES in accordance with the contract arranged for electricity transmission (transit) through KEGOC's networks from the Russian Federation through the Republic of Kazakhstan back to the Russian Federation.

In addition in 2016 as part of parallel operation of power systems of Central Asia and Kazakhstan:

- under the agreement between KEGOC and UzbekEnergo JSC the services on power (frequency) control for Uzbekistan power system were rendered;
- under the agreements between KEGOC and Kyrgyzstan NPG electricity was bought and sold to control unscheduled power flows between the power systems of Kazakhstan and Kyrgyzstan.

For the purpose to establish an efficient electricity market with the neighbouring countries and develop international cooperation, in 2016 KEGOC took part in:

- the meetings of working bodies of the Executive Committee of the CIS Electric Power Council;
- the 49 and 50 meetings of CIS Electric Power Council in Dushanbe and Ufa;
- in the World Energy Council (WEC) activities;
- EURELECTRIC association activities;
- the activities of Coordination Electric Power Council of the Central Asia (CEPC CA).

Since May 2013 KEGOC has been a member of the UN Global Compact, one of fundamental international initiatives on commitment to corporate social responsibility principles regarding human rights, labour relations, environmental protection and anti-corruption. The company consistently adheres to the Global Compact principles fulfilling its conditions and annually informing of progress on applying the UN Global Compact principles.

In July 2016, KEGOC became a member society of the International Council on Large Electric Systems of high voltage (Conseil International des Grands Reseaux Electriques – CIGRE). Today CIGRE is one of the most reputable and significant scientific and associations in energy sector, greatly influencing the power industry development strategy in many countries.

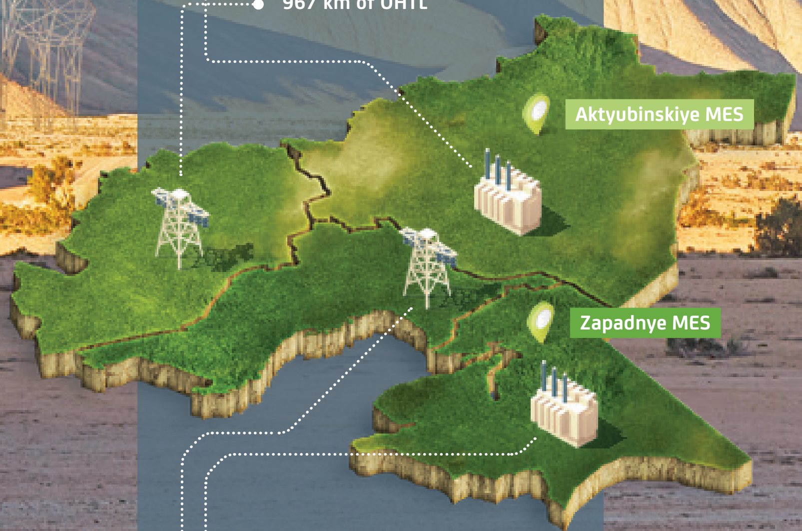
Goal 3. Sustainable Development

GEOGRAPHY OF OPERATIONS

Western Kazakhstan:

7 substations
2,426 MVA

967 km of OHTL



1,682 km of OHTL

5 substations
950 MVA

Persian **gazelle** *(Gazella subgutturosa)* is an artiodactyl mammal from the gazelles' kind, tubicorn family. It is a typical dweller of rocky, clay and sometimes sand deserts and semi deserts with extremely rare stunted vegetation.

The only representative of the gazelles' kind and antelopes' subfamily in Kazakhstan where the north part of its range is.

Protected in Ustyurt and Barsa-Kelmes reserves, Altyn-Emel National Park, Aktau-Buzachinskiy preserve and in a number of state hunting reserves.

Goal 3. Sustainable Development

HR POLICY

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

The key priorities of HR policy are:

- attraction, development and retention of highly qualified employees;
- adoption of the best practices of personnel management;
- establishment of talent pool;
- creation and development of shared values, social norms and rules governing employee behaviour;
- regulation of social and labour relations; prevention of labour conflicts;
- support of innovations and reforms at KEGOC.

Staff listing of the Company's employees (including branches and affiliates) as of 31 December 2016 made 4,728 people.

Employment procedure at the Company is exercised in accordance with KEGOC rules of competitive selection for filling vacant posts. To ensure transparency the existing procedures include search and selection of highly qualified specialists, maintenance of database on candidates, introduction of transparent competitive procedures while selecting the personnel, including testing elements to check the level of proficiency of candidates. Adapting procedure was introduced to ensure a comfortable assumption process. To increase the level of professional knowledge and skills of young operating specialists, assist in their professional development, preserve competence of experienced operating employees, adapt to corporate culture, traditions and rules of conduct at KEGOC, the coaching system was introduced. In 2016, 53 mentors among skilled managers and specialists, as well as 58 trainees (new joiners and transferred employees) were appointed at KEGOC branches. Best Mentor of the Year contest is annually held at the Company.

The Company's personnel have high level of education: 62.4% of employees have a higher education and 28.1% of employees have specialized secondary education. Among them operational personnel with higher education make 56.6%, with higher power engineering education – 32.0%, and more than 30.0% of employees among the qualified employees have power engineering education (higher and specialized secondary).

One of the key factors of successful activity of the Company is HR development, i.e. set of actions aimed at personnel selection, advanced training and professional growth. The following main types of personnel training are used in KEGOC to ensure continuity in the process:

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

In 2016 the professional training and professional development covered 1,871 employees or 39.6% of the staff listing. KEGOC actual expenses for training amounted to KZT 185.3 million, including with regard to administrative personnel – KZT 48.6 million, operating personnel – KZT 136.7 million.

To improve performance of the employees and assess their qualification level and quality of functional duties performed by them, every year KEGOC arranges qualification tests for employees including computer-based testing elements. Within the reporting period, 685 employees passed the qualification tests, including 656 KEGOC employees and 29 EnergoInform employees.

KEGOC has been continuing the work on introducing the dual training system for operating personnel. The Company defined the business needs in training students majoring in Electrical Equipment for Electrical Stations and Networks. The Company made a decision to continue agreement on maintaining social partnership with Karaganda Polytechnic College.

Terms of remuneration of KEGOC employees are governed by the Rules for labour payment and bonus payment. The current labour payment system includes the following payments: official salary; bonus for the reporting period results (year, quarter); recreation payment to the payable annual leave; supplements and additions; lumpsum bonuses (anniversaries, Independence Day in the Republic of Kazakhstan).

Grades labour payment system is planned to be introduced in 2017 under the Business Transformation Program. Further improvement of labour payment system will be considered as a result of the work done with the view to enhance transparency, fairness and efficiency enabling to achieve strategic goals of the Company, improve opportunities and engagement of employees.

Dynamic development of the company and considerable operational and financial success fostered the establishment of professional association of employees in 2003. The trade union of Kazakhstan energy industry employees – Sectoral Trade Union of Energy Industry Employees Public Association (further – Trade Union) is an independent voluntary public association, which is unaccountable to and uncontrolled by governmental authorities, employers and their associations, political organizations and other public associations operating of the Republic of Kazakhstan. It is based on the sector operating principle and open not only for the Company employees but for all enterprises of power industry, research and design institutes, pensioners and even our contractors. One of the main goals of the Trade Union is to ensure labour rights of its members and regulate labour relations. The Trade Union also influences the labour payments, bonus payments to employees and discipline including disciplinary penalties. The Trade Union is intended to control the compliance with labour legislation, maintenance and implementation of guarantees and compensations, allowances, etc.

The Company's activity on the social support for its employees is regulated by the Collective Agreement, HR policy of KEGOC, Rules for rendering social support to the employees, Rules for incentives and recognition of employees. The Company also provides financial assistance, makes compensation payments, renders assistance in solution of housing issues through the partial repayment of rent costs out of KEGOC funds under lease agreements entered into independently by the Company's employees. In addition, the Company annually provides voluntary medical insurance for the employees.

In September 2016 the trade union conference approved new Collective Agreement for 2016-2020 between KEGOC and the personnel of the company to reflect the changes in labour law and the personnel' interests. The Collective Agreement provides for the agreement joining procedures, issues of regulating the labour rules, including social leaves, labour payment, provision of social guarantees and compensations, specifies measures on employees support and human resources development, issues of health insurance and entertainment and leisure events for the employees. Also it reflects the issues of social support of veterans of the Great Patriotic War and equated persons and long-service power engineers registered in KEGOC.

The Company consistently works on establishing the talent pool which covered 306 people in 2016. In 2016, 82.1% of assignments to vacant posts were made of employees included in the talent pool (23 out of 28 vacant posts were filled with talent pool candidates).

One of the strategic key indicators of KEGOC's HR policy is the social stability rating which is determined among operational staff in accordance with the Methodology approved by Samruk-Kazyna. The work on improvement of personnel management system done in 2016 allowed to come to Social Stability Rating at 82% level.

ENVIRONMENTAL PROTECTION

The goal of KEGOC environmental policy is to minimize adverse environmental impact, to increase the level of environmental safety, responsibility for environmental protection security under Kazakhstan NPG development; energy saving and rational use of environmental and energy resources in the Company's activities. Overhead transmission lines and outdoor switchgears are not the active sources of environmental pollution. Main sources of environmental impact from operations of electric-power grids and substations include:

- physical factors (power frequency electromagnetic field, audible noise, vibration and other physical factors);
- operations of KEGOC MES branches under maintaining networks and substations;
- wastes generated during substation equipment operations, repair and modernization.
- environmental actions during Investment Projects Implementation.

Environmental management system (EMS) is running in the Company to minimize environmental impact. All environmental risks of KEGOC in 2016 are in the controlled conditions. The risks details were recorded in the register of environmental aspects of KEGOC. KEGOC's environmental programme for 2016 includes a set of measures required to manage environmental risks and to achieve target and planned values.

With the view to protect from industrial frequency electromagnetic field, sanitary protection zones are provided at KEGOC facilities, stationery protection devices are installed at substations, the employees are provided with the necessary personal protective devices. EMF, noise and other physical factors at the substations of Akmolinskiye MES, Aktyubinskiye MES and Severnye MES branches were measured as part of the assessment of labour conditions at production facilities.

The amount of emissions and discharges generated under the maintenance of MES branches is small and regulated by the elaborated environmental emissions standards. According to maximum permissible emissions (MPE), the MES branches identified stationary sources of harmful emissions. In order to reduce emissions from stationary sources, the MES branches conducted the operational monitoring, namely, they kept records of hours of operation for each item of equipment and consumption of materials. The fact of the reduced emissions was supported by the findings of the operational environmental monitoring conducted by the specialized organisations. The volume of gross emissions from stationary sources in 2016 was 21.06 tons given that the fixed standard rate was 25.74 tons p.a.

In 2016, according to environmental laws of the Republic of Kazakhstan, MES branches made an inventory of greenhouse gases from Company operations emitted in 2015. Emissions of greenhouse gases from vehicles, standby supply units, SF6 circuit-breakers were calculated. Due to the fact that emissions of greenhouse gas to the volume exceeding 20 thousand of tons shall be subject to cap-and-trade KEGOC with the emissions volumes below the established norm does not fall within the requirements for greenhouse gas cap-and-trade according to the National plan for greenhouse gas quota allocation.

Water is not used in industrial process thus the volumes of its consumption are insignificant. There are no discharges into water bodies and relief. There are artesian water sources at the sites of 7 MES branches. In 2015-2016 oil circuit-breakers were replaced for SF6 or vacuum circuit-breakers under KEGOC investment program during implementation of projects for reconstruction of substations facilities. Use of oil free equipment is environmentally friendly, improves fire safety, and excludes pollution of ground water and soils.

Depending on the type, wastes are divided into production and municipal wastes (solid domestic wastes) generated in the course of life activity. The most dangerous wastes in the Company are polychlorinated biphenyl (PCB) wastes. In Akmolinskiye, Vostochnye, Severnye MES branches where the PCB wastes are at the substations, the places of PCB safe storage are defined, agreements on environmental insurance of dangerous operation sites are concluded, and hazardous waste certificates are prepared. In 2016 KEGOC branches produced 3,179 tons of wastes, among them 1,043 tons of wastes are disposed at landfills, 553 tons of wastes transferred for recycling for the purpose of re-use. Transformer oil and scrap metal were disposed by specialised organisations.

The requirements of environmental laws shall be included into the Terms of Reference when planning projects for rehabilitation and construction of energy facilities. Environmental impact assessment shall be provided under the Investment Program. In July 2016 public hearings regarding the amended feasibility study of the Pavlodar Electricity Transmission Reinforcement Project were held, where the representatives of civil society, state authorities, NGOs, media and other concerned parties took part.

KEGOC does not have significant effect on environment. Nevertheless the strategy defines the indicator appropriate for the Company operations which reflects voluntary initiative of KEGOC on reduction of actual emissions from stationary sources by 3% more than regulations of the authorized body established. Based on 2016 results owing to the undertaken initiatives related to environmental safety, reduction of gross emissions from stationary sources against the standard made 18%.

The results of the certification audit of the integrated management system conducted in 2016 confirmed that the Company's operations with regard to the environmental management system met the requirements of ISO 14001:2004.

OPERATIONAL SAFETY

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

In 2016, the following documents were developed in the Company:

1. KEGOC Programme for occupational safety and health management system for 2016.
2. KEGOC Register of Hazards and Risks for 2016;
3. KEGOC Register of Significant Hazards and Risks for 2016.

In 2016, the company's employees were provided with medical examinations, all up-to-date types of education, advanced training planned for this period; personal protective equipment, including electrical protection, special nutrition, drugs, and safety posters. The employees exposed to hazards during work process received prescribed compensations based on the results of their working places assessment with regard to exposure to harmful conditions. Pre-shift medical examinations and regular medical checks are held in time.

In all branches the safety workshops were delivered during repair campaign including qualification tests of repair crew and check of availability of the individual protection devices, instruments, harness, and special cloths. LTIFR indicator has been introduced for assessing safe working conditions level which shows the lost time injuries occurred during operations. This indicator was null (0) in 2016. In 2016 there was a fatal accident in the Aktyubinskiye MES Branch: during performance of works the electrician approached unacceptably close to the live 35 kV OHTL and was affected by electric shock. Special investigation found that the accident occurred due to the unsafe behaviour and lack of proper supervision over the actions of the worker and control of the compliance with the requirements of safety regulations by responsible persons to ensure safe working conditions. With the view to prevent accidents during the works performance at KEGOC sites the Company is introducing video recording of works performance processes for further analysis and detection of possible risks. In this regard in 2016 the Company purchased 129 digital cameras and 129 notebooks for substations and line crews which will be used from 1 January 2017 at the sites.

In addition one worker from the Reliability and Occupational Health Service from each branch passed training on upgrading qualification of the specialists on road safety and was given the certificate. The trained workers shall train drivers on road safety rules and examine them.

Also to raise responsibility of the Company's workers for their own safety the video clips and slides about consequences of safety violation were prepared and are being demonstrated to the personnel. KEGOC conducted target inspections of the technical operation, safety, labour protection and fire safety in all MES branches; 3,301 employees of the Company passed a qualification test, occupational safety days were held in all the branches, which resulted in the actions elaborated to eliminate the reported violations.

The annual plan of certification of workplaces and measures to bring working conditions at every workplace in accordance with the requirements of the rules and regulations on labour protection were completed. These measures are aimed at increasing the efficiency of operating processes, implementation of corrective and preventive actions, and elimination of inconsistencies to regulation and administrative documents of KEGOC.

KEGOC annually elaborates separate Sustainable Development Report in compliance with the generally accepted international reporting standards which allows learning about the Company's activities in environmental, economical and social areas.

KEGOC'S BUSINESS TRANSFORMATION PROGRAMME

In 2015 KEGOC started the Business Transformation Programme designed to implement projects improving efficiency of the operations, create the common information domain and integrated management system, and put in place a corporate culture of continuous improvement.

The Business Transformation Programme's objectives are as follows:

- standardize and optimize the business processes and structures, use the best practices, identify and eliminate inefficiencies of operations;
- create the up-to-date methodological framework for the operating activity that will provide better integrity and manageability of the Company (standard processes, information systems, data and business roles);
- establish and implement performance and reporting evaluation systems in accordance with up-to-date requirements of the Company's shareholders. In addition, performance indicators will be implemented at both operating and top management levels.

The Transformation Programme is implemented in four stages:

0. **Preparation stage** includes launch and approval of main programme documents, team mobilization, engaging consultants, etc.
1. **Diagnostics and Design** develops initiatives to promote better Company's performance.
2. **Planning** groups initiatives identified in the first stage into projects reflected in project portfolio.
3. **Implementation** means immediate implementation of projects.

In 2016 the Company completed Stage 1 **(Diagnostics and Design)** as follows:

- conducted an analysis of the existing strategies and gave recommendations on their updating;
- developed target business processes based on the results of the re-engineering and processes detailing;
- developed and approved the KPI tree structure;
- developed the company's target organisational structure, which was approved by KEGOC's Board of Directors;
- developed concept for IT, information security and data management development;
- elaborated strategy for information technology and data management development;
- carried out the work aimed at the Company viability enhancement.

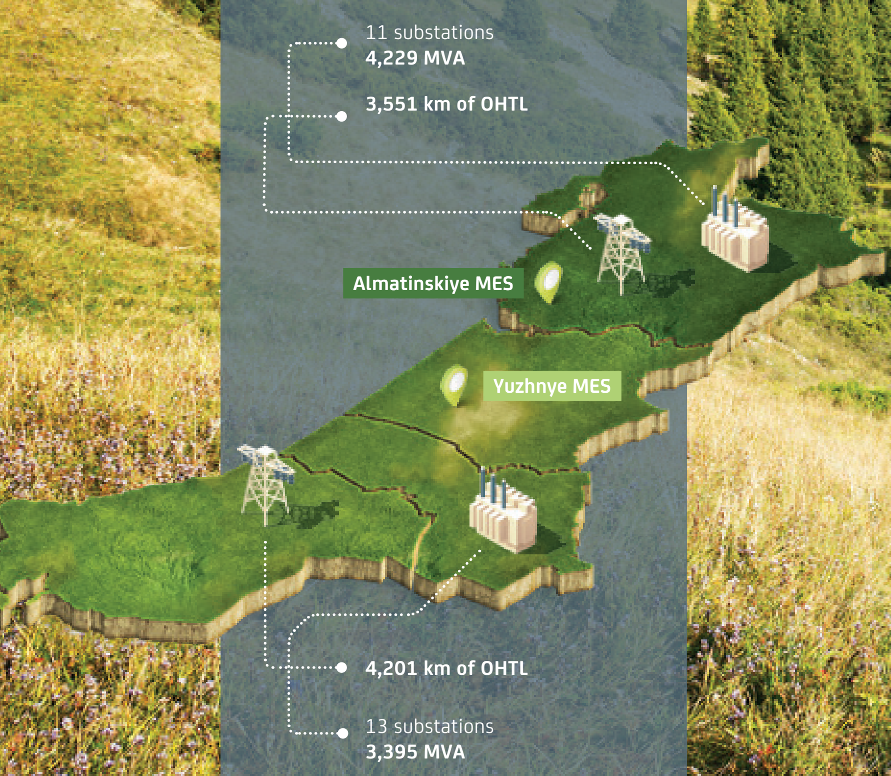
Currently Stage 2 **(Planning)** is under completion, which grouped initiatives on the Company's performance enhancement into the portfolio of Company's projects approved by decision of the Company's Management Board.

In 2017 the Company started implementation of the last and decisive third stage of the programme **(Implementation).** The objectives of the stage are reflected in the Business Transformation Programme Roadmap for 2017 approved on 15 February 2016 at the extended meeting of the Company's Modernization Board participated by Umirzak Shukeyev, Chairman of Samruk-Kazyna's Management Board.

Financial Statements

GEOGRAPHY OF OPERATIONS

South Kazakhstan:



The Bukhara or tugai **deer** *(Cervus elaphus bactrianus)* is a lowland subspecies of red deer. Over 90% of the total subspecies live in the territory of the Central Asian countries. Listed in the Red Book of the International Union for Conservation of Nature (Category 1, Appendix II of the Convention on International Trade in Endangered Species of Wild Fauna and Flora. In Kazakhstan protected in the Karachingil state hunting reserve.

Financial statements

For the year ended 31 December 2016 with independent auditor's report

External audit of financial statements in KEGOC from 2012 to the present day was carried out by independent auditing organization Ernst and Young LLP, the member of Chamber of Auditors of the Republic of Kazakhstan since 2006. The current engagement contract covers the period from 2016 to 2018. The audit services were procured on single source in accordance with Clause 139 of the Rules for procurement of goods, works and services by Samruk-Kazyna Sovereign Wealth Fund JSC and organisations of which Samruk-Kazyna holds directly or indirectly fifty or more per cent of shares (equity interest) either in ownership or under trust management. The total amount of audit service fee will be KZT 138,880,000 for 3 years including VAT. In 2016 Ernst and Young LLP did not render non-audit services.

Independent auditor's report **97**

Consolidated financial statements

Consolidated statement of financial position **101**
Consolidated statement of comprehensive income **103**
Consolidated statement of cash flows **104**
Consolidated statement of changes in equity **106**

Notes to the consolidated financial statements **107**

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Independent auditor's report

To the Shareholders of Kazakhstan Electricity Grid Operating Company JSC

Opinion

We have audited the consolidated financial statements of Kazakhstan Electricity Grid Operating Company JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Recoverability of receivables from Uzbekenergo JSC

The Group has a significant balance of accounts receivable from Uzbekenergo JSC as at the reporting date. The management assessment of recoverability of these accounts receivable is complex, largely subjective and based on assumptions, in particular, on forecasted ability of Uzbekenergo JSC to pay for supplied services. Therefore, this matter of the most significance in our audit.

We obtained understanding of process of the allowance for doubtful accounts receivable calculation and considered respective accounting policy of the Group. We analyzed information used by the Group for the determination of allowance for doubtful accounts receivable, including information on accounts receivable settlements before and after the reporting date, information on accounts receivable aging structure and applicable levels of accounts receivable allowance. We considered current status of negotiations and correspondence with Uzbekenergo JSC.

Information on receivables from Uzbekenergo JSC is disclosed in Note 10 to the consolidated financial statements.

Measurement of assets held in KazInvestBank and Delta Bank

Taking into account the revocation of KazInvestBank JSC license by the National Bank of the Republic of Kazakhstan, the default on bonds of Delta Bank JSC and the significant amount of assets held by the Group in these banks, the measurement of cash and deposits held in banks was one of the matters of most significance in our audit.

We analyzed available information on plans for the banks' financial rehabilitation, additional clarifications from the Group's management on plans for the bank's financial rehabilitation and evaluated the management assumptions used in measurement of assets held in KazInvestBank and Delta Bank. We also reviewed minutes of Committee on accounting for unusual transactions and preparation of financial statements of the Group and considered arrangements with the banks after reporting date. We considered correctness of classification of these assets as at the reporting date.

The information on measurement of assets held in KazInvestBank JSC and Delta Bank JSC is disclosed in Note 12 to the consolidated financial statements.

Other Information included in the Group's 2016 Annual report

Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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We communicate with the Audit Committee, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

Ernst & Young LLP

Paul Cohn
Audit Partner

Adil Syzdykov
Auditor

Auditor qualification certificate
No. МФ - 0000172 dated 23 December 2013

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

Al-Farabi Ave., 77/7
050060, Almaty, Republic of Kazakhstan

28 February 2017

Consolidated Statement of Financial Position

In thousands of Tenge	Notes	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	7	500,914,390	478,699,792
Intangible assets		855,032	1,036,367
Advances paid for non-current assets	7	664,471	1,939,241
Deferred tax asset	28	1,093	2,839
Investments in associates	8	304,954	266,815
Long-term receivables from related parties	29	1,267,287	1,320,245
Other long-term financial assets	11	–	5,968,419
Other non-current assets		11,009	24,496
		504,018,236	**489,258,214**
Current assets			
Inventories	9	1,686,312	1,982,353
Trade accounts receivable	10	15,746,830	23,431,376
VAT recoverable and other prepaid taxes		309,268	295,619
Prepaid income tax		734,349	2,902,770
Other current assets	11	477,988	352,190
Other short-term financial assets	12	61,403,727	65,572,190
Restricted cash	13	15,626,798	2,349,629
Cash and cash equivalents	14	32,055,378	9,030,762
		128,040,650	**105,916,889**
Non-current assets held for sale	6	–	161,511
Total assets		**632,058,886**	**595,336,614**

Consolidated Statement of Financial Position (continued)

In thousands of Tenge	Notes	31 December 2016	31 December 2015
Equity and liabilities			
Equity			
Share capital	15	126,799,554	126,799,554
Treasury shares	15	(930)	–
Asset revaluation reserve	15	220,890,374	221,297,751
Other reserves	15	(170,701)	(170,701)
Retained earnings / (accumulated loss)		14,565,773	(6,949,990)
		362,084,070	**340,976,614**
Non-current liabilities			
Borrowings, non-current portion	16	95,143,995	149,139,660
Bonds payable, non-current portion	17	47,368,104	–
Deferred tax liability	28	66,807,914	64,677,142
Long-term trade and other accounts payable	18	2,417,810	–
		211,737,823	**213,816,802**
Current liabilities			
Borrowings, current portion	16	27,334,944	22,090,879
Bonds payable, current portion	17	5,251,917	–
Trade and other accounts payable	18	16,981,635	13,525,144
Construction obligation	19	683,430	683,430
Dividends payable	15	44	2,199,600
Advances received		1,042,525	751,166
Taxes payable other than income tax	20	3,340,265	559,515
Income tax payable		628,322	4,577
Other current liabilities	21	2,973,911	728,887
		58,236,993	**40,543,198**
Total liabilities		**269,974,816**	**254,360,000**
Total equity and liabilities		**632,058,886**	**595,336,614**

Book value per ordinary share (in Tenge)	**15**	**1,389**	**1,307**

Consolidated Statement of Comprehensive Income (For the year ended 31 December 2016)

In thousands of Tenge	Notes	2016 год	2015 год
Revenue	22	130,001,433	110,061,459
Cost of sales	23	(79,388,774)	(75,542,604)
Gross profit		**50,612,659**	**34,518,855**
General and administrative expenses	24	(17,640,430)	(8,564,705)
Selling expenses		(215,008)	(174,438)
(Accrual)/reversal of impairment loss	7	(79,820)	5,353
Operating profit		**32,677,401**	**25,785,065**
Finance income	25	6,535,086	3,876,505
Finance costs	25	(6,057,909)	(4,788,997)
Foreign exchange gain/(loss)	26	2,346,713	(35,739,224)
Share of income of associates	8	75,049	110,121
(Loss)/income from disposal of non-current assets held for sale	6	(85,802)	214,488
Provision on funds placed with Kazinvestbank JSC	12	(645,891)	–
Other income	27	1,413,198	872,252
Other expenses		(282,998)	(277,281)
Profit/(loss) before tax		**35,974,847**	**(9,947,071)**
Income tax (expense)/benefit	28	(8,384,696)	2,167,498
Profit/(loss) for the year		**27,590,151**	**(7,779,573)**
Total comprehensive income/(loss) for the year		**27,590,151**	**(7,779,573)**
Earnings per share			
Basic and diluted profit/(loss) for the year attributable to ordinary equity holders (in tenge)	15	106.12	(29.92)

Consolidated Statement of Cash Flows (For the year ended 31 December 2016)

In thousands of Tenge	Notes	2016 год	2015 года
Operating activities			
Profit/(loss) before tax		35,974,847	(9,947,071)
Adjustments to reconcile profit/(loss) before tax to net cash flows			
Depreciation and amortisation		22,723,743	22,420,041
Finance costs	25	6,057,909	4,788,997
Finance income	25	(6,535,086)	(3,876,505)
Unrealized foreign exchange (gain)/loss, net		(2,346,713)	45,952,373
Accrual/(reversal) of allowance for doubtful accounts receivable and impairment of advances and other current assets	24	1,290,214	(1,969,605)
Allowance for obsolete inventories	24	385,867	80,681
Provision on funds placed with KazInvestBank JSC	12	645,891	–
Income from receipt of granted assets	27	(872,939)	–
Loss on disposal of property, plant and equipment and intangible assets		127,621	239,545
Accrual / (reversal) of impairment loss of property, plant and equipment	7	79,820	(5,353)
Share of income of associates	8	(75,049)	(110,121)
Impairment of non-current assets held for sale	6	–	481
Loss/(income) from disposal of non-current assets held for sale	6	85,802	(214,488)
Working capital adjustments			
Change in inventories		(89,826)	(32,989)
Change in trade accounts receivable		7,079,287	(6,549,880)
Change in VAT recoverable and other prepaid taxes		(13,649)	3,320,553
Change in other current assets		(292,760)	(30,129)
Change in trade and other accounts payable		(1,343,918)	(597,441)
Change in advances received		291,359	(273,399)
Change in taxes payable other than income tax		2,780,750	(277,921)
Change in other current liabilities		2,247,095	(705,175)
Cash flows from operating activities		**68,200,265**	**52,212,594**
Interest paid		(5,922,591)	(4,096,789)
Income tax paid		(2,355,541)	(1,072,964)
Reimbursement of CIT related to receipt of granted assets	27	158,267	–
Interest received		6,219,954	2,932,699
Net cash flows received from operating activities		**66,300,354**	**49,975,540**

Consolidated Statement of Cash Flows (For the year ended 31 December 2016) (continued)

In thousands of Tenge	Notes	2016	2015
Investing activities			
Withdrawal of bank deposits		74,266,160	28,500,146
Placement of bank deposits		(65,488,341)	(38,605,228)
Change in restricted cash		(13,682,155)	1,267,838
Proceeds from sale of property, plant and equipment and intangible assets		115,209	1,632
Purchase of property, plant, equipment		(33,792,438)	(23,742,222)
Purchase of intangible assets		(130,545)	(134,896)
Payment for construction of kindergarten		(21,534)	(185,337)
Repayment of loans receivable from employees		9,354	27,194
Reclassification of funds placed with Kazinvestbank JSC	12	(19,826)	–
Dividends from an associate	8	36,910	–
Proceeds from sale of investment in associate	6	10,839	–
Decrease in charter capital of an associate	6	64,870	–
Net cash flows used in investing activities		**(38,631,497)**	**(32,870,873)**
Financing activities			
Dividends paid		(8,681,517)	(8,858,003)
Repayment of borrowings		(44,951,558)	(14,194,528)
Bonds issuance	17	49,023,111	–
Acquisition of treasury shares	15	(930)	
Net cash flows used in financing activities		**(4,610,894)**	**(23,052,531)**
Net change in cash and cash equivalents		**23,057,963**	**(5,947,864)**
Net foreign exchange difference		(33,347)	1,016,503
Cash and cash equivalents, as at 1 January		9,030,762	13,962,123
Cash and cash equivalents, as at 31 December	**14**	**32,055,378**	**9,030,762**

Consolidated Statement of Changes In Equity (For the year ended 31 December 2016)

In thousands of Tenge	Share capital	Asset revaluation reserve	Treasury shares	Other reserves	(Accumu-lated loss) / retained earnings	Total
As at 1 January 2015	126,799,554	221,756,419	–	(170,701)	11,392,194	359,777,466
Loss for the year	–	–	–	–	(7,779,573)	(7,779,573)
Total comprehensive loss	**–**	**–**	**–**	**–**	**(7,779,573)**	**(7,779,573)**
Dividends *(Note 15)*	–	–	–	–	(11,057,800)	(11,057,800)
Transfer of asset revaluation reserve *(Note 15)*	–	(458,668)	–	–	458,668	–
Other changes in equity of an associate	–	–	–	–	36,521	36,521
As at 31 December 2015	**126,799,554**	**221,297,751**	**–**	**(170,701)**	**(6,949,990)**	**340,976,614**
As at 1 January 2016	**126,799,554**	**221,297,751**	**–**	**(170,701)**	**(6,949,990)**	**340,976,614**
Profit for the year	–	–	–	–	27,590,151	27,590,151
Total comprehensive income	**–**	**–**	**–**	**–**	**27,590,151**	**27,590,151**
Dividends *(Note 15)*	–	–	–	–	(6,481,765)	(6,481,765)
Acquired treasury shares *(Note 15)*	–	–	(930)	–	–	(930)
Transfer of asset revaluation reserve *(Note 15)*	–	(407,377)	–	–	407,377	–
As at 31 December 2016	**126,799,554**	**220,890,374**	**(930)**	**(170,701)**	**14,565,773**	**362,084,070**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL INFORMATION

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

As at 31 December 2016 the Company's major shareholder was Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") (90 percent plus one share). Samruk-Kazyna is controlled by the Government of the Republic of Kazakhstan.

On 19 December 2014 the Company placed 25,999,999 ordinary shares (10 percent minus one share) at 505 tenge per share on the Kazakhstan Stock Exchange under the "People's IPO" programme.

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

As of 31 December 2016 and 2015 the Company has stakes in the following companies:

		Percentage of ownership	
Companies	**Activities**	**31 December 2016**	**31 December 2015**
Energoinform JSC	Maintenance of the KEGOC's IT system	100%	100%
Accounting and Finance Center for the support of renewable energy resources LLP	Centralised sales and purchase of electricity produced by energy producers using renewable energy sources and delivery into the electricity grid of the Republic of Kazakhstan	100%	100%

1. GENERAL INFORMATION (CONTINUED)

The Company and its subsidiaries are hereafter referred as the "Group".
The Group's operating activities are regulated by the Law of the Republic of Kazakhstan dated 9 July 1998 No. 272 I ***On Natural Monopolies and Regulated Markets*** (the "Law") as the Group is a natural monopolist in electricity transmission, technical dispatch and electricity production-consumption balancing services. According to the Law, the Group's electricity transmission, technical dispatch and electricity production-consumption tariffs are approved by the Committee of the Republic of Kazakhstan for the Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan (the "Committee").
The Company's registered office is located at 59 Tauelsyzdyk Ave., Astana, 010000, the Republic of Kazakhstan.
These consolidated financial statements were authorised for issue by the Chairman of the Management Board and Chief Accountant on 28 February 2017.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").
These consolidated financial statements have been prepared on a historical cost basis, except for certain classes of property, plant and equipment, which are stated at revalued amounts and available for sale financial assets that have been measured at fair value as described in the accounting policies and notes to these consolidated financial statements.
The consolidated financial statements are presented in Kazakhstan Tenge ("Tenge" or "KZT") and all values are rounded to the nearest thousands, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.
Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2. BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective from 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group.

The nature and the impact of each new standard or amendment is described below:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 becomes effective in relation to annual reporting period from 1 January 2016. This standard did not affect the Group's consolidated financial statements.

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

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively in relation to annual period from 1 January 2016. These amendments did not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended standards and interpretations (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group's consolidated financial statements, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and did not have any impact on the Group as it does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments did not have any impact on the Group's consolidated financial statements.

Annual improvements 2012-2014 cycle
These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7 Financial Instruments: Disclosures
(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.
(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 Employee Benefits
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended standards and interpretations (continued)

Annual improvements 2012-2014 cycle (continued)

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments did not have any impact on the Group's consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

These amendments did not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and did not have any impact on the Group as the Group does not apply the consolidation exception.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 ***Financial Instruments: Recognition and Measurement*** and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

The Group plans to adopt the new standard on the required effective date. The Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

(a) Classification and measurement

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

(c) Hedge accounting

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. In 2017 Group will assess the effects of IFRS 15.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments did not have any impact on the Group's consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (continued)

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 ***Determining whether an Arrangement contains a Lease,*** SIC-15 ***Operating Leases – Incentives*** and SIC-27 ***Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*** IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

Current versus non-current classification

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

- expected to be realized or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 12 (twelve) months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 (twelve) months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current.

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

Fair value measurement

The Group measures financial instruments, such as, available for sale ("AFS") financial assets at fair value at each balance sheet date, and non-financial assets (UPS assets) at fair value when fair value differs materially from their carrying value. Also, fair values of financial instruments measured at amortized cost are disclosed in ***Note 30.***

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

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

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

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

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

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

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

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

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

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

Foreign currency transactions

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

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

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

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

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

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

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

Exchange rate as at the end of the year (to KZT)	31 December 2016	31 December 2015
USD 1	333.29	340.01
EUR 1	352.42	371.46
RUR 1	5.43	4.61

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency transactions (continued)

Average exchange rate for the year (to KZT)	2016	2015
USD 1	341.73	222.25
EUR 1	378.25	246.48
RUR 1	5.12	3.62

Non-current assets held for sale

Non-current assets and disposal groups (which may include current and non-current assets) are recognised on the consolidated statement of financial position as “held for sale” in case of its net assets value will be compensated mainly by sale during the 12 (twelve) months after the reporting date.

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

Non-current assets or disposal groups classified in the consolidated statement of financial position in the current period as held for sale are recorded in the consolidated statement of financial position separately. Liabilities directly associated with disposal group transferred in the disposal, to be transferred to the category “held for sale” and are recognized in the consolidated statement of financial position separately. Comparative information of the consolidated statement of financial position are not corrected for adjustment with classification at the end of the current reporting period.

Disposal groups are assets (current or non-current) to be disposed by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is accounted in a disposal group in case a disposal group includes units generating cash flow, which has been allocated goodwill. Non-current assets held for sale and disposal groups are valued at the lower of book value and fair value less costs of sell. Non-current assets held for sale are not amortized.

Property, plant and equipment

Property, plant and equipment, except for UPS assets, are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

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

Land is not depreciated.

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

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

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

Intangible assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development costs

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

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

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

Impairment of non-financial assets

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

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

The Group bases its impairment calculation on value in use, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of 5 (five) years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

Investments in associate

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associate (continued)

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognized its share of any changes, when applicable, in the consolidated statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

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

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

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

Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in interest income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs for loans and operating expenses for receivables.

Held-to-maturity investments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments – initial recognition and subsequent measurement (continued)

Subsequent measurement (continued)

Held-to-maturity investments (continued)

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

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for sale reserve to the profit or loss in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

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

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

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

Derecognition

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments – initial recognition and subsequent measurement (continued)

Impairment of financial assets

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

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

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

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

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

Available-for-sale financial investments

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments – initial recognition and subsequent measurement (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Trade and other payables

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

Derecognition

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

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

Offsetting of financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventories are accounted for on a FIFO basis.

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

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

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity till 3 (three) months or less.

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

Restricted cash

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

Provisions

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

Revenue recognition

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

Rendering of services

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

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

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

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

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

Group as a lessee
Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised in profit or loss.
A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.
Operating lease payments are recognised as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Pension obligations
In accordance with the legislation of the Republic of Kazakhstan, the Group deducted 10% of employees' salaries, but no more than KZT 171,675 per month (2015: KZT 160,230) to accumulative pension funds. Pension fund payments are withheld from employees' salaries and included with payroll expenses in the consolidated statement of comprehensive income when they are incurred. The Group has no other retirement benefit obligations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current income tax

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

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

Deferred tax

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

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

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed in the consolidated financial statements unless the possibility of any outflow in settlement is remote.
A contingent asset is not recognised in the consolidated financial statements but disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and assumptions

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

Revaluation of property, plant and equipment

The revalued UPS assets constitute one class of asset under IFRS 13, based on the nature, characteristics and risks of the property. Input data for determining the fair value of UPS assets refer to Level 3 in the fair value hierarchy (unobservable inputs).
The Group performed revaluation of UPS assets as at 1 June 2014. Fair value of UPS assets was determined by using the cost approach. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost). Cost approach has been used due to highly specialized nature of the assets and because there is no history of such assets ever being sold.
The appraised current replacement cost has been further compared to the recoverable amount identified based on discounted cash flows model. The cash flows are derived from the budget for the next 5 (five) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.
As a result of the assessment, the amount of KZT 415,708,160 thousand was recognised as a fair value as of 1 June 2014.
In assessment of the fair value the following main assumptions have been applied:

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

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

Revaluation of property, plant and equipment (continued)

An increase in the discount rate by 0.5% or a reduction in long term growth rate by 0.5% would result in a decrease in the fair value of Group's property, plant and equipment for approximately KZT 9,089,485 thousand or KZT 9,602,177 thousand, respectively.
Management of the Group believes that fair value of UPS assets approximates their carrying amount at 31 December 2016.

Recoverability of non-current National Energy System assets (UPS assets)

The Group assesses assets or cash-generating units (CGU) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as levels of tariffs for regulated services, discount rates, future capital requirements, operating performance (including volumes of electricity transmission) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount.
In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.
In 2015 the Group determined main impairment indicators, including increasing levels of operational and capital expenditure as a result of significant devaluation of national currency. As a result of assessment of the recoverable amount of the Group's assets carried out by Group management, no impairment of non-current assets was revealed as at 31 December 2015.
The Group calculates recoverable amount using a discounted cash flow model. The discount rate of 9.84% was derived from the Company's post-tax weighted average cost of capital. The Development plan of the Group, which is approved for a five-year period and revised on an annual basis, is the primary source of information. It contains forecasts for volumes of electricity transmission, revenues, costs and capital expenditure.
Various assumptions such as forecasts of tariff levels for regulated services and inflation rates take into account existing prices, foreign exchange rates, other macroeconomic factors and historical trends and variability. The projection of cash flows was limited till 2020. Expenditure cash flows up to 2020 were obtained from the Group's development plan together with management's current assessment of probable changes in operational and capital expenditure. Terminal value was estimated by applying forecasted long-term growth rate of 3.5%.
The key assumptions required for the recoverable amount estimation are tariffs for regulated services, volumes of electricity transmission, discount rate and long-term growth rate. The sensitivity of the headroom to changes in the key assumptions was estimated.
As at 31 December 2016 the Group performed analysis on existence of external and internal impairment indicators of non-current assets. Based on this analysis, management of the Group believes that there is no need to perform impairment test on non-current UPS assets for the purposes of consolidated financial statements as at 31 December 2016.

Accounts receivable

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. The Group's estimate of uncollectible overdue amounts is as follows: 31-90 days – 5%, 91-180 days – 20%, 181-360 days – 50% and above 361 days – 100%. Changes in the economy or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. The Group increased expected repayment period for one of its customers, Uzbekenergo JSC, due to existing practice. Accordingly, accounts receivables from Uzbekenergo JSC were discounted for 1 year using discount rate of 9.5% that is the management's best estimate of the market discount rate. In December 2015 the Group revised repayment period of the receivables from Uzbekenergo JSC in accordance with repayment schedule proposed by Uzbekenergo JSC due to the fact that Uzbekenergo JSC carried out the timely payment of the receivables in accordance with the debt repayment schedule. Additionally, the Group has discounted future cash flows at 10.01% that is management's best estimate of market rate in accordance with the schedule provided. Further details are contained in ***Note 10.***

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

Taxes

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

Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

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

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

Fair value of financial instruments

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

Bonds issued

Under the government program “Nurly Zhol”, in June 2016 the Group issued coupon bonds at Kazakhstan Stock Exchange JSC to finance the project “Construction of 500 kW line Ekibastuz – Semey – Ust-Kamenogorsk” and “Construction of 500 kW line Semey – Aktogay – Taldykorgan – Alma” ***(Note 17).***

The coupon interest rate of issued financial instruments is variable and consists of two parts: the inflation rate and fixed margin of 2.9% per annum. Inflation rate is an increase / decrease in the consumer price index published by the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan within the last 12 (twelve) months preceding the 2 (two) months before the start date of the new coupon period. The value of the upper inflation limit is set at 16%, lower – 5%. Current coupon rate is 18.6%.

According to the estimates of the management, coupon rate corresponds to the market rate. As the market rate in relation to the duration of debt financing, at the end of the treatment period repayment of the nominal amount of the bonds can serve as an interest rate on long-term coupon bonds by the Ministry of Finance of the Republic of Kazakhstan – MEUZHKAM. These bonds also consist of two parts: the consumer price index and a fixed margin of 0.1%. Unlike the bonds MEUZHKAM, the Group’s bonds are not secured, so the difference in the amount of fixed margin is due to the risk premium. Thus, the nominal value of issued bonds has been recognized as the fair value.

5. OPERATING SEGMENTS INFORMATION

Operating segments

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

Geographic information

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

In thousands of Tenge	2016	2015
Revenue from Kazakhstan customers	117,385,538	99,912,697
Revenue from Uzbekistan customers	11,254,357	10,148,762
Revenue from Russian customers	1,361,538	–
Total revenue per consolidated statement of comprehensive income	**130,001,433**	**110,061,459**

Management analyses the Group's revenue and profit before tax determined in accordance with IFRS.
For the year ended 31 December 2016 the revenue from one customer, Samruk-Energo Group, including its joint-ventures, amounted to KZT 19,974,135 thousand, arising from transmission, technical dispatching and balancing services (for the year ended 31 December 2015: KZT 17,401,767 thousand).

6. NON-CURRENT ASSETS HELD FOR SALE

In 2015 the Group made a decision on implementation of 49.9% interest in the share capital of the associate – KazEnergoProvod LLP.
On 6 May 2015 the management approved schedule plan of implementation of interest. As a result, starting from 6 May 2015, these investments are classified as non-current assets held for sale.
Long-term assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. In order to fulfil this requirement, the independent appraiser assessed, as a result of which the fair value of the stake in KazEnergoProvod LLP was recognized in the amount of KZT 161,511 thousand. Due to the fact that the fair value less costs to sell is less than the carrying amount, which constituted at that date amounted to KZT 161,992 thousand was recognized as a loss in the amount of KZT 481 thousand.
In June 2016 the General meeting of shareholders of KazEnergoProvod LLP decided to reduce its charter capital up to KZT 230,000 thousand. Appropriate changes were made to the charter documents and re-registration of the legal entity. As a result of this decision, it has been recognized as a reduction of net book value of assets classified as held for sale, till KZT 96,641 thousand.
In November 2016 there were trades through electronic auction by method of price decrease. As a result of trading a buyer was determined and selling price was established which is equal to KZT 10,839 thousand. Disposal of shares in associate KazEnergoProvod LLP was completed in November 2016.

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

In thousands of Tenge	Land	Buildings	UPS constructions	Vehicles and other property, plant and equipment	Construction-in-progress	Total
Cost						
At 1 January 2015	1,529,783	13,543,582	802,315,409	30,415,857	13,342,850	861,147,481
Additions	43,449	–	47,843	826,624	23,612,941	24,530,857
Transfers	2,817	595,627	(1,583,633)	3,849,063	(2,863,874)	–
Transfers to intangible assets	–	–	–	(378)	(142,511)	(142,889)
Transfers to investment property	(46,320)	(910,536)	(159,699)	(432,269)	–	(1,548,824)
Disposals	(824)	(3,350)	(490,161)	(378,135)	(23,173)	(895,643)
At 31 December 2015	**1,528,905**	**13,225,323**	**800,129,759**	**34,280,762**	**33,926,233**	**883,090,982**
At 1 January 2016	**1,528,905**	**13,225,323**	**800,129,759**	**34,280,762**	**33,926,233**	**883,090,982**
Additions	9,923	1,251	725,913	1,532,260	42,652,202	44,921,549
Transfers	745	542,633	20,036,244	2,269,176	(22,848,798)	–
Transfers to intangible assets	–	–	–	–	(4,497)	(4,497)
Disposals	–	(1,125)	(1,793,056)	(446,176)	(26,470)	(2,266,827)
At 31 December 2016	**1,539,573**	**13,768,082**	**819,098,860**	**37,636,022**	**53,698,670**	**925,741,207**
Accumulated depreciation and impairment						
At 1 January 2015	–	(1,612,816)	(364,419,798)	(17,315,820)	(355,371)	(383,703,805)
Charge for the period	–	(262,308)	(19,555,680)	(2,289,621)	–	(22,107,609)
Transfers	–	679	(412,998)	412,319	–	–
Transfer to investment property	–	346,460	74,821	337,492	–	758,773
Disposals	–	2,328	260,908	373,848	19,014	656,098
Impairment reversal	–	–	–	–	5,353	5,353
At 31 December 2015	**–**	**(1,525,657)**	**(384,052,747)**	**(18,481,782)**	**(331,004)**	**(404,391,190)**
At 1 January 2016	**–**	**(1,525,657)**	**(384,052,747)**	**(18,481,782)**	**(331,004)**	**(404,391,190)**
Charge for the period	–	(273,150)	(19,931,194)	(2,200,004)	–	(22,404,348)
Transfers	–	583	(15,680)	15,097	–	–
Disposals	–	561	1,623,507	403,260	21,213	2,048,541
Impairment accrual	–	–	–	–	(79,820)	(79,820)
At 31 December 2016	**–**	**(1,797,663)**	**(402,376,114)**	**(20,263,429)**	**(389,611)**	**(424,826,817)**
Net book value						
At 1 January 2015	**1,529,783**	**11,930,766**	**437,895,611**	**13,100,037**	**12,987,479**	**477,443,676**
At 31 December 2015	**1,528,905**	**11,699,666**	**416,077,012**	**15,798,980**	**33,595,229**	**478,699,792**
At 31 December 2016	**1,539,573**	**11,970,419**	**416,722,746**	**17,372,593**	**53,309,059**	**500,914,390**

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

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

In thousands of Tenge	31 December 2016	31 December 2015
Cost	267,033,110	247,164,032
Accumulated depreciation	(82,385,796)	(74,224,315)
Net carrying amount	**184,647,314**	**172,939,717**

As at 31 December 2016 and 2015 cost of fully amortised property, plant and equipment, which is still in use amounted to KZT 7,507,540 thousand and KZT 8,480,667 thousand, respectively.

Capitalized borrowing costs and issued bonds

During the year ended 31 December 2016 the Group capitalized the cost of coupon interest on issued bonds net off investment income amounted to KZT 1,379,376 thousand (for the year ended 31 December 2015: nil) ***(Note 17).***

Construction in progress

Construction in progress is mainly represented by equipment and construction works as part of the implementation of the project “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma”.

Advances paid for non-current assets

As at 31 December 2016 advances paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the project “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma” (as at 31 December 2015: the advanced paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the project “Construction of 500 kW line Ekibastuz – Shulbinskaya GES (Semey) – Ust-Kamenogorsk” and “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma”).

8. INVESTMENTS IN ASSOCIATES

The Group has 20% share in Batys Transit JSC. Principal place of operations and its country of incorporation of Batys Transit JSC (“Batys Transit”) is the Republic of Kazakhstan. The main activity of Batys Transit is realization of a project on construction and exploitation of interregional power line, which connects the North Kazakhstan region with Aktobe region. Batys Transit has bonds traded on the Kazakhstan Stock Exchange. The following table illustrates the summarised financial information about Batys Transit:

In thousands of Tenge	31 December 2016	31 December 2015
Statement of financial position		
Current assets	3,373,844	1,444,651
Non-current assets	19,433,266	20,692,201
Current liabilities	(2,384,323)	(1,722,382)
Non-current liabilities	(18,898,018)	(19,080,393)
Net assets	**1,524,769**	**1,334,077**

8. INVESTMENTS IN ASSOCIATES (CONTINUED)

In thousands of Tenge	31 December 2016	31 December 2015
Group's share in net assets	304,954	266,815
Carrying amount of the investment	**304,954**	**266,815**
Statement of comprehensive income		
Revenue	5,819,979	5,460,163
Net profit	375,245	550,606
Group's share of income of Batys Transit	**75,049**	**110,121**

In May 2016 at the General Meeting of shareholders of Batys Transit, it was decided to allocate net profit by the end of 2015 in the form of dividends in the amount of KZT 6,151.57 per share. The Group received dividends in the amount of KZT 36,910 thousand in cash.

As of 31 December 2016 and 2015, the associates had no contingent liabilities or capital commitments.

9. INVENTORIES

In thousands of Tenge	31 December 2016	31 December 2015
Spare parts	1,258,723	1,242,830
Raw and other materials	930,547	852,345
Fuel and lubricants	114,705	125,711
Other inventory	25,054	28,894
Less: allowance for obsolete inventories	(642,717)	(267,427)
	1,686,312	**1,982,353**

Movement in the allowance for obsolete inventories was as follows:

In thousands of Tenge	31 December 2016	31 December 2015
At 1 January	267,427	247,478
Charge for the year (Note 24)	385,867	80,681
Write-off	(10,577)	(60,732)
At 31 December	**642,717**	**267,427**

10. TRADE ACCOUNTS RECEIVABLE

In thousands of Tenge	31 December 2016	31 December 2015
Trade accounts receivable	18,400,246	25,559,459
Less: allowance for doubtful accounts receivable	(2,653,416)	(1,452,512)
Less: discount of accounts receivable	–	(675,571)
	15,746,830	**23,431,376**

10. TRADE ACCOUNTS RECEIVABLE (CONTINUED)

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

In thousands of Tenge	2016	2015
At 1 January	1,452,512	3,445,256
Charge for the year *(Note 24)*	1,435,288	15,375,749
Write-off	(1,585)	(5,893)
Reversal *(Note 24)*	(232,799)	(17,362,600)
At 31 December	**2,653,416**	**1,452,512**

As at 31 December 2016 trade receivables included receivables from customer Uzbekenergo JSC in the amount of KZT 12,338,962 thousand (31 December 2015: KZT 19,945,945 thousand).

In December 2015, the Group revised its expectations regarding the recoverability of the receivables from Uzbekenergo JSC and reversed the allowance for doubtful accounts in the amount of KZT 17,107,925 thousand due to the fact that Uzbekenergo JSC carried out the timely payment of the receivables in accordance with the debt repayment schedule that was proposed by Uzbekenergo JSC. Additionally, the Group has discounted future cash flows in accordance with the schedule provided.

Due to the fact that schedule supposed repayment of debt in October 2016, as at 30 September 2016 discount on trade receivables was fully amortized (as at 31 December 2015: KZT 675,571 thousand). For the year ended 31 December 2016 the Group recognized amortization of discount in the amount of KZT 685,493 thousand within finance income in the consolidated statement of comprehensive income.

As at 31 December 2016 due to the non-compliance with new repayment schedule, the Group accrued an allowance for outstanding part of receivable from Uzbekenergo JSC in the amount of KZT 2,422,993 thousand.

The ageing analysis of trade receivables is as follows:

			Past due but not impaired			
In thousands of Tenge	Total	Neither past due nor impaired	30-90 days	91-180 days	181-270 days	Above 271 days
31 December 2016	**15,746,830**	**6,338,579**	**24,509**	**8,448,471**	**812,181**	**123,090**
31 December 2015	23,431,376	4,765,585	200,833	141,647	5,288,501	13,034,810

Trade receivables were denominated in the following currencies:

In thousands of Tenge	31 December 2016	31 December 2015
US dollars	9,915,969	19,693,177
Tenge	5,243,358	3,247,617
Russian rouble	587,503	490,582
	15,746,830	**23,431,376**

11. OTHER CURRENT ASSETS

In thousands of Tenge	31 December 2016	31 December 2015
Other receivables for property, plant and equipment and constructions	180,123	98,249
Deferred expenses	107,269	65,009
Advances paid for goods and services	64,949	23,155
Loans receivable from employees	19,535	22,623
Other	304,560	257,354
Less: allowance for impairment of other current assets	(198,448)	(114,200)
	477,988	**352,190**

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

In thousands of Tenge	2016	2015
At 1 January	114,200	97,987
Charge for the year *(Note 24)*	96,265	68,433
Reversal *(Note 24)*	(8,540)	(51,187)
Write-off	(3,477)	(1,033)
At 31 December	**198,448**	**114,200**

12. OTHER FINANCIAL ASSETS

In thousands of Tenge	31 December 2016	31 December 2015
Other long-term financial assets		
Bonds of Batys Transit	–	868,269
Bank deposits	–	5,100,150
	–	**5,968,419**
Other short-term financial assets		
Bank deposits	56,682,280	65,509,892
Funds placed with Delta Bank JSC	3,000,000	–
Funds placed with Kazinvestbank JSC	1,291,782	–
Bonds of Batys Transit	868,269	–
Interest accrued on bonds of Batys Transit	207,287	62,298
Less: allowance for impairment of funds with KazInvestBank JSC	(645,891)	–
	61,403,727	**65,572,190**
Total other financial assets	**61,403,727**	**71,540,609**

12. OTHER FINANCIAL ASSETS (CONTINUED)

Bonds of Batys Transit

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate ***(Note 8)***, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 14.9%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. The Group do not offset the unrecognised share of loss in Batys Transit with the investment in bonds, since the bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006.

In April 2016 the Group concluded an agreement with Batys Transit about early redemption of its bonds at nominal price of 100 tenge per unit. Batys Transit JSC plans to acquire bonds till 1 December 2017.

Deposits

As at 31 December 2016 and 2015 deposits include accrued interest income in the amount of KZT 182,185 thousand and KZT 114,722 thousand, respectively.

Funds placed with Delta Bank JSC

As at 31 December 2016 short-term deposits placed by the Group with Delta Bank JSC were equal to KZT 3,000,000 thousand. Management believes that these funds are fully recoverable regardless of bank's default on bonds in January 2017 ***(Note 32)***.

Funds placed with Kazinvestbank JSC

In December 2016 according to the order of Management Board of the National Bank of the Republic of Kazakhstan ("National Bank"), the licence of Kazinvestbank JSC to conduct bank operations was recalled and a temporary administrator was appointed. As a result the Group has reclassified their cash balances with Kazinvestbank JSC of KZT 19,826 thousand to other financial assets (in addition to KZT 1,271,956 thousand of short-term deposits included within other financial assets) and reassessed their recoverability. Recoverability of balances with Kazinvestbank JSC will depend on the actions taken by the temporary administrators and the National Bank. As a result of the assessment the Group has accrued a provision for impairment of 50% of the outstanding balances in the consolidated financial statements representing their best estimate of future recoverability of these assets.

Other financial assets were denominated in the following currencies:

In thousands of Tenge	Interest rate	31 December 2016	31 December 2015
US dollars	4%-6%	35,830,396	68,367,375
Tenge	10%-14%	25,573,331	3,173,234
		61,403,727	**71,540,609**

13. RESTRICTED CASH

In thousands of Tenge	31 December 2016	31 December 2015
Cash on debt service accounts	13,209,941	–
Cash on reserve accounts	2,263,220	2,204,660
Restricted cash for return of guarantee obligations	153,637	144,969
	15,626,798	**2,349,629**

13. RESTRICTED CASH (CONTINUED)

As at 31 December 2016 and 2015 restricted cash represents cash held on a debt service account and reserve account. According to the terms of the loan agreements with IBRD and EBRD, the Group's creditors, the Group accumulates cash on a special debt service bank account opened with Kazakhstan bank during the semi-annual period preceding the scheduled date of payment of principal, interest and commission fees related to the IBRD and EBRD loans.
In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of the Group's loans ***(Note 16),*** the Group is obliged to hold cash on a special reserve account opened in a Kazakhstan bank. The Group is obliged to reserve cash for at least 110% of the upcoming semi-annual payment of principal, interest and commission fees of the IBRD loans.
As at 31 December 2016 and 2015, restricted cash including funds to be payable, was denominated in the following currencies:

In thousands of Tenge	31 December 2016	31 December 2015
US dollars	15,473,161	2,204,660
Tenge	153,637	144,969
	15,626,798	**2,349,629**

14. CASH AND CASH EQUIVALENTS

In thousands of Tenge	31 December 2016	31 December 2015
Short-term deposits	20,450,000	5,036,000
Current accounts with banks, in Tenge	9,297,895	2,551,406
Current accounts with banks, in foreign currencies	2,300,876	1,434,716
Cash on hand	4,819	3,424
Cash at special accounts	1,788	5,216
	32,055,378	**9,030,762**

As at 31 December 2016 and 2015 the Group placed short-term deposits at banks in the total amount of KZT 20,450,000 thousand and KZT 5,036,000 thousand, respectively, at 10.5%-32% per annum. These deposits were denominated in Tenge.
As at 31 December 2016 and 2015, cash and cash equivalents were denominated in the following currencies:

In thousands of Tenge	31 December 2016	31 December 2015
Tenge	29,754,502	7,596,046
US dollars	1,925,437	393,010
Euro	372,457	1,040,794
Russian rouble	2,487	307
Others	495	605
	32,055,378	**9,030,762**

15. EQUITY

As at 31 December 2016 and 2015 share capital of the Company comprised of 260,000,000 shares for the total amount of KZT 126,799,554 thousand that were issued and fully paid.
The Group placed 25,999,999 ordinary shares at a price of KZT 505 at the Kazakhstan stock exchange under the People's IPO program. On 19 December 2014 the contribution to share capital of KZT 13,129,999 thousand was received. As at 31 December 2016 and 2015 authorized capital is presented net of the cost of the consulting services related to the issue of shares under People's IPO of KZT 692,568 thousand.

Treasury shares

In November 2016 the Group reacquired on the open market its issued shares in amount of 1,390 shares for the total amount of KZT 930 thousand.

Dividends

On 16 October 2015 on the extraordinary General Shareholders meeting the Group declared dividends for the 1st half-year of 2015, in the amount of KZT 2,444,000 thousand that is 40.01% of net income, or 9.40 Tenge per ordinary share. In December 2015 the Group reached the agreement on deferral of dividend payment to the major shareholder – Samruk-Kazyna – in the amount of KZT 2,199,600 thousand due to 30 December 2016. The payment of dividends to other shareholders was performed in October 2015. On 31 October 2016 the Group made full repayment of its dividends payable. On 28 October 2016 on the special general shareholders meeting it was approved to distribute 40% of net profit received as a result of 1st half-year of 2016. Amount of distributable dividends comprises KZT 6,481,765 thousand to all ordinary shareholders of KEGOC JSC, which is 24.93 tenge per ordinary share.

Earnings per share

Basic and diluted earnings per share are calculated by dividing net profit for the period by the weighted average number of ordinary shares outstanding during the period. The Group had weighted average ordinary shares outstanding in the amount of 259,998,610 shares during the year ended 31 December 2016 (for the year ended 31 December 2015: 260,000,000 shares). For the year ended 31 December 2016 basic and diluted earnings per share comprised 106.12 tenge (2015: loss per share 29.92 tenge).

Book value per share

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

In thousands of Tenge	31 December 2016	31 December 2015
Total assets	632,058,886	595,336,614
Less: intangible assets	(855,032)	(1,036,367)
Less: total liabilities	(269,974,816)	(254,360,000)
Net assets	**361,229,038**	**339,940,247**
Number of ordinary shares	260,000,000	260,000,000
Book value per ordinary share, tenge	**1,389**	**1,307**

15. EQUITY (CONTINUED)

Asset revaluation reserve

As at 31 December 2016 and 2015 the revaluation reserve represents revaluation surplus recognized as a result of revaluation of Group's UPS assets on 1 June 2014. Transfer of asset revaluation reserve into retained earnings, upon disposal of PPE, for the year ended 31 December 2016 amounted to KZT 407,377 thousand (for the year ended 31 December 2015: KZT 458,668 thousand).

Other reserves

Other reserves represent accumulated reserve on available for sale investments. After initial measurement, available for sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the other reserves until the investment is derecognised. Fair value is the price to sell an asset or transfer a liability.

16. BORROWINGS

In thousands of Tenge	31 December 2016	31 December 2015
International Bank of Reconstruction and Development (IBRD)	65,140,253	74,153,611
European Bank of Reconstruction and Development (EBRD)	57,338,686	97,076,928
	122,478,939	**171,230,539**
Less: current portion of loans repayable within 12 months	(27,334,944)	(22,090,879)
	95,143,995	149,139,660

As at 31 December 2016 and 2015 the accrued and unpaid interest was equal to KZT 1,115,744 thousand and KZT 1,223,400 thousand, respectively.
As at 31 December 2016 and 2015 the unamortized portion of loan origination fees was equal to KZT 553,726 thousand and KZT 813,886 thousand, respectively.
Loans were denominated in the following currencies:

In thousands of Tenge	31 December 2016	31 December 2015
US dollars	74,236,477	110,952,763
Euro	48,242,462	60,277,776
	122,478,939	**171,230,539**

16. BORROWINGS (CONTINUED)

"Kazakhstan National Electricity Transmission Rehabilitation Project"

In 1999 the Group received the following credit line facilities for the purpose of implementation of the "Kazakhstan National Electricity Transmission Rehabilitation Project", USD 140,000 thousand from IBRD for the 20 (twenty) years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2005. An interest at LIBOR base rate plus general spread is payable semi-annually. The outstanding balances as at 31 December 2016 and 31 December 2015 are USD 38,180 thousand (equivalent to KZT 12,725,012 thousand) and USD 49,540 thousand (equivalent to KZT 16,844,095 thousand), respectively.

"North-South Electricity Transmission Project"

In 2005 for the purpose of implementation of the Phase II of the "North-South Electricity Transmission Project", the Group received a credit line facility of USD 100,000 thousand provided by IBRD for a period of 17 (seventeen) years of which first 5 (five) years are a grace period. This credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus general spread is paid semi-annually. In 2011 the non-disbursed part of this IBRD credit line in the amount of USD 1,918 thousand was cancelled due to the fact that actual costs incurred within this project were less than expected. The outstanding balances as at 31 December 2016 and 31 December 2015 are USD 48,973 thousand (equivalent to KZT 16,322,355 thousand) and USD 57,129 thousand (equivalent to KZT 19,424,481 thousand), respectively.

"Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2"

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

(a) two credit-line facilities of Euro 127,500 thousand and Euro 75,000 thousand from EBRD for 15 (fifteen) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.85% margin is payable semi-annually. The outstanding balances as at 31 December 2016 and 31 December 2015 are Euro 112,137 thousand (equivalent to KZT 39,519,210 thousand) and Euro 129,389 thousand (equivalent to KZT 48,062,645 thousand), respectively;

(b) a credit line facility of Euro 47,500 thousand from EBRD for 12 (twelve) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.55% margin is payable semi-annually. The outstanding balances as at 31 December 2016 and 31 December 2015 are Euro 22,749 thousand (equivalent to KZT 8,017,051 thousand) and Euro 29,248 thousand (equivalent to KZT 10,864,522 thousand), respectively;

(c) a credit line facility of Euro 5,000 thousand from EBRD for 9 (nine) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 2.75% margin is repayable semi-annually. The outstanding balances as at 31 December 2016 and 31 December 2015 are Euro 603 thousand (equivalent to KZT 212,760 thousand) and Euro 1,811 thousand (equivalent to KZT 672,763 thousand), respectively.

In November 2013 the Group concluded supplementary agreement, according to which the second credit line was decreased from Euro 75,000 thousand to Euro 53,443 thousand.

In December 2014 the unused part of loan from the EBRD amounted to Euro 5,028 thousand was cancelled due to the fact that actual expenses were lower than expected.

16. BORROWINGS (CONTINUED)

"Moinak Electricity Transmission Project"

In 2009, for the realization of the "Moinak Electricity Transmission Project" a credit line facility from IBRD of USD 48,000 thousand was opened for 25 (twenty five) years, of which the first 5 (five) years are a grace period. The credit line facility is secured by the guarantee of the Government of the Republic of Kazakhstan. An interest rate is USD LIBOR rate plus fixed spread 0.85% is payable semi-annually. In May 2013 unused portion of the credit line from the IBRD in the amount of USD 3,274 thousand was cancelled due to the fact that the amount of actual expenses incurred in the course of the project was less than expected. The outstanding balances as at 31 December 2016 and 31 December 2015 are USD 40,254 thousand (equivalent to KZT 13,416,087 thousand) and USD 41,490 thousand (equivalent to KZT 14,446,957 thousand), respectively.

"Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500, 200 kW"

In 2010 for the realization of the project "Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500, 200 kW" the Group received a credit line facility of USD 78,000 thousand from IBRD for 25 (twenty five) years, of which the first 5 (five) years are a grace period. The credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus fixed spread 1.15% is repayable semi-annually. In July 2014 undeveloped part of the credit line from the IBRD in the amount USD 6,644 thousand has been cancelled due to the fact that the amount of actual costs was less than expected costs. The outstanding balances as at 31 December 2016 and 31 December 2015 are USD 67,789 thousand (equivalent to KZT 22,593,244 thousand) and USD 69,572 thousand (equivalent to KZT 23,661,306 thousand), respectively.

"Ossakarovka Transmission Rehabilitation Project"

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

(a) two credit-line facilities of USD 77,293 thousand and USD 44,942 thousand, from EBRD for a 15 (fifteen) years. An interest at the interbank six months LIBOR rate plus a 3.95% margin is payable semi-annually. The outstanding balances as at 31 December 2016 and 31 December 2015 are USD 21,997 thousand (equivalent to KZT 7,331,269 thousand) and USD 86,763 thousand (equivalent to KZT 29,500,398 thousand), respectively;

(b) a credit-line facility of USD 17,973 thousand, from EBRD for 12 (twelve) years. An interest at the interbank six months LIBOR rate plus a 3.70% margin is payable semi-annually. The outstanding balances as at 31 December 2016 and 31 December 2015 are USD 2,776 thousand (equivalent to KZT 925,255 thousand) and USD 11,431 thousand (equivalent to KZT 3,886,802 thousand) respectively.

In 2011, for execution of "Reconstruction of the Ossakarovka 220 kW power line" the Group received from EBRD credit lines for the amounts of USD 12,900 thousand (A2, B1b) and USD 1,900 thousand (B2b). The credit lines were provided for 12 (twelve) years, of which the first 3 (three) years is a grace period. An interest at the interbank six months LIBOR rate plus 3.95% (A2, B1b) and 3.70% (B2b) margin is payable semi-annually. The outstanding balances as at 31 December 2016 and 31 December 2015 are USD 2,564 thousand (equivalent to KZT 854,678 thousand) and USD 10,168 thousand (equivalent of KZT 3,457,056 thousand), respectively.

In May 2014 the Group concluded supplementary agreement, according to which the undisbursed amount of the second tranche of EBRD credit line was decreased from USD 14,800 thousand to USD 11,691 thousand. In December 2016 the Group made partial repayment in the amount of USD 70,222 thousand (equivalent to 23,567,126 thousand) ***(Note 32).***

17. BONDS PAYABLE

In thousands of Tenge	31 December 2016	31 December 2015
Nominal value of issued bonds	47,500,000	–
Accrued coupon interest	5,251,917	–
Less: discount on bonds issued	(108,883)	–
Less: transaction costs	(23,013)	–
	52,620,021	**–**
Less: current portion of bonds repayable within 12 months	(5,251,917)	–
	47,368,104	**–**

Under the State Program "Nurly Zhol" during the period from June to August 2016 the Group issued coupon bonds with nominal amount of KZT 47,500,000 thousand under floating interest rate equal to the inflation rate in Republic of Kazakhstan plus 2.9% with the maturity in 2031 in order to finance the projects "Construction of 500 kW line Ekibastuz – Semey – Ust'-kamenogorsk" and "Construction of 500 kW line Semey – Ak-togay – Taldykorgan – Alma". The coupon rate for the first coupon period totaled to 18.6% per annum.

All bonds under this program were acquired by United Pension Saving Fund. Cash received was initially placed on short-term bank deposits.

Bonds were issued with discount in the amount of KZT 111,945 thousand. For the year ended 31 December 2016 the Group capitalized amortized discount in the amount of KZT 3,062 thousand and transaction costs in the amount of KZT 656 thousand into the cost of property, plant and equipment.

During the year ended 31 December 2016 the Group capitalized the cost of coupon interest on issued bonds net off investment income amounted to KZT 1,379,376 thousand (for the year ended 31 December 2015: nil) ***(Note 7).***

18. LONG-TERM AND SHORT-TERM TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	31 December 2016	31 December 2015
Long-term accounts payable		
Accounts payable for property, plant and equipment and construction works	2,804,261	–
Less: discount on accounts payable	(386,451)	–
	2,417,810	**–**
Short-term trade and other accounts payable		
Accounts payable for property, plant and equipment and construction works	12,731,011	8,091,105
Accounts payable for electricity purchased	3,310,440	4,507,777
Accounts payable for inventories, works and services	940,184	926,262
	16,981,635	**13,525,144**
Total	**19,399,445**	**13,525,144**

18. LONG-TERM AND SHORT-TERM TRADE AND OTHER ACCOUNTS PAYABLE (CONTINUED)

As at 31 December 2016 and 2015 trade and other accounts payable are denominated in the following currencies:

In thousands of Tenge	31 December 2016	31 December 2015
Tenge	18,802,071	12,613,812
Russian rouble	559,834	782,163
US dollars	27,496	64,961
Euro	10,044	64,208
	19,399,445	**13,525,144**

19. CONSTRUCTION OBLIGATION

On 28 November 2013 in accordance with the decision of the Board of Samruk-Kazyna, the Group was committed to construct a kindergarten in Astana city and transfer it upon completion to the Akimat of Astana. In 2014, the Group has estimated construction costs and signed a contract with the construction company. Accordingly, the Group recognized a liability for construction in total amount of KZT 683,430 thousand and the corresponding distribution to shareholders. Completion of the construction of the kindergarten is postponed to 2017.

20. TAXES PAYABLE OTHER THAN INCOME TAX

In thousands of Tenge	31 December 2016	31 December 2015
Property tax *(Note 32)*	2,657,850	315
Contributions payable to pension fund	195,551	85,746
Personal income tax	171,925	99,382
Social tax	156,929	81,221
VAT payable	115,476	250,582
Social contribution payable	40,580	27,638
Other	1,954	14,631
	3,340,265	**559,515**

21. OTHER CURRENT LIABILITIES

In thousands of Tenge	31 December 2016	31 December 2015
Due to employees	2,776,866	555,197
Other	197,045	173,690
	2,973,911	**728,887**

22. REVENUE

In thousands of Tenge	2016	2015
Electricity transmission	80,601,372	73,343,942
Technical dispatch	19,761,623	15,071,222
Balancing of electricity production and consumption	13,538,986	13,017,269
Revenue from sales of purchased electricity	10,755,485	5,004,398
Revenue from electricity sales for compensation of the interstate balances of electricity flows	3,704,705	3,020,328
Revenue from power regulation services	1,361,538	–
Other	1,569,884	1,276,395
	131,293,593	**110,733,554**
Discounts to consumers	(1,292,160)	(672,095)
	130,001,433	**110,061,459**

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

During the year ended 31 December 2016 the Group recognised revenue from power regulation services to Uzbekenergo JSC for 2015 and 2016 year in the amount of KZT 1,361,538 thousand as a result of agreement reached with Uzbekenergo JSC.

For the year ended 31 December 2016 the revenue from one customer, Samruk-Energo Group, amounted to KZT 19,974,135 thousand, arising from transmission, technical dispatching and balancing services.

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

23. COST OF SALES

In thousands of Tenge	2016	2015
Depreciation and amortization	22,117,467	21,774,524
Technical losses of electric energy	16,079,993	20,172,090
Payroll expenses and related taxes	13,347,751	11,446,146
Cost of purchased electricity	10,460,213	4,891,579
Cost of purchased electricity for compensation of interstate balances of electricity flows	8,428,757	8,291,914
Repair and maintenance expenses	4,620,643	4,954,298
Inventories	1,349,630	1,213,793
Security services	1,002,730	981,283
Other	1,981,590	1,816,977
	79,388,774	**75,542,604**

24. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	2016	2015
Taxes other than income tax	8,418,457	5,205,055
Payroll expenses and related taxes	4,602,616	2,788,241
Accrual/(reversal) of allowance for doubtful receivables and impairment of advances and other current assets *(Notes 10 and 11)*	1,290,214	(1,969,605)
Consulting services	840,873	212,567
Depreciation and amortization	545,037	584,225
Allowance for obsolete inventories (Note 9)	385,867	80,681
Insurance	184,393	155,121
Business trip expenses	156,492	133,596
Rent expenses	111,623	106,469
Utilities	91,424	99,490
Materials	75,988	63,061
Trainings	46,440	85,615
Security services	45,413	37,339
Communication services	25,312	24,357
Bank services	24,274	37,804
Repair expenses	13,556	6,793
Other	782,451	913,896
	17,640,430	**8,564,705**

25. FINANCE INCOME/(COSTS)

In thousands of Tenge	2016	2015
Finance income		
Interest income from deposits, current accounts and bonds	9,192,217	2,958,192
Amortization of discount on accounts receivable	829,033	912,679
Discount on trade payable *(Note 18)*	386,451	–
Others	3,644	5,634
	10,411,345	**3,876,505**
Less: interest capitalized into cost of qualifying asset *(Note 7)*	(3,876,259)	–
	6,535,086	**3,876,505**
Finance costs		
Interest on borrowings	10,091,348	3,410,140
Commission on bank guarantees	832,722	615,165
Amortization of loan origination fees	388,899	88,122
Transaction costs on bonds issued	575	–
Discount on account receivable	–	675,570
	11,313,544	**4,788,997**
Less: interest capitalized into cost of qualifying assets *(Note 7)*	(5,255,635)	–
	6,057,909	**4,788,997**

26. FOREIGN EXCHANGE GAIN/(LOSS), NET

On 20 August 2015 the National Bank of Republic of Kazakhstan and the Government of the Republic of Kazakhstan decided to shift to freely floating currency exchange rate as a part of implementation of inflation targeting program. As a result of change of exchange rate of Tenge for the year ended 31 December 2016, the Group incurred net foreign exchange gain in the amount of KZT 2,346,713 thousand (for the year ended 31 December 2015: net foreign exchange loss in the amount of KZT 35,739,224 thousand).

27. OTHER INCOME

In thousands of Tenge	2016	2015
Income from receipt of granted fixed assets	872,939	–
Reimbursement of CIT from receipt of granted assets	158,267	–
Fines and penalties	214,682	649,655
Income from rental of buildings	74,152	121,237
Income from material disposal	59,449	49,387
Other	33,709	51,973
	1,413,198	**872,252**

27. OTHER INCOME (CONTINUED)

Other income for the year ended 31 December 2016 include the income from gratuitous receipt of certain items of property, plant and equipment, including substation and transmission lines, from the Group's customers Caspian Pipeline Consortium – K JSC and Altaypollimetally LLP in the amount of KZT 872,939 thousand. In addition, the Group received KZT 158,267 thousand from Caspian Pipeline Consortium – K JSC as reimbursement of CIT from transfer of granted assets.

28. INCOME TAX EXPENSE/(BENEFIT)

In thousands of Tenge	2016	2015
Current income tax		
Current income tax expense	6,239,946	64,306
Adjustments in respect of current income tax of previous year	12,232	(115,145)
Deferred tax		
Deferred income tax expense/(benefit)	2,132,518	(2,116,659)
Total income tax expense/(benefit) reported in the consolidated statement of comprehensive income	**8,384,696**	**(2,167,498)**

The income tax rate in the Republic of Kazakhstan is 20% in 2016 and 2015.
A reconciliation of the 20% income tax rate and actual income tax recorded in the consolidated statement of comprehensive income is provided below:

In thousands of Tenge	2016	2015
Profit/(loss) before income tax expense	**35,974,847**	**(9,947,071)**
Tax at statutory income tax rate of 20%	**7,194,969**	**(1,989,414)**
Adjustments in respect of current income tax of previous year	12,232	(115,145)
Interest capitalized in the cost of qualifying assets	443,507	–
Accrual/(reversal) of allowance for doubtful accounts receivable from non-residents	261,561	(385,303)
Support of producers of energy from renewable sources	188,384	80,534
Accrual of obsolete inventory allowance	77,173	16,136
Fines and penalties on property tax	49,445	–
Non-deductible forex loss	–	81,979
Other non-deductible expenses	157,425	143,715
Income tax expense/(benefit) reported in the consolidated statement of comprehensive income	**8,384,696**	**(2,167,498)**

28. INCOME TAX EXPENSE/(BENEFIT) (CONTINUED)

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 31 December 2016 and 2015 is provided below:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
In thousands of Tenge	31 December 2016	31 December 2015	2016	2015
Tax losses carried forward	–	3,472,159	(3,472,159)	2,270,347
Accounts receivable	91,758	263,044	(171,286)	133,453
Accrued liabilities	980,032	127,625	852,407	(177,605)
Property, plant and equipment	(67,878,611)	(68,537,131)	658,520	(109,536)
Deferred tax (expense)/benefit			**(2,132,518)**	**2,116,659**
Net deferred tax liabilities	**(66,806,821)**	**(64,674,303)**		

Deferred tax assets and liabilities reflected in the consolidated statement of financial position is presented as follows:

In thousands of Tenge	31 December 2016	31 December 2015
Deferred tax assets	1,093	2,839
Deferred tax liabilities	(66,807,914)	(64,677,142)
Net deferred tax liabilities	(66,806,821)	(64,674,303)

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

29. TRANSACTIONS WITH RELATED PARTIES

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel and other entities controlled by the Government. The related party transactions were made on terms agreed between the parties that may not necessarily be at market rates, except for regulated services, which are provided based on tariffs available to related and third parties.

29. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

The following table provides the balances of trade accounts payable to/receivable from related parties as at 31 December 2016 and 2015:

In thousands of Tenge	год	Trade accounts receivable from related parties	Trade accounts payable to related parties
Subsidiaries of Samruk-Kazyna Group	2016	1,906,324	1,612,641
	2015	1,873,643	1,734,326
Associates of Samruk-Kazyna	2016	289,396	188,262
	2015	322,623	205,367
Entities under joint control of Samruk-Kazyna	2016	200,141	334,881
	2015	314,628	686,464
Associates of the Group	2016	37,099	10,975
	2015	47,602	11,883

The Group had the following transactions with related parties for the year ended 31 December 2016 and 2015:

In thousands of Tenge	год	Продажи связанным сторонам	Приобретения у связанных сторон
Subsidiaries of Samruk-Kazyna Group	2016	22,997,812	15,969,180
	2015	22,452,578	12,008,135
Associates of Samruk-Kazyna	2016	7,539,481	2,804,717
	2015	5,794,687	1,846,301
Entities under joint control of Samruk-Kazyna	2016	7,004,120	2,793,163
	2015	2,791,742	10,169,968
Associates of the Group	2016	300,653	90,194
	2015	293,011	87,094

The Group's sales to related parties mainly represent electricity transmission, technical dispatch and services on organizing and balancing of electricity production and consumption services. The Group's purchases from related parties mainly represent communication services, energy services and purchase of electricity.

29. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

As at 31 December 2016 the Group's borrowings of KZT 65,437,392 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2015: KZT 75,266,975 thousand).

In 2007-2009 the Group acquired bonds of an associate, Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 8%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price and is approximately equal to carrying amount. The carrying amount of Batys Transit bonds comprised KZT 868,269 thousand as at 31 December 2016 (31 December 2015: KZT 868,269 thousand).

For the year ended 31 December 2016 interest income accrued on bonds of Batys Transit JSC, the associate, amounted to KZT 227,840 thousand (for the year ended 31 December 2015: KZT 75,084 thousand).

As of 31 December 2016 the Group had outstanding accounts receivable from Balkhash TES JSC for the sale of property, plant and equipment in the amount of KZT 184,276 thousand (31 December 2015: KZT 168,654 thousand) presented within long-term receivables from related parties. In accordance with sales agreement Balkhash TES JSC will repay the outstanding balance in December 2018. As at 31 December 2016 the discount on accounts receivable from Balkhash TES JSC comprised KZT 35,575 thousand (31 December 2015: KZT 51,197 thousand). For the year ended 31 December 2016 the amortization of discount on accounts receivable comprised KZT 15,622 thousand for the year end 31 December (2015: KZT 14,251 thousand).

On 30 September 2015 the Group has sold buildings and constructions with equipment and land located in Astana city to its related party Kazpost JSC for KZT 2,161,476 thousand. In accordance with sales agreement Kazpost JSC will repay the outstanding balance by equal monthly payments until June 2027. Accordingly, the Group discounted the future cash flows using discount rate of 10.37%, which is the Group Management's best estimate of market rate. As of 31 December 2016 the discount on accounts receivable from Kazpost JSC comprised KZT 783,718 thousand. As of 31 December 2016 the receivable net of discount comprised KZT 1,263,134 thousand, of which KZT 1,083,011 thousand was accounted for within long-term receivables from related parties. For the year ended 31 December 2016 the Group recognized income from amortization of discount on long-term receivables from Kazpost JSC in the amount of KZT 127,918 thousand.

Total compensation to key management personnel included in personnel costs in the consolidated statement of comprehensive income was KZT 220,898 thousand for the year ended 31 December 2016 (for the year ended 31 December 2015: KZT 362,814 thousand). Compensation to key management personnel mainly consists of contractual salary and performance compensation based on operating results.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's investment projects and operations. The Group has trade and other receivables, cash and short-term and long-term deposits that arrive directly from its operations. The Group also holds available-for-sale investments.

The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term and short-term borrowings with floating interest rates ***(Note 16 and 17)***.

The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which the borrowings are denominated. The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates with all other variables held constant.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

In thousands of Tenge	Increase/(decrease) in basis points*	Effect on profit before tax
For the year ended 31 December 2016		
LIBOR	60/(8)	(445,007)/59,334
EURIBOR	12/(8)	(57,299)/38,199
For the year ended 31 December 2015		
LIBOR	50/(12)	(556,105)/133,465
EURIBOR	25/(25)	(149,000)/149,000

**** 1 basis point = 0.01%.***

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities. Also, the Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).
The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and Euro exchange rate, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material.

In thousands of Tenge	Increase/(decrease) in exchange rate	Effect on profit before tax
At 31 December 2016		
US dollar	13%/(13%)*	(1,445,471)/1,445,471
Euro	15%/(15%)**	(7,182,007)/7,182,007
At 31 December 2015		
US dollar	60%/(20%)*	(12,215,701)/4,071,900
Euro	60%/(20%)**	(35,580,714)/11,860,238

**** in absolute terms increase/(decrease) in exchange rate of Tenge in relation to US dollar comprised 43.33/(43.33) Tenge;***
***** in absolute terms increase/(decrease) in exchange rate of Tenge in relation to Euro comprised 52.86/(52.86) Tenge.***

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities, primarily trade receivables ***(Note 10)*** and from its financing activities, including deposits with banks ***(Notes 12, 13 and 14).*** The Group's exposure and the creditworthiness of its counterparties are controlled constantly. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to the credit risk is represented by the carrying value of each financial asset ***(Notes 10, 12, 13 and 14).***
Book value of financial assets recognized in the consolidated financial statements of the Group less impairment allowance reflects the maximal extent of the Group's credit risk.
Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. The outstanding customer receivables are regularly monitored by the Group management. At 31 December 2016 the Group had one customer Uzbekenergo JSC that owed the Group KZT 9,915,969 thousand and accounted for 63% of all trade accounts receivable outstanding (31 December 2015: KZT 18,986,981 thousand and accounted for 81%).

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

An impairment analysis is performed by Group management at each reporting date on an individual basis for all customers based on number of days the receivables are overdue. The calculation is based on actual incurred historical data. The maximum exposure to the credit risk is represented by the carrying value of each class of financial assets disclosed in *Note 10*. The Group does not hold collateral as security.

In December 2016 National Bank of the Republic of Kazakhstan recalled the licence of Kazinvestbank JSC to conduct bank and other operations and operation in securities market and appointed a temporary administrator *(Note 12).*

The Group is exposed to credit risk from its operating activities and investing activities. With regard to investing activities, the Group mainly places deposits with Kazakhstan banks.

The following table shows the balance of cash and cash equivalents and bank deposits placed in banks at the reporting date using the credit rating agency «Standard & Poor's» and «Fitch» less accrued provisions.

The following table shows the balance of cash and cash equivalents and bank deposits placed in banks at the reporting date using the credit rating agency «Standard & Poor's» and «Fitch» less accrued provisions.

In thousands of Tenge	Location	Rating		31 December 2016	31 December 2015
		2016 год	2015 год		
ATF Bank JSC	Kazakhstan	**B-/Negative**	B-/Stable	**31,499,274**	22,113,479
National Bank Kazakhstan JSC	Kazakhstan	**BB/Stable**	BB+/Stable	**16,851,515**	1,153,623
Eurasian Bank JSC	Kazakhstan	**B/Stable**	B+/Negative	**12,765,758**	14,285,198
BankCenterCredit JSC	Kazakhstan	**B/Stable**	B+/Stable	**6,938,201**	5,968,325
ForteBank JSC	Kazakhstan	**B/Stable**	B/Stable	**5,006,158**	9,790
Bank Astana JSC	Kazakhstan	**B/Stable**	B/Stable	**4,829,510**	494,554
EximBank Kazakhstan JSC	Kazakhstan	**B/Stable**	B-/Stable	**4,436,326**	4,433,906
Qazaq Banki JSC	Kazakhstan	**B-/Stable**	B-/Stable	**4,373,053**	7,575,382
Tsesna Bank JSC	Kazakhstan	**B+/Stable**	B+/Stable	**3,170,712**	8,178,865
Capital Bank Kazakhstan JSC	Kazakhstan	**B-/Stable**	B-/Stable	**3,000,022**	408,480
Alfa-Bank JSC	Kazakhstan	**B+/Negative**	B+/Negative	**3,000,000**	245,603
Delta Bank JSC	Kazakhstan	**D**	B/Stable	**3,000,000**	–
Bank RBK JSC	Kazakhstan	**B-/Stable**	B-/ Positive	**2,441,921**	5,551,969
Qazqom JSC	Kazakhstan	**B-/Negative**	B-/Negative	**2,437,396**	2,373,367
Tengri Bank JSC	Kazakhstan	**B+/Negative**	B+/Negative	**2,017,708**	–
Nur Bank JSC	Kazakhstan	**B/Negative**	B/Stable	**1,511,630**	4,103,887
KazInvestBank JSC	Kazakhstan	**D**	B-/Stable	**645,891**	147,234
Treasury Committee of the Ministry of Finance	Kazakhstan	**Not applicable**	Not applicable	**80,383**	80,383
AsiaCredit Bank JSC	Kazakhstan	**B/Negative**	B/Stable	**70**	4,862,898
SberBank Russia JSC	Kazakhstan	**BB+/Negative**	BBB-/Negative	**–**	66
				108,005,528	**81,987,009**

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The management of the Group has built an appropriate liquidity risk management framework in accordance with the short, medium and long-term funding and liquidity management requirements. The Group manages its liquidity risk by maintaining adequate reserves, bank loans and credit lines, by monitoring projected and actual cash flows and comparing maturity dates of financial assets and liabilities.

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 (twelve) months can be rolled over with existing lenders.

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

In thousands of Tenge	On demand	Due more than 1 month but not later than 3 months	Due more than 3 months but not later than 1 year	Due more than 1 year but not later than 5 years	Due more than 5 years	Total
At 31 December 2016						
Borrowings	–	15,279,011	13,947,521	64,035,820	42,194,121	135,456,473
Trade and other accounts payable	–	16,981,635	–	2,417,810	–	19,399,445
Bonds payable	–	–	5,251,917	–	47,368,104	52,620,021
	–	**32,260,646**	**19,199,438**	**66,453,630**	**89,562,225**	**207,475,939**
At 31 December 2015						
Borrowings	–	6,944,759	19,416,270	93,532,667	75,206,539	195,100,235
Trade and other accounts payable	–	13,525,144	–	–	–	13,525,144
	–	**20,469,903**	**19,416,270**	**93,532,667**	**75,206,539**	**208,625,379**

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise the shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2016.

The Group monitors capital using a debt to capital ratio, which is debt divided by total capital. The Group's objective is to keep the ratio not higher than 0.5. Debt is considered to be equal to all borrowings. Capital is considered to be equal to the total liabilities and entire equity.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

In thousands of Tenge	31 December 2016	31 December 2015
Debt/capital	**0.28**	**0.29**

In thousands of Tenge	31 December 2016	31 December 2015
Long-term borrowings and long-term bonds payable	142,512,099	149,139,660
Short-term borrowings and short-term bonds payable	32,586,861	22,090,879
Debt	**175,098,960**	**171,230,539**
Total liabilities	269,974,816	254,360,000
Equity	362,084,070	340,976,614
Capital	**632,058,886**	**595,336,614**

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

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

Assets measured at fair value

In thousands of Tenge	31 December 2016	Level 1	Level 2	Level 3
Financial assets				
Available-for-sale financial assets *(Note 11)*	868,269	–	868,269	–
Non-financial assets				
UPS constructions *(Note 7)*	416,722,746	–	–	416,722,746

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Fair value hierarchy (continued)

Assets measured at fair value (continued)

In thousands of Tenge	31 December 2015 года	Level 1	Level 2	Level 3
Financial assets				
Available-for-sale financial assets *(Note 11)*	868,269	–	–	868,269
Non-financial assets				
Long-term assets held for sale *(Note 6)*	161,511	–	–	161,511
UPS constructions *(Note 7)*	416,077,012	–	–	416,077,012

Liabilities for which fair values are disclosed

In thousands of Tenge	31 December 2016	Level 1	Level 2	Level 3
Financial liabilities				
Borrowings *(Note 16)*	122,478,939	–	122,478,939	–
Bonds payable *(Note 17)*	52,620,021	52,620,021	–	–

In thousands of Tenge	31 December 2015	Level 1	Level 2	Level 3
Financial liabilities				
Borrowings *(Note 16)*	171,230,539	–	171,230,539	–

Fair values of financial instruments

As at 31 December 2016 and 2015 the management assessed that the fair value of financial instruments of the Group, such as trade accounts receivable and payable, other financial assets, cash and cash equivalents, cash restricted in use, approximates their carrying amounts largely due to the short-term maturities of these instruments. Borrowings are stated at amortized costs which approximate their fair values.

31. COMMITMENTS AND CONTINGENCIES

Operating environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.
The Kazakhstan economy has been negatively impacted by a drop in oil prices. Interest rates in Tenge remain high. Combination of these factors resulted in a reduced access to capital, a higher cost of capital, increased uncertainty regarding further economic growth, which could negatively affect the Company's financial position, results of operations and business prospects. Management of the Group believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2016.
From 1 January 2015 National classifier of Republic of Kazakhstan Tax Code Classifier of Fixed Assets (the "COF") became effective. This classifier was approved by Decree of the Head of Technical Regulation and Metrology Committee of the Ministry of Investment and Development of Republic of Kazakhstan dated 7 November 2014. New version of COF supposes reclassification of part of fixed assets from "UPS" assets group into "Machinery and Equipment" group. The Group applied new version of COF for calculation of property tax in 2015 and 2016. As a result of implementation of new version of COF, the Group received annual savings of resources. In 2016 there is an issue raised by tax authorities that COF is not registered in the judicial bodies. In the tax authorities' view, absence of standard documents in the judicial bodies loses its validity. Therefore, new version of COF was abolished according to the Decision of Technical Regulation and Metrology Committee of the Ministry of Investment and Development of Republic of Kazakhstan dated 23 July 2016. Due to the factors above, the Group reclassified fixed assets and made additional property tax accrual in the amount of KZT 2,630,504 thousand for 2015 and 2016, including fines and penalties in amount of KZT 256,639 thousand ***(Note 20).***

Compliance with loan covenants

From 1999 till 2011 the Group concluded loan facility agreements with EBRD and IBRD (the "Creditors") of which are effective for the amounts of 506 million US dollars and 228 million Euro ***(Note 16).*** According to the Loan facility Agreements concluded between the Group and the Creditors, the Group has to comply with the following covenants:

- current ratio of not less than 1:1;
- total debt to total capital of not more than 50%;
- earnings before interest, income tax, depreciation and amortization ("EBITDA") to interest expense of not less than 3:1;
- net debt to EBITDA of not more than 4:1;
- self-financing ratio of not less than 20%;
- debt service ratio of not less than 1.2.

31. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Compliance with loan covenants (continued)

Management believes that the Group complied with all existing loan covenants with EBRD and IBRD as at 31 December 2016 and 31 December 2015. The Group excludes from EBITDA the foreign exchange loss, as management believes that foreign exchange loss meets definition of non-cash impairment and as such shall be excluded from the calculation of EBITDA as provided in the loan agreement. As of 31 December 2016 the Group excluded from EBITDA the foreign exchange loss of KZT 2,346,713 thousand incurred during the year ended 31 December 2016.

Insurance

As at 31 December 2016, the Group insured property and equipment with the carrying value of KZT 157,471,141 thousand. The insurance payment is limited to the carrying value of property and equipment. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or occurrence of any liabilities, no provision has been made in these consolidated financial statements for unexpected expenses associated with damage or loss of these assets.

Capital commitments

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 31 December 2016, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 45,623,560 thousand (31 December 2015: KZT 84,277,398 thousand).

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

Tariffs on purchase of electricity from renewable energy sources

According to the Government Decree No. 419 dated 29 April 2014, the tariffs for the purchase of electricity from renewable energy stations, which have been put into exploitation before the adoption of the Law on Renewable Energy No. 165-IV ("Law") dated 4 July 2009, are equal to the tariffs stipulated in the technical-economic justification of the station. For the renewable energy producing organizations that have been put into exploitation after the Law adoption fixed tariffs approved by the Government decree of the Republic of Kazakhstan No. 645 dated 12 June 2014 are applied.

Tariff on sale of electricity from renewable energy sources

Tariff on sale of electricity from renewable energy sources to contingent consumers is calculated according to the Rules on Calculating the Tariffs on Supporting the Renewable Energy Sources approved by the Ministry of Energy Order No. 118 dated 20 February 2015. The tariff for electricity sales includes the cost of purchase of electricity, operating costs, cost of balancing of electricity production and consumption and income, and is calculated by the Company on a regular basis.

Management believes that in 2016 the calculation and application of tariffs for the sale and purchase of electricity from renewable energy sources is carried out properly and in accordance with the applicable rules and legislation.

According to the Amendments to the legislation of Republic of Kazakhstan dated 28 December 2016, competence of the authorised body comprises the function to develop and approve pricing rules of socially significant markets (the "Rules").

31. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Capital commitments (continued)

Tariff on sale of electricity from renewable energy sources (continued)

Currently, the authorised body is developing the draft of respective Rules. Upon adoption of such rules, pricing procedure in calculation of the tariff to support renewable energy sources shall be performed in accordance with them.

Tariff for electricity transmission and technical dispatch services supply to the grid and electricity consumption

At the end of 2015 was sent to report on implementation of the tariff estimate to the Committee following the consideration of which the order of the Committee has been defined temporary compensating tariff for regulated services for the period from 1 July 2016 to 30 June 2017, set lower limit levels of tariffs for regulated services 2016 and 2017 by 0.01 KZT. From 1 July to 31 December 2016 the temporary compensating tariff for electricity transmission through electric grids set at 2,079 KZT/kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption – 0,230 KZT/kWh (excluding VAT). From 1 January to 30 June 2017 a temporary compensating tariff for electricity transmission through electric grids will be 2,245 KZT/kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption – 0,233 KZT/kWh (excluding VAT).

32. SUBSEQUENT EVENTS

Repayment of debts from Uzbekenergo JSC

In January-February 2017 Uzbekenergo JSC made partial repayment of its debt in the amount of USD 9,220 thousand (equivalent to KZT 3,086,381 thousand) for sale of electricity transmission services in 2013-2014.

Repayment of borrowings

On 5 January 2017 the Group made full early repayment of the loan EBRD on the project "Ossakarovka Transmission Rehabilitation Project". The Group paid principal in amount of USD 27,337 thousand (equivalent to KZT 9,144,553 thousand) and interest in amount of USD 195 thousand (equivalent to KZT 65,277 thousand). Moreover, there was commission paid for early repayment in amount of USD 137 thousand (equivalent to KZT 45,723 thousand).

On 5 January 2017 the Group made half-year repayment of the loan IBRD on the project "Construction of the Alma 500 kW substation with connection of 500, 220 kW electric lines to Kazakhstan National Electricity Transmission". There was also repayment of principal in amount of USD 1,784 thousand (equivalent to KZT 596,735 thousand) and interest in amount of USD 738 thousand (equivalent to KZT 246,865 thousand).

On 9 February 2017 the Group made half-year repayment of the principal and interest in the amount of Euro 12,479 thousand (equivalent to KZT 4,312,383 thousand) and Euro 2,511 thousand (equivalent to KZT 867,781 thousand), respectively.

Payment of property tax

In January 2017 the Group repaid its property tax liability in the amount of KZT 2,402,786 thousand ***(Note 20).***

Funds placed with Delta Bank JSC

In February 2017 using funds placed with Delta Bank JSC the Group made payment of its trade payables due to a contractor for the amount of KZT 1,702,253 thousand.

Appendixes

APPENDIX 1. KEGOC'S SUBSIDIARIES

EnergoInform JSC

Mission: to ensure reliable operation and effective development of Kazakhstan UPS information and telecommunication system using the world's best practices and innovative technologies.

The sole shareholder is KEGOC JSC.

Strategic goals:

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

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

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

The revenues of EnergoInform in 2016 were KZT 3,826.026 million with the total expenses of KZT 3,516.441 million. According to the results of operations for the reporting period the net income was KZT 246.185 million. In comparison with 2015 the revenues increased by KZT 82.7 million or 2.2%, while expenses increased by KZT 68.419 million or 1.98%.

In 2016 the net income was KZT 246.185 million, exceeding the 2015 actual indicator by KZT 5.231 million or 2.2%.

Financial Settlement Centre for Renewable Energy Sources Support

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

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

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

The sole founder and participant to the partnership is KEGOC.

As of 31 December 2016 FSC RES LLP concluded contract with 69 RES participants. In 2016 FSC RES LLP sold electricity generated by RES entities to conventional consumers to the amount of 437.6 million kWh.

The total income of FSC RES based on 2016 results amounted to KZT 10,820.8 million. Expenses amounted to KZT 10,533.1 million. Net income based on 2016 results amounted to KZT 230.1 million.

Subsidiaries have no significant influence on KEGOC's performance.

APPENDIX 2.
KEGOC'S CORPORATE EVENTS CALENDAR FOR 2017*

No.	Corporate events	Periods (date, month)
1	Report to consumers on the provision of regulated services by KEGOC	by 1 May 2017
2	Annual General Meeting of Shareholders of KEGOC	by 31 May 2017
3	Provision of financial statements for 2016 to the Kazakhstan Stock Exchange	by 31 May 2017
4	Provision of financial statements for Q1 2017 to the Kazakhstan Stock Exchange	by 15 May 2017
5	Provision of annual report for 2016 to the Kazakhstan Stock Exchange	by 31 July 2017
6	Provision of financial statements for Q2 2017 to the Kazakhstan Stock Exchange	by 14 August 2017
7	Provision of financial statements for Q3 2017 to the Kazakhstan Stock Exchange	by 14 November 2017

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

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

APPENDIX 3.
GLOSSARY

	Definition
Branches	KEGOC branches: MES and NDC SO
CHPP	Combined heat and power plant
CIS	Commonwealth of Independent States
Company	Kazakhstan Electricity Grid Operating Company (KEGOC) joint-stock company
CRNMPC	Committee for Regulation of Natural Monopolies and Protection of Competition of the Republic of Kazakhstan
EMS	Environmental Management System
GRES	State regional power plant
GRS Pool	Kazakhstan Electric Capacity Reserve Pool
HPP	Hydro power plant
IAS	Internal Audit Service
ICS	Internal control system
IFRS	International financial reporting standards
IMS	Integrated Management System
JSC	Joint Stock Company
KEGOC JSC	Kazakhstan Electricity Grid Operating Company (KEGOC) joint-stock company
KPI	Key performance indicator(s)
kV	Kilovolt
kWh	Kilowatt-hour

	Definition
LLP	Limited liability partnership
MES	Interconnection Electric Networks, KEGOC branches
MVA	Megavolt-ampere
MW	Megawatt
NDC SO	National Dispatch Centre of the System Operator, KEGOC branch
NGO	Non-governmental organizations
NPG	National Power Grid
OHTL	Overhead transmission line
OJSC	Open Joint Stock Company
PCB	Polychlorinated biphenyl
RDC	Regional Dispatch Centre
REC	Regional electric network company
RES	Renewable energy sources
RMS	Risk Management System
Samruk-Kazyna JSC	Sovereign Wealth Fund Samruk-Kazyna joint-stock company
SS	Substation
STC	Scientific and Technical Council
UPS	Unified Power System
VAT	Value-added tax

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