

BOARD OF DIRECTORS PROGRESS REPORT 2014

This Report of the Board of Directors of Kazakhstan Electricity Grid Operating Company (hereinafter, 'KEGOC' or 'the Company') for 2014 was prepared in pursuance of clause 129 of the Corporate Governance Code of KEGOC approved by the decision of the KEGOC's Sole Shareholder on 17 May 2011 (Order No. 36-n).

The Board of Directors monitors the activities of the Management Board and the Company's efficiency through the reports submitted by the Management Board of the Company. The Board of Directors also monitors the system of internal control and risk management in KEGOC through the reports submitted by the Internal Audit Service following the analysis of these issues.

The members of KEGOC's Board of Directors from 01 January 2014 to 01 November 2014:

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: none Positions: Chairman of the Board of Directors of Samruk-Energy 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 President of Almaty University of Power Engineering and Telecommunications, born in 1948, elected on 08 May 2012. Shares owned in KEGOC or its counterparties: none Audit Committee, Nomination and Remuneration Committee, Strategic Planning and Corporate Governance Committee. Positions: Member of the Board of Directors of Samruk-Energy 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: none Audit Committee, Nomination and Remuneration Committee, Strategic Planning and Corporate Governance Committee. Positions: Member of the Board of Directors of Samruk-Energy 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: none
Audit Committee, Nomination and Remuneration Committee, Strategic Planning and Corporate Governance Committee.

Positions:

Member of the Board of Directors of Samruk-Energy JSC;
KazAtomProm JSC.

Almassadam Satkaliyev

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

Shares owned in KEGOC or its counterparties: none

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: none

The members of KEGOC's Board of Directors from 01 November 2014 to 31 December 2014:

**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: none

Positions:

Chairman of the Board of Directors of Samruk-Energy 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.

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: none
Audit Committee, Nomination and Remuneration Committee, Strategic Planning and Corporate Governance Committee.

Positions:

Member of the Board of Directors of Samruk-Energy 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: none
Audit Committee, Nomination and Remuneration Committee, Strategic Planning and Corporate Governance Committee.

Positions:

Member of the Board of Directors of Samruk-Energy JSC, and KazAtomProm JSC.

Almassadam Satkaliyev

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

Shares owned in KEGOC or its counterparties: none

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: none

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 08 May 2012, the Sole Shareholder decided, as the term of office of the Board of Directors as a whole had expired, to elect new members to the Board of Directors.

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

- are not, and were not an affiliate of the Company within three years prior to their election to the Board of Directors (except for holding the position of an independent director in the Company);
- are not affiliate with respect to 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 the auditors 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 the Government officials.

Members of the Board of Directors	Attendance at the meetings in praesentia by the members of the Board of Directors in 2014
--	--

	24 January 2014	28 February 2014	04 April 2014	22 April 2014	26 May 2014	04 July 2014	29 August 2014	26 September	30 October 2014	1 October 2014	28 November 2014	19 December 2014	%
Kuanysh Bektemirov	+	+	+	+	+	+	+	+	+	+	+	+	100
Gumarbek Daukeyev	+	+	+	+	+	+	+	+	+	+			100
Anatoliy Spitsyn	+	+	+	+	-	+	+	+	+	+	+	+	91.6
Luca Sutera	+	+	+	-	+	+	+	+	+	+	+	+	91.6
Almassadam Satkaliyev	-	+	+	+	+	+	-	+	+	+	+	+	83.3
Bakytzhan Kazhiyev	-	+	+	+	+	-	+	+	+	+	+	+	83.3

In 2014, the Board of Directors held 12 meetings in praesentia and reviewed 123 issues. The major issues were as follows:

Strategic issues:

- Update KEGOC Long-Term Development Strategy;
- Consider progress Reports on KEGOC's Long-Term Development Strategy, Investment Programme, large investment projects for 2014;
- Review the progress of KEGOC's preparation for IPO;
- Approve KEGOC's ordinary shares placement in the stock market and determine the price, quantity and placement pattern of KEGOC's authorized shares;
- Approve placement parameters, including quantity of KEGOC placed shares in the limits of authorized shares, method and price of their placement;
- Approve KEGOC's Development Plan for 2015-2019;
- Preliminary approve KEGOC's Annual Report for 2014;
- Approve the Long-term investment master plan for development of KEGOC extending to 2022;
- Resettlement of families residing in the protective area of high voltage transmission lines;
- Report on management of subsidiaries, affiliates and jointly controlled organisations, the influence of the results of their financial and economic activity on KEGOC's performance indicators.

Corporate governance issues:

- Action Plan of KEGOC Board of Directors, Annual Plan of Internal Audit Service;
- Action Plan to meet the expectations of KEGOC's Sole Shareholder in 2014;
- Assess performance of the Company, Board of Directors, Committees of the Board of Directors, some members of the Management Board, KEGOC Internal Audit Service through a questionnaire survey.
- Approve the Action Plan for KEGOC corporate governance development in 2013;
- Approve amendments to KEGOC's Charter;
- Approve amendments to KEGOC's Corporate Governance Code.
- Approve new revision of the Induction programme for newly elected members of KEGOC Board of Directors;
- Approve a new revision of KEGOC Corporate conflict and Conflict of interest settlement policies.

HR policy issues:

- Approve the organizational structure and the total staff number in the Executive Administration, salary rate schedules and amount of salary for the Chairman and members of the Management Board, employees of the Internal Audit Service and Corporate Secretary;
- Approve the amended Rules for provision of sponsorship and/or charity support by KEGOC as revised;
- Approve amendments to the Rules for business trips of KEGOC employees;
- Pay yearly performance remuneration to senior executives;
- Individual key performance indicators of KEGOC executive employees;
- Review the motivational key performance indicators of KEGOC's Corporate Secretary for 2014;

Transaction issues:

Pursuant to KEGOC's Charter the exclusive competence of the Board of Directors includes decisions on conclusion of material transactions (25% or more from the total amount of balance sheet assets of the Company) and non-arms length transactions, excluding the transactions included in the competence of the Sole Shareholder in accordance with the Law "On Sovereign Wealth Fund".

Thus, in 2014, KEGOC decided to conclude a material transaction on long-term procurement of work package with Promstroy-Energo LLP, including turnkey construction of 500 kV transmission line Shulbinsk HPP (Semey) – Aktogai – Taldykorgan – Alma.

Only Independent Directors of KEGOC's Board of Directors can decide on non-arms length transactions as such defined in the laws of the Republic of Kazakhstan.

Thus, in 2014 the independent members of the Board of Directors made decisions on the transactions as follows:

- with Batys-Transit JSC for sale of the feasibility study for ‘Construction of the link between Kazakhstan National Power Grid and main step-down substation-2 for workshop No. 4 at Aktobe Ferroalloy Plant of Kazchrome Branch’ project;
- with Batys-Transit JSC for purchase of securities;
- with Batys-Transit JSC for electricity generation and consumption balancing in Kazakhstan UPS;

The decisions made by the Board of Directors in 2014 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 efficiency of the internal control mechanisms and the risks management in respect of wide range of business-processes. To further incentivise and motivate the Company's employees, the Board of Directors determines and improves KEGOC's HR policy.

In accordance with decision of the Board of Directors dated 28 November 2014 (Minutes No. 11) the Company assessed the performance of KEGOC Board of Directors, Committees of the Board of Directors, Management Board, Internal Audit Service and its head, Corporate secretary through questionnaire survey. The complex analysis of key areas of responsibility (hereinafter, the Assessment) was reported at the meeting of the Board of Directors on 30 January 2014.

The Board of Directors assessment procedure was prepared by the Consortium together with Samruk-Kazyna based on the requirements of the laws in 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. As per the assessment procedure, the assessment included

the questionnaire survey of the members of the Board of Directors, the Committees of the Board of Directors, the Management Board, the Internal Audit Service and its Head and Corporate Secretary of KEGOC.

The Board of Directors, based on the assessment findings, took a favourable view of its own work, the work of the Management Board, the Corporate Secretary, and the Internal Audit Service and defined the targets to improve the activity of the Board of Directors as follows:

- continue the work on business transformation programme, appoint responsible persons for the business transformation programme, approve the programme organisational structure which shall clearly define functions of participants, nominate business transformation chief officers, HR chief officers, IT chief officers and approve the business transformation road maps;
- continue the work on improvement of corporate governance system and risk management system of the Company;
- analyse compliance of the current internal regulatory documents with the requirements of the draft Code of Corporate Governance of Samruk-Kazyna.
- enhance monitoring of the progress of the Company's Development Plan for 2015 -2019, investment projects and Development Strategy.
- the Corporate secretary shall develop and submit the Succession planning programme for the members of the Board of Directors for approval and make an active use of it to constantly support optimal and qualitative membership of the Board of Directors.

Committees of the Board of Directors

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

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

In 2014, **the Nomination and Remuneration Committee** held 12 meetings in praesentia, reviewed 24 issues and issued recommendations to the Board of Directors with respect to 21 issues, including to:

- Approve the organizational structure and the total staff number in the Executive Administration, salary rate schedules and amount of salary for the Chairman and members of the Management Board, employees of the Internal Audit Service and Corporate Secretary;
- Appoint the Corporate secretary for the Company;
- Pay yearly performance remuneration to the senior executives;
- Approve individual key performance indicators of KEGOC's senior executives;
- Approve the motivational key performance indicators of KEGOC's Corporate Secretary for 2014;
- Approve changes to the Rules for business trips of KEGOC employees;
- Approve the Rules for labour payment and bonus payment to the executives, the employees of the Internal Audit Service, and the Corporate Secretary of KEGOC;
- Approve the new revision of the Induction programme for newly elected members of KEGOC Board of Directors;
- Assess the performance of the Board of Directors, members of the Board of Directors, Management Board, Chairman and members of the Management Board, Internal Audit Service and its Head, and Corporate secretary.

Members of the Nomination and Remuneration Committee	Attendance at the meetings in praesentia by the members of the Nomination and Remuneration Committee in 2014												
	24 January	28 February	03 April 2014	22 April 2014	25 May 2014	03 July 2014	28 August 2014	26 September	02 October	30 October	27 November	15 December	%
Gumarbek Daukeyev	+	+	+	+	+	+	+	+	+	+			100
Anatoliy Spitsyn	+	+	+	+	+	+	+	+	+	+	+	+	100
Luca Sutera	+	+	+	+	+	+	+	+	+	+	+	+	100

In 2014, the **Strategic Planning and Corporate Governance Committee** held 12 meetings in praesentia, reviewed 24 issues, and issued recommendations to the Board of Directors on 22 issues, including to:

- Approve KEGOC's Development Plan for 2014-2018;
- Approve the Action Plan for KEGOC corporate governance improvement in 2014;
- Update KEGOC's long-term development strategy;
- Amend KEGOC's Development Plan for 2014-2018;
- Approve KEGOC's Information and Telecommunication System Development Strategy until 2019;
- Approve the Long-term investment master plan for development of KEGOC extending to 2022;
- Approve changes to KEGOC's Corporate Governance Code.

Members of the Strategic Planning and Corporate Governance Committee	Attendance at the meetings in praesentia by the members of the Strategic Planning and Corporate Governance Committee in 2014												
	22 January 2014	28 February	03 April 2014	22 April 2014	22 May 2014	04 May 2014	28 August 2014	26 September 2014	02 October 2014	30 October 2014	13 November	27 November	%
Anatoliy Spitsyn	+	+	+	+	+	+	+	+	+	+	+	+	100
Gumarbek Daukeyev	+	+	+	+	+	+	+	+	+	+			100
Luca Sutera	+	+	+	+	+	+	+	+	+	+	+	+	100

In 2014, the **Audit Committee** held 14 meetings in praesentia, and reviewed 52 issues, including:

- Performance of the Internal Audit Service;
- Financial statements;
- Internal control and risk management;
- Internal audit, including personnel issues of the Internal Audit Service, preliminary approval of the changes made in the documents regulating the Internal Audit Service activity;
- External audit including preliminary approval of the higher auditor fee for 2013 - 2015 due to the larger scope of services; and selection of an audit firm to audit the financial statements of Batys Transit JSC for 2014.

The Audit Committee members also held three meetings with Ernst & Young, the selected auditor of 2014 financial statements, to discuss preliminary audit results of KEGOC consolidated statements in accordance with IFRS for 2013, the management letters following the financial

statements audit for 2013, audit plan for 2014, and financial statements review results for Q1 2014 and H1 2014.

In 2014, the Committee discussed the results of investigations carried out by the Internal Audit Service of the requests made to the Audit Committee through the hot line (grievance line 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 praesentia by the members of the Audit Committee in 2014														
	24 January 2014	8 February 2014	03 April 2014	22 April 2014	22 May 2014	26 May 2014	03 July 2014	28 August 2014	26 September 2014	02 October 2014	30 October 2014	13 November 2014	27 November 2014	15 December 2014	%
Luca Sutera	+	+	+	+	+	+	+	+	+	+	+	+	+	+	100
Anatoliy Spitsyn	+	+	+	+	+	+	+	+	+	+	+	+	+	+	100
Gumarbek Daukeyev	+	+	+	+	+	+	+	+	+	+	+				100

REMUNERATION

In accordance with the decision of the Sole Shareholder, the independent members of the Board of Directors shall be remunerated for the duration of their assignment, and the expenses associated with such assignment shall be compensated.

The remuneration of the independent directors of KEGOC includes:

- annual fixed fee;
- additional fee.

The annual fixed fee shall be paid to an independent director for his/her duties as a 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 shall be paid to the independent members of the Board of Directors for participation in the meetings in praesentia of the committees of the Board of Directors.

An independent director shall be compensated for the travel expenses associated with participation in the meetings of the Board of Directors of KEGOC, meeting of the 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 and held beyond the place of permanent residence of an independent director: transport, 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 shall be 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 KEGOC's Board of Directors from 01 January 2014 till 31 December 2014:

KZT million

NAME:	Annual fixed fee	Fee for participating in the Committees' meetings in praesentia	TOTAL
-------	------------------	---	-------

Gumarbek Daukeyev	2.550	5.580	8.130
Anatoliy Spitsyn	6.565	9.074	15.639
Luca Sutera	6.565	7.242	13.807

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