ПАВЛОДАРЭНЕРГО

ГОДОВОЙ ОТЧЕТ | ANNUAL REPORT

2014

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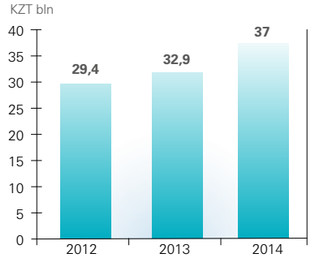
COMPANY OVERVIEW

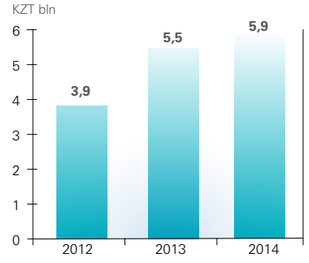
PAVLODARENERGO Joint Stock Company is a vertically integrated company, combining all elements of Pavlodar region's energy supply system (generation, transmission and distribution). The Company is part of Central-Asian Electric Power Corporation (CAEPCO JSC). PAVLODARENERGO JSC has implemented corporate governance standards, it is improving its business processes and practices in accordance with international standards in the field of production, occupational health and social responsibility.

OPERATING HIGHLIGHTS

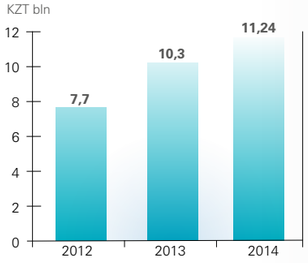
Revenue



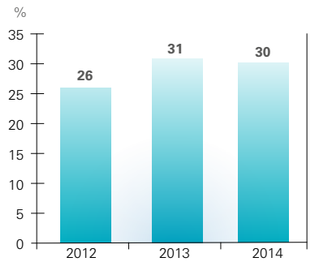
Net profit



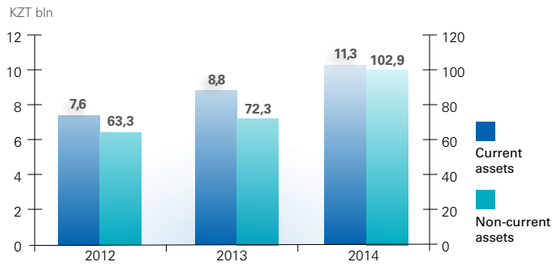
EBITDA



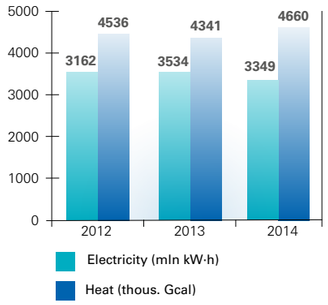
EBITDA margin



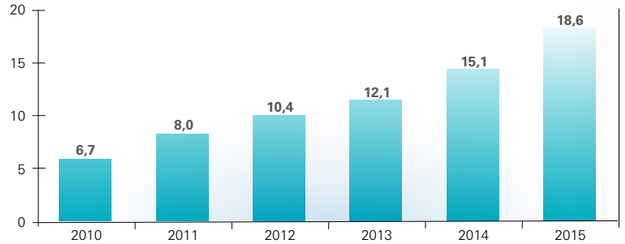
Assets



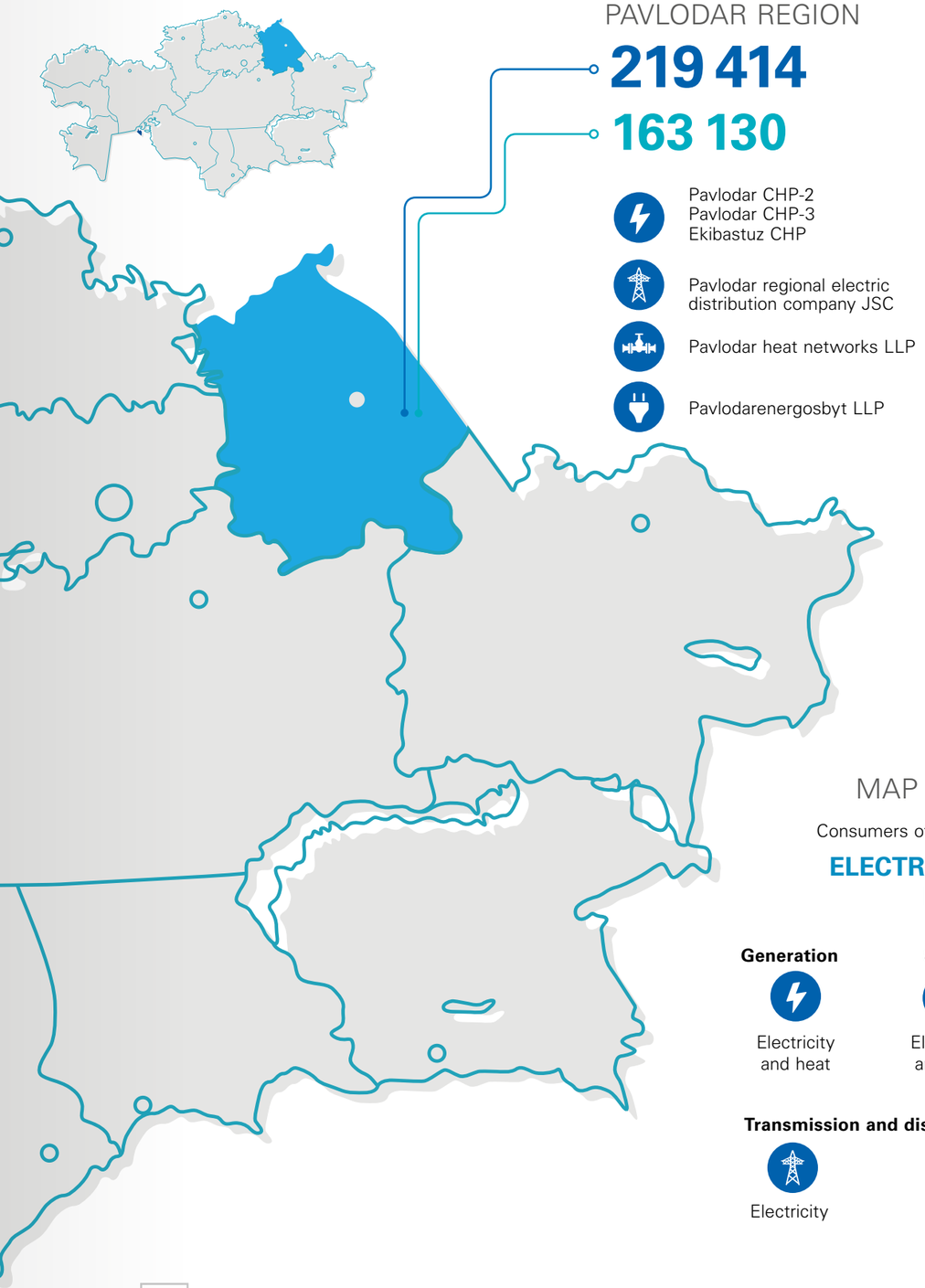
Generation



Investments



ACTIVITIES MAP



KEY EVENTS OF THE YEAR

- PAVLODARENERGO's Pavlodar CHP-3 commissioned a turbogenerator No.5.
- After a thorough reconstruction, Ekibastuz CHP started commercial operation of boiler BKZ-90-3,9-440 KT No.6.
- Expert RA Kazakhstan rating agency has confirmed PAVLODARENERGO JSC high rating at A+.
- To improve and centralize customer service, Pavlodarenergosbyt LLP opened a second service center in Pavlodar, which provides a full range of energy services to individuals and legal entities.
- Pavlodar regional electric distribution company JSC celebrated its 50th anniversary.
- During a field meeting, members of the Board of directors of CAEPCO JSC investigated the status of the investment program at PAVLODARENERGO's industrial facilities.

MAJOR OUTCOMES

- In 2014, 8,470 KZT bln were spent while implementing the investment program with a planned budget of 8.571 KZT bln. In December 2014, as planned, PAVLODARENERGO commissioned a reconstructed turbogenerator No.5 at Pavlodar CHP-3 with a capacity of 125 MW, which increased the plant's installed electrical power capacity from 505 MW to 520 MW.
- In 2014, the cost of installing the new turbogenerator No.2 amounted to 1,547 KZT mln. The project is scheduled to be completed in June 2015, which should increase the installed electricity capacity by 5 MW and installed heat capacity by 72 Gcal·h.
- In the reporting year, the Company continued phase 2 of the construction of ash dumps for PAVLODARENERGO's CHP-3 and CHP-2. Designing of phase 2 of the ash dump for Ekibastuz CHP in a bed of Lake Tuz, which began in 2014, is completed, with construction and installation scheduled for 2015.
- The installation costs of a new cooling tower No.5 amounted to 438 KZT mln. This will increase the available electrical power capacity of CHP-3 during summer thanks to improved vacuum in turbine condensers. In turn, this will increase the maximum summer load that the plant can cope with. The works are scheduled for completion in 2015.
- In 2014, the Company produced 3,348.5 mln kW·h of electricity and 4,659.7 Gcal of heat, showing a 7.3% increase (vs. 15% planned) in heat generation compared to 2013.

Chairman of the Board of directors
PAVLODARENERGO JSC
Yerkyn Adamiyanovich Amirkhanov

Dear shareholders and partners!

In 2014, PAVLODARENERGO has completed large-scale investment projects to increase its generating capacity. In December, we completed the reconstruction of turbogenerator No.5 at Pavlodar CHP-3, with two more modern turbines planned for launch in 2015. Thus, the Company's track record proves the success of the Government's ceiling tariffs policy implemented in 2009. However, for modernization and reconstruction of the power plant equipment, power lines and heating networks, the Company actively attracts financing and invests its own capital: this allowed to increase investments up to 15.1 KZT bln in 2014, 3 KZT bln more compared to 2013.

Sales of heat and electricity, as well as distribution, transmission and supply services, increased by 4.2 KZT bln in 2014 up to 37,1 KZT bln, with net income reaching 5.9 KZT bln.

Positive financial results helped to maintain the full level of social benefits and guarantees for more than 5 thous. employees of the companies within PAVLODARENERGO JSC. At the same time, in 2014 the Company's industrial facilities began to implement progressive employee motivation schemes aimed at improving productivity and accountability for the performance of the whole team. The Company is going through a smooth change of generations, and so to make the profession more attractive and to retain key employees among young professionals, the Board of directors decided it is time to build an apartment building.

Protecting the environment is one of the Company's most important tasks in the field of social responsibility in the regions, where the Company operates. All new equipment at the Company's industrial facilities is equipped with modern automated control systems and efficient pollution control devices. All the plants have installed 2nd generation wet fly ash collectors, achieving a fivefold reduction in harmful emissions. In 2014, PAVLODARENERGO's industrial facilities did not exceed emissions limits. Following the adopted environmental policy, the Company introduces new technologies, making sure that its environmental performance is well within the standards of the Republic of Kazakhstan.

In 2015, PAVLODARENERGO will celebrate its 50th anniversary. Thousands of the Company's employees continue to promote the cause of their predecessors, sparing no effort to preserve and enhance the energy of life that we inherited from generations of Pavlodar region's energy professionals.

General director
of PAVLODARENERGO JSC
Oleg Vladimirovich Perfilov

Dear colleagues and partners!

In December 2014, the Company has completed one of the most important projects at PAVLODARENERGO's Pavlodar CHP-3: commissioning the fifth, completely overhauled and repaired, turbogenerator just before the Day of Independence of Kazakhstan. As a result, we now have an upgraded machine with a capacity of 125 MW (an increase of 15 MW), with plans to install two turbine generators with a total capacity of 205 MW in 2015.

In 2014, the actual investment within the Agreement with the Ministry of energy of the Republic of Kazakhstan amounted to 8,470 KZT mln. In 2015, the Company will invest 9,471 KZT bln in the reconstruction of Pavlodar CHP-3 and Ekibastuz CHP-2. Starting from 2009, thanks to the Government's ceiling tariffs program, a total of about 50 KZT bln was invested in creating new assets, as well as in their expansion, upgrades, maintenance, reconstruction and re-equipment. Investments have helped to reduce the wear of the plant's property, plant and equipment (PP&E) by 19% to 60.9% compared to 2009, the year the ceiling tariffs program was launched, when fixed assets wear and tear rate was 80%.

However, this is not enough for complete modernization of the three CHPs, besides the ceiling tariffs program will expire in 2015. To continue with the planned program of renovating energy generating facilities, transmission and distribution of heat and electricity, we attract investments from international financial institutions and use our own capital. As a result, the Company's wear and tear rate should be reduced to 45% by 2018, with fully renovated equipment at Pavlodar CHP-3 making up more than 50% of fixed assets.

Today, the installed electric capacity of all plants is 642 MW, including 520 MW provided by Pavlodar CHP-3. By 2017, we will bring CHP-3's capacity to 555 MW. By this time, the share of new equipment in the turbine house of CHP-3 will be 90%. Fixed assets modernization will ensure reliable and quality power supply, promoting industrial growth in the Pavlodar special economic zone.

Today, the Company has been able to overcome the problem of outstanding payments of households and government organizations, and we intend to increase the number of our customers: in 2015, Pavlodar regional electric distribution company will complete reconstruction of Zapadnaya Gorodskaya substation, which will allow to provide power to a large number of new customers in the north-western part of Pavlodar.

PAVLODARENERGO is deeply integrated into all spheres of life of Pavlodar region. We believe in the economic growth of Pavlodar region and try to be one step ahead to meet the current and future needs of our region.

COMPANY OVERVIEW

HISTORY

1964

Pavlodar region's energy facilities are consolidated into PAVLODARENERGO regional office, which in a year was transformed into PAVLODARENERGO production entity.

1971

Pavlodar's heating entity is created, which allowed to centralize district heating in the city and gave a boost to the development of Pavlodar's heating infrastructure.

1995-1997

PAVLODARENERGO production entity becomes a republican state enterprise.

In 1997, the assets of Pavlodar's CHP-2 and CHP-3 were bought by Central-Asian power-energy company JSC (CAPEC JSC).

2002

PAVLODARENERGO Open Joint Stock Company is created and transformed into a joint-stock company in December 2003. CHP-2 and CHP-3 form the system's generating capacity. PAVLODARENERGO JSC is joined by Pavlodar regional electric distribution company. In the same year, the Company was joined by Energocenter JSC, which transformed into Pavlodarenergosbyt LLP in 2011.

2005

The Company absorbs Pavlodar's heating networks and forms Pavlodar heat networks JSC, which in 2011 were transformed into a Limited Liability Partnership.

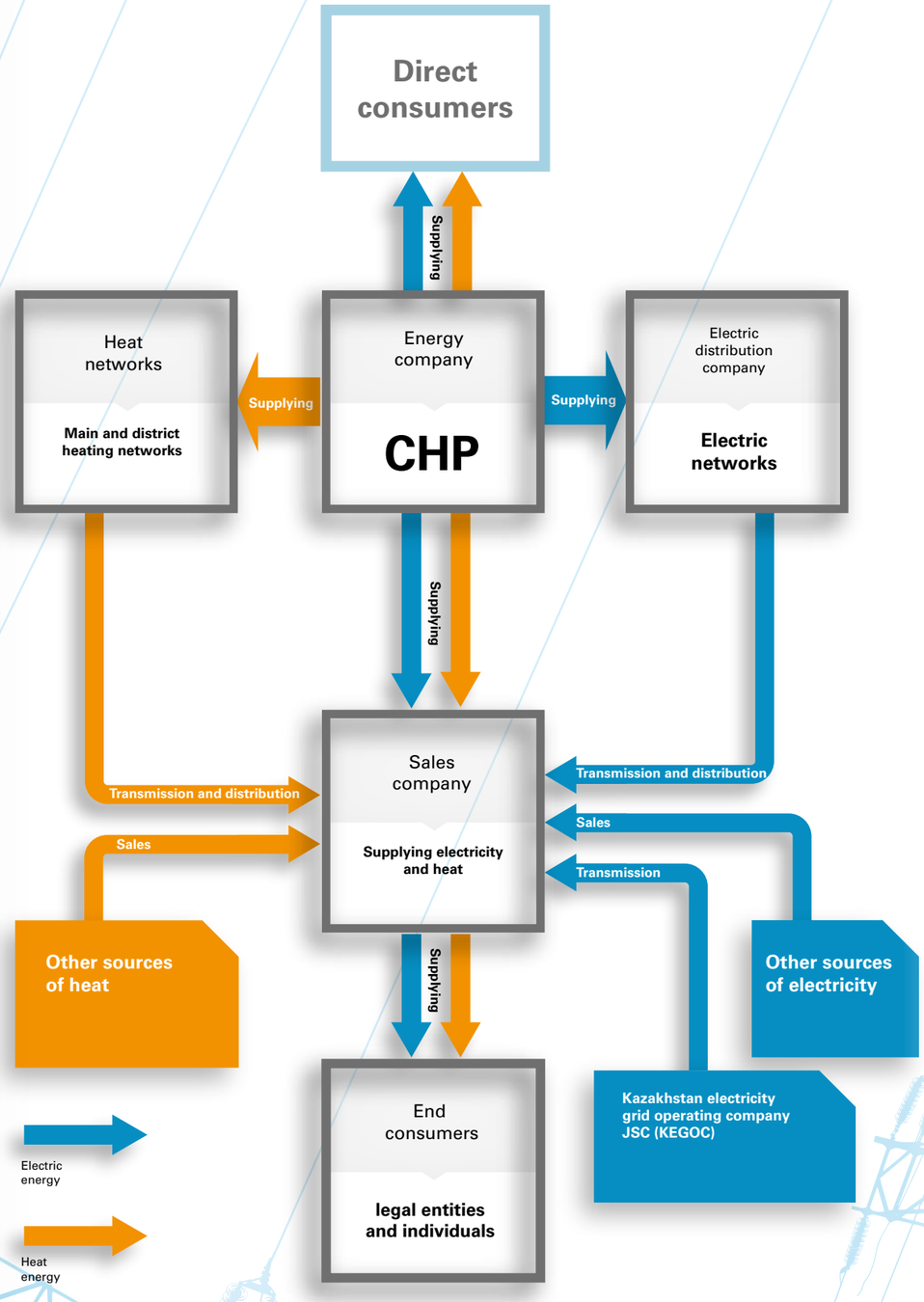
2007

PAVLODARENERGO JSC is joined by a CHP and heating networks of Ekibastuz.

2008-2009

CAPEC JSC transferred PAVLODARENERGO JSC to the share capital of its subsidiary, Central-Asian Electric Power Corporation (CAEPCO JSC). The shareholders of CAEPCO JSC include CAPEC JSC and international development organizations: European bank for reconstruction and development (EBRD) and Islamic infrastructure fund (IIF).

BUSINESS MODEL



PRODUCTION HIGHLIGHTS

Overhead power lines

Types of electrical power lines, kV	Distance, km	
	Distance	Wire length
220	14.25	14.25
110	2,595.84	2,785.26
35	2,358.85	2,399.63
6-10	5,731.55	5,751.59
0,4	4,249.96	4,249.28
Total:	14,950.45	15,243.01

Cable power lines

Types of electrical power lines, kV	Distance, km
0,4 kV	366.92
10 kV	386.06
Total:	752.98

Number of substations by type

Substation types, kV	Quantity, pcs
35-220 kV	179
TS, CTS 6-10/0,4 kV	3,626
DS 6-10 kV	24
Total:	3,829

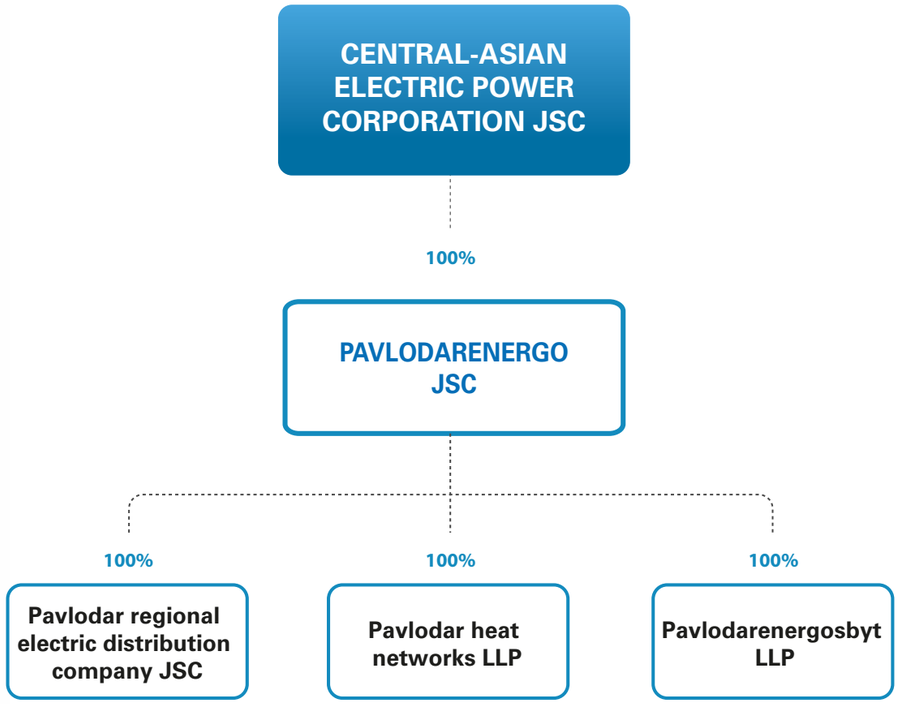
Heating network length of Pavlodar heat networks LLP

City	Distance, km
Pavlodar	414
Ekibastuz	342
Total:	756

Number of customers

Region	Electricity	Heat
Pavlodar region	219,414	163,130

GROUP STRUCTURE



PAVLODARENERGO Joint Stock Company is a vertically integrated company composed of generation, transmission and sales facilities in Pavlodar region.

Total installed capacity of power plants is 642 MW (electricity) and 2,140 Gcal·h (heat). Ekibastuz coal is the main fuel used.

PAVLODARENERGO JSC provides electricity in Pavlodar region with a total area of 105.9 thous. km² and a population of 747.1 thous. people. Power output in 2014 reached 3,348.507 mln kW·h.

Electricity generated by PAVLODARENERGO is supplied to the markets of Akmola, Karaganda, Pavlodar and East-Kazakhstan regions. Total power line length is 15,996 km. Total heating network length is 756 km.

The total number of employees of PAVLODARENERGO Group as of December 31, 2014 was 5,080 people, including 1,914 people working for PAVLODARENERGO JSC.

SUBSIDIARIES

Pavlodar regional electric distribution company JSC

Pavlodar regional electric distribution company JSC (PREDC JSC) was founded on January 29, 1998, re-registered as an open joint stock company in January 1999, and as a joint stock company on December 30, 2003.

PREDC JSC focuses on transmission and distribution of electricity in the eleven districts of Pavlodar region, as well as in Pavlodar and Aksu. Production facilities are located in Pavlodar and Pavlodar region with the exception of Ekibastuz and Ekibastuz district. The serviced area is 105.9 thous. km².

Through KEGOC JSC the power network of Pavlodar regional electric distribution company JSC is connected to the national electrical grid of Kazakhstan and Russian networks, allowing the Company to transmit electricity produced by CHPs in Pavlodar.

Most of production sites in Pavlodar region are connected to the networks of PREDC JSC, with the region being home to about 5 thous. enterprises of various ownership forms and a population of 747.1 thous. people.

The total number of employees as of December 31, 2014 was 2,008 people.

Pavlodar heat networks LLP

Pavlodar heat networks LLP transmits and distributes heat for customers in Pavlodar and Ekibastuz. The Company focuses on improving the operational reliability of heating networks, coordinating generation, transmission and consumption of heat.

Pavlodar heat networks was established in Pavlodar on September 28, 2006 and has been operating ever since.

The total number of employees as of December 31, 2014 was 699 people.

Heating networks in Pavlodar

- Main heating networks — 110.6 km.
- District heating networks — 280.6 km.
- Hot water networks — 23 km.
- Pumping stations — 10.
- Central distribution units — 21.
- Added heat capacity — 972 Gcal·h.

Heating networks in Ekibastuz

- Main heating networks — 37.6 km.
- District heating networks — 304.7 km.
- Central distribution units — 1.
- Pumping stations — 5.
- Pavilions — 5.

Pavlodarenergosbyt LLP

Pavlodarenergosbyt LLP is a fast growing power supply organization. The company focuses on providing reliable and uninterrupted supply of electricity and heat. The main goal of Pavlodarenergosbyt is to respect the interests of consumers, providing a range of high-quality energy supply services.

The company is an energy supplier:
- electricity and heat in Pavlodar;
- electricity in Pavlodar region, except for Ekibastuz;
- heat in Ekibastuz.

Pavlodarenergosbyt's total number of customers as of December 31, 2014:

- 219,414 — electricity;
- 163,130 — heat.

To implement the energy saving initiative, Pavlodarenergosbyt applies tiered usage-based pricing for individuals depending on the amount of electricity consumed, and tiered time-of-day electricity pricing for all types of customers.

Production departments and services

Pavlodarenergosbyt is committed to improving the quality of customer service using new technologies. For customer comfort, new payments systems were introduced, where you can pay through second-tier bank, online, using ATMs, POS terminals and multi-kiosks. The regional center has six customer service outlets for making payments, two in Ekibastuz, two in Aksu and cashier's windows in district locations. Contracts to accept payments have been signed with thirteen second-tier banks, Kazpost branch, Astana-Plat LLP and Contact 24h LLP.

The total number of employees as of December 31, 2014 was 459 people.

RATINGS

Credit rating

Sustainability of the Company was confirmed by Expert RA Kazakhstan rating agency. The credit rating of PAVLODARENERGO JSC in 2014 was affirmed at A+ (very high level of credit worthiness), bond reliability (NIN: KZ2C0Y10C606) was also affirmed at A+ (very high level of reliability).

DEVELOPMENT STRATEGY

Mission

Improving the living standards for customers and promoting economic development of the regions where we operate by providing high-quality energy supply services for households, businesses and organizations.

The Company is trying to accomplish this mission by operating in accordance with international standards of production, environmental protection, occupational health and social responsibility.

Employees are key to the Company's effectiveness, and their value lies in their high professionalism, ability to work in a team and focus on results.

Vision

PAVLODARENERGO JSC is one of the largest enterprises in north-eastern Kazakhstan in the field of production, transmission and distribution of electricity and heat. PAVLODARENERGO supplies electricity and heat to Pavlodar, Ekibastuz, Aksu and districts of Pavlodar region. A significant portion of the electricity produced by the Company is supplied to other regions of Kazakhstan.

The Company successfully uses the advantages of the holding structure, combining dynamism and flexibility of its elements (companies within the Group) with stability and reliability of centralized management on the Group level.

The Company's staff are a team of professionals who constantly reaching higher goals. The Company's relations with customers and suppliers are based on the principles of respect and mutual responsibility.

Strategy

The strategic goal of PAVLODARENERGO is to build the best power company, ensuring balanced and sustainable development of the energy system of Pavlodar region to promote economic growth in the region. The Company actively introduces international best practices and operates in accordance with international standards in the field of production, environmental protection, occupational health and social responsibility.

Through improved efficiency, PAVLODARENERGO strives to increase the market value of the Company's assets and its investment attractiveness.

Within the investment program, a number of large-scale equipment modernization initiatives are under way with a view to increase generation, reduce losses during transmission of electricity and heat and improve environmental performance.

Main strategic directions of PAVLODARENERGO JSC

INNOVATION	Development of existing energy assets through improvement of technical level of production and renovation of main production funds and infrastructure
	Implementation of perspective innovative projects, application of new technological solutions
HUMAN RESOURCE CAPACITY BUILDING	Continuous learning of staff with a view to new efficient technologies in production sector and enterprise management

Set targets will be achieved through implementing strategic initiatives in the following areas:

- modernization of equipment in order to improve production, reduce accident and downtime risks;
- introduction of energy-saving and energy-efficient technologies in the production and transmission of energy;
- minimizing per-unit cost of heat and electricity;
- compliance with international, national and industry regulations and laws in the field of environment;
- preventing pollution;
- limproving the management system, certification for compliance with international standards;
- introducing tougher requirements for occupational health, safety and injury reduction;
- continuous learning with a view to enhance employee professionalism;
- introduction of an automated enterprise management system.

MARKET ENVIRONMENT ANALYSIS

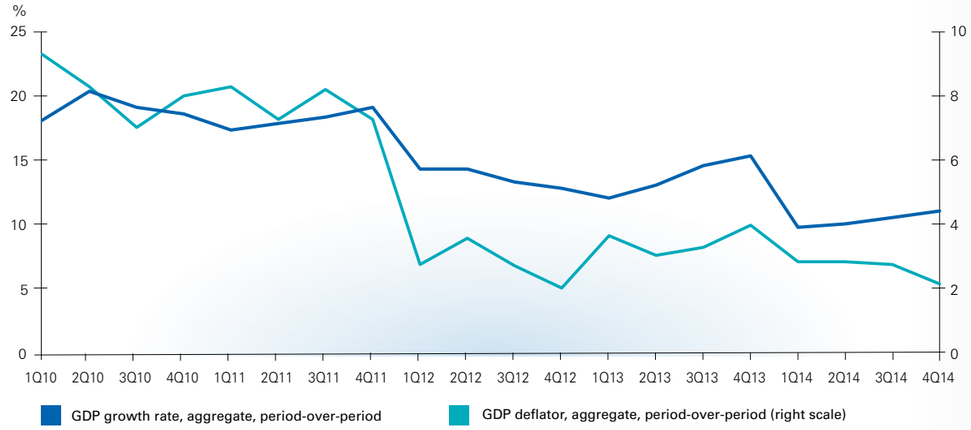
ECONOMIC OVERVIEW

According to the Statistics committee of the Ministry of national economy of the Republic of Kazakhstan, gross domestic product in 2014 exceeded 38.7 KZT trln, showing an annual growth of 4.3% compared to 6% a year earlier. Weaker growth is not only due to lower oil prices and the transmission of shocks from Russia, but also to structural imbalances of the economy.

According to the preliminary data for 2014, the main driving force of Kazakhstan's economy is the services sector. Production of physical goods increased by 0.9% in real terms, while the production of services by 6.1%.

In 2014, the real added value generated by the oil and gas sector declined by 3.6% compared to 2013. This

Real GDP and GDP deflator growth rate



reduction, together with the growth of non-commodity sectors, shrank the share of the oil and gas sector in the national GDP from 21.6% in 2013 to 20.3% in 2014. The economic slowdown in 2014 resulted not only from the dip in oil prices, but also structural causes that contribute to the reduction of the added value of Kazakhstan's key industry.

Other commodity sectors showed only a slight increase in 2014. The aggregate growth of Gross value added in the mining sector amounted to 0.1%. In comparison with 2013, there has been a serious slowdown in real growth rates in virtually all areas of goods production (up to 0.2% in total). However, output growth in the energy sector in 2014 reached 2.3% and 4.1% in the construction sector.

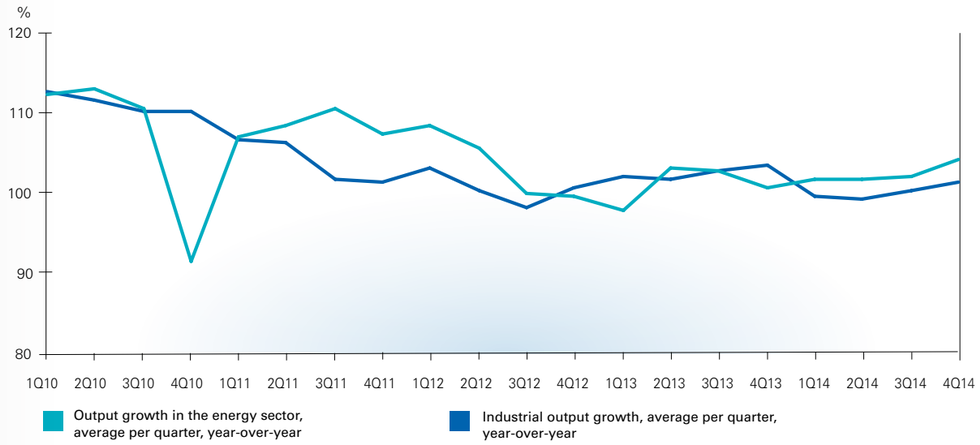
Quarterly-wise, the energy sector shows higher growth compared to industrial production as a whole, thus offsetting the output decline in other sectors. Moreover, high output growth in the energy sector has not been hampered by rising prices, which statistically means that the industry has sufficient "safety margin" and increased demand for end services.

Consumer market and labor market

Despite a decline, annual growth of retail turnover was 11% compared to 2013. As for the labor market, the high growth of consumption is confirmed by the growth of real wages and the number of employed people. Real wages in 2014 increased by 3.9%. In addition, the number of employed people — excluding the agricultural sector — increased substantially, showing a 6.3% growth compared to a 2.6% growth in 2013.

In 2014, net retail deposits in second-tier banks rose by 103.6 KZT bln. The situation has changed dramat-

Output growth in the energy sector compared to the growth of industrial production

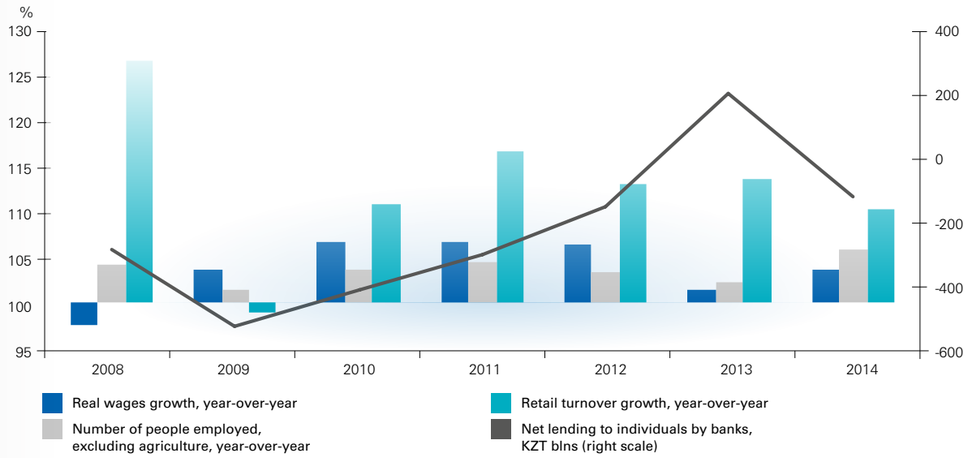


ically compared to 2013, when net lending to individuals amounted to 237.4 KZT bln.

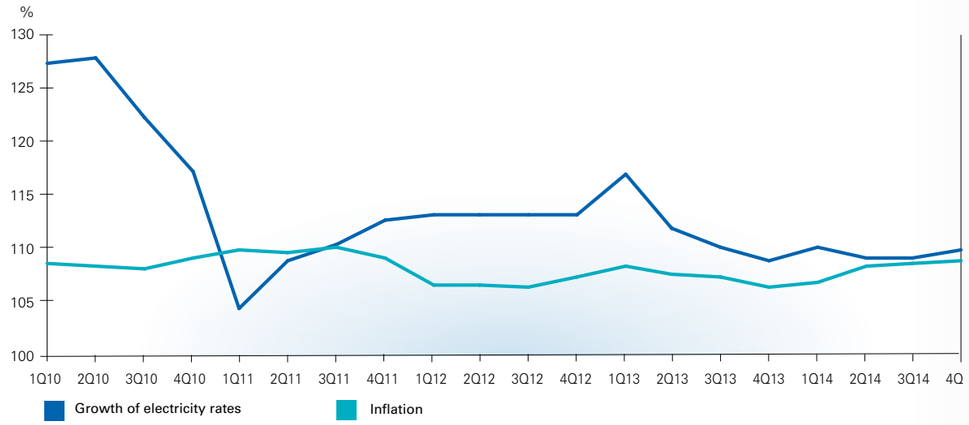
Consumer inflation in 2014 accelerated compared to the previous year. Quarterly inflation reached its maximum in the forth quarter of 2014, amounting to 7.53%. Higher inflation amid a decline in economic activity is due to structural reasons.

The growth of prices in the energy sector is consistently above the consumer inflation rate. Electricity prices were raised in accordance with the decree of the government of the Republic of Kazakhstan of March 25, 2009, which set maximum electricity rates for a period up to 2015. This decree requires that generating companies should implement a number of investment programs aimed at equipment modernization.

Rapid growth in retail turnover amid increasing real wages and employment outside the agricultural sector



Annual growth rates in electricity rates compared to inflation



Forecast for 2015

Short-term 2015 expectations include a decline in Kazakhstan's real GDP growth to 2% according to the National bank, with the Ministry of national economy of the Republic of Kazakhstan saying the GDP growth will not exceed 1.5%. There is a possibility of a small increase to 3% in 2016: low GDP growth forecasts are due to the impact of the recession in Russia on Kazakhstan's economy and relatively low oil prices that hinder the growth of the oil industry.

Forecast growth of the Kazakhstan economy

Source	2015	2016
International Monetary Fund (May 2015)	2,0%	3,1%
Ministry of national economy of RK (February 2015)	1,5%	2,2%
World bank (May 2015)	1,3%	2,8%
European bank for reconstruction and development (May 2015)	1,5%	2,0%

Source: The National bank of RK

ENERGY SECTOR OVERVIEW

Energy sector includes generation, transmission and distribution of electricity and heat, being key to the economy and the country's existence.

For the economy of the Republic of Kazakhstan, energy sector is of particular importance, as the country's key industries, such as metallurgy and extraction of oil and gas, are highly energy intensive. Therefore, the ability of Kazakhstan's heavy industries to face competition and the welfare of people largely depend on reliable and quality power supply at reasonable rates. Energy sector is among the priorities in the State program of fast industrial and innovation development during 2010-2014.

Electricity output

In 2014, the national grid of the Republic of Kazakhstan (hereinafter — the Grid) includes 81 power plants. The largest plants are Ekibastuz CHP-1, Eurasian energy corporation JSC (Aksu) and Ekibastuz CHP-2.

As of December 31, 2014, the installed capacity of power plants within the country was 20,844.2 MW (with CAEPCO accounting for 5.16% or 1,076 MW). The available capacity of power plants totaled 16,945.4 MW in winter and 16,937.7 MW in summer.

The structure of generation facilities with a breakdown by fuel source is as follows: coal — 64%, gas and mazut — 16.1%, gas — 7.4%, hydropower (excluding small hydropower plants) — 12%, renewable energy sources (including small hydropower plants) — 0.5%. Among them, only 0.04% is accountable for wind and solar power. In 2014, electricity generation in Kazakhstan increased by 2.1% compared to 2013 and amounted to 93,935.2 mln kW·h (CAEPCO produced 6,081 mln kW·h or 6.47% of the country's electricity in 2014), including: steam power plants — 78,772.9 mln kW·h (83.86%), hydropower plants — 8,235.8 mln kW·h (8.77%), gas turbine power plants — 6,915.9 mln kW·h (7.36%), wind and solar power plants — 10,6 mln kW·h (0.01%).

Changes in electricity and heat production in Kazakhstan

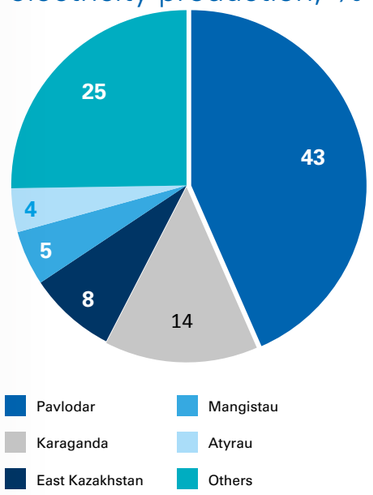
Source: Statistics committee of the Ministry of national economy of the RK

Increased electricity generation in 2014 compared to 2013 was due to an increase in electricity produced by steam power plants of 1,150.9 mln kW·h (1.5%), by hydropower plants — 534.8 mln kW·h (+6.9%), by gas turbine power plants — 270.1 mln kW·h (+4.1%).

The following power plants showed the highest growth rate compared with 2013:

- Eurasian energy corporation: an increase of 1,187.9 mln kW·h, or 7.8%;
- Zhambyl CHP: an increase of 925.9 mln kW·h, or 58.1%;
- Ekibastuz CHP-1: an increase of 604.4 mln kW·h or 4.5%;
- SEVKAZENERGO's Petropavlovsk CHP-2 (CAEPCO JSC): an increase of 129.6 mln kW·h, or 5%.

Regional structure of Kazakhstan's electricity production, %



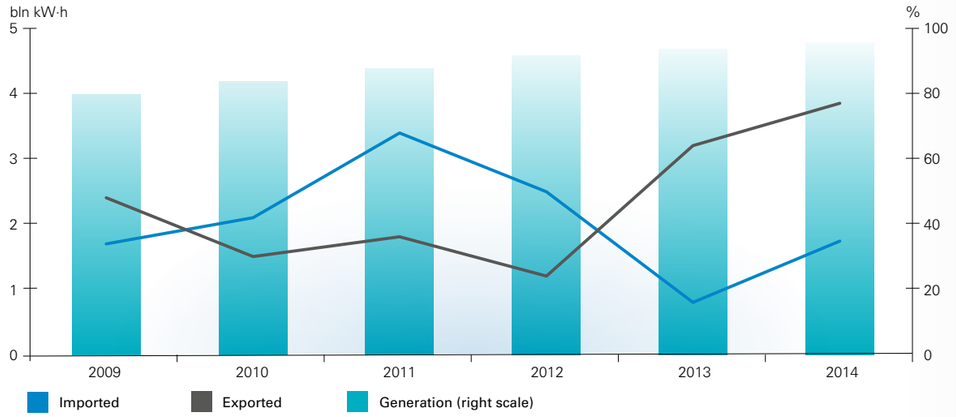
In 2014, electricity consumption in Kazakhstan increased by 2.3% compared to 2013 and reached 91,660.9 mln kW·h.

Energy-wise, Kazakhstan can be divided into three areas: North, South and West. North area consisting of seven regions is the center of the National Grid of Kazakhstan with the majority (70.4%) of electricity generation facilities and developed 220-500-1150 kV overhead power lines connecting Kazakhstan with the United energy system of Russia. South area consisting of four regions has a single network and a well-developed electric power connection with Kyrgyzstan and Uzbekistan. Due to its remoteness and lack of energy connections, West area consisting of three regions works in isolation from the rest of Kazakhstan and does not operate as a part of a single technological process.

In 2014, the electricity output in Kazakhstan exceeded consumption by 2,274.3 mln kW·h.

In 2014, electricity export totaled 3.85 bln kW·h, which is 7% less than in 2013. In monetary terms, the revenue from electric power exports totaled 114 USD mln, which is 9% less than in 2013. The reduction in electricity exports resulted from less electricity supplied to Russia, which occurred due to the devaluation of the Russian rouble against the USD and the KZT. At the same time, 1.74 bln kW·h of

Production and flow of electricity in the RK



Source: Statistics committee of the Ministry of national economy of the RK

electricity were imported in 2014, or 12% less than in 2012. Therefore, in 2014 only 92.4 USD mln were spent to buy electricity from abroad, which is a 15% reduction compared to the previous year. Energy imports declined due to the fact that more energy needs were covered by local energy sources thanks to increased electric power generating capacity and the completion of the first and second stages of modernization of the national grid of Kazakhstan. More specifically, the consumption of locally produced energy increased by 1,233.5 mln kW·h in the South area and by 707.6 mln kW·h in the West area, which an increase of 6.6% and 6.9% respectively.

Transmission and distribution of electricity

The national electrical grid is the core of Kazakhstan's energy system, ensuring electrical connection between the regions of Kazakhstan and power grids of neighboring countries (Russia, Kyrgyzstan and Uzbekistan), as well as supplying electricity from power plants and its delivery to wholesale customers. The national electrical grid is managed by KEGOC JSC.

KEGOC operates 297 power lines with voltage ranging from 35 kV to 1,150 kV and a total length of 24,400 km (overhead lines). The company also operates 76 substations with voltage ranging from 35 kV to 1,150 kV.

Distribution of electricity in Kazakhstan is carried out by 20 regional energy distribution companies (REDCs) and about 150 small transmission companies that control electric networks with voltage between 0.4 kV and 220 kV.

Some RECs are owned by private companies, and some belong to the national company Samruk-Energo JSC completely or partially (Alatau Zharyk Company JSC — 100%, East-Kazakhstan regional electric distribution company — 100%, Mangistau power distribution and network company —75% +1 share).

The national grid faces peak loads in autumn and winter. During the 2013-2014 season, maximum consumption totaled 13,290 MW and 13,586 MW in the 2014-2015 season.

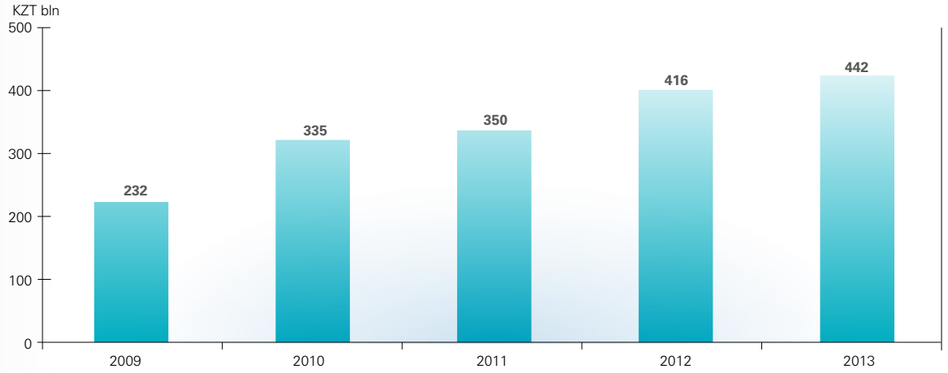
Production and distribution of heat

Heat in Kazakhstan is generated at 40 CHPs, 28 major heat-only boiler stations (with heat capacity of more than 100 Gkal·h) and 5,600 small heat-only boiler stations (less than 100 Gkal·h). CHPs produce about 45% of heat, with 35% produced by large boiler stations and 20% by small boiler stations. The length of heating networks in Kazakhstan is 12 thous. km in double-pipe terms (CAEPCO controls 989.15 km, or 8.2%). Boiler stations and heating networks are mostly owned by the government.

In 2014, Kazakhstan produced 97.6 mln Gcal (of which CAEPCO produced 6.6 mln Gcal, or 6.76%).

In 2014, the Government of the Republic of Kazakhstan approved the heating network modernization Plan for 2014-2020. The modernization includes targeted investment in the heating infrastructure transporting more than 400 thous. Gcal of heat, i.e. 17 facilities supplying heat to Astana, Almaty, regional centers, and having a profound impact on the national economy According to the plan, 1,265 km

Amount of investment into power supply, steam supply and air conditioning sector



Source: Statistics committee of the Ministry of national economy of the RK

of 6 thous. km of heating networks, or 21%, will be replaced. Thus, by 2020 the total pipeline wear should drop from 71% to 55%, and permissible losses — from 20-25% to 17%.

Electricity and heat rates

Rates for the production, transmission and sale of electric power in Kazakhstan are regulated by the government. Rate limits for electricity production for the period between 2009 and 2015 were adopted by the Government of Kazakhstan (Decree No.392 of the Government of the Republic of Kazakhstan of March 25, 2009).

Until 2013, power transmission rates were determined based on the company's estimated costs for transmission and distribution of energy. Starting from January 1, 2013, comparative analysis (benchmarking) pricing for electricity transmission was adopted by the decree of the Chairman of the Kazakh agency for regulation of natural monopolies. The rates are approved for three years with the possibility of annual adjustment.

Starting from January 1, 2016, according to changes in the law, electric power network companies will have to use 5-year rate limits.

To make natural monopolies more attractive for investors, changes to the law of the Republic of Kazakhstan "On natural monopolies and regulated markets" (hereinafter — the Law) became effective on June 24, 2014, setting long-term rates — for five years or more — for natural monopolies that produce and transmit heat.

Heat rates in Kazakhstan are approved by the Committee on Regulation of natural monopolies and protection of competition of the Ministry of national economy of the Republic of Kazakhstan in accordance with the Methodology for setting rates or their limits for regulated services provided by heat producing natural monopolies and shall be calculated based on the principle of differentiation depending on whether a customer has an electricity meter.

These regulatory measures should stabilize production and economic activities of electricity producers and boost Kazakhstan's economy as a whole thanks to incorporating an investment component in the rate.

Investment projects

In 2014, total installed capacity of power plants in the Republic totaled 19,578 MW (excluding power units No.1 and No.2 of Ekibastuz CHP-1, according to KEGOC). This is compared to 19,592 MW a year earlier.

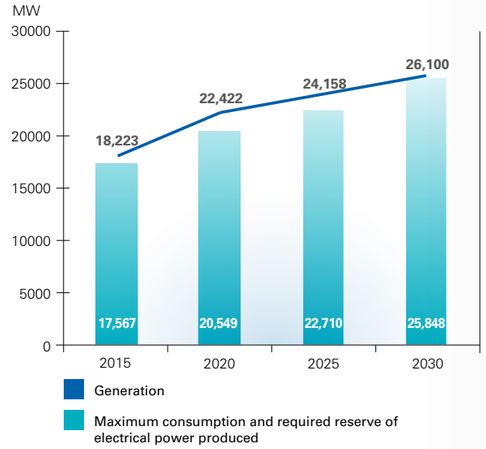
At the end of December 2014, Ekibastuz CHP-1 launched power unit No.2, which increased the total installed capacity of the pant by 500 MW, while Temirtau CHP-1 added 60 MW, and a new 60 MW Kalamkas gas turbine power plant commissioned in the Mangistau region. Other contributors to the growth in power generating capacity include Zhanazhol CHP-65 in Aktobe region (16 MW), Kashagan power plant field in Atyrau region (70 MW) and a new power plant of Kazatomprom's sulfuric acid production facility (18.5 MW). Thanks to modernization of turbogenerator No.5, the installed capacity of Pavlodar CHP-3 increased by 15 MW.

In the power transmission sector, KEGOC completed three large investment projects: Modernization of the National electrical grid — Phase two, construction

of 500 kV Alma power line and connecting it to the National electric grid of Kazakhstan using power lines with voltage of 500 kV and 220 kV, Reconstruction of the 220 kV high-voltage power line of the Osakarovka central step-down station.

A total of 2.5 KZT trln will be invested in upgrading, modernization and construction of power networks between 2016 and 2030 (in 2011 prices), of which 0.8 KZT trln will be spent on super grids and 1.7 KZT trln on distribution networks.

Forecast balance of Kazakhstan UES power facilities by 2030



Source: Statistics committee of the Ministry of national economy of the RK

Market prospects

In 2014, the Government of the Republic of Kazakhstan adopted the Energy sector growth concept up to 2030. The goals include:

- significant reduction of the average wear rate of electrical equipment;
- attracting up to 7.5 KZT trln of investments in Kazakhstan's energy sector during the coming 15 years;
- Ensuring stunted growth of end user tariffs;
- Ensuring independence and self-sufficiency of national electrical grid of Kazakhstan.

To achieve these goals, it is important to do the following:

Introduce wholesale market models for electricity and capacity, creating incentives to improve the efficiency of the generating equipment, ensuring the possibility of obtaining the required rate of return on investments and promoting high-quality and reliable supply of energy (with improved environmental performance).

Radically transform the current pricing system of energy producers to allow long-term contracts on the electricity and capacity market, encouraging the owners of power plants to improve efficiency and ensuring the required rate of return on investments.

Consider the possibility of developing long-term rates in the electricity and heat production and transmission industry for the period up to 2030.

Adopt stricter disclosure requirements for energy suppliers with the information published on a single portal accessible to all users.

Change inefficient government regulation procedures.

Optimize the structure of organizations in the electricity distribution and supply sector by creating incentives for market consolidation.

Create a new system of economic and legal relations between the participants of the heat production and transmission sector to promote its development.

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The key objective of the Concept is to make Kazakhstan's economy less energy intensive: energy intensity should drop by 10% in 2015 compared to 2008, by 25% in 2020, and by 30% in 2030.

OPERATIONAL RESULTS OVERVIEW

On the wholesale electricity market, PAVLODARENERGO's competitors are Aksu SDPP, Ekibastuz SDPP-1 and Ekibastuz SDPP-2. Thanks to the proximity of its major consumers — the largest enterprises in Pavlodar's north industrial area, — to power generation facilities, PAVLODARENERGO has a competitive advantage over other energy producers of the Republic of Kazakhstan, which allows the Company not to charge its customers for transmission services that would otherwise be provided by Kazakhstan electrical grid operating company (KEGOC). The Company's CHP in Ekibastuz is the sole source of heat for the city with a population of more than 130 thousand people.

OPERATIONAL HIGHLIGHTS

Performance highlights

Item	2012	2013	2014
Installed electrical power capacity, MW	627	627	642
Electricity output, mln kW·h	3,162	3,534	3,349
Electricity transmission, mln kW·h	2,243	2,283	2,282
Electricity output, mln kW·h	2,688	2,698	2,738
Share in electricity generation in Kazakhstan, %	4	3.8	3.5
Share in electricity generation in Pavlodar region, %	8.65	8.54	8.07
Installed heat capacity, Gcal·h	2,102	2,102	2,140
Heat output, thousand Gcal	4,536	4,341	4,660
Heat transmission, thousand Gcal	3,124	3,151	3,296
Heat sold, thousand Gcal	4,144	4,109	4,204

Changes in installed electrical power capacity:

In December 2014, Pavlodar CHP-3 commissioned a turbogenerator T-120/130-130 No.5 with installed electrical power capacity of 125 MW, replacing the obsolete turbogenerator T-100/120-130 with installed electrical power capacity of 110 MW. The increase was 15 MW, from 505 MW to 520 MW.

As a result of modernization in 2014, the installed electrical power capacity of PAVLODARENERGO's plants increased from 625 MW to 642 MW.

Changes in installed heat capacity:

In December 2014, Pavlodar CHP-3 commissioned a turbogenerator T-120/130-130 No.5 with installed heat capacity 188 Gcal·h, replacing a turbogenerator T-100/120-130 with heat capacity of 160 Gcal·h, achieving an increase of 28 Gcal·h.

In 2014, Ekibastuz CHP introduced a boiler E-90-3.9-440KT No.6 with installed heat capacity of 58 Gcal·h, replacing a boiler of type BKZ-75-39FB with heat capacity of 48 Gcal·h, achieving an increase of 10 Gcal·h.

As a result, heat capacity of PAVLODARENERGO plants increased from 2,102 Gcal·h to 2,140 Gcal·h.

In 2014, electricity output dropped 0.9% compared to 2013. The smaller output is due to the reconstruction of turbogenerator No.5 and boiler No.3 at CHP-3, overhaul and repair of of boiler No.6 at CHP-3 and unscheduled repair of turbogenerator No.1 at Ekibastuz CHP.

Results of investment projects

PAVLODARENERGO sees renovation of property, plant and equipment (PP&E) as one of the key aspects of its strategic development. The Company is implementing a large-scale investment program of PP&E modernization and renovation of fixed assets to increase their capacity and improve reliability, increase energy efficiency and energy savings, and also improve environmental performance of production.

The program is for the 2009-2018 period. The program will allow reducing equipment wear from 80% to 39%, with fully renovated production assets making up 63% of all equipment, as well as to increase installed capacity by 25% and reduce harmful emissions by 30%. The Company will completely eliminate excessive losses.

The investment program will focus on three areas:

- Increasing output;
- Energy efficiency, including the reduction of electricity and heat losses during transmission;
- Improving environmental performance of production.

As of December 31, 2014, the following investment activities were carried out at PAVLODARENERGO's facilities.

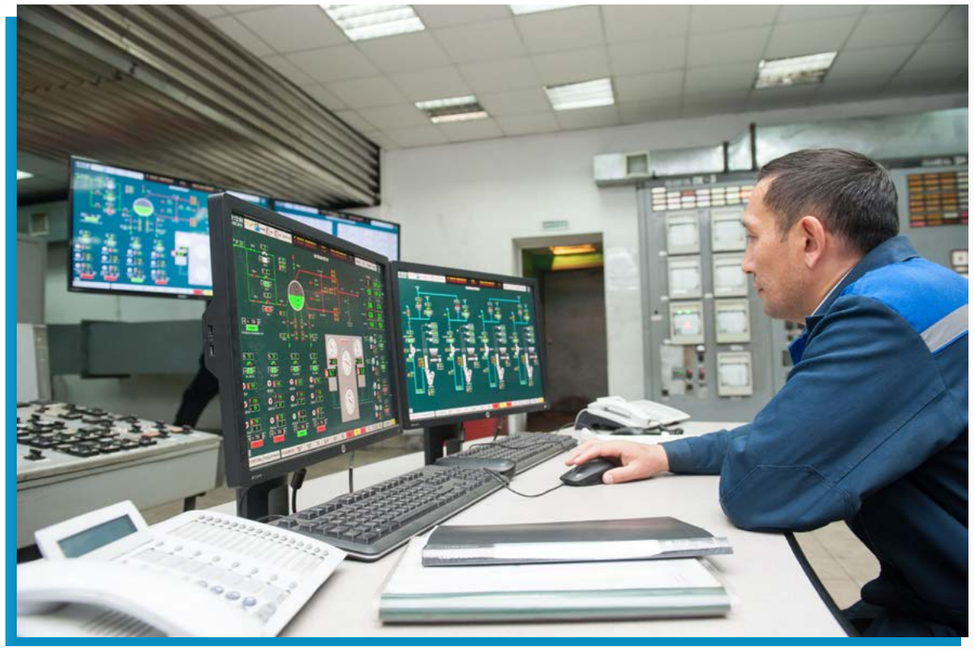
Increasing output

New turbogenerator No.1 and boiler No.1 were installed at Pavlodar CHP-3. The newly commissioned turbogenerator No.1 allowed increasing installed electrical power capacity of the plant to 65 MW, from 440 MW to 505 MW. The installation of an Automated system of commercial accounting of heat energy (ASCAHE) made it possible to introduce a cost-effective and safe mode of operation, maintaining certain parameters of steam and heat supply automatically, as well as maintain required equipment temperatures and and carry the necessary load with interruptions.

In December 2014, a turbogenerator No.5 was commissioned, allowing to increase installed electrical power capacity by 15 MW, from 505 MW to 520 MW.

In 2012, a new cooling tower No.2 was completed at Pavlodar CHP-2, which allowed to lift restrictions on condensation power generation. In May 2009, a turbine No.1 with installed capacity of 12 MW designed for steam-powered electricity generation was commissioned at Ekibastuz CHP, providing electricity for the plant's own needs.

From 2013 to 2014, the reconstruction of four boilers was completed at Pavlodar CHP-2, CHP-3 and



Ekibastuz CHP. This project helped to increase their reliability and performance.

Reducing electricity and heat losses

Automated system of commercial accounting of electric energy (ASCAEE) is a vital element of any energy efficiency initiative. As part of equipping the networks of Pavlodar REDC with ASCAEE systems, 4,777 new household electricity meters worth 197 KZT mln were installed, as well 776 electricity meters worth 8 KZT mln, most of which are mounted on the outside of buildings.

Household ASCAEE devices can transmit usage data via radio using GSM-connection, which allows to monitor real-time usage for each resident of the region, connect or disconnect customers, and prevent tampering with metering devices.

In 2014, 44 km of self-supporting isolated wires worth 116 KZT mln were installed (Pavlodar — 26.9 km, Irtysh district — 3.2 km, Pavlodar district — 13.7 km), which reduced downtime, improved safety and reduced losses from electricity theft by direct hooking from line.

Automated system of commercial accounting of electric energy require data collection from all major geographically dispersed grid objects. The collection becomes possible only after creating an elaborate digital telecommunications network. For example, as part of the investment program, in 2014 Pavlodar regional electric distribution company reconstructed 9 kilometers of 10 kV overhead power lines and 4 kilometers of cable lines with voltage ranging from 0.4 kV to 10 kV.

In addition to complying with ASCAEE system's data channel requirements, the network has to be suitable for creating other subnetworks, such as SCADA, corporate phone network and trunking network. In 2014, a total of 148 KZT mln was spent to finance this project. Furthermore, four modern digital private branch exchange (PBX) systems were installed in Zhelezensk, Irtysh, Aktogai and Kachirsk districts with a budget totaling 35 KZT mln.

A digital trunking radio communications system worth 23 KZT mln was installed to enhance operational cooperation within structural subdivisions, dispatching services, mobile maintenance teams.

In 2014, Pavlodar REDC purchased an LCD dispatch board and completed a SCADA project as part of the

top-level SCADA/EMC section to improve dispatch capabilities of Pavlodar's energy system.

The main activities to reduce heat losses include restoration and upgrading of district heating networks in Pavlodar and Ekibastuz. These measures are aimed at improving reliability of heat supply and energy efficiency, loss reduction and improving environmental performance (reduction of CO_2 emissions by using less coal associated as a result of reduced heat losses during transmission over networks). Financing these investment programs comes from EBRD loans in cooperation with Clean technology fund.

Reduction of heat losses during transmission focuses on three areas. First, improving reliability of heat supply in Pavlodar and Ekibastuz. Second, reducing process and excessive losses by using pre-insulated pipes. Third, introduction of an Automated system for commercial accounting of heat energy (ASCAHE) at industrial facilities of Pavlodar heat networks LLP.

Activities within these areas are part of a coherent initiative. For instance, the first and second areas include reconstruction of obsolete heating systems and installation of new networks using polyurethane foam pipes. In 2014, reconstruction of main heating networks using pre-insulated pipes was conducted in Pavlodar and Ekibastuz with a total length of 979 m and 810 m respectively.

Thanks to an EBRD loan, between 2011 and 2014 CAEPCO fully updated 15,776 meters of piping in Pavlodar and replaced 7,294 meters of isolation in Pavlodar and Ekibastuz.

The Company's heat transmission facilities install automatic heat use regulators, industrial controllers and modems for connecting mechanisms and instrumentation with the dispatch service. All equipment of heat distribution facilities is connected into a single network, which allows dispatchers to quickly control water pressure and temperature and professionals to make quick decisions in case of emergency.

Furthermore, the Company uses advanced technology to detect the sources of heat losses: heat imaging devices for network monitoring and diagnostics, as well as ultrasonic flaw detectors.

All the above measures will reduce total heat loss in networks by 8% by the end of 2016.

Improving environmental performance of production

In 2014, PAVLODARENERGO did not exceed emission and pollutant limits set by an authorized government agency.

In 2014, PAVLODARENERGO continued to reconstruct the two existing ash dumps and build three new ones to ensure continuity of the plants' technological cycle and ash waste storage for up to 25 years. The Company uses modern and innovative techniques to protect groundwater during the construction of new ash dumps: the landfill's bed and dams are covered with the Canadian geomembranes resistant to mechanical damage and temperature extremes, ensuring durability, long service life and environmental safety.

Boilers and steam turbine reconstruction projects include the introduction of modern automated process control systems (APCS), allowing to increase the efficiency factor of energy equipment, minimize coal and fuel oil use, and thus improve environmental performance.

Once the construction of a cooling tower No.5 at CHP-3, envisaged in 2014, is completed, the impact of CHP-3 on the atmosphere will be reduced. The cooling tower's demisters provide almost 100% droplet carryover combustion. The use of resistant polymeric materials in the water distribution system and cooling tower fills will help to reduce the CHP-3's emissions to the atmosphere. The project's technical solutions make use of the best techniques available in Europe or Kazakhstan.

All boilers are equipped with 2nd generation centrifugal wet fly ash collectors with an efficiency factor of 99.5%. Taken in 2009, this measure helped to reduced the total annual emissions of coal ash from 28.7 thous. tons to 8.6 thous. tons per year (that is 69.9% less), reduce dust concentration in flue gases from 1,284 mg/nm^3 to 290 mg/nm^3 and bring down the overall level of emission, while at the same time increasing electrical power production and electricity sales by 10.8% and 13.8% respectively. One of the achievements of 2014 was maintaining the efficiency of the boilers' fly ash collection devices at their rated capacity of 99.5%.

MAIN GOALS AND TASKS FOR THE NEXT YEAR

In 2015, PAVLODARENERGO JSC plans to continue installation of a turbogenerator No.2 at Pavlodar CHP-3 and reconstruct a turbine No.4, increasing the capacity from 110 MW to 125 MW. Construction of the second stage of ash dumps will continue at Pavlodar CHP-2, Pavlodar CHP-3, Ekibastuz CHP and cooling tower No.5 of Pavlodar CHP-3. PAVLODARENERGO intends to apply to a competent authority for approval of a five-year price cap for regulated services effective as of January 1, 2016.

In 2015, Pavlodar regional electric distribution company JSC will continue the construction of a 220 kV outdoor switchgear, reconstruction of relay protection and automatic equipment and sections No.151-154 and 157 of Promyshlennaya substation's 110 kV power line, complete the reconstruction of a 220/35/6 kV 12-NS substation and 110 kV high-voltage power line No.117, for which the design and budget documentation was prepared in 2014, continue the introduction of ASCAEE systems and perform scheduled overhauls of equipment:

- 41 substations, 35-220 kV;
- 20 transformers, 35-220 kV;
- 2,091 km of power lines;
- 580 distribution stations, transformer stations and unit transformer stations, 6-10/0.4 kV.

Pavlodar heating networks LLP has the following plans for 2015:

- Full repair of 9.2 km of heating networks;
- Restoration of 9.4 km of road surfaces damaged during repair works;
- Restoration of 13.8 km of damaged network isolation according to the approved schedule;
- Buildings and facilities renovation.

Pavlodarenergosbyt is planning to introduce a Single payment center (meaning there will be a single billing document indicating the cost of utility services). To improve customer service in Pavlodar region, the Company will launch a contact center with the following responsibilities:

- Processing incoming calls;
- Payment past-due reminding;
- Providing information support to customers in financial, technical and other matters;
- Making the services more accessible and adding more services available to customers;
- Collecting electricity meter data on a per household basis;
- Providing advice in case of power outage (emergencies, scheduled maintenance and past-due payments).

FINANCIAL AND ECONOMIC INDICATORS

Financial statements of PAVLODARENERGO JSC were prepared in accordance with the International financial reporting standards (IFRS). Consolidated financial statements of PAVLODARENERGO JSC include financial statements of its subsidiaries for the period beginning from the date of their acquisition. Accounting policies are the same for all companies.

Financial and business highlights of PAVLODARENERGO JSC demonstrate the effectiveness and efficiency of its operational and financial activities, as well as the pursuit of the company's strategic development priorities.

In 2014, PAVLODARENERGO JSC produced electricity and heat, as well as transmission and distribution services, for a total of 37,098 KZT mln, which is 12.8% more than in 2013.

The following factors helped to increase revenues:

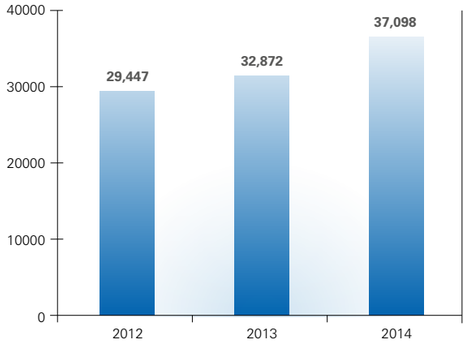
- 7.3% growth in heat generation (319 thous. Gcal), or 1.5% growth in electricity distribution (40 mln kW·h), or 2.3% growth in heat distribution (94 thous. Gcal);
- Higher average electricity rate (0.998 KZT per kW·h up, or 9.8%), higher average heat rate (222.8 KZT/Gcal up, or 10.3%).

Financial and economic indicators for 2012-2014, KZT mln

Item	2012	2013	2014
Revenue from sale and transmission of electrical and heat energy	29,447	32,872	37,098
Cost of electrical and heat energy sold	(21,420)	(22,006)	(25,071)
Gross profit	8027	10,866	12,026
General and administrative expenses	(1,989)	(2,397)	(2,803)
Sales costs	(460)	(552)	(561)
Other income	378	61	784
Profit from operating activities	5,957	7,978	9,446
Financial income	125	37	55
Total EBITDA for the year	8,196	10,394	11,194
Financial costs and other costs	(959)	(842)	(1,611)
Impairment loss on fixed assets			(144)
Income tax expenses	(1,182)	(1,645)	(1,846)
Net profit for the year	**3,940**	**5,529**	**5,900**

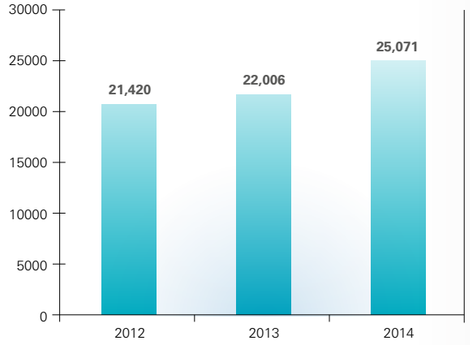
Revenue from sale and transmission of electrical and heat energy

KZT mln



Cost of electrical and heat energy sold

KZT mln



The cost of goods sold in 2014 amounted to 25,071 KZT mln, which is 13.9% more than in 2013. The growth was mostly caused by increased output and, as a result, higher variable costs. Furthermore, payroll costs of the Group of Companies were 10% up in 2014.

The Company's net profit for 2014 was 5,900 KZT mln, which is 371 KZT mln or 6.7% more than in 2013, mainly because revenues from selling energy increased faster than the cost of goods sold.

In 2014, EBITDA was 11,194 KZT mln, which is 800 KZT mln or 7.6% more than in 2013. EBITDA was affected by the following factors:

- Increase in revenues from selling energy (4,226 KZT mln) was higher than the increase in the cost of goods sold (3,065 KZT mln);
- Increase in revenues from other non-core activities of 723 KZT mln;
- Loss from exchange rate difference of 656 KZT mln due to the recalculation of loans in foreign currency, as a result of the national currency devaluation in February 2014.

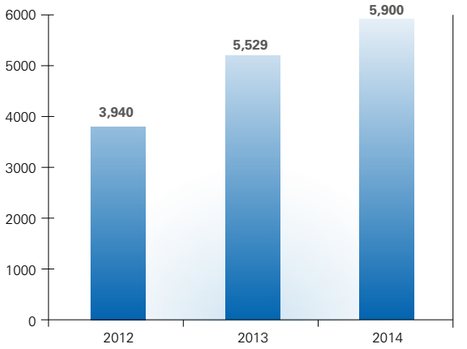
Operating EBITDA by segments

Operating EBITDA was chosen as the main indicator for evaluating the operations of PAVLODARENERGO JSC. This performance metric does not take into account other income, income from financing, non-pecuniary component of liabilities in respect of exchange rate differences, social security disability benefits, depreciation, amortization and non-recurring or non-permanent articles, which do not affect the Company's operations.

In 2014, total operating EBITDA for PAVLODARENERGO JSC Group was 11,241 KZT mln.

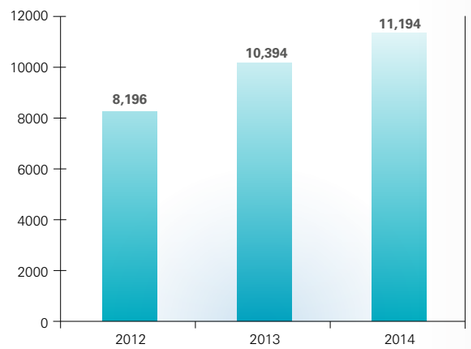
Net profit for the year

KZT mln



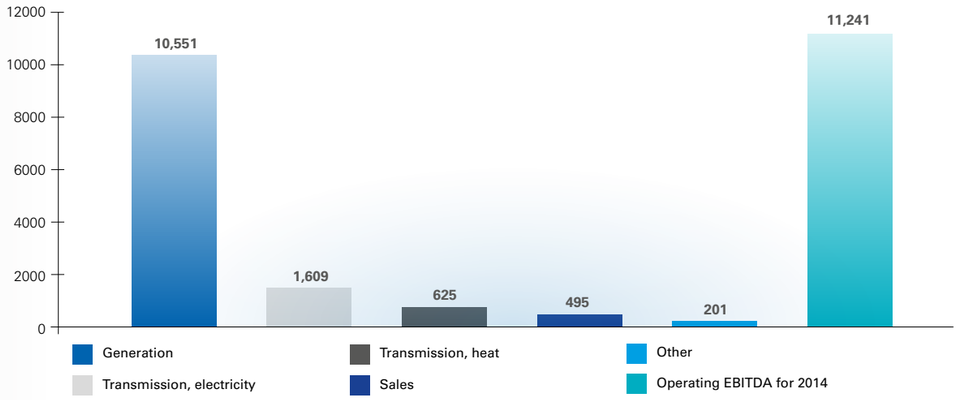
Total EBITDA for the year

KZT mln



Operating EBITDA by area of business for 2014

KZT mln



In respect of production of electrical and heat energy, EBITDA reached 10,551 KZT mln due to increased revenue from sales as a result of strong demand and higher electricity rates.

Operating income from the transmission and distribution of electricity in 2014 amounted to 1,609 KZT mln due to increased income from transmission and smaller losses during transit.

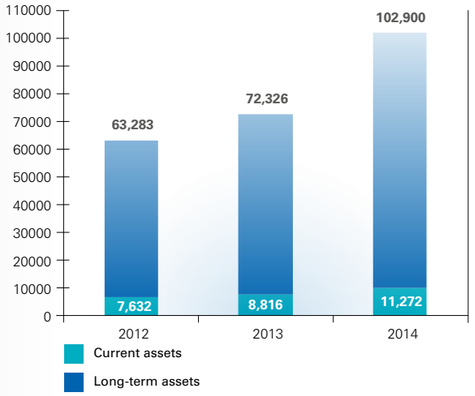
Transmission and distribution of heat energy showed negative EBITDA: in 2014, losses of 625 KZT mln were posted, since rates for energy transmission were insufficient to cover the Company's operating costs.

In respect of distribution of electrical and heat energy, EBITDA was negative with losses of 495 KZT mln caused by adopting differential rates for electricity and heat for end customers of PAVLODARENERGO JSC.

Total assets of PAVLODARENERGO JSC as of December 31, 2014 were 114,172 KZT mln, or 41% more compared to 2013. As of December 31, 2014, the Company conducted fixed assets evaluation and recognized a revaluation surplus of 13,820 KZT mln. The fair value of fixed assets on the evaluation date was determined based on the cost approach adjusted to the discounted future cash flows, namely the method for determining the replacement cost.

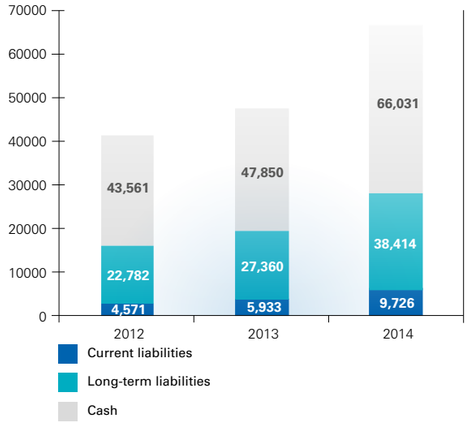
Assets

KZT mln



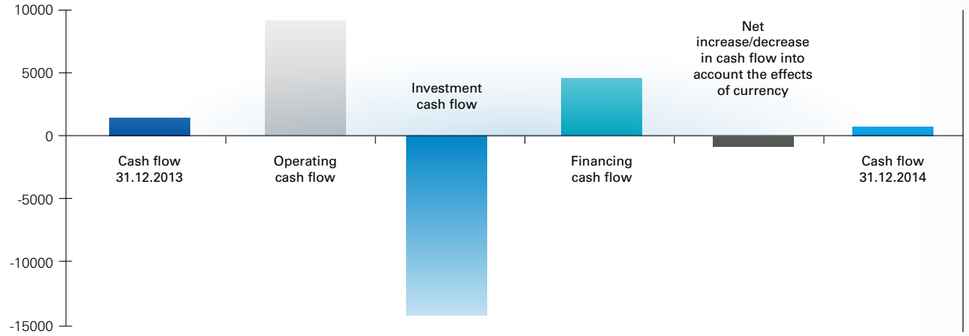
Liabilities

KZT mln



Cash flow

KZT mln



As of December 31, 2014, the value of fixed assets totaled 96,753 KZT mln, or 85% of the value of all assets. As part of a major investment program for 2014, 18,060 KZT mln were invested to construction in progress and the acquisition of fixed assets.

More specifically, in December, 2014, a turbogenerator No.5 was commissioned at Pavlodar CHP-3 after a thorough reconstruction. In respect of current assets, major changes occurred in working capital: for example, inventories increased by 42% as a result of purchasing production materials at the end of the year.

Under the fast investment program, construction and installation works and capital expenditures increase VAT credit, which increased by 751 KZT mln in 2014.

Other financial assets include deposits with flexible terms for top-up or partial withdrawal, to service loans, finance the investment program and to maintain the working capital of 431 KZT mln, as well as deposits intended for deposit of interest on loans denominated in foreign currency in the amount of 694 KZT mln.

As of December 31, 2014, the authorized capital of PAVLODARENERGO JSC is 16,664 KZT mln.

As of December 31, 2014, the Company conducted a fixed assets revaluation: as a result, the revaluation reserve in the capital totaled 27,357 KZT mln, with a 38% increase in the shareholders' equity. The contribution of net profit earned in 2014 was 7%.

As of December 31, 2014, liabilities totaled 48,140 KZT mln. Compared to 2013, liabilities increased by 14,847 KZT mln. Long-term liabilities, including loans totaling 14,805 KZT mln, account for most of liabilities, i.e., 79.16% or 38,414 KZT mln. In 2014, PAVLODARENERGO JSC signed an agreement with the European bank for reconstruction and development for a loan of 9 USD mln maturing in 2025 to finance a long-term investment program for the reconstruction and modernization of power equipment and improving the metering system for electric power transmission.

Current liabilities increased by 3,793 KZT mln compared to 2013, including an increase of 2,474 KZT mln in trade payables, which includes completed construction and installation works as part of the investment program as of the end of 2014.

PAVLODARENERGO JSC announced dividends of 1,538 KZT mln for 2013.

Cash flow, KZT mln

In 2014, net cash inflow from operating activities totaled 9,098 KZT mln, cash outflow from investment activities due to the implementation of a large-scale investment program totaled 14,091 KZT mln, cash inflow from financial activities in 2014 totaled 4,272 KZT mln.

In 2014, PAVLODARENERGO JSC received funding from the European bank for reconstruction and development for a total of 402 KZT mln. Short term loans totaled 1,079 KZT mln.

Cash and deposits as of the end of 2014 totaled 1,723 KZT mln. Sufficient cash reserves allow PAVLODARENERGO JSC to maintain the necessary level of liquidity and internal resources for debt servicing.

RISK MANAGEMENT

The Company has an enterprise risk management (ERM) system, aimed at identification, assessment and monitoring of all significant risks, as well as risk minimization measures. Internal control standards (ICS) have been implemented.

In improving its risk management and internal control systems, the Company is guided by the international standards in the field of corporate risk management and internal control, developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the International Organization for Standardization (ISO).

The risk management department reports to the Audit and Risk management committee of the Company's Board of directors. The department operates based on the work plan for the year, approved by the Board of directors.

In 2014, the risk management department conducted the following major activities:

- Analysis and testing of the internal controls efficiency in business processes:
  - Human resources management.
  - Procurement and contracts management.
  - Production continuity management.
  - Maintenance and repairs management;
- Updating Risk register and Risk mapping;
- Monitoring the progress of implementing internal control and risk management practices.

ANALYSIS OF SIGNIFICANT RISKS THAT MAY AFFECT PAVLODARENERGO JSC

Updating the Corporate Risk register and Risk mapping in 2014 identified risks that can be divided into operational, financial and legal, in accordance with the approved Risk management policy of the Company.

Operational risks

In 2014, in accordance with the classification and level of criticality based on Risk register and Risk mapping, the Company's operational risk management focused on the following areas:

- Occupational health and safety (risk: injury/accident);
- Procurement and contract management (risk: delayed purchasing, purchasing goods of poor quality, delayed delivery of (substandard) goods, works and services);
- Maintenance and repairs (risk: delays in construction works while implementing investment projects);
- Human resources management (risk: loss and shortage of qualified/key personnel).

To control occupational health and safety risks at work and reduce injuries at PAVLODARENERGO's industrial facilities, control procedures were checked for compliance with the basic requirements of the international standard OHSAS 18001:2007 implemented at the Company's industrial facilities. Based on the results of the analysis of internal control procedures, stricter safety guidelines were introduced for both employees of the the Company's subsidiaries and contractor organizations, which helped to reduce the number of workplace accidents.

In procurement, to maximize production and business efficiency of the Company's industrial facilities, the analysis of activities was conducted, including the internal control procedures outlined in the Procurement and contracts management business process. As a result, internal policies and procedures were implemented to streamline business processes and improve efficiency and effectiveness of procurement procedures.

To control the risks associated with contractors involved in renovation projects, the analysis of the Company's contractual activity was conducted, including internal control procedures for maintenance and repairs management. Based on the results obtained, the internal policies and procedures for working with contractors were reviewed, contract templates were developed, providing stronger control and accountability for timely and proper performance of works related to construction, modernization and repair of equipment.

To reduce human resources management risks, the HR department took measures to improve the remuneration system, support programs for young professionals and employee training programs are being developed.

Financial risks

Liquidity risk

The Company is exposed to liquidity risk, including inability to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining appropriate levels of reserves, bank loans, confirmed lines of credit and working capital funds with constant monitoring of the Company's net debt, taking into account the projected financial situation, forecasted and actual cash flow and future CAPEX commitments.

Price increase risk for equipment, raw materials and supplies purchased

The Company is exposed to price increases for coal purchased, since the CHP equipment was designed for a particular type of coal bought from the same source. However, the Company's abilities to monitor this risk and the extent of its impact on the operating profit are protected by the government's coal price regulation, with price hikes compensated by means of emergency regulatory measures.

Market risks

The Company is exposed to currency and interest rate risks. The Company has substantial liabilities denominated in United States dollars. To manage the risk associated with changes in the United States dollar's exchange rate, the Company monitors any changes in the exchange rate. In 2014, PAVLODARENERGO did not resort to hedging its currency risks because of the lack of financial derivatives on Kazakhstan's market. In this regard, the Company uses natural hedging by placing idle funds on deposits denominated in USD, and also monitors the effectiveness of long-term investment programs.

The company is sensitive to interest rate volatility, as it has floating-rate debt. The interest rate on the EBRD loans is based on KazPrime and LIBOR interbank rates. The fact that the Company's liabilities are long term allows the Company to hedge this risk group naturally, as loans were made as an investment.

Credit risk

Arising as a result of the counterparties' failure to perform their contractual obligations associated with the Company's financial instruments, credit risk is normally limited to the difference between the liabilities of a counterparty to the Company's and the Company's liabilities to this counterparty.

Concentration of credit risk can occur when there are multiple amounts owed by one customer or a group of customers operating in a similar environment.

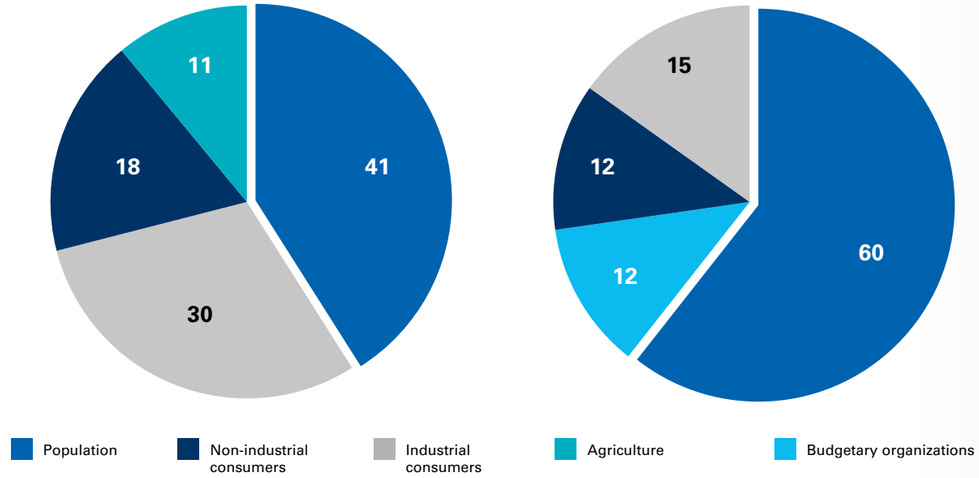
PAVLODARENERGO has a highly diverse customer base represented by different segments of the economy, which helps to reduce credit risks. For example, the customer structure for electricity and heat is as follows:

Legal risks

Violation of environmental regulations is a significant risk that is identified by the Company management as a legal risk.

To minimize this risk, the Company monitors polluting emissions to determine its impact on the environment based on the Environmental and Social Action Program (ESAP) for 2012-2014. Within the Industrial Environmental Monitoring Program, the Company monitors the quantity and quality of emissions, as well as their evolution, at the source of emission of polluting substances. The investment program focuses on improving environmental performance and minimizing the impact of this risk group.

Consumers of electricity and heat in 2014, %



CORPORATE GOVERNANCE

The objectives of PAVLODARENERGO JSC in the achievement of strategic goals are in enhancement of corporate governance. The activity of the Company is based on balanced consideration of interests of all stakeholders in particular investors, shareholders and officers of the Company.

SHARE CAPITAL STRUCTURE

As of December 31, 2014, the share capital of PAVLODARENERGO JSC was 66,031,294 KZT thous.

No significant transactions with shares were carried out by the Company during the reporting period. No changes have occurred in the shareholders owning five percent or more of the Company's shares outstanding.

Shareholder	Share in the capital as of December 31, 2014
Central-Asian Electric Power Corporation JSC	100%

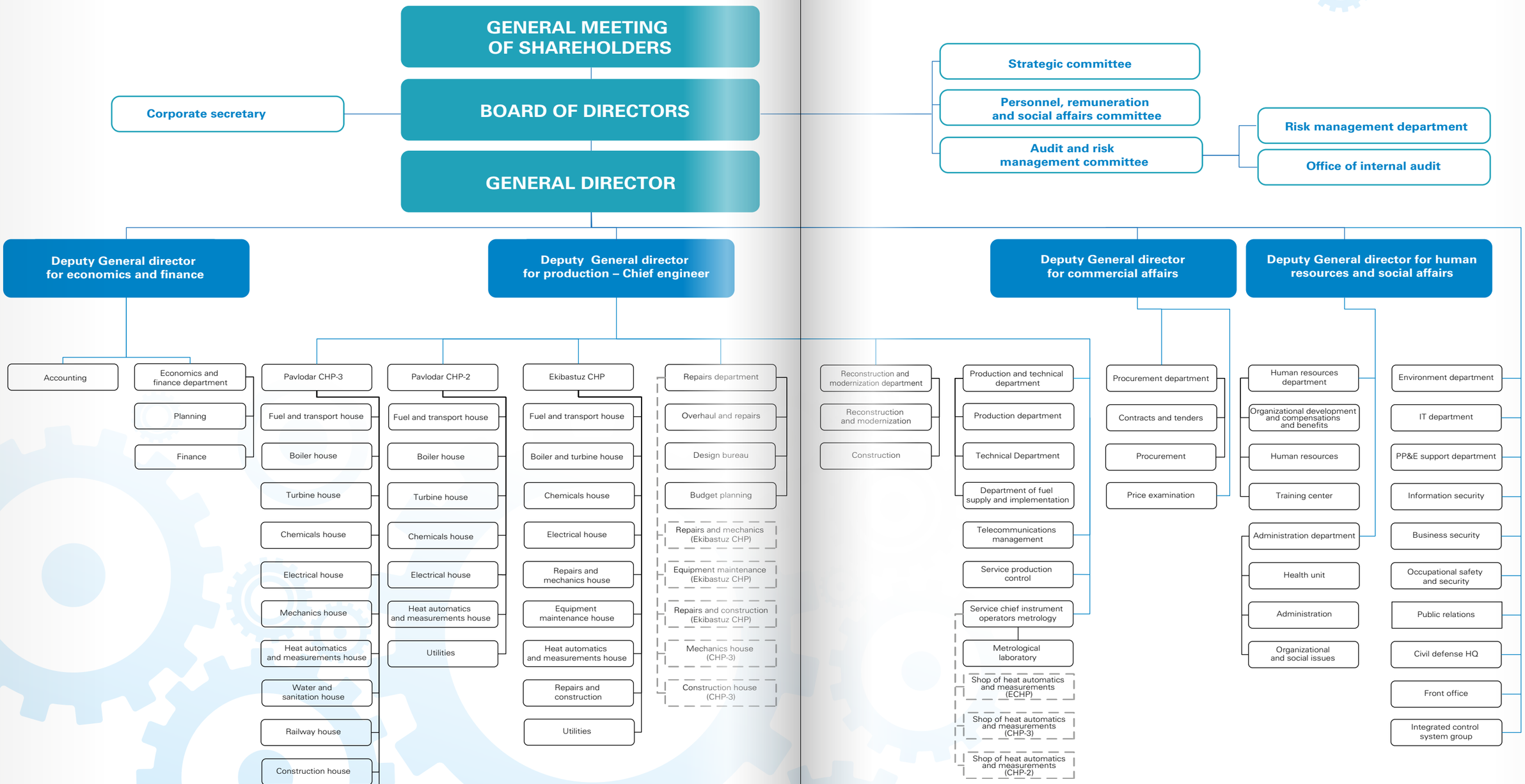
Results of the General meeting of shareholders

The Company's corporate governance practices in 2014 were fully consistent with the provisions of the Corporate governance code.

One annual and three extraordinary general meetings of shareholders were held in 2014. The General meeting of shareholders focused on the following key issues:

- Voluntary delisting from the Kazakhstan Stock Exchange (KASE) of 166,639,957 (one hundred and sixty-six mln six hundred and thirty-nine thousand nine hundred and fifty-seven) common shares of PAVLODARENERGO JSC;
- Approving the financial statements of PAVLODARENERGO JSC for 2013 fiscal year;
- Distribution of net income of PAVLODARENERGO JSC for 2013 fiscal year;
- Amending the Charter of PAVLODARENERGO JSC, making Chief executive officer of PAVLODARENERGO JSC the sole executive body;
- Approving the corporate social responsibility program for companies within PAVLODARNERGO JSC;
- Approving the budget for the construction of facilities within the corporate social responsibility program and passing it for the approval of the Board of directors of PAVLODARENERGO JSC.

ORGANIZATION STRUCTURE



DIVIDENDS

The Company's policy regarding distribution, announcement, size, form and timing of dividend payments is set out in PAVLODARENERGO's charter and Dividend policy. The main principles of the Company's Dividend policy include:

- Balance between the interests of the Company and its shareholders in determining dividend payments;
- Increasing investment attractiveness, financial sustainability, capitalization and liquidity of the Company;
- Ensuring market returns on invested capital;
- Respect for and strict observance of the rights of shareholders and promoting their well-being.

The Company intends to allocate a certain part of its net income for dividend payments in the amount that allows the Company to keep enough funds for its further development. The decision on the payment of annual dividends is made by the General meeting of shareholders based on the recommendation of the Board of directors of the Company. In case of any unforeseen negative circumstances affecting the Company, the Board of directors has to advise the Company's General meeting of shareholders against payment (distribution) of dividends.

Payment of dividends

In 2014, the annual General meeting of shareholders decided to pay dividends to the shareholders of PAVLODARENERGO JSC for 2013 in the amount of 1,538,333 KZT thous. Yield per share amounted to 33.18 KZT, the current book value of one share as of December 31, 2014 is 395.64 KZT.

BOARD OF DIRECTORS

The Board of directors determines strategic objectives support, maintains the necessary control mechanisms, including ongoing monitoring and evaluation of business performance. An independent director, who is not affiliated with the Company or its subsidiaries, is a member of the Board of directors. The Board of directors is headed by the Chairman, who convenes meetings of the Board of directors and presents their agenda based on recommendations from members of the Board of Directors and Board committees.

In addition to the above mentioned Board of Directors of PAVLODARENERGO JSC makes decisions in respect to items pertaining to the competency of general meeting of shareholders for following enterprises — Pavlodarenergosbyt LLP, Pavlodar heat networks LLP, which are owned by PAVLODARENERGO JSC for 100%.

Remuneration of the Board of directors

Remuneration for Board members is determined by the decision of the General meeting of shareholders of the Company. The total amount of remuneration paid to the Board of directors in 2014 was 20,745 KZT thous.

Full name	Title
Yerkyn Amirkhanov	Chairman of the Board of directors
Gulnara Artambayeva	Member of the Board of directors
Albert Safarbakov	Member of the Board of directors, Independent director

Yerkyn Amirkhanov

Chairman of the Board of directors

President of CAEPCO JSC, member of the Board of directors of PAVLODARENERGO JSC;

01.07.2001 — Chairman of the Board of directors of PAVLODARENERGO JSC;

30.06.2004 — Member of the Board of directors of Eximbank Kazakhstan JSC;

20.08.2007 — Member of the Board of directors of CAPEC JSC;

16.03.2009 — Member of the Board of directors of CAEPCO JSC;

28.05.2009 — Chairman of the Board of directors of Caustic JSC;

22.04.2011 — President of CAEPCO JSC;

25.10.2011 — Chairman of the Board of directors of SEVKAZENERGO JSC;

25.02.2013 — Chairman of the Board of directors of Akmola electricity distribution company JSC;

13.11.2013 — Chairman of the Board of directors of North-Kazakhstan regional electric distribution company JSC;

20.01.2014 — Chairman of the Board of directors of Pavlodar regional electric distribution company JSC.

Gulnara Artambayeva

Member of the Board of directors

President of CAPEC JSC, member of the Board of directors of PAVLODARENERGO JSC;

16.06.2000 — President of CAPEC JSC;

27.06.2002 — Member of the Board of directors of CAPEC JSC;

27.06.2002 — Member of the Board of directors of PAVLODARENERGO JSC;

07.10.2002 — Member of the Board of directors of Pavlodar regional electric distribution company JSC;

31.03.2004 — Member of the Board of directors of Eximbank Kazakhstan JSC;

27.04.2007 — Chairman of the Board of directors of CAPEC Invest SICAV;

16.03.2009 — Member of the Board of directors of CAEPCO JSC;

07.07.2011 — Chairman of the Board of directors of Astana Finance Investment House;

22.02.2013 — Member of the Board of directors of SEVKAZENERGO JSC;

14.11.2014 — Member of the Board of directors of Akmola electricity distribution company JSC.

Albdert Safarbakov

Member of the Board of directors, Independent director of PAVLODARENERGO JSC and Pavlodar regional electric distribution company JSC;

Is not affiliated with PAVLODARENERGO JSC or its subsidiaries and has not been the same for the past three years.

26.01.1997 — Director of Pavlodartekhenergo LLP;

12.03.2012 — Member of the Board of directors, Independent director of Pavlodar regional electric distribution company JSC;

22.02.2013 — Member of the Board of director, Independent director of PAVLODARENERGO JSC.

COMMITTEES OF THE BOARD OF DIRECTORS

As of December 31, 2014, the Board of directors of PAVLODARENERGO JSC has three committees:

- Strategic committee
- Audit and risk management committee
- Personnel, remuneration and social affairs committee

The Strategic committee is a permanent working body of the Board of directors, created to improve corporate governance, implement projects and monitor implementation of the Company's strategy. The Committee also assists the Board of directors in improving the Company's planning and development mechanisms.

The Audit and risk management committee is a permanent working body of the Board of directors. It assists the Board of directors in performing its regulatory and supervisory functions, improvement and strengthening of the internal audit and risk management systems. The Committee shall bring to the attention of the Board of directors recommendations on any matters requiring action on its part.

The Personnel, remuneration and social affairs committee is a permanent working body of the Board of directors, created to develop and implement human resources policy for the Company and its subsidiaries, elect or appoint candidates for the positions of the head and members of the executive body of the Company and its subsidiaries, directors of the Office of Internal audit and risk management department, Corporate secretary and other bodies and subsidiary bodies, as well as establishing an effective system of corporate governance and the implementation of its principles.

Name of the Committee	Members of the Committees of the Board of directors	Date of election/ end of tenure
Strategic committee	Albert Safarbakov/Chairman, Independent director	01.11.2013-01.11.2015
	Yerkyn Amirkhanov	01.11.2013-01.11.2015
	Oleg Perfilov	01.11.2013-01.11.2015
Audit and risk management committee	Albert Safarbakov/Chairman, Independent director	01.11.2013-01.11.2015
	Gulnara Artambayeva	01.11.2013-01.11.2015
	Oleg Perfilov	01.11.2013-01.11.2015
	Zhanar Rakhimberlinova	01.11.2013-01.11.2015
	Aizhan Stanbayeva	01.11.2013-01.11.2015
Personnel, remuneration and social affairs committee	Albert Safarbakov/Chairman, Independent director	01.11.2013-01.11.2015
	Yerkyn Amirkhanov	01.11.2013-01.11.2015
	Oleg Perfilov	01.11.2013-01.11.2015
	Natalia Konstantinova	01.11.2013-01.11.2015

MAJOR DECISIONS OF THE BOARD OF DIRECTORS

In 2014, the Board of directors held 12 meetings.

The Board of directors focused on the following key issues:

- Examining the 2013 report of PAVLODARENERGO JSC's Risk management department;
- Discussing measures to reduce accounts receivable for electricity;
- Reviewing detailed information on reducing excessive losses in terms of efficiency of the performed activities aimed at reducing this risk and external air temperature;
- PAVLODARENERGO JSC applying to HSBC Bank Kazakhstan for an increased revolving line of credit;
- Sponsoring an open tennis tournament dedicated to the Day of telecommunications and information professionals of the Republic of Kazakhstan among Pavlodar's mass media;
- Preliminary approval of the annual consolidated financial statements of PAVLODARENERGO JSC for the fiscal year 2013 confirmed by a report prepared by audit company Deloitte LLP;
- Early termination of powers of Mr. Igor Tatarov, Chairman of the Executive board of PAVLODARENERGO JSC, as of May 3, 2014;
- Approval of financing provided by Al Hilal Islamic bank under a Renewable Commodity Murabaha contract with a limit of up to 14,000,000 (fourteen mln) USD;
- Approval of participation Pavlodar heat networks LLP in the government program providing funding for the acquisition and installation of house heat metering devices (or units) in apartment buildings;
- Termination of powers of the members of the Executive board of PAVLODARENERGO JSC and the election of Oleg Perfilov for the position of General director of PAVLODARENERGO JSC.
- Stating the need to develop and put into practice before the end of 2014 the Procurement policy for buying works and services with a contract template;
- Adopting risk management policies and procedures for PAVLODARENERGO Group's industrial facilities;
- Adopting internal control policies and procedures for PAVLODARENERGO Group's industrial facilities;
- Approval a schedule of face-to-face meetings of the Board of directors and Committees under the Board of directors of PAVLODARENERGO Joint Stock Company for 2015.

To improve business processes and enhance the effectiveness of its decisions, the Company has established internal control mechanisms. Internal control of PAVLODARENERGO JSC is integrated in strategic and day-to-day management at all levels, covering all entities when they perform their functions. The Board of directors of the Company has an Audit and risk management committee that monitors decisions and processes to ensure the reliability of financial reporting and coordinate internal control and risk management procedures. PAVLODARENERGO JSC adheres to the principles of openness and transparency and has an action plan for publishing the information about the Company's activities in open sources. Thus, shareholders can continuously monitor developments in the Company.

CORPORATE GOVERNANCE CODE COMPLIANCE REPORT

Corporate governance of PAVLODARENERGO JSC regulates interaction between the authorities, the Company's internal control body, shareholders and other stakeholders. The system is aimed at ensuring a balance between the interests of all the parties.

Corporate governance is regulated by internal by-laws of the Company published on its corporate website. A generic description of the corporate governance principles is provided in the Corporate governance code of PAVLODARENERGO JSC, adopted in 2010 by the Company's Board of directors.

The Code fully complies with laws and regulations of the Republic of Kazakhstan "On joint stock companies": the document is based on the current international practices in the field of corporate governance and recommendations on the use of corporate governance principles by Kazakhstan's joint stock companies.

Adherence to the principles of the Corporate governance code is aimed at shaping and implementing into the Company's day-to-day operations the norms and traditions of corporate behavior that are consistent with international standards and contribute to creating a positive image of the Company in the eyes of its shareholders, customers and employees to achieve the fullest realization of the rights of shareholders and improve their awareness about the Company, as well as to control and reduce the risks, to maintain sustainable improvement of the Company's financial performance and successful pursuit of its statutory goals.

Major principles of Corporate governance code in 2014 were observed.

Major principles of Corporate governance code

Key principles of the Corporate governance code	Comments
Justice	
Equal treatment of all shareholders, regardless of the percentage of ownership and whereabouts, and providing opportunities for the effective protection of their rights.	Corporate governance in PAVLODARENERGO JSC is based on the principle of protection of and respect for the rights and legitimate interests of the Company's shareholders, including promoting the growth of assets and maintaining financial stability and profitability of the Company. Shareholders' rights are enshrined in the Charter and the Statute of the General meeting of shareholders of PAVLODARENERGO JSC and comply with the law of the Republic of Kazakhstan "On joint stock societies."
Accountability	
The Board of directors of the Company reports to its shareholders, executive bodies report to the Board of directors and employees report to the management (General director of the Company). This principle ensures accountability and determines the lines of authority, as well as full accountability of the Company to its shareholders, which is achieved through the provision to the shareholders, in a timely manner, of accurate and complete information about the current financial situation of the Company, its financial and business results and its management structure.	This principle of the Corporate governance code is followed by introducing the Company's organizational structure in accordance with the Charter and the law of the Republic of Kazakhstan "On joint stock companies." In addition, the principle of accountability is reflected in the statutes of all management bodies/ structural units, which allows to determine the lines of authority of the Company's management bodies and ensure full accountability of the Company to the shareholders.
Responsibility	
Responsibility of the Company to its shareholders, employees, customers and partners, close cooperation with them in order to grow the assets of the Company, increasing its stability and reliability. This principle determines the ethical standards for the Company's shareholders and employees, as well as outlines the liability of the Company officers for their illegal, wrongful actions (willful or ignorant) or inaction, as provided by the current legislation.	In 2010, the Company adopted a Business ethics code which determines the basic principles of the Company's relationship with its shareholders and investors, employees and officers of the Company, and customers of PAVLODARENERGO JSC's companies. The Company has developed and adopted an action plan for interaction with stakeholders, based on which the Company prepares an annual report on how this plan is implemented.

Transparency

Timely disclosure of accurate information about all material facts relating to the Company's activities, including its financial situation, performance, ownership structure and management, in the amounts prescribed by the legislation and internal policies, as well as ensuring the free access of all interested parties to such information by publishing it so as to male it easily accessible to the public, as provided by the legislation and the Company's internal policies.	The mechanism of putting the principle of transparency into practice is best explained in the Information Policy of PAVLODARENERGO JSC.

Environmental protection and social responsibility

The Company treats the environment responsibly and bears social responsibility toward the society.	PAVLODARENERGO JSC has developed and adopted an action plan on environmental and social initiatives, which governs the Company's policy in the field of environmental protection and the social responsibility.

Effectiveness

The Company's General director and its Board of directors have to ensure that the Company is managed in sensible and responsible manner, promoting a steady growth of its financial performance and shareholder wealth, as well as effective human resources policy, employee training, motivation and social security, and protection of the interests of the Company's employees.	The principle of effectiveness is regulated by the Statute of the General director. The General director is the sole executive body of the Company, who is responsible for managing its day-to-day operations and implementing the strategy determined by the Board of directors and Shareholders. The objectives of the Board of directors are to ensure the availability of a well thought-out and long-term strategy, grow the Company's assets, ensure effectiveness of operations, enforce the rights and legitimate interests of the shareholders and control the executive body.

Control

Control over financial and business activity of the Company to protect the rights and legitimate interests of its shareholders, supervision of senior managers over junior managers in accordance with the policies and procedures approved by the Board of directors of the Company, as well as the efficient use of internal and external auditors along with the establishment of an effective risk-based internal control system.	Control over financial and business activity of the company is the responsibility of the General director of PAVLODARENERGO JSC in accordance with the provisions set forth in the Company's policies. The Company has an Audit and risk management committee, which is an advisory body of the Board of directors of PAVLODARENERGO JSC, whose goal is to assist the Board of directors in monitoring the decisions and processes, ensuring the reliability of financial reporting and availability of proper internal control and risk management procedures.

EXECUTIVE BODY

The General directoris the sole executive body of the Company responsible for managing its day-to-day operations. The General director operates based on such principles as honesty, integrity, diligence, reasonableness and serving the interests of the shareholders to the maximum extent possible.

The amount of remuneration of the executive body is determined by the Board of directors of PAVLODARENERGO JSC.

The General director's remuneration structure meets the following requirements:

- Remuneration consists of fixed and variable parts;
- The variable part of remuneration depends on the General director's key performance indicators, his or her qualifications and personal contribution to the Company's results for a certain period, with a view to motivate the General directorto show high performance;
- Social benefits, guarantees and compensation payments to the General director shall be made in accordance with laws and regulations, the Company's internal procedures and the employment contract.

The General director of PAVLODARENERGO Oleg Perfilov

Brief biography

Oleg Perfilov was born in 1968 in Pavlodar region. In 1992, graduated from the Pavlodar Industrial Institute majoring in Automatic control of electric power systems.

Started his career in the energy sector in 1992. During his career, held various positions at Pavlodar's energy facilities from an ordinary workman to a manager. From 2002 to 2007, managed PAVLODARENERGO's CHP-2 and CHP-3.

On November 11, 2007, appointed Deputy General director for Production at Access Energo LLP, which changed its name to North-Kazakhstan Energocenter LLP (Petropavlovsk) on February 29, 2008. In 2009, was Deputy General director for Production at SevKazEnergo Petropavlovsk LLP, which was later restructured into SEVKAZENERGO JSC. From 2009 to 2013, was Deputy Chairman of the Executive board for production at SEVKAZENERGO JSC.

In January 2013, appointed acting Chairman of the Executive board of PAVLODARENERGO JSC. Currently, he is General director of PAVLODARENERGO JSC.

Mr. Perfilov was awarded a certificate of merit of the Ministry of Energy and mineral resources of the Republic of Kazakhstan (2005). In 2011, for his achievements in developing the electrical power industry of the CIS countries, Mr. Perfilov was awarded the title Distinguished Energy Sector Professional of the CIS.

INTERNAL CONTROLS AND AUDIT

PAVLODARENERGO's Office of internal audit (hereinafter — the OIA) reports directly to the Board of directors of PAVLODARENERGO JSC (hereinafter — the Company). The Audit and risk management committee oversees the activities of the OIA.

The Office operates in accordance with International standards on auditing (ISA) developed by the Institute of internal auditors, as well as in accordance with the current laws and regulations of the Republic of Kazakhstan and the Code of ethics of internal auditors of PAVLODARENERGO JSC. The main documents regulating the OIA's activities are the Statute of the Office of Internal Audit and PAVLODARENERGO's Internal audit policies and procedures. Internal auditors adhere to such principles as integrity, objectivity, confidentiality and professional competence.

The OIA operates in accordance with an action plan approved by the Board of directors for every year. The OIA prepares annual and quarterly reports and submits them to the Board of directors and the Audit and risk management committee.

In 2014, the OIA conducted a number of routine checks focusing on the following areas:

- Evaluation of the effectiveness of the internal control procedures for business processes:
  - Revenue accounting and accounts receivable.
  - Occupational health and safety.
  - Protection of the environment.
  - Procurement and contracts management.
  - Human resources management;
- Selective inventory audits;
- Monitoring of corrective measures to follow up on the recommendations of the Internal Audit department of CAEPCO JSC, the OIA and Deloitte LLP audit firm;
- Consulting work.

INFORMATION POLICY

PAVLODARENERGO's information policy is a complex of actions, activities and regulations to manage the dissemination of corporate information and creating a single image of the Company among the target audience.

The main goals of information disclosure include:

- Timely provision of information on all substantive matters relating to the Company in order to respect legitimate rights of the shareholders, investors and other interested parties, providing them with appropriate information to make informed decisions or any other action that could affect the financial and business activities of the Company, as well as other information conducive to the fullest understanding of its activities;
- Ensuring availability of public information about the Company to all interested parties;
- Promoting openness and trust between the Company and its shareholders, potential investors, market participants, government agencies and other stakeholders;
- Improving the Company's corporate governance;
- Creating a favorable image.

The Company adheres to the following principles of information disclosure:

- Completeness and accuracy of the information disclosed;
- Prompt disclosure of all material facts in its activities;
- Regular and timely disclosure of information about the Company;
- Applicability of information;
- Ensuring a high level of safety of commercial, professional and other secrets protected by the legislation of the Republic of Kazakhstan;
- Maintaining a reasonable balance between openness and protecting commercial interests of the Company;
- Information support for decision-making;
- Providing employees of the Company and its subsidiaries with relevant, timely, complete, accurate and objective information through different channels, including the corporate website and the corporate newsletter;
- Preventing loss, leakage and distortion of information;
- Informational counteraction in case of negative news coverage.

The information policy promotes effective interaction with various community groups, including:

- Government agencies and regulatory authorities;
- Mass media;
- Shareholders and investors;
- Consumers and partners;
- Employees and trade unions;
- Non-governmental organizations (NGOs).

In 2014, PAVLODARENERGO regularly informed the above groups about its activities by publishing fresh data on its corporate website, placing information in the media, responding to inquiries, organizing public hearings, press tours, round tables and other events.

In 2014, the Company implemented a Stakeholder Engagement Plan (SEP) in accordance with the policy of the European bank for reconstruction and development. As a result of adopting this plan, the Company published a report available for public access on the Company's corporate website, which contains information on activities aimed at stakeholder engagement.

SUSTAINABLE DEVELOPMENT

Strategic objective of the Company is to create advanced private energy company upon strict observance of generally adopted principles of sustainable development. Provision of sustainable development and achievement of strategic objectives of the Company is possible upon the condition of observance of interests and responsibility in respect to all stakeholders. In 2014 the Company has prepared report on performance of Stakeholders engagement plan.

INTERACTION WITH STAKEHOLDERS

Key stakeholders	Engagement process	Issues raised
Employees	Corporate newsletters and websites. Email addresses for employee queries and helpline. Group management hold meetings with employees. Labor disputes are resolved by the Conciliation commission with participation of representatives of both the employer and the employee.	■ Occupational safety and health standards are respected; ■ Employees are kept informed about the Company's activities; ■ Promoting professional development.
Local communities	The Company has a comprehensive system for processing customer queries and providing feedback with the help of Internet sites and email. Public hearings, round tables and other events are held.	■ Requests for rates for monopoly-controlled services are processed and approved; ■ Implementation of investment program; ■ The quality of services provided to customers, monitoring of following the requirements, for example, installing household energy meters and receiving technical specifications.
Government agencies and regulatory authorities	Requests from the government and regulatory authorities are processed: some are answered, others are for notification purposes only. Employees participating in specialized and general meetings of the Group of Companies. Meeting official delegations.	■ Reducing the negative impact of the industrial facilities on the city and region; ■ Preparation for the heating season; ■ Meeting investment obligations; ■ Compliance with laws and regulations, including those on environmental issues.
Suppliers, contractors, customers	Tenders are organized and held, as well as meetings with contractors and customers. There is a feedback section on corporate website.	■ Creating a mutually beneficial partnership; ■ Ensuring transparency during tenders.

Higher education institutions	Meetings are held with representatives of higher education institutions in the regions where the Company operates. Employees of the Group Companies participate in admission boards, qualifying commissions and accreditation of educational programs.	■ Hiring for industrial facilities; ■ Internship and job placement of graduates.
Mass media	Every year, the Company arrange press tours, media briefings, press conferences, issue press releases and quickly answer queries.	■ Building cooperation; ■ Informing about implementation of the investment program to modernize and upgrade assets; ■ Implementation of environmental regulations; ■ Implementation of social projects.
Non-governmental organizations (NGOs)	NGOs representatives are regularly invited to participate in press tours and public hearings held during the year. Employees of the Group's companies participate in public meetings with representatives of small and medium-sized businesses. Meetings are held with leaders of NGOs that support socially vulnerable people, with participation of representatives from consumer right protection associations.	■ Assistance in resolving environmental and social issues.
Trade unions	Interaction with trade unions is carried out through the organization of meetings and processing requests during operations.	■ Assistance in resolving environmental and social issues; ■ Implementation of the collective bargaining agreement; ■ Help in the organization of leisure and recreation for the employees.

HUMAN RESOURCES AND SOCIAL POLICY

Human resources policy

The main goal of the HR policy of PAVLODARENERGO JSC is to create highly professional staff in accordance with the Company's development strategy.

The policy is aimed at employee retention, replenishment and professional development and focuses on the following areas:

- Identifying critical, key employees, whose retention is key for the Company;
- Cooperation with colleges, high schools and vocational schools, focusing on relevant institutions and departments;
- Developing employee training and retraining with extensive use of the capabilities of existing training centers and introduction of flexible learning technologies;
- Improving the system of motivation, promoting social partnership;
- Stronger focus on working with the talent pool.

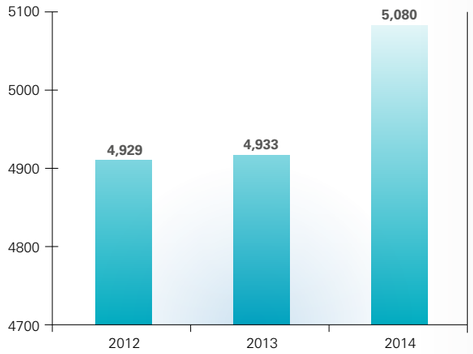
Number and quality of staff

As of December 31, 2014, the number of employees on payroll was 5,080 people, and 4,933 in 2013.

The increase of 3% compared to 2013 was caused by lower employee turnover and hiring more people to fill job openings.

The number of employees on payroll in 2013 compared to 2012 did not change significantly

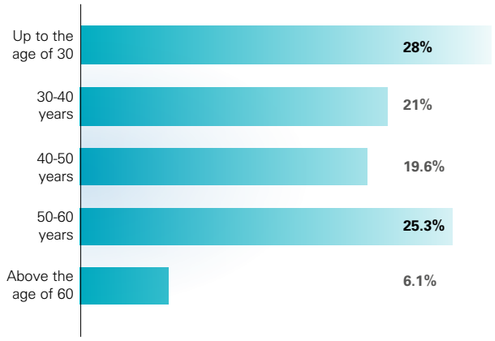
Changes in the number of employees on payroll



Number of employees on payroll by company within PAVLODARENERGO JSC

Company name	Number of employees
PAVLODARENERGO JSC	1,914
Pavlodar regional electric distribution company JSC	2,008
Pavlodar heat networks LLP	699
Pavlodarenergosbyt LLP	459
Total:	**5,080**

Employee age structure



Employee sex and age structure

Due to the nature of the Company's operations, men make up 61% of its employees. Production staff mainly includes blue-collar workers, where men make up 69% of the workforce.

In 2014, managers made up 14.7% of the total employee headcount, which is an optimal rate.

Employee age

The majority of the Company's employees are in the most productive age. Employees below 40 make up 49% of the total headcount. Employees, who are over 60, share their professional experience through training centers and mentoring initiatives.

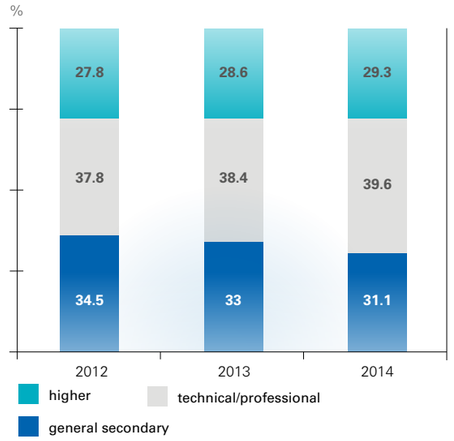
Employee structure by sex and age

Employee type	Total		including:			
			men		women	
	people	%	people	%	people	%
Number of employees on payroll	5,080	100	3,111	61	1,969	39
managers	748	14.7	595	80	153	20
specialists/white-collar workers	1,219	24	358	29	861	71
blue-collar workers	3,113	61.3	2,158	69	955	31

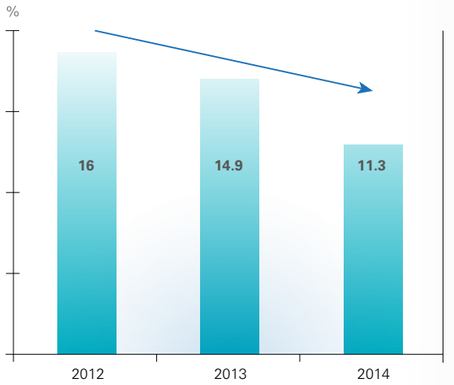
Training and development

Item	2012	2013	2014
Number of employees who received training, retraining, or professional development, including:	2,969	2,918	3,549
Safety precautions, fire safety guidelines and operating procedures (initial training, qualification, certification/re-certification), courses for managers	2,521	2,512	2,302
ISO9001, ISO14001, OHSAS1800 quality management system training (including questions on environmental protection, internal audit and risk management)	43	45	8
Related occupations training	125	179	1,020
Civil defense and emergency training	7	6	0
Other (professional development, seminars, workshops, etc.)	273	176	219

Education level history



Employee turnover rate



Employee training and development

The Company's training system includes group training and individual development plans aimed at increasing productivity and creating safer working conditions.

In 2014, 3,549 employees were trained, including 2,302 employees, who received compulsory training. To build the capacity for professional growth for the future and improve production processes in a specific area, 1,020 employees were trained in related occupations.

Employee education levels

In 2014, 25 employees completed distance learning college degree programs, including 11 employees, who studied in company-related fields.

The number of employees having only a high school diploma is falling.

All in all, in 2014, employees with a college degree made up 29.3% of the total headcount: this is an increase of 0.7% compared with 2013, and 1.5% compared with 2012.

The main increase occurred among managers and white-collar workers thanks to the implementation of innovative production development programs.

Employee turnover

In 2014, employee turnover rate was 11.3% — or 3.6% less compared to 2013 — due to a number of improvement initiatives:

- Optimization of the number of facilities to find remuneration reserves and use these funds to raise wages;
- Promoting mentoring for quick adaptation of new employees, motivating mentors to share their expertise;
- More employees trained in PAVLODARENERGO's training center;
- Tangible and intangible incentives for skilled workers;

In addition to these activities, lower turnover was caused by an increase in the number of employees on payroll due to hiring to fill the vacancies.

Talent pool

In 2014, PAVLODARENERGO JSC created a talent pool for senior, middle and junior management roles composed of employees, who are suitable for management jobs, meet the requirements for certain positions, who passed the selection process and received systematic qualification training. In 2014, the talent pool for senior, middle and junior management roles consisted of 644 employees. Talent pool development is based on individual programs of professional and organizational and management training of talent pool members, with training — including in the Company's own training centers — skill improvement courses, internships, mentoring, performing management functions, temporary employee relocation. External talent pool creation is also under way. To provide training required for a higher job, the Company uses its training center, internships, workshops provided by third-party organizations to improve qualifications. n 2014, 57 persons from the talent pool were appointed to management positions.

Attracting young specialists

- With modernization of its facilities and introduction of new technologies, PAVLODARENERGO JSC needs to hire new employees, including young pro-

fessionals. In this regard, the Company has close cooperation with the region's colleges and vocational schools interested in employment opportunities for its graduates. For example, the following was done in 2014:

- Informational meetings with soon-to-be graduates;
- Participation of technical leaders of the industrial facilities in admission boards;
- Field trips to industrial facilities;
- Participation in graduate fairs;
- Production and pre-graduation on-the-job training at industrial facilities;
- Promoting mentoring for better experience transfer.

In 2014, the Company arranged 28 field trips to production sites, 168 students received on-the-job and pre-graduation training, 73 employees are enrolled in distance learning college degree programs, of which 45 workers study in company-related fields.

Employee motivation and remuneration

Tangible incentives

The purpose of employee motivation and remuneration system is to attract, retain and motivate employees to ensure the Company can accomplish its mission and achieve business goals at optimal cost.

In 2014, the average income of PAVLODARENERGO JSC employees increased 9.7% compared to 2013, and 37.6% compared to 2012.

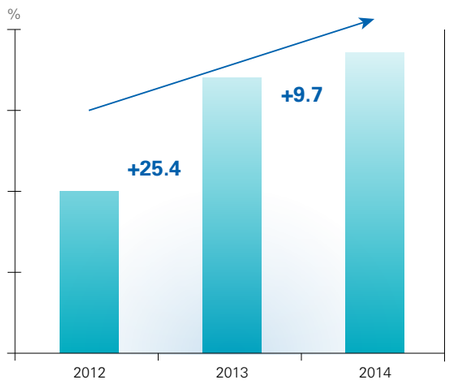
The terms and procedures for implementing a systematic approach to the remuneration of employees at all levels depend on various factors and are determined based on economic and legal possibilities and feasibility.

Intangible incentives

Every year, the Company holds annual events to grant merit awards, commendations and honorary titles to employees. The information about events is published on corporate sources.

In 2014, 88 employees received corporate awards for outstanding work, 11 employees received government awards, 8 employees received awards from the Electric power council of the CIS, including 4 employees, who received the title Distinguished Energy Sector Professional of the CIS. Four employees won awards from the Kazakhstan Energy Association, of whom one person was named Distinguished Kazakh Energy Sector Professional and another one was named Esteemed Kazakh Energy Sector Professional.

Average income growth



Occupational health

Industrial facilities of the Company's subsidiaries constantly work to create safe working conditions for employees to prevent injuries, improve production and sanitary workplace conditions, reduce the impact of harmful and unfavorable factors, reduce industry-specific risks and dangerous situations at the workplace.

To improve the occupational health and safety management system, the Company shall be guided by OHSAS 18001 international standard.

During operation, industrial facilities implement the Occupational safety and health policy, making it accessible to employees with the allocation of appropriate resources.

If necessary, corrective measures are taken to ensure continuous improvement of management in the field of occupational health and safety.

The Company's strategic objectives in the field of occupational health and safety include:

- Injury reduction;
- Improving workplace safety and occupational safety and health management system;
- Improving working conditions;
- Preventing unsafe actions of employees through systematic training and development on safe techniques and professional skills;
- Improving employee incentives in the field of occupational safety and health;
- Development and implementation of uniform corporate standards on occupational safety and health;
- Study and dissemination of modern best practices best practices in occupational health and safety.

In 2014, the actual cost of occupational safety and health activities for the Company totaled 92.54 KZT mln, with 49.49 KZT mln spent for creating better working conditions.

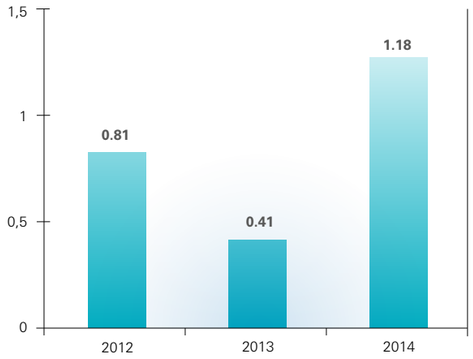
Employees were provided with the necessary personal protective equipment, including electric safety devices, special food and medical supplies. The Company purchased information boards, fire safety equipment, print editions of technical regulations and occupational health and safety signs. During the year, the Company carried out certification of workplaces on working conditions, additional workplace illumination, ventilation and air-conditioning systems repair, building renovation and other activities.

The Company is implementing the Environmental and Social Action Plan (ESAP) and the Stakeholder Engagement Plan (SEP) in accordance with the policy of the European bank for reconstruction and development. Every year, within the ESAP framework, the Company prepares a public report containing information about its projects aimed at improving occupational safety at industrial facilities of PAVLODARENERGO.

In accordance with the requirements of the law of the Republic of Kazakhstan "On compulsory employee insurance against workplace accidents," all employees of the Company are insured against such accidents.

In 2014, before the start of the overhaul season, all subsidiaries conducted technical meeting on safety precautions during maintenance and repair works.

Total incident frequency rate (TIFR) per 1,000 employees in 2014 (TIFR – Total Incident Frequency Rate)



Major occupational safety and health indicators

	2012	2013	2014
Average number of employees on payroll	5,192	4,952	5,020
Number of accidents	4	2	6
Number of occupational safety and health meetings held	22	22	22
Number of occupational safety and health days	166	198	374

During the year, the Company held special Occupational health and safety days.

Corporate events

Every year, employees of PAVLODARENERGO JSC companies actively participate in sports events at industrial facilities, as well as at the regional, area and international levels.

In 2014, 1,739 employees of PAVLODARENERGO JSC participated in sports events, including competitions in 16 sports with 2,406 of participants.

The Company's employees are actively involved in traditional clean-up events, which are held in Pavlodar twice a year.

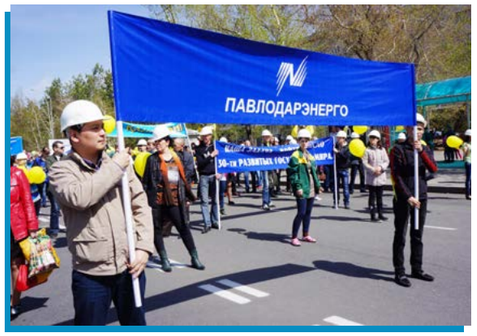
In March 2014, all of the Company's facilities celebrate Nauryz with sports contests, national competitions and quizzes.

On the eve of May 9, 2014, Pavlodar regional electric distribution company hosted a gala concert dedicated to the Victory day and prepared by the Company's employees.

Energetik, the corporate newspaper, held theme contests for children of the employees, such as "Oh, Carnival," "I am a Traveler" and "Kilowatt's Journey."

On the eve of the Day of telecommunications and information professionals in 2014, the Company held a tennis tournament, which was attended by 20 journalists for the city's mass media outlets.

In September 2014, the team of Pavlodar regional electric distribution company came second at the national competition for power line maintenance teams. On October 28, 2014, Pavlodar regional electric distribution company JSC held the final of the competition "Best in profession," dedicated to the 50th anniversary of the Company.



On December, a special gala event was organized to celebrate the 50th anniversary of Pavlodar regional electric distribution company. The best employees received government, industry and corporate awards. The Company revived the tradition of adding names of distinguished employees to the "Book of Honor" for an invaluable contribution to the development of the Company.

Charity and sponsorship

The Company's charity activities mostly include helping the Company's veterans, for instance, financial aid to non-working retirees, home visits to sick people, buying coal and honoring the veterans of the Company. Veterans also receive cash rewards to celebrate Nauryz, the Victory day, the Day of the elderly, and the Day of energy sector professionals. A total of 9,36 KZT thous. were spent for these purposes in 2014.

PAVLODARENERGO JSC is a general sponsor of the children's national first category tennis tournament PAVLODAR-OPEN. In 2014, young athletes from six cities of Kazakhstan participated in the competition.

Interaction with trade union organizations

PAVLODARENERGO's industrial facilities have trade union organizations, and collective bargaining agreements are a normal practice The Company's social policy is determined together with the workers and trade unions representing them. PAVLODARENERGO JSC has a collective bargaining agreement signed for a period up to 2015 inclusive.

Item	2012	2013	2014
Number of employees in trade unions	3,822	3,782	3,803
Percentage of the total, %	77.5	76.7	74.9

According to the collective agreement, trade union members have the following benefits:

- Part of the cost of staying at Energetic therapeutic treatment center is compensated;
- Part of the cost of staying at Elektronik health camp for children is compensated;
- New year gifts for employees' children under 14 and for employees, who do not have children under 14;
- Sports and cultural events;
- Special incentives to mark various occasions;

Within the framework of the collective bargaining agreements, the Company can resolve any current issues related to the activities of trade union members, studying their appeals and suggestions and investigating complaints.

Collective agreements provide social guarantees and benefits for employees, their families, retirees and veterans of the Company. When designing a collective bargaining agreement, the Company's industrial facilities adhere to the principles of economic feasibility, sufficiency, joint responsibility and transparency.

ENVIRONMENTAL POLICY

PAVLODARENERGO sees environmental issues as a priority of the Company's development strategy. In 2014, PAVLODARENERGO JSC continued to actively implement best practices and principles in accordance with international standards in the field of production, environmental protection, occupational safety and social responsibility.

These goals are achieved through strategic initiatives in several directions:

- Improving the management system certification for compliance with international standards;
- Introduction of energy-saving and energy-efficient technologies in the production and transmission of energy;
- Minimizing per-unit production costs of heat and electricity;
- Achieving compliance with international, national and industry laws and regulations in the field of environmental protection;
- Pollution prevention.

Pollution prevention is the determining factor in all operational decisions concerning the production of electricity and heat. When introducing new technologies, they are evaluated to determine their impact on the environment and efficiency of energy and natural resource use.

Environmental Impact Assessment (EIA) plans are developed for all investment projects that may directly affect the environment and public health. All such plans undergo the state environmental certification conducted by authorized body and obtain permits for emissions into the environment. The EIA evaluates the impact on atmosphere, water, soil, minerals, flora and fauna. Information about the transfer of EIA projects for environmental examination shall be published in mass media to keep stakeholders and non-governmental organizations informed. The state environmental examination on objects that are considered the most dangerous can not be conducted without public hearings. Engaging the public in resolving environmental issues is one of the provisions of the Environmental code.

In 2014, PAVLODARENERGO's Environment department held 14 public hearings to discuss the EIA and environmental activities within new projects. Furthermore in November 2014, Pavlodar hosted a consultative meeting with representatives of NGO, local executive body and research institute "Energy saving technologies". The meeting focused on discussing scheduled environment protection initiatives at CHP-2, CHP-3 and Ekibastuz CHP during 2015-2019. The official dialog between the public and PAVLODARENERGO helped to solve most of the issues before the public hearings. Thus, involving the public in environmental evaluation is not only a requirement of the environmental law and an opportunity for local residents to protect their interests or voice their concerns, but also a way to improve the design decisions and bolster the public's confidence in the authorities and the Company's management. Objective, credible and timely information about the state of the environment, planned and implemented business decisions affecting the environment, public health, social affairs and the economy is an essential tool for building a transparent, mutually responsible relationship between businesses, the public and the authorities.

To comply with the Technical regulations and to minimize the impact of production processes on the environment and public health, PAVLODARENERGO developed and gained the authorities' approval for environmental action plans for the period between 2012 and 2014, aimed at minimizing the ecological footprint. The budget for this period is 2,249 KZT mln, including 719 KZT mln for 2014. Yet, the Company actually spent 1,684 KZT mln on environment protection initiatives in 2014, which is 134% more than planned.

Starting from 2008, PAVLODARENERGO has been implementing the Environmental and Social Action Plan (ESAP) as part of the investment program in accordance with the policy of the European bank for reconstruction and development (EBRD) in regard to the environmental protection in the course of EBRD-financed projects.

In 2014, fuel consumption for distributing electricity from busbars and heat distribution was reduced by 0.034 kg/kW·h by 8.7 kg/Gcal respectively compared to 2014. This is due to the improvement of the equipment at CHP-3 (modernization of boiler No. 1 and turbine No.1, as well as changes in the load structure. For example, in 2012, after commissioning boiler No.1 and turbine No.1 at CHP-3, the plant's capacity increased to 300 MW or more, while specific fuel consumption fell by 11.4%. Reduced specific fuel consumption is a determining factor in reducing the amount of pollution emissions per unit of output. Actual per-unit pollution emissions of CHP-3 fell by 38.1% in 2014 compared to 2009.

During 2009-2013, in order to implement its investment program, PAVLODARENERGO JSC conducted reconstruction of fly ash collectors installing 2nd generation battery wet fly ash collecting devices

on all energy boilers of the Company. This made it possible to reduce the total annual emissions of coal ash by up to 70% with a 10.8% increase in electricity output and a 13.8% increase in heat distribution, reduce dust concentration in flue gases by 74.2% and to suppress sulphur oxide by 5-15% without the use of additives. In 2014, ash collection efficiency factor was maintained at the ash collectors' rated capacity of 99.5%.

To reduce emissions of nitrogen oxides at CHP-3, a number of measures are being taken, such as a phased boiler upgrade, where the existing furnace is being replaced with a watertube-type one, the use of staged combustion technology and combustion optimization with the introduction of tertiary blast modes, which provided a 25% reduction of nitrogen oxides emissions. In addition to investment activities, other activities are carried out during the current renovation projects, both complete and extended, aimed at reducing emissions of nitrogen oxides, such as adjusting fuel combustion, replacing burner, repairing heat insulation and burner enveloping.

Projects for the reconstruction of turbogenerators No.2 and No.5 at CHP-3 with the addition of new auxiliary equipment, including more advanced electric motors, allow to increase the efficiency factor of turbines by 3%, improve per-unit emissions for 1 MW of energy, which ultimately helps to reduce emissions of harmful substances into the atmosphere.

To ensure the plants' technological cycle continuity and ash and slag waste storage for up to 25 years, the Company continued to reconstruct the two existing ash dumps and build three new ones. During the construction of ash dumps for CHP-2 and CHP-3, groundwater is protected by using impervious membrane, drainage and ash pond technologies, as well as in-plant water recirculation. To prevent the impact of filled ash dump on the environment, restoration of existing ash dumps at CHP-2 and CHP-3 and preservation of exhausted ash dumps of Ekibastuz CHP will be carried out after the launch of new ash dumps.

With a view to introduce new technologies for water resource management in 2015, the CHP-3's cooling tower No.5 shall be completed. This project uses a modern refrigeration technology, as well as the current European best practices in accordance with the Integrated Pollution prevention and Control directive of the EU Parliament. A reference document describing the best available techniques for large fuel-burning installations.

To reduce coal dust emissions, aeration devices on fuel injection feed lines are gradually replaced with new ones, while the existing installations are being reconstructed.

In its business activities, PAVLODARENERGO JSC complies with current environmental regulations contained in the Environmental code and other laws and regulations of the Republic of Kazakhstan, which is evidenced by the fact that PAVLODARENERGO did not exceed emission and concentration limits of pollutants set by an authorized body.

Pollution emissions into the atmosphere in 2014, tons

Item	PAVLODARENERGO	
	limit	actual
Total including:	68,037	46,574
Coal ash*	12,435	8,643
Nitrogen dioxide	17,615	9,711
Nitrogen oxide	2,859	1,576
Sulphur dioxide	32,101	24,596
Carbon monoxide	2,840	1,912
Other	187	136

*inorganic dust with 70-20% content of silicon dioxide

FINANCIAL STATEMENTS

PAVLODARENERGO Joint Stock Company consolidated financial condition report as of December 31, 2014

KZT thous.

	December 31 2014	December 31 2013
ASSETS		
LONG-TERM ASSETS:		
Fixed assets	96,753,040	64,166,677
Goodwill	1,687,141	1,687,141
Non-material assets	101,293	53,606
Restricted cash	382,350	-
Other long-term assets	3,975,697	6,418,960
Total long-term assets	**102,899,521**	**72,326,384**
CURRENT ASSETS:		
Inventory	3,195,747	2,253,432
Trade receivables	4,463,343	3,081,158
Advances paid	642,360	377,776
Taxes to be refunded	750,672	112,769
Income tax prepayment	193,311	67,786
Other receivables	684,990	486,785
Other financial assets	431,479	758,065
Restricted cash	311,909	420,309
Cash	597,716	1,257,822
Total current assets	**11,271,527**	**8,815,902**
TOTAL ASSETS	**114,171,048**	**81,142,286**
CAPITAL AND LIABILITIES		
CAPITAL:		
Share capital	16,663,996	16,663,996
Additional paid-in capital	1,188,176	1,188,176
Provision for fixed assets revaluation	27,356,702	14,266,156
Undistributed earnings	20,822,420	15,731,291
Total capital	**66,031,294**	**47,849,619**
LONG-TERM LIABILITIES:		
Bonds issued	7,512,420	7,352,804
Loans	14,805,238	9,125,655
Deferred income	822,356	862,967
Long-term payables	30,119	36,457
Deferred tax liabilities	15,031,418	9,789,093
Ash dump restoration obligations	150,041	134,113
Accrued employee remuneration	62,518	58,485
Total long-term liabilities	**38,414,110**	**27,359,574**

PAVLODARENERGO Joint Stock Company consolidated financial condition report as of December 31, 2014 (Continued)

KZT thous.

	December 31 2014	December 31 2013
CURRENT LIABILITIES:		
Bonds currently outstanding		
Long-term and short-term loans currently outstanding	281,495	277,742
Accrued employee remuneration	1,750,948	1,565,542
Trade payables	7,607	5,787
Advances received	3,965,599	1,491,905
Accrued taxes	1,281,612	1,460,507
Accrued income tax	330,346	550,112
Other liabilities and accrued expenses	6,812	-
Прочие обязательства и начисленные расходы	2,101,225	581,498
Total current liabilities	**9,725,644**	**5,933,093**
TOTAL EQUITY AND LIABILITIES	**114,171,048**	**81,142,286**

PAVLODARENERGO Joint Stock Company consolidated profit, loss and other total income statement for the year ending December 31, 2014

KZT thous.

	2014	2013
INCOME	**37,097,732**	**32,872,017**
COST OF GOODS SOLD	**(25,071,251)**	**(22,005,773)**
GROSS INCOME	**12,026,481**	**10,866,244**
General and administrative costs	(2,803,414)	(2,396,640)
Sales costs	(561,201)	(551,964)
Financial costs	(869,443)	(842,024)
Financial income	54,748	37,453
Losses from exchange rate difference	(720,268)	(64,354)
Losses from depreciation of fixed assets	(143,624)	-
Other income	762,493	125,184
INCOME BEFORE TAX	**7,745,772**	**7,173,899**
INCOME TAX EXPENSES	**(1,845,507)**	**(1,645,293)**
ANNUAL INCOME	**5,900,265**	**5,528,606**
OTHER TOTAL INCOME LESS INCOME TAX		
ITEMS THAT ARE NOT SUBJECT TO PROFIT AND LOSS RECALCULATION		
Revaluation of fixed assets	13,819,743	-
	13,819,743	-
TOTAL ANNUAL INCOME	**19,720,008**	**5,528,606**

PAVLODARENERGO Joint Stock Company consolidated statement of changes in equity for the year ending December 31, 2014

KZT thous.

	Share capital	Additional paid-in capital	Provision for fixed assets revaluation	Undistributed earnings	Total capital
As of January 1, 2013	**16,663,996**	**1,188,176**	**15,009,344**	**10,699,833**	**43,561,349**
Annual net income	-	-	-	5,528,606	5,528,606
Other total annual income	-	-	-	-	-
Net income and total annual income	-	-	-	5,528,606	5,528,606
Amortization of provision	-	-	(743,188)	743,188	-
Dividends	-	-	-	(1,240,336)	(1,240,336)
As of December 31, 2013	**16,663,996**	**1,188,176**	**14,266,156**	**15,731,291**	**47,849,619**
Annual net income	-	-	-	5,900,265	5,900,265
Other total annual income	-	-	13,819,743	-	13,819,743
Total annual income	-	-	13,819,743	5,900,265	19,720,008
Amortization of provision	-	-	(729,197)	729,197	-
Dividends	-	-	-	(1,538,333)	(1,538,333)
As of December 31, 2014	**16,663,996**	**1,188,176**	**27,356,702**	**20,822,420**	**66,031,294**

PAVLODARENERGO Joint Stock Company consolidated cash flow statement for the year ending December 31, 2014

KZT thous.

	2014	2013
Cash flow from operating activities:		
Income before tax	7,745,772	7,173,899
Adjusted for:		
Amortization and depreciation	2,578,815	2,378,069
Financial costs	869,443	842,024
Recovery of provision for bad debt	270,055	253,971
Losses from disposal of fixed assets	40,706	16,789
Employee remuneration expenses	15,316	9,608
Financial income	(54,748)	(37,453)
Losses from exchange rate difference	720,268	64,354
Losses from depreciation of fixed assets	143,624	-
Accrued provision for illiquid or obsolete inventory	19,931	13,408
Accrued provision for unused leaves	24,705	5,649
Cash flow before changes in floating capital	**12,373,887**	**10,720,318**
Changes in floating capital		
Increase in inventory	(962,246)	(792,528)
Increase in trade receivables	(1,593,362)	(394,309)
(Increase)/reduction in advances paid	(240,194)	14,066
Increase in taxes to be refunded	(608,902)	(22,684)
(Increase)/reduction in other receivables	(282,291)	267,673
Increase in trade payables	2,418,834	31,999
Reduction in accrued income	(35,088)	(36,881)
(Reduction)/increase in advances received	(178,895)	384,847
(Reduction)/increase in accrued taxes	(219,768)	278,152
Reduction in accrued employee remuneration	(9,463)	(6,022)
Increase in other liabilities and accrued expenses	(110,320)	67,836
Cash flow from operating activities	10,552,192	10,512,467
Income tax paid	(178,021)	(524,411)
Interest paid	(1,276,614)	(921,000)
Net cash flow from operating activities	**9,097,557**	**9,067,056**

PAVLODARENERGO Joint Stock Company consolidated cash flow statement for the year ending December 31, 2014 (Continued)

KZT thous.

	2014	2013
Cash flow from investing		
Deposits withdrawn	5,545,606	1,302,122
Deposits	(5,246,206)	(744,622)
Acquisition of fixed assets	(14,440,620)	(11,158,025)
Acquisition of intangible assets	(54,004)	(9,619)
Income from disposal of fixed assets	-	9,856
Interest from deposits	104,078	37,971
Loans issued to employees	-	(30)
Net cash invested	**(14,091,146)**	**(10,562,347)**
Cash flow from financial activities:		
Dividends paid	(30,000)	(1,240,336)
Loans received	7,748,283	4,767,680
Loans repaid	(3,446,307)	(1,101,150)
Net cash flow from financial activities	**4,271,976**	**2,426,194**
NET (REDUCTION)/INCREASE IN CASH)	**(721,613)**	**930,903**
CASH AT THE BEGINNING OF YEAR	**1,257,822**	**316,599**
Impact of exchange rate difference on foreign currency cash flow	**61,507**	**10,320**
CASH at the end of year	**597,716**	**1,257,822**

GLOSSARY

Overhead power line is an electric line for electricity transmission through wires located outdoors and attached using insulators and fittings to supports or brackets.

Overhead transmission lines are used for electricity transmission through wires.

Gigacalorie is a unit of heat energy used for measurements in heat generation, heating systems and utilities.

Gigacalorie per hour shows the amount of heat produced or used by a piece of equipment for a particular period of time.

Cooling tower is a construction building in the shape of the exhaust tower for rejecting waste heat to the atmosphere.

Goodwill is the difference between the price of the company and the value of all of its assets.

Ash is a dust compound generated as a result of full combustion and made of mineral impurities contained in fuel.

Ash dump is a place for collection and disposal of waste ash and slag generated during combustion of solid fuel at CHPs.

Calorie is an off-system heat unit.

Cogeneration is generation of electricity by means of an electric generator driven by a steam turbine, and also heat from the waste steam produced by the steam turbine.

Boiler is a device for obtaining pressurized steam or hot water as a result of fuel combustion, the use of electric power, heat from waste gases or technological process.

Power transmission line is a structure composed of wires (cables) and support devices for the transmission of electric power from plants to consumers.

Megawatt is a unit of power in the production of electricity.

Pump is a device for enforced flow (suction, discharge) of mostly fluid, charging it with energy (kinetic or potential) as a result.

Pumping unit is a pumping device with equipment assembled in accordance with a certain layout, ensuring the operation of the pump.

Steam turbine is an energy turbine, an element of the steam turbine, which converts potential energy of high parameter steam into mechanical energy of the rotor's rotation, driving a power generator.

Substation is an electricity installation for conversion and distribution of electricity, consisting of transformers and other energy converters, distribution and control devices and auxiliary facilities.

Available capacity is equal to installed capacity of the equipment minus the power that is impossible to generate for technical reasons (insufficient chimney draught, cooling systems of turbine condensers, etc.).

Available capacity of the generator (power plant) is equal to installed capacity of the generating device (power plant) minus its power limitations.

Combined heat and power plant (CHP) is a heat power plant, which generates not only electricity, but also heat supplied to consumers in the form of steam and hot water.

EL Plan includes suggested limits for harmful emissions.

Transformer is a device for converting any significant energy properties (for example, electric transformer, hydraulic torque converter) or objects (for example, rectifier).

Turbine is a prime mover with rotational movement of the working body, the rotor, that converts mechanical work into kinetic energy of the working steam, gas or water.

Turbogenerator is a combination of a steam turbine generator, electric generator and initiator all united by a shaft train; converts potential energy of steam into electricity.

Installed capacity is rated capacity of a turbogenerator.

Plant's installed heat capacity is the sum of rated heat capacities of all the equipment in use intended for supplying heat to external customers and for internal needs with steam and hot water.

Installed electric capacity of the energy system is total rated active capacity of all turbo and hydro generators of the power plant in accordance with their specifications or technical conditions.

Centrifugal fly ash collector is a wet fly ash and dust collecting devices operating in a phase inversion mode.

ABBREVIATIONS LIST

COSO	Committee of Sponsoring Organizations of the Treadway Commission
CTF	Clean Technology Fund
EBITDA	means earnings before interest, taxes or amortization
ESAP	Environmental and Social Action Plan
ISO	International Organization for Standardization
KEGOC JSC	Kazakhstan electricity grid operating company
OHSAS	Occupational health and safety management systems
JSC	join stock company
AEDC	Akmola electricity distribution company
ASCAHE	Automated system of commercial accounting of heat energy
ASCAEE	Automated system of commercial accounting of electric energy
GDP	Gross domestic product
OL	overhead line
OPL	overhead power line
Gcal	gigacalorie
Gcal·h	gigacalories per hour
SPFIID	State program of fast industrial and innovation development
PE Group	PAVLODARENERGO JSC Group of companies
SDPP	state district power plant
HPP	hydropower plant
EBRD	European bank for reconstruction and development
FAC	fly ash collector
IIF	Islamic Infrastructure Fund
kW·h	kilowatt per hour
CL	cable line
SG	switchgear
OPL	overhead power line
MW	megawatt
MP	minimum penalty
VAT	value added tax
RPF	research and production facility
PREDC	Pavlodar regional electric distribution company JSC
PHP	Pavlodar heat networks LLP
PES	Pavlodarenergosbyt LLP
PCHP-2	Pavlodar combined heat and power plant-2
PE	PAVLODARENERGO JSC
PGA	power grid area
ICS	internal controls system
SSIW	self-supporting insulated wire
NKREDC	North Kazakhstan regional electric distribution company JSC
SKE	SEVKAZENERGO JSC
MMO	mass media outlet
QMS	quality management system
EMS	environmental management system
RMS	risk management system
LLP	limited liability partnership
CHP	combined heat and power plant
CAPEC	Central-Asian power-energy company JSC
CAEPCO	Central-Asian Electric Power Corporation JSC

CONTACTS

PAVLODARENERGO JSC

050012, Republic of Kazakhstan, Pavlodar, 27 Krivenko Str.
Tel.: +7 (7182) 39-95-06
Fax: +7 (7182) 32-97-88
Email: pavlodarenergo@pavlodarenergo.kz
Website: www.pavlodarenergo.kz

SHAREHOLDER AND INVESTOR RELATIONS

Name/position	Contact information
Inna Rizen, Deputy General director for economics and finance of PAVLODARENERGO JSC	Republic of Kazakhstan, Pavlodar, 27 Krivenko Str. Tel.: +7 (7182) 39-95-07 Fax: +7 (7182) 32-97-88
Svetlana Belikova, Chief accountant of PAVLODARENERGO JSC	Republic of Kazakhstan, Pavlodar, 27 Krivenko Str. Tel.: +7 (7182) 39-95-11 Fax: +7 (7182) 32-97-88
Larisa Bykova, Corporate secretary of PAVLODARENERGO JSC	Republic of Kazakhstan, Pavlodar, 27 Krivenko Str. Tel.: +7 (7182) 39-97-62 Fax: +7 (7182) 32-97-88

AUDITOR

PAVLODARENERGO's auditor is **Deloitte LLP** located at:
Republic of Kazakhstan, Almaty, 36 Al-Farabi Ave, Nurly-Tau business center
Tel.: +7 (727) 258-13-40
Fax: +7 (727) 258-13-41

REGISTRAR

Integrated Securities Registrar JSC (state registration certificate No.1678-1910-02 issued on January 11, 2012 by the Justice Department of Almaty).