

REPORT ON THE BOARD OF DIRECTORS ACTIVITIES 2012

The present Report of the Board of Directors of Kazakhstan Electricity Grid Operating Company (hereinafter KEGOC or Company) for 2012 was prepared in pursuance of the Corporate Governance Code of KEGOC.

Composition of the KEGOC Board of Directors as at 31 December 2012:

Kuanysh Bektemirov

Managing Director of Samruk-Kazyna JSC, Chairman of the Board of Directors, born in 1970, elected on 08 May 2012, Shares owned in KEGOC or its counterparties: no

Positions:

Chairman of the Board of Directors of Samruk-Energo JSC; Chairman of the Board of Directors of Tau-Ken Samruk National Mining Company ; Chairman of the Board of Directors of Forum Muider B.V.; Chairman of the Board of Directors of Ekibastuz GRES-2 JSC; Chairman of the supervisory board of Ekibastuz GRES-1 LLP; Member of the Board of Directors of KazAtomProm JSC.

Gumarbek Daukeyev

Independent Director

Head of Almaty University of Energy and Communications, born in 1948, elected on 08 May 2012,

Shares owned in KEGOC or its counterparties: no

Audit Committee, Nomination and Remuneration Committee, Strategic Planning and Corporate Governance Committee.

Positions:

Member of the Board of Directors of Samruk-Energo JSC.

Luca Sutera

Independent Director

Group vice president and chief financial officer - Global Power & Water Division, born in 1971, elected on 08 May 2012;

Shares owned in KEGOC or its counterparties: no

Audit Committee, Nomination and Remuneration Committee, Strategic Planning and Corporate Governance Committee.

Positions:

Member of the Board of Directors of Samruk-Energo JSC.

Jorf Lasfar Energy Company 5,6 (Abu Dhabi National Energy Company Group) – Morocco;

TAQA Energy India Ltd (Abu Dhabi National Energy Company Group) – India.

Anatoliy Spitsyn

Independent Director

Director of the Institute for Strategic Studies of Integration Problems of the Eurasian Economic Community, born in 1939, elected on 08 May 2012,

Shares owned in KEGOC or its counterparties: no

Audit Committee, Nomination and Remuneration Committee, Strategic Planning and Corporate Governance Committee.

Positions:

Member of the Board of Directors of Samruk-Energo JSC.

Almassadam Satkaliyev

Chairman of the Management Board of Samruk-Energo JSC, born in 1970, elected on 08 May 2012.

Shares owned in KEGOC or its counterparties: no

Positions:

Member of the Board of Directors of Forum Muider B.V.;

Member of the Board of Directors of Ekibastuz GRES-2 JSC;

Member of the Supervisory Board of Ekibastuz GRES-1 LLP

Bakytzhan Kazhiyev

Chairman of the Management Board of KEGOC, born in 1964, elected on 08 May 2012.

Shares owned in KEGOC or its counterparties: no

Committees of the Board of Directors

The name of the Chairman is given in ().

Audit Committee (Luca Sutera);

Nomination and Remuneration Committee (Daukeyev);

Strategic Planning and Corporate Governance Committee (Spitsyn)

On the basis of the Sole Shareholder Resolutions, on 08 May 2012, due to the expiration of the term of office of the Board of Directors as a whole, the new members were elected to the Board of Directors.

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

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

Members of the Board of Directors	Attendance at the meetings in presentia by the members of the Board of Directors in 2012						
	17/02/2012	28/02/2012	05/07/2012	07/09/2012	12/11/2012	14/12/2012	%
Kuanysh Bektemirov	+	+	+	+	+	+	100
Gumarbek Daukeyev	-	+	+	+	+	+	83
Bazarbai Baltabayev	+	powers terminated					100
Anatoliy Spitsyn	+	+	+	+	+	+	100
Luca Sutera	was not a member of the Board of Directors	+	+	+	+	-	80
Almassadam Satkaliyev	+	+	+	+	+	+	100
Bakytzhan Kazhiyev	+	+	+	+	+	+	100

The Report on the Company's Board of Directors Activities in 2012 was prepared pursuant to Clause 129 of the Corporate Governance Code of KEGOC approved by the Sole Shareholder of KEGOC on 17 May 2011 (Order No. 36-П).

The Board of Directors monitors the activities of the Management Board and the performance of the Company through the reports submitted by the Management Board of the Company. The Board of Directors also monitors the system of internal control and management in the Company through the reports submitted by the Internal Audit Service following the results of their analysis.

In 2012, the Board of Directors held 8 meetings of the Board of Directors, including 6 meetings in presentia and 2 – in absentia, at which 87 issues were reviewed. Following these meetings the following issues were reviewed and decisions were made thereon:

1. Review of the Report on the KEGOC Board of Directors Activities in 2011;
2. Approval of the Work Plan of the KEGOC Board of Directors for 2012;
3. Early termination of powers of the members of KEGOC Management Board;
4. Approval of the nomination of the First Deputy Chairman of Management Board, his election as a member of KEGOC Management Board and determination of the salary rate for the newly elected member of the KEGOC Management Board;
5. Approval of the nomination of the Managing Director for System Services and Material and Technical Supply, his election as a member of KEGOC Management Board and determination of the salary rate for the newly elected member of the KEGOC Management Board;
6. Approval of the salary rate schedule for the members of the Management Board, the Internal Audit Service and the Corporate Secretary of KEGOC;
7. Approval of the staffing schedule for the executive employees, the employees of the Internal Audit Service and the Corporate Secretary of KEGOC;
8. Determination of the salary rates for the Chairman, members of the Management Board, employees of the Internal Audit Service and the Corporate Secretary of KEGOC;
9. Approval of the KEGOC Executive Administration (head office) organisation chart;
10. Approval of the Rules for provision of sponsorship and/or charity support by KEGOC, revised, Pp KEGOC 00-329-11;
11. Approval of the Annual Audit Plan of the KEGOC Internal Audit Service for 2012;
12. Review of the Reports on the Internal Audit Service Activities for the 3rd and 4th quarters 2011, and bonus payments to the employees of the Internal Audit Service following the results of the 3rd and 4th quarter 2011 performance;
13. Nomination of A. Kusselbayev to the position of the Senior Auditor in the operational and financial audit section within the KEGOC Internal Audit Service; Determination of the salary rate for A. Kusselbayev;
14. Report on implementation of the Action Plan on introduction of the KEGOC Management Accounting System for nine months of 2011;
15. Preliminary approval of the KEGOC annual financial statements 2011;
16. Preliminary approval of the KEGOC Annual Report 2011;
17. Report and analysis of the efficiency and effectiveness of assets for sponsorship and/or charity support by KEGOC in 2011;
18. Bonus payment to the acting Corporate Secretary of KEGOC based on the performance in the 4th quarter 2011 and in 2011 in general;
19. Report on implementation of the KEGOC Long-term Development Strategy 2025 in 2011;
20. Approval of the changes and amendments to the KEGOC Long-term Development Strategy 2025;
21. Approval of the actual key performance indicators and remuneration of the executive employees and the Head of the Internal Audit Service following 2011 performance;
22. Approval of the planned key performance indicators of the executive employees and the Head of the Internal Audit Service for 2012;
23. Approval of the total manning level and organisational structure of the KEGOC Executive Administration (head office);
24. Review of the Report on implementation of the KEGOC Development Plan 2011;

25. Review of the Report on management of branches, affiliates and jointly-controlled entities, and impact of the financial and economic performance of branches, affiliates and jointly-controlled entities on KEGOC performance indicators in 2011;
26. Review of the Report on the Internal Audit Service Activities in 2011, and bonus payments to the employees of the Internal Audit Service following the results of 2011 performance;
27. 14. Review of the Report on the Activities of the Audit Committee of KEGOC Board of Directors in 2011;
28. 15. Composition of the committees of the Board of Directors;
29. Approval of the Policy for professional development of the members of the KEGOC Board of Directors and engagement of external experts as members of the KEGOC Board of Directors;
30. Report on implementation of the Action Plan on introduction of the KEGOC Management Accounting System for the 4th quarter 2011;
31. Review of the Report on the key risks status and measures for their managements in 2011;
32. Progress report on implementation of the action plan for KEGOC corporate governance development in 2011;
33. Approval of the Action Plan for the KEGOC corporate governance development in 2012;
34. Introduction of changes into the KEGOC Risk Register and Map for 2012;
35. Approval of the Rules for preparation and disclosure of information in the KEGOC's Annual Report. P KEGOC 00-209-12;
36. Approval of changes to the Regulations on KEGOC Dividend Policy. II KEGOC 00-202-08;
37. Review of the Report on implementation of major investment projects in 2011;
38. Review of the Report on implementation of investment programme in 2011;
39. Making an Amendment Agreement to the Pledge Agreement between KEGOC and Eurasian Development Bank;
40. Approval of changes and amendments to the Accounting policy of KEGOC;
41. Remuneration of executive employees and Head of the Internal Audit Service of KEGOC following 2011 performance;
42. Approval of the KEGOC Development Plan for 2011-2015 with changes;
43. Introduction of an additional task into the 2012 Annual Audit Plan of the Internal Audit Service of KEGOC;
44. Review of the proposed auditor organisation for KEGOC for 2012 and the cost of its services for consideration by the Sole Shareholder;
45. Report on implementation of the Action Plan on introduction of the KEGOC Management Accounting System in the 1st quarter 2012;
46. Report on implementation of the Action Plan on introduction of the KEGOC Management Accounting System for the first six months 2012;
47. Introduction of changes and amendments to the Guide for the Risk Management System. P CYP KEGOC 00-200-10;
48. Introduction of changes and amendments to the Corporate Standard. Corporate Policy for Risk Management. P CYP KEGOC 00-202-10;
49. Review of the Report on implementation of the KEGOC Development Plan in the first six months 2012;
50. Determination of the terms of Corporate Secretary remuneration;
51. Approval of the Work Plan of the KEGOC Board of Directors for the second half of 2012;
52. Review of the Report on implementation of investment programme in the first six months 2012;
53. Review of the Report on implementation of major investment projects in the first six months 2012;
54. Acquisition of ten and more per cents of Energoinform shares by KEGOC;
55. Approval of changes and amendments to the KEGOC Charter;
56. Introduction of changes and amendments to the KEGOC Innovative Technological Strategy 2025 approved by the Board of Directors of KEGOC (Minutes No. 8 dated 13 December 2011);

57. Review of the Report on the Internal Audit Service Activities in the 2nd quarter 2012, and bonus payments to the employees of the Internal Audit Service following the results of the 2nd quarter 2012 performance;
58. Review of the Report on the Internal Audit Service Activities in the 1st quarter 2012, and bonus payments to the employees of the Internal Audit Service following the results of the 1st quarter 2012 performance;
59. Review of the Report on the risk management system for the first six months 2012;
60. Approval of changes to the Rules for business trips of KEGOC employees;
61. Transfer of the securities holders register system to the Integrated Securities Registrar;
62. Approval of the Rules for strategic planning of the Internal Audit Service of KEGOC;
63. Introduction of an additional task into the 2012 Annual Audit Plan of the Internal Audit Service of KEGOC; Review of the Report on the risk management system for the first six months 2012;
64. Approval of the KEGOC Development Plan for 2011-2015 with changes;
65. Determination of the terms of Corporate Secretary remuneration;
66. Approval of changes to the Rules for the labour payment and bonus payment procedure for the executive employees, employees of the Internal Audit Service, and Corporate Secretary of KEGOC, and the Rules for assessment and remuneration of the executive employees and administrative personnel of KEGOC following the year results.
67. Review of the Report on image audit results;
68. Approval of changes to the Rules for the Interest Rate Risk Management in KEGOC. Пp KEGOC 00-323-10;
69. Review of the Report on executed non-arms length transactions (decisions made by the KEGOC Management Board as of 30 September 2012);
70. Changing the staffing schedule of the KEGOC Internal Audit Service;
71. Approval of the transfer of T. Yestibayev from the position of the auditor of compliance audit in the Internal Audit Service to the position of the Senior Auditor of Compliance Audit in the Internal Audit Service; Determination of the salary rate for T. Yestibayev;
72. Determination of the salary rates for employees of the Internal Audit Service of KEGOC;
73. Approval of the Strategic Plan of the KEGOC Internal Audit Service for 2012-2014;
74. Approval of the documents relating to establishment of a risk-oriented Internal Audit Service of KEGOC;
75. Introduction of changes into the KEGOC Development Plan for 2011-2015;
76. Introduction of changes and amendments to the Rules for development, agreement, approval, amendment, implementation and monitoring of the KEGOC Development Plan. Пp KEGOC 00-315-10;
77. Review of the report on implementation of the Action Plan on introduction of the KEGOC Management Accounting System for nine months 2012;
78. Execution of non-arms length transactions by the Company;
79. Approval of the Policy for KEGOC debt and financial stability management;
80. Review of the Risk Register and Map, Key Risk Management Programme of KEGOC for 2013;
81. Review of the Report on the key risks status and measures for their management in the 3rd quarter 2012;
82. Report on compliance of corporate governance level with the best practices following the results of the diagnostics of the corporate governance in KEGOC;
83. Introduction of changes and amendments to the Regulations on the Board of Directors, committees of the Board of Directors of KEGOC, and Corporate Secretary;
84. Approval of changes and amendments to the Regulations on KEGOC Management Board. П KEGOC 00-313-10;
85. Bonus payment to the acting Corporate Secretary of KEGOC based on the performance in the 1st, 2nd, and 3rd quarters 2012;
86. Execution of amendment agreements to the securities purchase agreements No. 10-Д-918 dated 05 October 2007, and No. 10-Д-401 dated 17 April 2009;

87. Review of the Report on the Internal Audit Service Activities in the 3rd quarter 2012, and bonus payments to the employees of the Internal Audit Service following the results of the 3rd quarter 2012 performance.

The resolutions taken by the Board of Directors in 2012 contributed to the more efficient development of the Company, the achievement of strategic goals and objectives determined by the Company for short-term, medium-term and long-term periods. The Board of Directors plays an active role in the improvement of the corporate governance in KEGOC, analyses the effectiveness of the internal control mechanisms and the risks management in respect of wide range of business-processes. To incentivise and motivate further the Company's employees, the Board of Directors determines and improves the KEGOC's HR policy.

In accordance with the best international practice for the corporate governance in 2012 the Company completed the first assessment of the Board of Directors' performance. The assessment was performed with the engagement of an independent facilitator in accordance with the advanced requirements to effectiveness and transparency of the corporate governance. The Company engaged the consortium of Independent Directors Association of Russia and the British Institute of Directors as an independent facilitator because of their considerable experience in assessment of the Board of Directors of public and private international companies.

The assessment was performed on the basis of the procedure prepared by the Consortium together with Samruk-Kazyna and based on the requirements of the legislation of Kazakhstan, as well as on the requirements of the best international practice for the corporate governance, particularly the principles of corporate governance of the Organization for Economic Cooperation and Development and the UK Corporate Governance Code. In accordance with the procedure the assessment method included the questionnaire poll of all members of the Board of Directors and interview with the Chairman and the members of the Board of Directors, the Chairman of the Management Board and the Corporate Secretary performed by the facilitator.

The result of the Board of Directors' activity assessment showed the directions of further development of the corporate governance practice; In particular, the following directions were defined: participation of the Board of Directors in strategic planning, in nomination and remuneration of the top managers, management of the committees activities, optimal distribution of powers between the shareholder and the Board of Directors. An action plan was prepared focused on the improvement of the effectiveness of the Board of Directors, activity of the committees and the members of the Board of Directors.

Committees of the Board of Directors

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

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

The Nomination and Remuneration Committee held 4 meetings in presentia in 2012, at which 12 issues were reviewed and recommendations issued to the Board of Directors with respect to 10 issues, including:

- election of members of the KEGOC Management Board;
- salary rate schedule and amount of salary for the Chairman, members of the Management Board, employees of the Internal Audit Service and the Corporate Secretary of KEGOC;
- individual key performance indicators of the KEGOC management.
- staffing schedule for the management, the employees of the Internal Audit Service and the Corporate Secretary Service of KEGOC.

Members of the Nomination and Remuneration Committee	Attendance at the meetings in presentia by the members of the Nomination and Remuneration Committee in 2011				
	09/02/2012	05/07/2012	06/09/2012	12/11/2012	%
Gumarbek Daukeyev	+	+	+	+	100
Bazarbai Baltabayev	+	powers terminated			100
Anatoliy Spitsyn	-	+	+	+	75
Luca Sutera	was not a member of the Committee	+	+	+	100

The Strategic Planning and Corporate Governance Committee held 4 meetings in presentia in 2012, at which 4 issues were reviewed and recommendations were issued thereon to the Board of Directors, including:

- update of the KEGOC long-term development strategy;
- changes in the KEGOC Development Plan for 2011-2015;
- Committee's action plan;

Members of the Strategic Planning and Corporate Governance Committee	Attendance at the meetings in presentia by the members of the Strategic Planning and Corporate Governance Committee in 2012				
	05/07/2012	06/09/2012	12/11/2012	14/12/2012	%
Anatoliy Spitsyn	+	+	+	+	100
Gumarbek Daukeyev	+	+	+	+	100
Luca Sutera	+	+	+	-	75

The Audit Committee held 6 meetings in presentia and 4 meetings in absentia in 2012, at which 36 issues were reviewed, including:

- performance of the Internal Audit Service;
- financial statements;
- internal control and risk management;

external audit, as well as the preliminary approval of the draft contract on procurement of services for financial statements audit in 2012.

Additionally in 2012, the Audit Committee held meeting, as part of reviewing the internal control procedures and material risks, with participation of the Planning and economic analysis department of KEGOC regarding the uniform tariff for the services, provision of funds from the government budget, investment and monitoring of the Company's projects, strategic plans of the Company, the Company's IPO. Also, the Audit Committee members held a meeting with the representatives of Ernst&Young engaged as the auditor of 2012 financial statements, in order to discuss an auditing plan.

In 2012 during the meetings the Committee discussed the results of investigations carried out by the Internal Audit Service on the basis of the requests made to the Audit Committee through the hot line (electronic register of complaints of the Audit Committee) and provided the respective recommendations to the KEGOC's Management Board.

Members of the Audit Committee	Attendance at the meetings in presentia by the members of the Audit Committee in 2012						
	17/01/2012	09/02/2012	07/03/2012	05/07/2012	06/09/2012	12/11/2012	%
Gumarbek Daukeyev	+	+	+	+	+	+	100
Bazarbai Baltabayev	+	+	+	powers terminated			100
Aleksey Ogai	+	powers terminated					100

Luca Sutera	was not a member of the Committee	+	+	+	100
Anatoliy Spitsyn	was not a member of the Committee	+	+	+	100

REMUNERATION

The independent members of the Board of Directors shall be remunerated in accordance with the resolution of the Sole Shareholder, during the period of fulfilment of their duties, and be compensated with regard to the expenses related to the execution of their functions as members of the Board of Directors of the Company.

The remuneration of the independent directors of KEGOC includes:

- annual fixed fee;
- additional fee.

The annual fixed fee is paid to an independent director for the fulfilment of his/her duties as member of the KEGOC's Board of Directors in an amount determined by the Sole Shareholder in accordance with the laws of the Republic of Kazakhstan. The additional fee is paid to the independent members of the Board of Directors for the participation in the meetings in presentia of the committees of the Board of Directors.

An Independent Director shall be compensated for the expenses associated with the trip to the meetings of the Board of Directors of KEGOC, committees of the Board of Directors and the meetings initiated by the Chairman of the Board of Directors of KEGOC and/or Chairman of the Management Board of Samruk-Kazyna held beyond the place of permanent residence of an Independent Director: (travel expenses, accommodation, daily allowance, telephone services in Kazakhstan, documents scan, copy, fax, print, type services, access to the internet in Kazakhstan, courier and mail services).

The expenses are compensated within the limits of reimbursement of business trip expenses stipulated by the internal documents of the Company.

Information on the remuneration of independent directors of the KEGOC Board of Directors from 01 January 2012 till 02 April 2012:

Name	Annual fixed fee	Fee for participating in the Committees' meetings in presentia	million, tenge TOTAL
Gumarbek Daukeyev	0.597	1.000	1.597
Bazarbai Baltabayev	0.597	1.000	1.597
Anatoliy Spitsyn	1.331	-	1.331

Information on the remuneration of independent directors of the KEGOC Board of Directors from 08 May 2012 till 31 December 2012:

Name	Annual fixed fee	Fee for participating in the Committees' meetings in presentia	million, tenge TOTAL
Gumarbek Daukeyev	2.211	1.800	4.011
Anatoliy Spitsyn	3.921	1.890	5.811
Luca Sutera	3.907	1.701	5.608

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

The labour payment and bonus payment procedure for the KEGOC Management Board members is outlined in the Regulation on KEGOC Management Board as well as the Rules for labour payment and bonus payment to the executive employees, employees of the Internal Audit Service and the Corporate Secretary of KEGOC, and the Rules for assessment and remuneration of the executive and administrative personnel of KEGOC following the year results. Remuneration system for the Chairman and the members of the Management Board includes salary and year-end bonus. The year-end bonus to the KEGOC executive and administrative personnel is paid following the results of the financial year upon approval of the results of KEGOC financial and economic performance based on the audited financial statements.

The social support, protections and compensatory payments are provided to the members of the Management Board in accordance with the laws of Kazakhstan, the Company internal documents and employment contracts.

According to the Rules, the members of the Management Board are guaranteed with the paid annual leave of 30 calendar days. In addition to granting the paid annual leave, the members of the Management Board may be paid an annual recreation bonus.