



**SEVKAZENERGO**

Annual Report  
**2013**

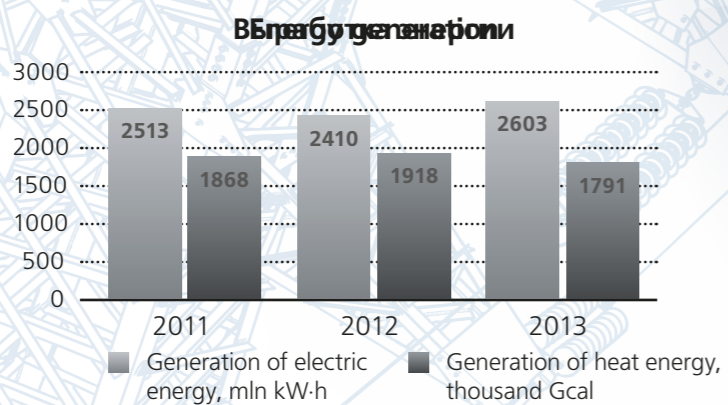
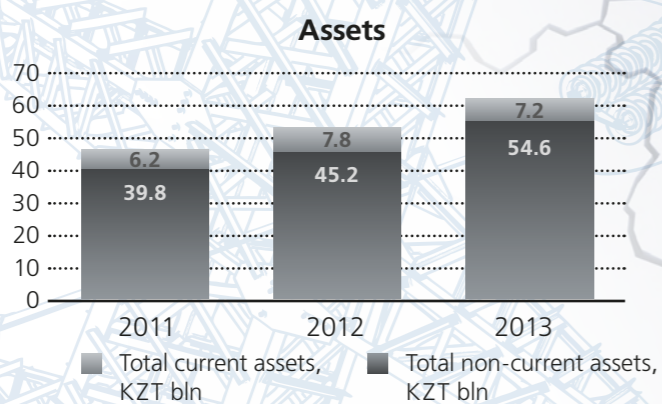
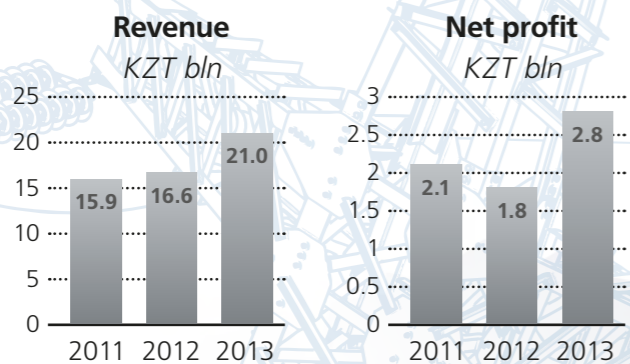
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**SEVKAZENERGO**

# Key figures at a glance



# Activities map

## NORTH KAZAKHSTAN REGION

160 539  
69 376

- ⚡ Petropavlovsk CHP-2
- ⚡ "North Kazakhstan REDC" JSC
- ⚡ "Petropavlovsk Heat Networks" LLP
- ⚡ "Sevkazenergosbyt" LLP

### MAP KEYS

Number of consumers

**ELECTRIC ENERGY**  
**HEAT ENERGY**

⚡ **Generation** of heat and electric energy

⚡ **Transmission of** electric energy  
⚡ **heat energy**

⚡ **Sales of heat and electric energy**



Chairman of the Board of Directors  
"SEVKAZENERGO" JSC  
Yerkin Adamiyanovich Amirkhanov

## Dear shareholders and partners!

The Annual report of "SEVKAZENERGO" Joint-Stock Company for 2013 is presented for your attention.

For the all period of its activity in the "CAEPCO" JSC group, largest company of North Kazakhstan region – "SEVKAZENERGO" JSC has demonstrated positive results of steady growth of production and economic indicators.

Today, at generating enterprise of the Company – Petropavlovsk CHP-2 we implement investment program, within the frames of which wide-scaled works for modernization and reconstruction of energy equipment performed. Since 2009 we have contributed for renovation of generating source KZT 17.7 bln within the frames of state program "Tariff in exchange for investment" and KZT 14.8 bln of Company's own funds. From year to year depreciation of boiler and turbine equipment of the station continues reducing, meaning improving potential of the enterprise as a whole.

Future plans of the Company – till 2016, assumes increase of installed capacity from 434 MW up to 517 MW. The Company cares about provision of qualified power to its consumers in North Kazakhstan region and Petropavlovsk. "SEVKAZENERGO" JSC implements advanced and modern equipment, replaces pipe lines and electricity transmission lines, and for replacement of time-expired substations and pumping units we install new innovative devices.

With a purpose of financing of investment program for modernization of main production equipment and improvement of energy savings, the Company raises credit facilities. In 2014 "SEVKAZENERGO" JSC entered into agreement with European Bank for Reconstruction and Development for the amount of USD 49 mln, USD 40 mln of which will be directed to modernization and renovation of main production equipment, as well as improvement of environmental conditions of production of Petropavlovsk CHP-2 and USD 9 mln will be directed for financing investment program for modernization and reconstruction of electric networks in North – Kazakhstan region. This represents continue of collaboration of "SEVKAZENERGO" JSC group with EBRD, the beginning of which is commenced in 2011 by concluding agreement with EBRD for the amount of KZT 2.4 bln for financing investment program of Petropavlovsk heating networks. District heating enterprise uses the funds for reconstruction and modernization of network equipment, including replacement of old pipes for new pre-insulated pipes as well as replacement of pipes isolation for new modern PPU materials.

Contributing today to an important industry, the Company cares on the condition of energy complex in future. Development of energy saving production, unique programs for depreciation reduction, transparency of operations what deemed as reliable investment to the development of North Kazakhstan region.

Together we can achieve great developments and our Company has a promising future!



# Company's profile

## BUSINESS HIGHLIGHTS

“SEVKAZENERGO” JSC – is one of the largest companies in the Republic of Kazakhstan, performing full cycle of energy supply (generation, distribution and sales of heat and electric energy). By virtue of Company’s work, around 580 thousand North Kazakhstan people receive electricity, and 206 thousand people in Petropavlovsk city receive stable heat supply.

In 1961 Petropavlovsk CHP-2 was put in operation, herald the end of initial stage of total electrification of North Kazakhstan region.

In 1963, under authority of “Tselinenergo” on the basis of closing down CHP-1 “Petropavlovsk electric network enterprise” was established. In 1965, “Petropavlovsk heat network management” based on CHP-2 heat network production unit was organized.

In 2007, homeland investor “Central – Asian power energy company” JSC (“CAPEC” JSC) becomes owner of regional energy complex, lately entered in to shareholder structure of “Central – Asian Electric Power Corporation” JSC (“CAEPCO” JSC).

“SEVKAZENERGO” JSC was established on July 13, 2009, in an organizational legal form of joint-stock company, as the result of reconstruction and being the assignee of all rights and obligations of “Aksess-energo PTETs-2” LLP that was registered in judicial authorities of the North Kazakhstan region on January 19, 1999.

The Company has range of international standard certificates, which are regularly analyzed, and are subject to review upon the necessity.

Recertification on ISO 9001:2008, OHSAS 18001:2007, ISO 14001:2004 standards, is planned for April 2014

Certificate title	Certificate number	Period of validity
ISO certificate 9001:2008	75,100,70429	01.08.2011–31.07.2014
OHSAS certificate 18001:2007	OC-4870-0010	30.07.2011–29.07.2014
ISO certificate 14001:2004	75,110,0505	07.09.2011–06.09.2014
Accreditation certificate of calibration laboratory on compliance to requirements ST RK ISO/IEC 17025-2007	KZ.K.15.1280	20.03.2012–20.03.2017
ISO certificate 50001:2011	01 407 1321852	28.01.2014–27.01.2017

## RATINGS

Rating agency “Expert RA Kazakhstan” in 2013 confirmed credit rating of bond issues (NIN – KZ-2COY10D695) at A+ level (very high level of creditability).

### Credit Rating

Stability of the Company’s activity was confirmed by rating agency “Expert RA Kazakhstan”. In 2013, credit rating of “SEVKAZENERGO” JSC was assigned at A+ level (very high level).

## MISSION

**The mission of the Company** is to improve quality of consumers’ life and establishing conditions for economic development of North Kazakhstan region. The objective is achieved by provision of qualified services for electricity supply and creature of comforts of population, industrial enterprise, budget and commercial enterprises in North Kazakhstan region and Petropavlovsk city.

**Quality of provided services** implies reliability and continuity of power supply with observance of all technical requirements and high level of consumers’ service.

**The basis of efficiency** – employees of the Company, their value is in high professional and teamwork skills and orientation for achievement of results.

## PERSPECTIVE

"SEVKAZENERGO" JSC – the only one energy company in North Kazakhstan region.

The Company implements its activity in adverse climatic conditions, thereby combines dynamism and flexibility of small company, with stability and reliability of large holding group.








Personnel of the Company – team of professionals, who achieve increasingly higher targets.

Company creates partnership relationships with clients and suppliers on the basis of respectfulness and mutual responsibility.

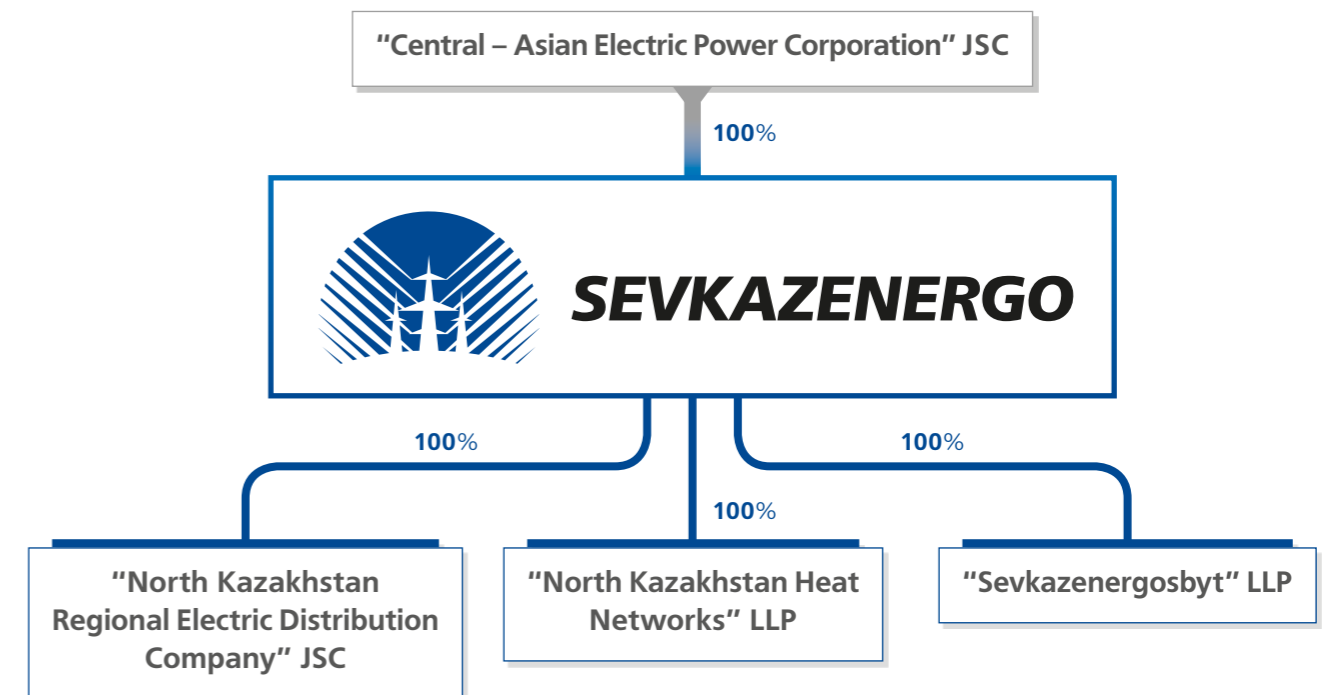
## STRATEGY

Strategic objective of "SEVKAZENERGO" JSC is establishing advanced energy company, providing balanced and sustainable development of energy system of North-Kazakhstan region, supporting economic development of the region. Whereby, the Company aims at achievement of international standards in the sphere of production, environment, health protection and social sphere.

**For achievement of assigned strategic aims, the Company ensures realization of following activities**

	modernization of the equipment with a purpose of improving technical level of production, reduction of risks of emergency and elimination of downtimes
	implementation of energy saving and energy efficient technologies in production and distribution of energy
	minimization of specific consumption for production of unit of heat and electric energy
	correspondence to requirements of international, republican and industrial normative and legislative documents in the environmental sphere
	strengthening of requirements to occupational safety of personnel, industrial safety and reduction of traumatism
	permanent training with a purpose of improving professional level of employees
	implementation of automated enterprise management system

## COMPANY'S STRUCTURE



### Structure of shareholders and equity capital

As of 31.12.2013, according to the financial report stock equity of the Company amounts KZT 16,291,512.5 thousands. Sole shareholder owing 100% of shares is "Central – Asian Electric Power Corporation" JSC. For the reporting period, Company has not made any significant transactions with its shares.

## SUBSIDIARY ORGANIZATIONS OF "SEVKAZENERGO" JSC

"SEVKAZENERGO" Joint Stock Company is vertically integrated structure, which includes all units of power supply to the North Kazakhstan region (generation, transmission and distribution of energy resources).

The structure of "SEVKAZENERGO" JSC includes:

- Petropavlovsk CHP-2;
- "North Kazakhstan Regional Electric Distribution Company JSC (" Electric Networks of North Kazakhstan region with exception for the 5 areas on the border of the Akmola region);
- "Petropavlovsk Heat Networks" LLP (heat networks of Petropavlovsk);
- "Sevkazenergosbyt" LLP.

Currently total installed electric capacity of "SEVKAZENERGO" JSC constitutes 434 MW, total installed heat capacity constitutes 793 Gcal-h. Overall length of electricity transmission lines – 13,566.4 km, length of heat networks – 231.5 km. Company supplies electricity to 160.5 thousands consumers in North Kazakhstan region, heat to 69.3 thousand consumers in Pavlodar city, including 2.2 thousand budget, industrial and commercial enterprises. In 2013 "SEVKAZENERGO" JSC produced 2,603.05 mln kW-h of electric energy and 1,790.544 thousand Gcal of heat energy.



**Petropavlovsk CHP-2 "SEVKAZENERGO" JSC**

Main activity of Petropavlovsk CHP-2 is generation of heat and electric networks. Installed capacity of station as of 31.12.2013 – 397 MW for electric energy and 874.8 Gcal for heat networks, where available electric capacity is 396 MW and 804 Gcal for heat energy.

Power plant consists of fuel-transportation, boiler, turbine, electric, chemical facilities. Auxiliary facilities are: heat automation and measurement facility, mechanical-maintenance facility, oxygen plant, repair and construction site.

Plant works along with RK energy system by overhead transmission lines VL-220 kW: "2711", "2721" и VL-110 kW "Sibir", there are open distribution units 35/110/220kW with six coupling transformers. Distribution of electricity is performed through networks of "North Kazakhstan REDC" JSC and "KEGOK" JSC, to Petropavlovsk department of South Ural railroad, Republic State Enterprise "KazakhstanTemirzholy" and other consumers.

Transmission of heat energy is conducted through transit pipelines: DU-1000 "Gorod", DU-1000 "Sever", DU-600 "SVPZ".

Main fuel type at CHP-2 is coal from Ekibastuz pool, geological reserves of which estimated for 140 years. Equipment of boiler facility represented by 11 operating boiler units, and 1 (one) boiler unit being assembled. Main equipment of turbine facility consists of 7 operating turbine units.

**"North Kazakhstan Regional Electric Distribution Company" JSC**

"North Kazakhstan Regional Electric Distribution Company" JSC (hereinafter – "NK REDC") transmits electricity produced by Petropavlovsk CHP-2 – generating source in the group of companies "SEVKAZ-ENERGO".



Electric networks of "NK REDC" JSC are associated with energy complex of Kazakhstan and Russia through electric networks of "KEGOC" JSC. The main activities of "NK REDC" JSC are transmission and distribution of electricity in 8 districts of the North Kazakhstan region and Petropavlovsk. The service area is 44,952 square km.

The company comprises the following units:

- Kyzylzhar, Mamlyut, Zhambyl, Yesil, Timiryazev, Akkaiyn EDZ, regional electric network named after M. Zhumabayev and of Shalakin region;
- The southern section of the main networks and substations;
- Municipal electric network;
- Production units and management.

In order to improve the availability of services to consumers, "NK REDC" JSC opened a Customer Service Center in September 2012, where each consumer can be provided with the following services:

- Coordination of land and easements;
- Issuance of technical conditions for connection to the power supply;
- Activation / deactivation of Supply;
- Security sealing of metering units;
- Other operational and advisory services.

**Electricity transmission lines**

Voltage	Length, km
220 kW	84.7
110 kW	1,327.1
35 kW	2,853.1
6–10 kW	4,616.2
0.4 kW	4,685.1
<b>Total</b>	<b>13,566.4</b>

**Substations**

Voltage	Quantity
220 kW	4
110 kW	38
35 kW	121
6–10 kW	2,316
<b>Total</b>	<b>2,479</b>



**"Petropavlovsk Heat Networks" LLP**

"Petropavlovsk Heat Networks" LLP performs transmission and distribution of heat energy for consumers of Petropavlovsk from CHP-2 "SEVKAZENERGO" JSC, renovates its transmission and distribution networks to Petropavlovsk, and is continuously working on introducing new energy-efficient technologies to provide new quality requirements for heating.

"Petropavlovsk Heat Networks" LLP operates heat networks of Petropavlovsk with length of 231.5 km, including:

- Main heating network – 83.8 km;
- Distribution network – 147.7 km;
- Pumping stations – 33 pcs;
- Centralized heat points – 17 drain units;
- 2 pump units.

For transmission and distribution of heat energy, "Petropavlovsk Heat Networks" LLP offers services providing operation and maintenance to equipment, labor protection, and safety.

**"Sevkazenergosbyt" LLP**

"Sevkazenergosbyt" LLP is a power supply company that provides electric and heat energy to consumers of Petropavlovsk and the North Kazakhstan region.

The main activity is a reliable and uninterrupted supply of energy in amounts that meet the needs of the population. The total number of consumers that "Sevkazenergosbyt" LLP reached as of December 31, 2013 was 160,534 for electricity and 69,376 for heat.

In the regional center, 3 service points operates for the population to receive payments and there are also 12 points in the regional centers. There are also contracts with 13 banks to receive payments, as well as through service terminals and online portals of banks.

In order to promote energy saving ideas among subscribers, "Sevkazenergosbyt" LLP implements a system of day tariff zonation according to consumed electricity and conducts extensive outreach work with the public about the need to install energy meters.



**Dynamics of changes in the number of consumers of energy "Sevkazenergosbyt" LLP**

Number of consumers	2011	2012	2013
for electric energy	159,807	159,932	160,539
for heat energy	68,739	68,972	69,376

**Structure of consumers by market segments as of 31.12.2013**

Title	Number of consumers	Total amount ratio, %
<b>ELECTRICITY ENERGY CONSUMERS</b>		
Population	154,851	96.5%
Budgetary organizations	681	0.4%
Industry	645	0.4%
Small, medium size business	4,362	2.7%
<b>Total</b>	<b>160,539</b>	<b>100%</b>
<b>HEAT ENERGY CONSUMERS</b>		
Population	67,194	96.9%
Budgetary orgaznizations	209	0.3%
Industry, railway sector	217	0.3%
Small, medium size business	1,756	2.5%
<b>Total</b>	<b>69,376</b>	<b>100%</b>





# Economic environment

GDP of Kazakhstan in 2013 according to preliminary data amounted to KZT 34.14 trln, and made an increase of 6% compared to previous year. In 2012 growth of GDP was only 5%. Over the past years economic environment marginally improved, albeit GDP growth dynamics remains stunted

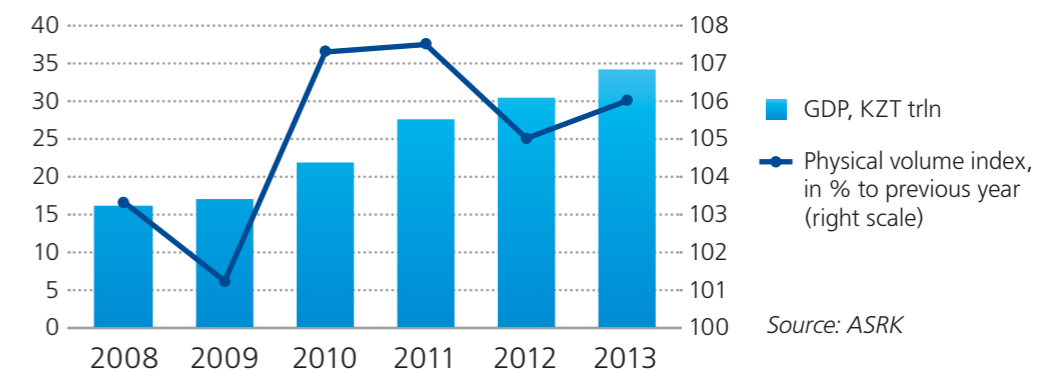
According to data of National Bank of the RK, economic growth in 2013 mainly was in the industries supported by internal demand. At that reduction of world prices for separate groups of the goods and growth of import supplies against high consumer activism imposed pressure to external economic balance.

Sphere of services, in recent years remains main driver of economic growth, its contribution estimated at 67% to the growth of GDP. While contribution of industrial production and agriculture identified only 14% to the GDP growth.

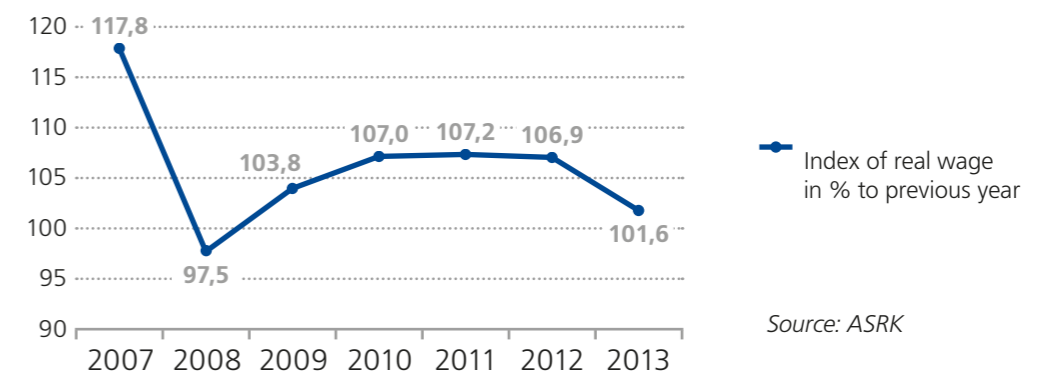
Growth of production in the sphere of services was provided by spheres of information and communication, financial and insurance activity, transport and trading. At that growth temps was decreased, thus amounting 7.4% in 2013 against 10.4 in 2012, GDP contribution reduced from 5.5% to 4%.

For three quarter of 2013 services sphere due to increase of consumers demand provided growth of GDP by 5.6%, at that overall growth amounted to 5.7%. During the period we can observe transfer of home economics from consumer activism to saving of funds, including slowdown in growth of salaries. However in fourth quarter, the purchasing capacity began increasing, what is related to customers belief for improvement of financial condition during current year.

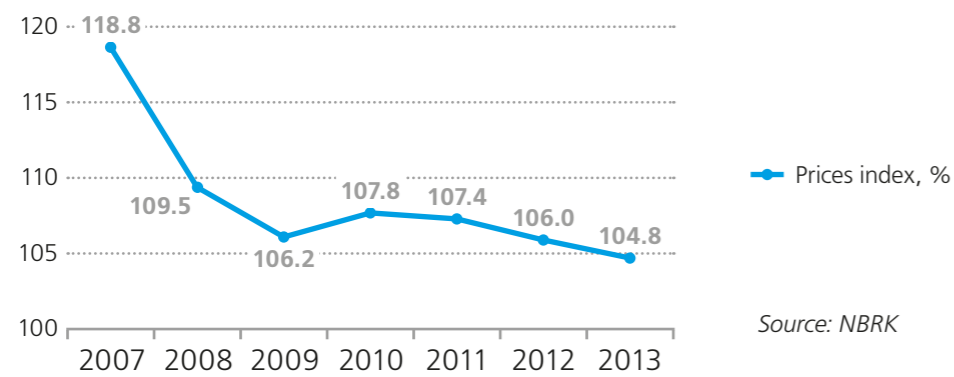
**Kazakhstan GDP Dynamics**



**Growth of real wage turned to be one the lowest for last few years**



### Inflation rapidly decreased in 2013



Industrial growth amounted to 2.3% mainly due to growth in mining sector (3.1%) where we can observe increase of production of crude oil, gas and metallic ores. Manufacture sector, around 40% production of which provides by energy intensive metallurgical complex, showed lowlier gain – 1.6%. Here, ramp up was provided primarily by growth of production of food products and beverages (12.5%) and machinery construction (14.7%). Metallurgical sector, in contrast showed negative dynamics due to decrease of demand from China and EU, as well as the consequence fall of prices for metals.

In 2013 inflation amounted to 4.8% what was lower, specified by the National Bank amount by 6–8%. National Bank of RK informed that creation of inflation processes, initially was on the ground of appreciation of commercial services to population, while prices for food and non-food products were growing by ordinary temps within all year, except 4th quarter.

Growth of prices for electric energy in 2013 amounted 7.3%, for heating 4.3%, what is lower than indicators of 2012 (10.1% and 9.3% correspondingly). Growth of prices for electric energy is within decree of the Government dated March 25, 2009 which assumes annual growth of tariff for electric energy till 2015, that will allow performing modernization of corresponding infrastructure. Growth of prices for heating, related with appreciation of raw materials: coal and masut, as well as reimbursement of indexation of other tariff components.

### Slowdown in growth of prices for electric energy and heating

Prices index as of the end of period in % compared to December of previous year



Structure of payment balance, for the first time since 2009 was negative. The reasons of worsening were situation in metallurgy, where negative tendencies within international demand were supplemented by bad pricing environment. At that growth of physical volumes of export of consumers and investment goods was observed together with insufficient increase of monetary import, what in its turn also imposed pressure to external balance.

Forecasting of short term perspective, experts in general have similar opinion, that Kazakhstan economy within upcoming two years will have similar to 2013 dynamics. among factors which will have key meaning for economy we can highlight prices for oil, situation in international industry, primarily in China, which will impact to metallurgical industry environment and perspectives of Kashagan operation.

### Forecast of Kazakhstan economy growth

Forecast authors	2014	2015
International Monetary Fund (October 2013)	5.0%	5.2%
Ministry of Economics and Budgeting (March 2014)	6.0%	6.0%
World Bank (January 2014)	5.5%	5.7%
European Development Bank (January 2014)	5.3%	5.6%

Source: NBRK



# Energy industry environment

Energy industry provides more than 7% of all industrial production of Kazakhstan and approximately 84% of all electric energy of Kazakhstan generated at combined heat and power plants

## ENERGY INDUSTRY

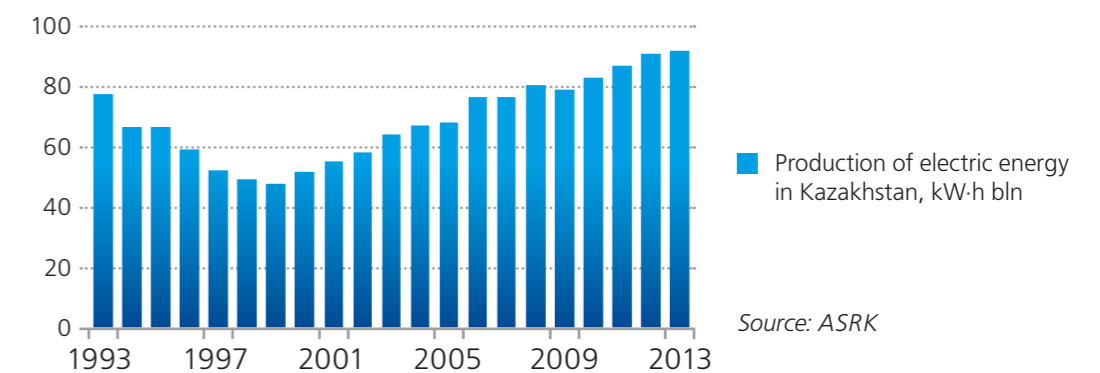
### Generation

72 power plants of different ownership type generate electric energy of Kazakhstan. Total installed generating capacity of power plants in Kazakhstan as of end of 2013 amounted to 20,591.5 MW.

In 2013 aggregated volume of generation in the republic amounted to 91.9 bln kW-h, what is 1.9% higher compared to previous year. At that reduction of electric energy production for 2% was occurred, related with implementation of energy saving technologies at existing productions and enterprise, commissioned within the frames of State program of forced industrial-innovative development.

Major part of electric energy generated by Pavlodar fuel-energy complex, and generating enterprises of Karaganda and East-Kazakhstan regions – most developed production regions of Kazakhstan.

Average increase of generation for 1993–2013 – 3,8%

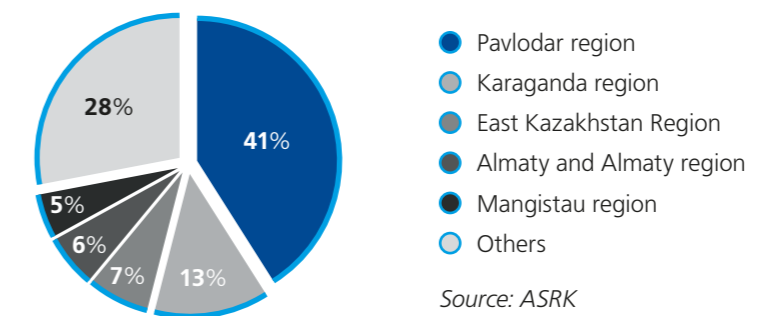


In North regions of Kazakhstan generation of electric energy steadily exceeds consumption, while in South regions contra verse situation is observed. Generation of electric energy in West Kazakhstan fully covers necessities of the region.

Excess of generated electric energy proposed for internal market and export to Russian Federation or Central Asia countries.

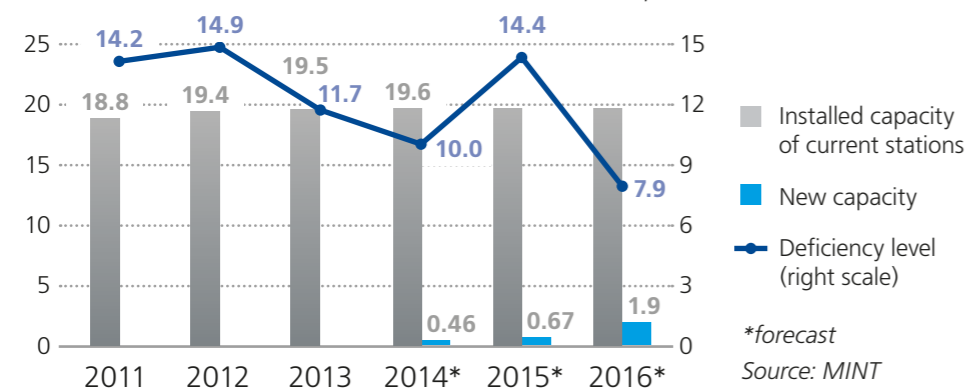
### Pavlodar Fuel – Energy Complex has leading position in the electric industry of the country

Regional structure of electric energy production in Kazakhstan 2013



### Deficit of capacity will be reduced by commissioning new sources

Capacity of Integrated Energy System of Kazakhstan (GW) and level of deficit of capacity (% from maximum consumption)



In 2013 export of electric energy from Kazakhstan to Russia increased twice – from 1.98 bln, kW·h in 2012 up to 3.75 bln kW·h. Import to Kazakhstan, against decreased from 2.55 bln kW·h down to 1.6 bln kW·h. With establishing Eurasian Economic Union the increase of export is expected. Possibility of export to Belarus from Kazakhstan is assumed.

### Transmission and distribution of electric energy

The Integrated electric energy system of the Republic of Kazakhstan located in the center of transport main electricity line 500–1150 kW of Eurasian continent, with following directions:

- European part IES of Russia;
- Asia part of IES of Russia (IES of Siberia);
- IES of Central Asia.

Electric networks of the Republic of Kazakhstan represent complex of substations, distribution points and connecting electricity transmission lines, with a voltage of 0,4–1150 kW, designated for transmission and (or) distribution of electric energy.

The Role of backbone network of IES represents NEN (National electric energy network), which provides electric communication between regions of the country and energy systems of bordering countries (Russian Federation, Kyrgyz Republic and Republic of Uzbekistan), as well as output of electric energy by power plants and its transmission to wholesale market consumers.

National electric energy network, consist of electricity transmission lines, central distribution center, as well as transformer substations, with a voltage from 35 kW up to 1,150 kW, covering all regions of the country and being under control of “Kazakhstan Electricity Grid Operating Company” JSC (KEGOC). KEGOC performs functions for transmission of electric energy through the networks of inter district and inter country level with a voltage of 110–500 kW, as well as functions for organization of balanced production – consumption of electric energy, operative – dispatching management of EES.

Electric networks of regional level provide connections within the regions, and also ensure transmission of electric energy to retail consumers. Electric networks of regional level are on the books and under operation of Regional Electricity Distribution Companies (REDC). Twenty REDC perform transmission and distribution of electric energy at regional level with a voltage of 0.4–220 kW.

Energy transmitting organizations perform transmission of electric energy through own or used electric networks to consumers of wholesale and retail market as well as the energy supply organizations under the corresponding agreements.

Energy supply organizations purchase electric energy at wholesale market and sell it to different consumers at central trades



### Tariff setting

Tariffs for generation, transmission and sale of electric energy in Kazakhstan are regulated by the state.

The ceiling tariffs for the electric energy generation for 2012–2015 were approved by the Government of the Republic of Kazakhstan (RK Government Decree dated March 25, 2009 No. 392).

Service tariffs for electric energy transmissions are regulated by the Agency of the Republic of Kazakhstan on the Regulation of Natural Monopolies (ARNM). The tariff for electric energy transmission had been set in accordance with the company estimated costs of transmission and distribution of energy until 2013.

Starting from 2013, in accordance with Decree of the Chairman of the ARNM dated June 27, 2012 # 152-OD the methodology of tariff setting for electric energy transmission based on the comparative analysis was approved.

This method involves comparing the effectiveness parameters of individual REDC with the rates of other REDCs, increasing efficiency for each REDC, and the investment component in the rate of REDC, which includes amortization deductions and profit.

Comparative analysis is made annually on the basis of information about the production and financial results for the calendar year provided by the REDC in comparison with the information from the previous year.

An important aspect of the existing regulation is the obligation of the investment component in the tariff (due to amortization and profits) for the implementation of an investment program aimed at reducing the equipment depreciation.

### Sale of electric energy

The market of electric energy consists of two levels, the wholesale and retail markets.

The participants on the retail market are all consumers of electricity with a connected load of less than 1 MW and energy-supplying organizations, which sell electricity to them in a competitive environment.

In a centralized market, the sale of electricity is performed through the system (exchange) operator “KOREM” JSC (Kazakhstan Operator of the electric energy and capacity market).

Electricity is sold on the market in the form of contracts for supply of “a day ahead”, “a week ahead”, and “a month ahead”.

According to the results of executed centralized electricity tenders, for 9 months of the year there were 3,433 transactions with the volume of 4,335.5 mln kW·h, totaling KZT 26,767.7 mln.

On the decentralized market, buyers and sellers enter into direct bilateral sales contracts.

The value of the final tariff for electricity varies depending on the region of presence. The cost of electricity depends on a presence of domestic sources in the region, distance from external sources of electricity, and a cost of production.

In accordance with the Law "On Electric Power Industry", the Balancing Electricity Market (BEM), in simulation without paying for purchased and sold electricity in the balancing market, became operational in 2008. Implementation objectives of the simulation model are developed from the mechanism of interaction of BEM subjects, determination of realistic values of production-consumption of electricity imbalances in Kazakhstan UES, specification of requirements in governing powers, and determination of the range of prices for balancing energy.

Since 2010, a comprehensive testing of the operation of the balancing energy market in simulation mode has begun with software products, including the Automated system for accounting of electric energy (ASAE). Currently ASAE has been successfully implemented in the enterprises of "CAEPCO" JSC.

The transition of the balancing electricity market from the simulation model to the real one is scheduled for 2016.

## HEAT ENERGY INDUSTRY

Heat energy in the Republic of Kazakhstan generated by 42 large district heating systems, which constitute of 38 CHP's, remaining balance supplied to consumers from 30 district boiler houses. In 2013 generation of heat energy decreased by 4.8% down to 98.4 mln Gcal.

Complex of elements of district heating system of the Republic represented by cogenerating plants (generating heat and electric energy), as well as systems of heat energy supply to consumers (main and distribution heat networks) and reception of heat by consumers (elevation points, heating points, intra-house distribution).

Main problem of heat supply of the country – high level of depreciation of networks, length of which amounts to 12.2 thousand km, average depreciation of networks within the country – 63%, including 40% or 9.6 thousand km, which has 100% depreciation. Subsequent steady functioning of industry is possible upon significant financial donations, aimed to modernization of the equipment.

Modernization of heat networks of the RK till present moment has not been under mass company. Ministry of regional development of Kazakhstan has developed plan for modernization of heat networks for the period from 2014 till 2020, under the program housing utility will be granted with KZT 120 bln from republican budget for modernization of heating networks. Plan provides reconstruction of networks, providing transmission of more than 400 thousand Gcal of heat energy, namely 17 objects providing services in Astana, Almaty and regional centers, multiplicatively impacting to economy of the country.

Tariffs for heat energy in Kazakhstan controlled by regulator and from 2012 calculated under the differentiation principle depending from availability or absence of metering units at consumers.

Tariff for heating energy consist of three components – tariff for generation of heat, tariff for transmission and tariff for supply of electric energy. According to clause 14 article 14 of the Law "On natural monopolies", period of tariff application established for the period, not less than 12 months, expect cases, when new subject of natural monopoly enters the market.

## KEY EVENTS

2013 was the key year for state program of modernization of generating capacities of Kazakhstan power industry "tariff in exchange for investments". For the period of 2009–2013 (ceiling tariffs for electric energy period) more than 1,700 MW of capacity was commissioned. Total for the period of ceiling tariff program (2009–2015) 3,000 MW of new electric capacity is expected to be commissioned.

In 2013 following work for modernization and increase of capacity of station equipment were performed:

- energy block #6 of Aksu SDPP was modernized with increase of capacity from 300 MW up to 325 MW;
- turbine unit #4 at Petropavlovsk CHP-2 ("SEVKAZENERGO" JSC) was modernized with increase of capacity from 30 MW up to 60 MW;
- turbine unit # 11 of Ust-Kamenogorsk CHP ("AES Ust-Kamenogorsk CHP" LLP) was modernized with increase of capacity from 100 MW up to 120 MW.

According to data of Ministry of Industry and New Technologies (MINT) of the Republic of Kazakhstan total cost of investment program of generating sources till 2014 amounts to KZT 988.4 bln. Level of depreciation of the equipment on all energy sources reduced from 70% (in 2009) down to 58.8% (as of the end of 2013).

In 2013 fully completed implementation of 8 from 14 projects in the power industry, included to state program of forced industrial – innovative development for 2010–2014.

In 2013 more than 20 normative – legislative acts was adopted, which relate to establishing strategy of industry and its separate segments development as well as improvement of regulation of currently valid elements of the power industry.

In July 2013 Government of the RK adopted Law "On introducing amendments and alterations to some legislative act of the Republic of Kazakhstan on issues of supporting use of renewable energy sources", according to new Law objects of alternate power are recognized as mature participants of power market. This Law approved system of calculation tariffs for renewable energy sources.

In August 2013 Government of the RK approved state program "Energy saving – 2020" the purpose of which – establishing conditions for reduction energy intensity of Kazakhstan GDP and enhancement of energy efficiency. Within the frames of the program, state has planned modernization and improvement of energy efficiency of the industry, reduction of losses in heat and electric networks and advocacy of energy saving among population.

Within 2013 Government of RK has issued range of decrees, providing legal base for implementation Power Capacities Market (PCM) from 2016:

- approved standard agreement for procurement of service for supporting electric capacity of newly commissioned generating facilities;
- rules of organization and functioning of PCM.

## DEVELOPMENT PLANS

The necessity of advanced infrastructure supporting of economy main sectors has arisen in Kazakhstan. State program for forced industrial – innovative development is implemented in the Republic. Power industry is one of the base spheres of economy and plays serious role in political and social sphere of the state.

Diversification of economy will significantly impose pressure to energy sector. Electric energy generation increase will be required for satisfaction of internal demand. In this respect expansion and reconstruction of acting and construction of new generation facilities and distribution capacities will be conducted.

In August 2013 Government of the RK approved state program “Energy saving – 2020” the purpose of which – establishing conditions for reduction energy intensity of Kazakhstan GDP and enhancement of energy efficiency. Within the frames of the program state has planned modernization and improvement of energy efficiency of the industry, reduction of losses in heat and electric networks and advocacy of energy saving among population.

Within the frames of energy sector development, Kazakhstan will encourage achievement of global target – reduction of GHG emissions. One of the approaches for generating cheaper, environmental friendly energy is development of nuclear power.

Nuclear energy complexes allow to optimally and in balanced manner use fuel and mineral resources.

The necessity of settlement of environmental issues leads to use of renewable energy resources, share in overall consumption of which amounts less than 1%.

According to strategic development plan of the RK till 2020, approved on February 01, 2010, the following is among the strategic targets in the power industry:

- Reconstruction and modernization of existing generating capacities and distribution energy networks;
- By 2015 share of usage of alternate energy sources in overall volume of energy consumption should constitute more than 1.5%.
- By 2020 generation of energy from own sources, satisfying demand of the economy should constitute 100%; share of alternate sources of energy in total volume of energy consumption should constitute more than 3%.
- Construct and commission Nuclear power plant and Balkash TPP;
- Establish vertically integrated company with nuclear cycle.

## COMPETITIVE POSITION OF “SEVKAZENERGO” JSC



Within the scope of energy market development, “SEVKAZENERGO” JSC in 2013 increased electricity generation by 8% or 192.9 mln kW-h compared to 2012. This fact justified by large-scaled work for modernization and reconstruction of main equipment of “SEVKAZENERGO” JSC. Correspondingly, sales of electric energy to wholesale market have increased.

Main competitors of “SEVKAZENERGO” JSC on the wholesale power market are “EEC” JSC (Aksu SDPP), “Ekibastuz SDPP-1” LLP (SDPP-1) and “Station Ekibastuz SDPP-2” JSC (SDPP-2).

Up to 2015 “SEVKAZENERGO” JSC possess competitive advantage among other energy generating enterprises of the RK at sales on the external (wholesale) electric energy and power market.

The advantage is justified by RK Government Decree dated 25.03.2009 # 392, where ceiling tariffs for “SEVKAZENERGO” JSC 14% below other competitors.

Thus, volumes of power sales restricted are technical capabilities of energy sources of “SEVKAZENERGO” JSC.

Indicator	2013
Overall electricity generation in RK, mln kW-h	91,973
Electricity generation “SEVKAZENERGO” JSC, mln kW-h	2,603
Share in Kazakhstan electricity production, %	2.8
Transaction volume on external contracts by “SEVKAZENERGO” JSC, mln kW-h	1,284.6
Export, mln kW-h	28.6



# Results overview

## MAIN EVENTS OF THE YEAR

In 2013 enterprises of “SEVKAZENERGO” JSC produced 2603 mln kWh of electric power. Production from tires composed 2269 mln kWh, heat power production composed 1791 thousand Gcal. The growth of electric power production volumes in comparison with 2012 reached 8%, while sales of electric power from tires increased by 9,6%.

On May 25, 2013 “SEVKAZENERGO” JSC entered into agreement with European Bank for Reconstruction and Development for the amount of USD 49 mln. USD 40 mln will be directed to modernization and renovation of main production equipment, as well as improvement of environmental conditions of production of Petropavlovsk CHP-2 and USD 9 mln will be directed for financing investment program for modernization and reconstruction of electric networks in North – Kazakhstan region.

This financial investments conditioned by large amount of work performed annually at enterprises “SEVKAZ-ENERGO” JSC for the purposes of increasing equipment reliability and providing region customers with qualitative and continuous energy supply.

The 2013 became significant to “North Kazakhstan Regional Electric Distribution Company”. Electric network enterprise marked 50 years from its establishment. Within investment program as a matter of reconstruction of main equipment, enterprise performed modernization of: power distribution station #8, cable lines, and overhead lines with replacement to modern self-supporting insulated wire, number of transforming substations in Petropavlovsk.

Also, project on construction of ash disposal area #2 Petropavlovsk CHP-2 was accomplished in 2013, allowing steady transfer and storing of ash disposal without impact on environment. Total investment amounts over KZT 3.3 bln.

### Key highlights

Title	2011	2012	2013
Installed electric capacity, MW	357	347	434
Electricity generation, mln kW·h	2,513	2,410	2,603*
Share in Kazakhstan electricity production, %	2.9	2.6	2.8
Volume of electricity transmission, mln kW·h	1,069	1,191	1,173
Volume of electricity sales, mln kW·h	1,966	1,860	2,080
Installed heat capacity, Gcal	803	779	793
Heat generation, thousand Gcal	1,868	1,918	1,791**
Volume of heat transmission, thousand Gcal	1,322	1,304	1,257
Volume of heat sales, thousand Gcal	1,312	1,295	1,250

\*In 2013, the increase of electricity generation was connected to the commissioning of the turbine generator # 4 at Petropavlovsk CHP-2.

\*\*The principal cause of the decrease of heat energy generation was the lowering of outdoor temperature in the 4<sup>th</sup> quarter of 2013, which is in the northern regions of Kazakhstan. In 2012, it was an average of -7.6 °C, whereas it was -0.8 °C in 2013.

### Average tariffs in 2013 (including VAT)

	Electric energy, KZT/kW·h	Heat energy, KZT/Gcal
Petropavlovsk	11.27	3,096



## INVESTMENT PROGRAM

In reporting year implementation of investment activities of "SEVKAZENERGO" JSC amounts KZT 13,76 bln. For the period of 2009-2013 within the frames of the Company's investment program over KZT 38 bln had been realized. Therefrom KZT 17,7 bln has been raised by the state program "tariff in exchange for investments", aimed to renew generating assets. Other part of budget of investment program was formed by involved loans and company's own funds.

Objectives of mentioned above investments are establishment of new assets, enhancement, replacement, reconstruction, modernization and re-equipment of existing equipment at Petropavlovsk CHP-2 of "SEVKAZENERGO" JSC.

In 2013 "SEVKAZENERGO" JSC in full has executed committed investment obligations. In 2013, total investment in reconstruction and development of Petropavlovsk CHP-2 amounts KZT 12.24 bln. At Petropavlovsk CHP-2 in December 2013 new turbine unit station #4 was launched. Launch of new equipment allowed increasing station output of electric energy by 50 mW, heat energy by 96 Gcal. From now on additional electricity output will reach 388.8 mln. kW-h during the year, fuel saving will amount 63.7 thousand tons of coal per year, operating ratio of installed output power will increase up to 81.45%. Also, project on construction of ash disposal area #2 Petropavlovsk CHP-2 was accomplished in 2013, allowing steady transfer and storing of ash disposal without impact on environment. Project cost amounts KZT 6.1 bln. The works on assembly of new boiler unit # 8 (BKZ-270-9,8-540 KT) with production capacity of 270 t/g were performed. Advance payments to "Uralsk turbine plant" CJSC for supply of turbines T-42-90 (TA#1), P-33-90 (TA#5) and "NPO "ELSIB" OJSC for supply of generators for TA#5. Also, project on construction of ash disposal area #2 Petropavlovsk CHP-2 was accomplished in 2013, allowing steady transfer and storing of ash disposal without impact on environment. Total investment amounts over KZT 3.3 bln.

Realization of planned activities of investment program allowed increasing reliability of electric networks, providing fail safety and quality of energy supply, decreasing normative technical losses of approved level (13.45% or 177,140.6 thousand kW-h) for 28,387.2 thousand kW-h or 2.27% and preventing over normative losses of electric energy in reporting year. Activities implemented within investment program allowed to decrease depreciation of capital assets from 75.2% for the beginning of the year 2013, to 73.8% for the end of the year, reduce accident rate at electric networks, decrease quantity of technological disturbances for 26.9% and undersupply of electric energy for 24.5 thousand kW-h or 17.8%, thereby providing more reliable electric energy supply for consumers



## DEVELOPMENT PLAN

### 2014 plans

CHP-2 "SEVKAZENERGO" JSC plans launch of new boiler unit #8 and reconstruction of boiler unit #12 in 2014. Works on replacement of turbine unit #1 (commissioning in 2015) and turbine unit #5 (commissioning in 2016) will be commissioned.

Main objective of CHP-2 "SEVKAZENERGO" JSC for 2014 is continuous, reliable supply of electric and heat energy to consumers. Company plans to produce – 2,689.1 mln kW-h electricity, output from bus-bars – 2,336.6 mln kW-h, heat output from collector station – 1,830.7 thousand Gcal.

In 2014 the Company continues implementation of ASCAPC (automated system for commercial accounting of power consumption), that is designed for energy saving and efficient utilization of energy resources. As of the moment innovation technologies installed at 15 points of upper level together with modernization of HF communication at 4 substations of city and region. It is planned to install ASCAPC for residents in 1,369 metering points.

Works on reconstruction of Petropavlovsk city transit pipeline shall be continued in summer 2014, replacement of 7.8 km of pipeline is expected.

### Plans for 3 years

In the next 3 years, the Company intends to continue implementing the energy saving policy in accordance with ISO 50001 while further performance of the Investment Program.

Company plans to replace turbine set №1 (until 2015) and №5 (until 201) and boiler unit №1 (until 201), №2 (until 2017) and №3 (until 2018). Contracts on delivery of turbine set №1 and №5 by Ural Turbine Works, and turbine generator №5 by "NPO ELSIB". At present, bargaining with manufacturing facilities on assembling of new boiler units is being conducted.



## FINANCIAL AND ECONOMIC ACTIVITY

### Analysis of Financial and Economic Performance for 2013

By the end of 2013, "SEVKAZENERGO" JSC sold electric and heat energy, as well as rendered services for their transmission and sales for the total amount of over KZT 20 bln, which is 26% higher than in 2012.

This increase is conditioned by:

- Growth of volume from electric energy generation;
- Rising of tariff rates according to the Program of maximum tariffs by the Government of the Republic of Kazakhstan.

### Financial and economic indicators for the period of 2011–2013, KZT mln

Indicators	2011	2012	2013
Incomes from the sales and transmission of electric and heat energy	15,881	16,585	20,962
Cost of sales of electric and heat energy	(10,099)	(11,192)	(13,671)
Gross profit	5,782	5,393	7,291
General and administrative expenses	(1,716)	(1,712)	(1,996)
Distribution expenses	(189)	(203)	(248)
Other income	346	605	410
Profit from operating activities	4,223	4,083	5,457
Financial income	390	199	210
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	5,652	5,822	7,648
Financial costs and other costs	(1,800)	(1,709)	(1,855)
Income tax expenses	(713)	(734)	(1,022)
Net profit for the year	2,100	1,839	2,790

For reference: amortization in 2011 – KZT 1,523 mln, 2012 – KZT 1,845 mln, 2013 – KZT 2,297 mln. Net profit of the Company for 2013 was KZT 2.790 bln, i.e. an increase of 51.7% from 2012.

Financial statements of "SEVKAZENERGO" JSC are prepared on a consolidated basis and include the results of activity from the Company's subsidiaries.

## Segment Information

### Financial and economic indicators by segments for the period of 2013, KZT mln

Indicators	Production of Heat and Electric Energy	Transmission and Distribution of Electric Energy	Transmission and Distribution of Heat Energy	Sales of Heat and Electric Energy	Other	Total
Income, total	16,794	3,814	1,719	11,776	143	34,246
Intrasegment income	(1,842)	(93)	–	(11,218)	(131)	(13,284)
Income from sales to external buyers	14,952	3,721	1,719	558	12	20,962
Cost of sales	(9,224)	(2,767)	(1,592)	(76)	(12)	(13,671)
General and administrative expenses	(858)	(563)	(497)	(78)	–	(1,996)
Distribution expenses	(17)	–	–	(231)	–	(248)
Financial income	210	–	–	–	–	210
Financial expenses	(1,536)	–	(2)	–	–	(1,538)
Other income	(26)	77	13	29	–	93
Income tax expenses	(833)	(122)	(26)	(41)	–	(1,022)
Profit for the year	2,668	346	(385)	161	–	2,790
Capital expenditure on fixed assets	8,164	935	663	93	–	9,855
Depreciation of fixed assets	1,648	411	230	8	–	2,297
EBITDA	6,685	879	(126)	210	–	7,648

### Assets and Liabilities

Total assets of the Company as of December 31, 2013 were KZT 61,845 mln, which was 16.4% higher than in 2012.

### Consolidated balance sheet, KZT mln

Indicators	2011	2012	2013
Fixed assets	37,796	44,012	51,769
Goodwill and intangible assets	5	12	17
Other long-term assets	2,035	1,223	2,850
Short-term assets	6,099	7,377	6,550
Cash and cash equivalents	78	499	659
<b>Total assets</b>	<b>46,013</b>	<b>53,123</b>	<b>61,845</b>

**Consolidated balance sheet, KZT mln**

Indicators	2011	2012	2013
Equity	25,621	27,728	29,713
Long-term loans and bonds	4,219	3,909	8,577
Other long-term liabilities	9,693	13,700	14,125
Short-term financial liabilities	4,493	4,730	5,802
Short-term liabilities	1,987	3,056	3,628
<b>Total equity and liabilities</b>	<b>46,013</b>	<b>53,123</b>	<b>61,845</b>

Cost of fixed assets amounted in KZT 51,769 mln, or 84% of total assets value. There was an increase in value of fixed assets by KZT 7,757 mln, or 17.6% in 2013 compared to 2012 and is conditioned by the commissioning of new facilities, reconstruction and modernization of production equipment within the investment programs of enterprises.

Within the Company's liabilities in the structure of long-term liabilities, loans of the European Bank for Reconstruction and Development increased. The current loan portfolio has a high degree of diversification. Total financial debt at end of the reporting year was KZT 14,379 mln, financial leverage – 0.7.

**Cash and cash equivalents****Cash flows, KZT mln**

Indicators	2011	2012	2013
Net cash flows from operating activities	9,388	9,726	13,487
Net cash flow from investing activities	(22,109)	(13,423)	(22,646)
Net cash flow from financial activities	9,163	3,340	10,498
Cash flows at the beginning of the year	5,020	1,345	987
Net increase/decrease in cash flow subject to the effects of exchange rates	(3,675)	(357)	1,355
Cash flow at the end of the year	1,345	987	2,342

**Net cash flow from operating activities**

Net cash flow from operating activities in 2013 was KZT 13,487 mln. A positive dynamic of cash flow from operating activities demonstrates the stability of income and continuity of cash flow from the main activities of the Company. Stability of cash flow from operating activities provides internal resources for debt servicing and increases the probability of gaining access to the external sources of financing.

**Net cash flows from investing activities**

In 2013, the Company used cash flows for investing activities in the amount of KZT 22,646 mln. They were directed to financing the approved investment programs of enterprises.

**Net cash flow from financial activities**

During the year 2013, the Company received financing from the EBRD's funds in the amount of KZT 2,250 mln and USD 20 mln. The Company manages cash flows and the level of financial leverage by maintaining adequate reserves, attracting credit lines and bank loans, monitoring predicted and actual cash flows.

**Actual and Planned Indicators for the Year 2013**

By the end of 2013, minor deviations of actual production indicators from the planned ones were fixed.

The deviation from the plan by 15% was fixed on decrease of electric energy normative losses. Decrease in losses of electric energy is influenced by:

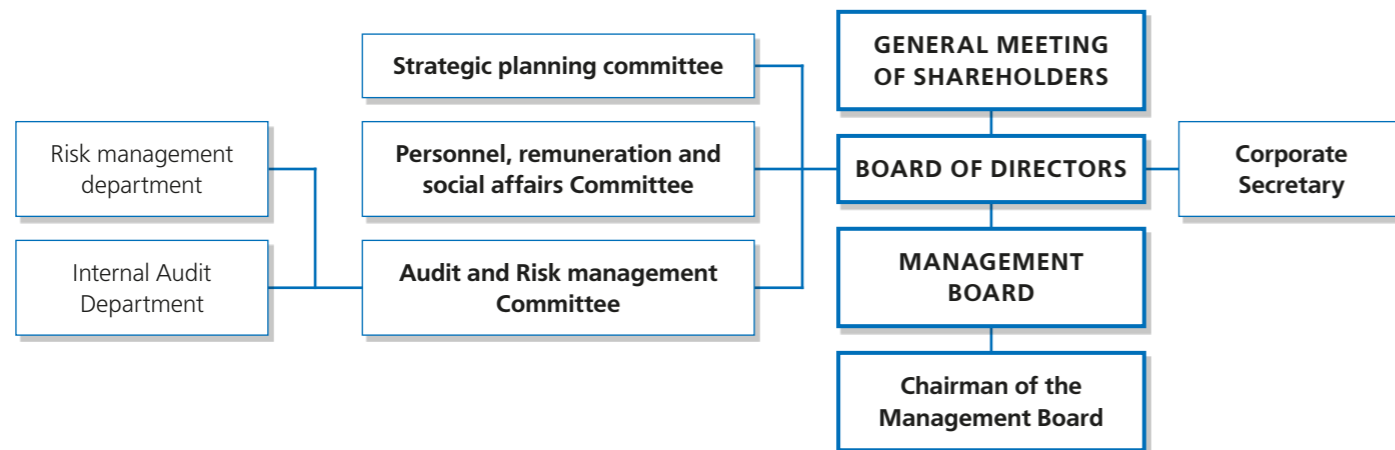
- non-fulfilment of applied volumes of electric energy transmission due to reduction of electric energy transmission volumes to external companies.
- organizational and technical activities being conducted, according to developed plan for 2013,
- installation of metering devices for substation needs,
- realization of switching-overs in 110-220kW networks,
- switching power transformers to stand-by mode.

Growth of heat energy losses by 8% was conditioned by technological disturbance on transmission and distribution networks, in amount of 453 cases.

**Production performance indicators**

Indicators	2013 Actual	2013 Planned	Deviation, %	2012 Actual
Electrical energy generation, mln kW-h	2,603	2,605	0%	2,410
Electrical energy busbar output, mln kW-h	2,269	2,241	+1%	2,070
Heat energy output from collectors, thousand Gcal	1,791	1,827	-2%	1,918
Electrical energy transmission (minus economic needs of distribution electro network companies), mln kW-h	1,173	1,236	-5%	1,182
Heat energy transmission (minus economic needs of heating stations), thousand Gcal	1,257	1,325	-5%	1,299
Marketable electrical energy output, mln kW-h	2,080	2,025	3%	1,860
Marketable heat energy output, thousand Gcal	1,250	1,316	-5%	1,295
Installed electric power, MW	434	359.5	+21%	347
Installed heat power, Gcal-h	793	802.0	-1%	778
Electrical energy losses, %	11.2%	13.1%	-15%	13.2%
Heat energy losses, %	28.6%	26.4%	8%	31.0%

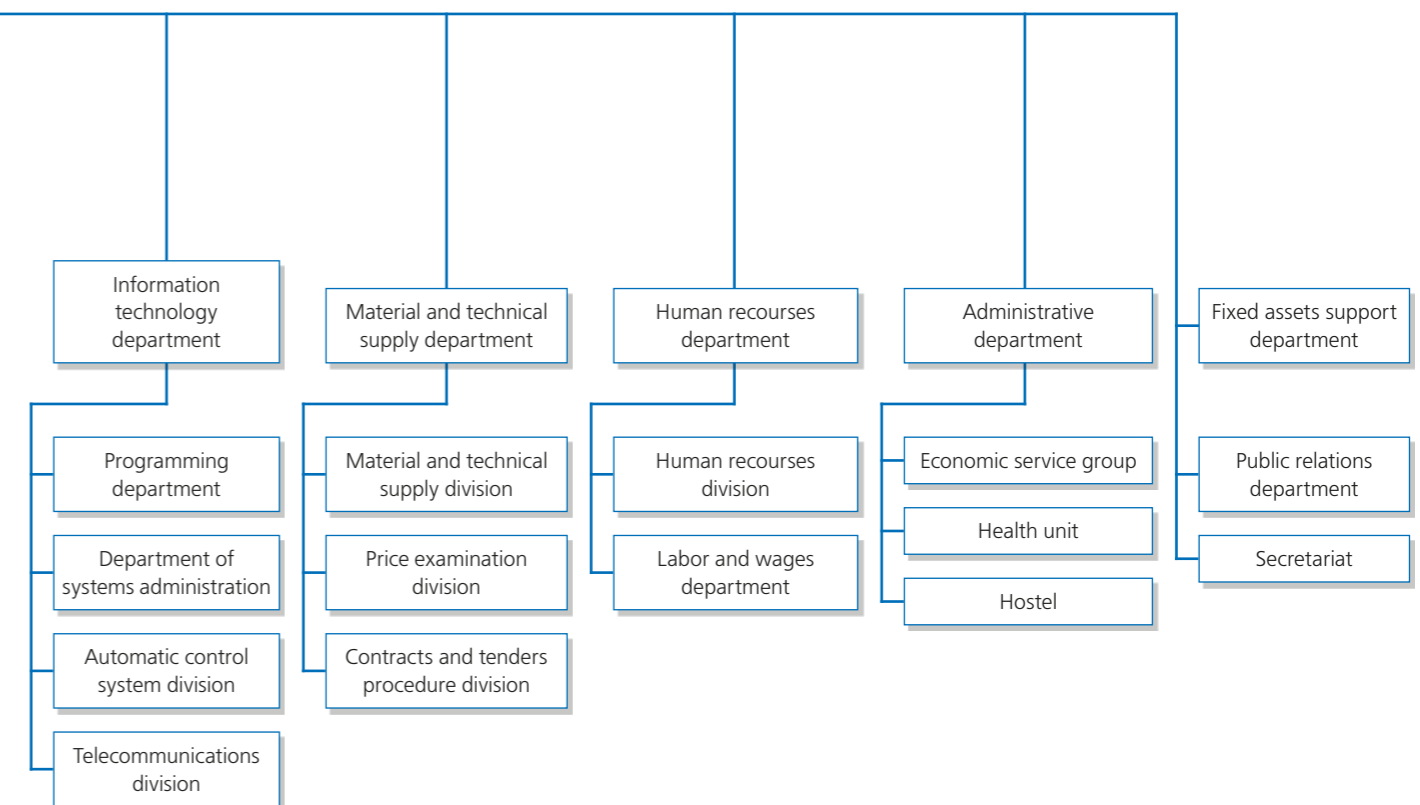
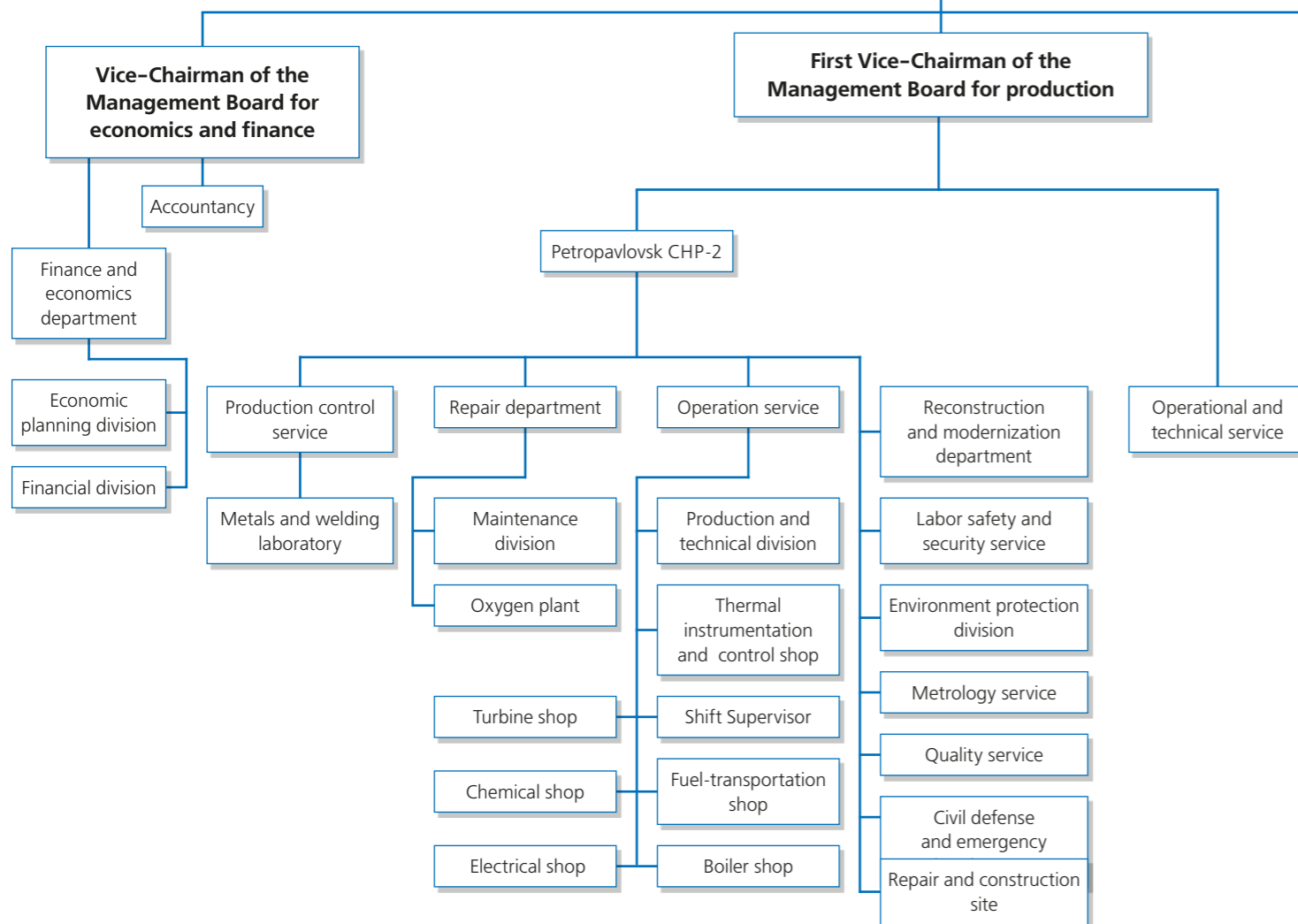
# Corporate governance



## Governing bodies

In accordance with the Articles of Association of "SEVKAZENERGO" JSC the following bodies regulate activities of Joint Stock Company:

- Supreme body – the General Meeting of Shareholders
- Governing body – the Board of Directors
- Executive body – Management Board



## REPORT ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

In "SEVKAZENERGO" JSC system of corporate governance is operated, providing transparency and efficiency of management decisions.

Activity of "SEVKAZENERGO" JSC is regulated by the Code of Corporate Governance and by the Code of Business Conduct, that are aimed to develop and strengthen credibility to the Company on the part of shareholders, consumers and investors, and the Company as a whole.

The Corporate Governance in the Company is based on the following principles:

- **Accountability** – is accountability from the Company's Board of Directors to the shareholders, of the executive bodies to the Company's Board of Directors, of employees to Executive Management (President of the Company). This principle ensures accountability and separation of powers of the Company's governing bodies, as well as full accountability to the shareholders of the Company, which is accomplished by providing timely and complete reliable information to the Company's shareholders about the current financial position of the Company, achieved economic indicators, results of operations, and the Company's management structure that makes it possible for shareholders and investors of the Company to make informed and effective decisions;
- **Responsibility**, is the responsibility of the Company to its shareholders, employees, customers and partners, close cooperation with them for increasing the Company's assets, for increasing its stability and reliability. This principle determines the ethical standards for shareholders and employees of the Company, as well as provides for liability of officers of the Company while exercising unlawful guilty (intentional or negligent) acts or omissions as stipulated by the current legislation;
- **Transparency** – is the timely disclosure of accurate information about all important facts relating to the functioning of the Company, including its financial position, performance, ownership and management structure, in volumes stipulated by legislation and internal documents, as well as ensuring free access for all concerned parties to such information by placing it in readily available public sources in the order stipulated by the legislation and internal documents of the Company. This principle ensures maximum transparency of the activity of the Company's officers;
- **Efficiency** – means the President of the Company and its Board of Directors are required to provide reasonable and conscientious management of the Company that ensures a stable growth of its financial performance, increase in shareholder ownership and establishment of effective personnel policies, professional development of the Company's employees, motivation of labour and social security, and protection of interests to the Company's employees;
- **Controllability** – means control over financial and economic activity of the Company in order to protect the legitimate rights and interests of the Company's shareholders; supervision of superiors over the subordinate managers in accordance with the policies and procedures approved by the Company's Board of Directors; and the effective use of work of internal and external auditors along with the establishment of an effective system of risk-based internal control;
- **Environmental protection and social responsibility** – means the Company ensures a careful and rational attitude toward the environment in the course of its business and bears a social responsibility.

By improving standards of corporate governance, the Company aim for provision of stability. Well-adjusted business processes allow achieving high efficiency. For development of business processes and increase of adjudge efficiency mechanisms of internal control are set.

The main way of implementation by the shareholders of their rights described in the Articles of Association of the Company is their participation in the General Meeting. The Annual General Meeting of Shareholders is held every year in a mandatory manner.

## ACTIVITY OF THE GENERAL MEETING OF SHAREHOLDERS IN 2013

Practice of the corporate governance of the Company in 2013 was fully consistent with the Code of Corporate Governance.

1 (one) annual and 4 (four) extraordinary General Meetings of Shareholders were held in 2013. During the General Meeting of Shareholders the attention was focused on the following key issues:

- Election of the members to the Board of Directors of "SEVKAZENERGO" JSC;
- Approval of the financial statements of "SEVKAZENERGO" JSC for the financial year 2012;
- The decision on the allocation of net profit for the financial year 2012.

## BOARD OF DIRECTORS

The Board of Directors of "SEVKAZENERGO" JSC maintains overall management of the Company's activities, except issues determined by the present Articles of Agreement and Act on Joint-Stock Companies, for exclusive competence of General Meeting of Shareholders, forms and controls the Company's governing body. Furthermore, the Board of Directors of "SEVKAZENERGO" JSC makes decisions on the activity, within the competence of General Meeting of Shareholders (participants) of the following legal entities – "Sevkazenergosbyt" LLP, "Petropavlovsk Heat Networks" LLP of which 100% of shares in charter capital belongs to "SEVKAZENERGO" JSC. The Board of Directors of "North Kazakhstan Regional Electric Distribution Company" JSC (subsidiary of "SEVKAZENERGO" JSC) also performs management functions over electric grid company.

### Members of the Boards of Directors of Joint-Stock Companies as of December 31, 2013

Members of the Board of Directors	Position	Date of election/ date of power expiry
Yerkyn Adamiyanovich Amirkhanov	Chairman of the Board of Directors	22.02.2013–21.02.2015
Gulnara Dzhumagaliyevna Artambayeva	Member of the Board of Directors	22.02.2013–21.02.2015
Eldar Rashitovich Tabanov	Independent Director	22.02.2013–21.02.2015

## Information about the Members of the Board of Directors



### Yerkyn Adamiyanovich Amirkhanov (1967)

Chairman of the Board of Directors

President of "CAEPCO" JSC, Chairman of the BOD of "SEVKAZENERGO" JSC

- 01.07.2001** Chairman of the BOD of "PAVLODARENERGO" JSC
- 30.06.2004** Member of the BOD of "Eximbank Kazakhstan" JSC
- 20.08.2007** Member of the BOD of "CAPEC" JSC
- 16.03.2009** Member of the BOD of "CAEPCO" JSC
- 28.05.2009** Chairman of the BOD of "Caustic" JSC
- 22.04.2011** President of "CAEPCO" JSC
- 25.10.2011** Chairman of the BOD of "SEVKAZENERGO" JSC
- 25.02.2013** Chairman of the BOD of "AEDC" JSC



### Gulnara Dzhumagaliyevna Artambayeva (1969)

Member of the Board of Directors

President of "CAPEC" JSC,  
Member of the BOD of "SEVKAZENERGO" JSC

- 16.06.2000** President of "CAPEC" JSC
- 27.06.2002** Member of the BOD of "CAPEC" JSC
- 27.06.2002** Member of the BOD of "PAVLODARENERGO" JSC
- 07.10.2002** Member of the BOD of "Pavlodar Regional Electric Distribution Company" JSC
- 31.03.2004** Member of the BOD of "Eximbank Kazakhstan" JSC
- 27.04.2007** Chairman of the BOD of "AIFRI "CAPEC Invest" JSC
- 16.03.2009** Member of the BOD of "CAEPCO" JSC
- 07.07.2011** Chairman of the BOD of "ASTANA Pension Fund" JSC



### Eldar Rashitovich Tabanov (1968)

Independent Director ("SEVKAZENERGO" JSC, "North Kazakhstan Regional Electricity Distribution Company" JSC)

Is not affiliated party

- 01.10.2009–31.12.2011** Head of executive office of Chairman of the Management Board of "Tsesna Bank" JSC
- 01.01.2012–31.12.2012** Counsellor to Defense Minister of the RK
- May 2012** Vice-president "Center of military strategic investigations" JSC
- 03.01.2013** Member of the BOD (independent director) of "CAPEC" JSC
- 22.02.2013–25.10.2013** Member of the BOD (independent director) of "PAVLODARENERGO" JSC
- 01.01.2014** Member of the BOD (independent director) of "NK REDC" JSC

## Remuneration

Rate of remuneration of members of the Board of Directors is determined by the decision of the General Meeting of Shareholders. The total amount of remuneration paid to the Board of Directors of "SEVKAZENERGO" JSC in 2013 was KZT 14,788 thousand.

## Committees under the Board of Directors

### Committees acting under the "SEVKAZENERGO" JSC as of December 31, 2013

Committee title	Members of the Committees
Strategic planning Committee	Eldar Rashitovich Tabanov (Chairman of the Committee)
	Yerkyn Adamiyanovich Amirkhanov
	Oleg Vladimirovich Perfilov
Audit and Risk Management Committee	Eldar Rashitovich Tabanov (Chairman of the Committee)
	Gulnara Dzhumagaliyevna Artambayeva
	Oleg Vladimirovich Perfilov
	Zhanar Zhandarbekovna Rakhimberlinova
	Aizhan Omarovna Stanbayeva
Personnel, remuneration and social affairs Committee	Eldar Rashitovich Tabanov (Chairman of the Committee)
	Yerkyn Adamiyanovich Amirkhanov
	Oleg Vladimirovich Perfilov
	Natalya Valeryevna Konstantinova

#### The Strategic planning Committee.

Competence of the Committee involves issues related to determination and implementation of prior business lines, its development strategy; efficiency of corporate governance, realization of investment projects and control over strategy performance of the Company.

#### The Audit and Risk Committee.

Competence involves issues on improvement and enhancement of internal audit, as well as risk management system, development of recommendations for the Board of Directors and Management Board.

#### Personnel, remuneration and social affairs Committee.

Competence – issues on election/assignment candidates for member positions of governing body, internal audit and risk management departments, corporate secretary, other departments and accessory subdivisions of the Company, remuneration, human resources policy and its implementation, social support policy for personnel of the company and settlement of social issues.

The status, main objectives, tasks, powers, and order of activity organization and responsibility of Committees are determined by Provisions for each of the committees, effective since April 30, 2013.

### Management Board

Executive collegial body of "SEVKAZENERGO" JSC is management board, consisting of eight members, headed by Chairman of the Management Board. The Management Board arranges management of the Company's current activities, executes decisions of the Board of Directors and General meeting of shareholders.

The amount of remuneration to the management board is defined by decision of General meeting of shareholders of "SEVKAZENERGO" JSC.

Management boards of the Company's subsidiaries: "North Kazakhstan Regional Electric Distribution Company" JSC, "Petropavlovsk Heat Networks" and "Sevkazenergosbyt" LLP appear to be individual – there is general director for each.

### Members of the Management Board as of December 31, 2013

Organization	Members of Management Board	Position
"SEVKAZENERGO" JSC	Edil Kudaibergenovich Kopenov	Chairman of the Management Board
	Alla Anatoliyevna Yazovskaya	Member of Management Board – Deputy Chairman of the Management on finance and economics
	Serik Syunbekovich Tutebayev	Member of the Management Board – Deputy Chairman of the Management Board for Production
"North Kazakhstan Regional Electric Distribution Company" JSC	Alexandr Anatoliyevich Reizlin	President
"Petropavlovsk Heat Networks" LLP	Kuandik Kunanbayevich Kenesbayev	General director
"Sevkazenergosbyt" LLP	Magauya Karipulanovich Sagindikov	General director

## INFORMATION POLICY OF THE COMPANY



Information policy of the "SEVKAZENERGO" JSC assigned to provide full understanding on the Company's activities for diverse interested parties, and support its business reputation.

The objective of information disclosure about "SEVKAZENERGO" JSC is to increase openness and trust towards the Company by means of information provision to targeted audience and other interested parties in value needed to make decisions on actions that could affect the financial and economic activities of the Company.

The targeted audience involves shareholders, investors, clients, business partners, personnel, society, and government agencies. The Company Management realizes high social responsibility and supports permanent dialogue with interested parties, strengthens reputation, develops informative potential of the Company in whole.

Information policy principles are:

- information fairness for shareholders, investors and other interested parties;
- regularity and timeliness of information provision;
- reliability and completeness of information;
- efficiency and availability of disclosed information;
- confidentiality compliance for information constituting state security, business or commercial secret;
- control over usage of insider information.

## DIVIDEND POLICY

The Company's policy regarding accrual declaration procedure, amount, form and terms for dividend payment are defined in the Company's Charter.

The main principles of the dividend policy of the Company are:

- The balance of interests of the Company and its shareholders in determining the amount of dividends;
- Priority and obligation for execution of adopted investment program and growth of capitalization;
- Providing profitability per contributed equity and increase of investment attractiveness of the Company.

The General Meeting of Shareholders makes the decision on the annual dividend on the recommendation of the Company's Board of Directors. In 2013 dividends upon the results of 2012 were paid to the shareholder in full, amount dividend per one share was KZT 4.0244, current book value of the share as of 31.12.2013 amounts to KZT 206.42.

## INTERNAL CONTROL AND AUDIT

The Internal Audit Department (hereinafter IAD) was established in 2013. Internal documents on internal audit management were developed in reporting year.

IAD directly subordinated to the Board of Directors of the Company. Supervision of IAD activity is performed by the Audit and Risk Management Committee under the Board of Directors of "SEVKAZENERGO" JSC.

In accordance with the Provision on Internal Audit Department:

- Performs work in accordance with Action plan approved by the Board of Directors.
- Provides to the Board of Directors and to the Audit and Risk Management Committee quarterly and annual reports on IAD activity.

In 2013, audit of "SEVKAZENERGO" JSC and its subsidiaries was implemented by the Internal Audit Department of "CAEPCO" JSC. 10 audit inspections were conducted for the following directions:

- Testing the consolidated financial statements of "SEVKAZENERGO" JSC in compliance with IFRS;
- Evaluating the effectiveness of the internal control system of business processes:
  - Preparation and consolidation of financial reports,
  - Preparation and drawing up the management reports to the Board of Directors of "CAEPCO" JSC,
  - Taxes accounting,
  - Income accounting and settlements with debtors;
- Spot-check inventorying of fixed assets and inventories;
- Monitoring the corrective actions of the Company in order to implement the recommendations of the "CAEPCO" JSC Internal Audit Department and "Deloitte" LLP;
- Consulting work.



# Risk management

## DESCRIPTION OF THE RISK MANAGEMENT SYSTEM

The Company has a corporate risk management system and an internal control system functioning.

When improving the risk management system (RMS) and the Internal Control System (ICS), the Company follows international standards of corporate risk management systems 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 Board of Directors. The department's work is carried out in accordance with the annual work plan approved by the Board of Directors.

The following work was done by Risk Management Department in 2013:

- Analysis and testing the effectiveness of the organization in the ICS business processes:
  - Planning and budgeting,
  - Investment activity management,
  - Labour and environment protection,
  - Information technologies and information security,
  - Development and implementation of the basic principles of corporate management;
- Updating the risk register and risk maps of the Company;
- Monitoring the implementation of measures to improve the organization ICS and risk management;
- Education in the field of risk management for key employees of the Company;
- Working with an insurance broker for insurance of property risks of generating facilities of the Company, transfer of property reinsurance risks to the international reinsurance organization;
- Development Methodologies for the development of key risk indicators (KRI) in order to improve the Company's RMS.

## ANALYSIS OF RISKS THAT HAVE A SIGNIFICANT IMPACT ON THE ACTIVITY

According to the actual results from the corporate risk register and risk maps of the Company held in 2013, some potential risks were identified that are conditionally divided into operational, financial and legal, in accordance with the Risk Management Policy approved by the Company.

### Operational Risks

In 2013, the operational risk management of the Company in accordance with the classification and severity level adopted according to the register and risk map has defined the following directions of the activities:

- Health and Safety;
- Technological Risks;
- HR management.

In order to control risks in the field of occupational health and safety, and to reduce the traumatism level, the OHSAS standard 18001:2007 and certificates of conformity, which are periodically confirmed by independent certification bodies, were introduced at enterprises of "CAEPCO" JSC

Operational risks in production are minimized through continuously monitoring the level of reliability of the equipment, the overhaul and repair, and equipment modernization according to the investment program, procurement of modern diagnostic tools.

In order to reduce personnel risks, the Department of Personnel Management developed the Personnel Management Policy, which sets out priorities within the development of the personnel management system of the Company; differentiated pay increases were conducted, and measures are being taken to improve the skills of workers in cooperation with specialized educational institutions, and etc.

### Financial risks

#### Liquidity risk

The company notes the exposure to liquidity risk, including monetary default as repayment terms come up. The Company manages liquidity risk by maintaining adequate reserves, banking loans, confirmed loan facilities and working capital funds through constantly monitoring the net debt of the Company while taking into account the expected outlook for the financial position of predicted and actual cash flow and future capital commitments.

#### Risk of rising prices for purchased equipment, materials and supplies

The Company is exposed to price increases on purchased coal as CHP equipment was designed for use with a certain type of coal being purchased from a single source. However, the Company's ability to monitor this risk and the extent of its impact on operating profit depend on the level of regulation of coal prices by the state. They increase in the rate of reimbursement through the mechanism of emergency regulatory measures.

#### Market risks

The company notes currency risk and interest rate risk exposure. The company has substantial liabilities denominated in U.S. dollars. To manage its exposure to the U.S. dollar exchange rate, the Company monitors the changes in exchange rates. In 2013, "SEVKAZENERGO" JSC did not conduct any hedging currency risk operations due to the absence of choice in financial instruments derivatives in the market of Kazakhstan. In this regard, the Company uses a natural hedging method by placing available funds on deposits denominated in U.S. dollars and monitoring the effectiveness of long-term investment programs.

The company is sensitive to the volatility of interest rates, as it has borrowings with floating interest rates. Interest on EBRD loans is based on the EBRD interest rates on interbank loans and LIBOR and KazPrime deposits. Long-term credit resources of the Company are provided through a natural hedge in this group of risks due to investments.

#### Credit risk

Credit risk arising from counterparty default shall be limited to the value the counterparty's obligations that exceed the obligations of the Company to this counterparty.

Concentration of credit risk may arise if there are several outstanding amounts from one user or a group with similar conditions of activity.

The Company Consumer is represented by general public in most. However, risk is situated in manageable conditions. The Company holds up activities on demand of accounts receivable.

### Legal risks

Violation of the requirements of environmental (ecological) legislation is a significant risk that the Company's management identified in the category of legal risks.

To minimize this risk, the Company, based on the Environmental and Social Action Plan (ESAP) for 2012-2014, conducted the monitoring to determine the impact of activities on the environment. Under the industrial environmental monitoring Program, the emission sources, the quantity and quality issues, as well as their dynamics are being monitored. Activities of the investment program provide, as one of the main directions, improved environmental parameters, and reduced risk of this group, respectively.





# Personnel and social policy

## HR MANAGEMENT POLICY

The main purpose of the personnel policy of "CAEPCO" JSC is the formation of a highly professional staff in accordance with the Company's development strategy.

Main policies for solving problems of conservation, replenishment and development of human resources are:

- Identifying critical, key employees, holding which is preferred value for the Company;
- Cooperation with higher, secondary and further professional educational establishments with a focus on energy profile schools and departments;

- Development of training, retraining and coaching of personnel systems with extensive use of the existing opportunities of training centers and the implementation of flexible learning technologies;
- Improving the system of motivation, promotion of social partnership system;
- Increased personnel reserve work.

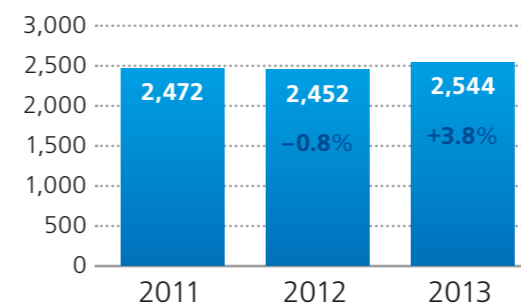
## STAFFING NUMBER AND QUALIFIED COMPOSITION OF PERSONNEL

Staffing number of Company as of 31.12.2013 constituted 2,544 people. Staffing number has increased by 3.8% compared to 2012 due to the following reasons:

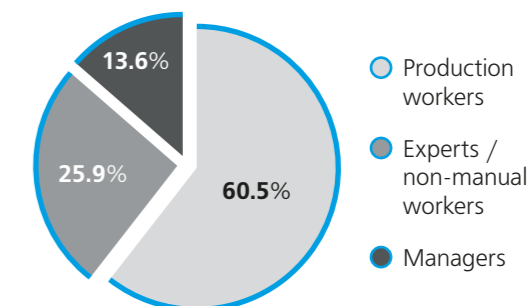
- Growth in the volume of production and sales of energy;
- Decrease of staff turnover;
- Hiring personnel to vacant positions.

The staff strength has reduced in 2012 by 0.8% relative to 2011 conducted to the increase of staff turnover.

**Dynamics of changes in number of personnel for 2011–2013 (people)**



**Personnel structure by category**

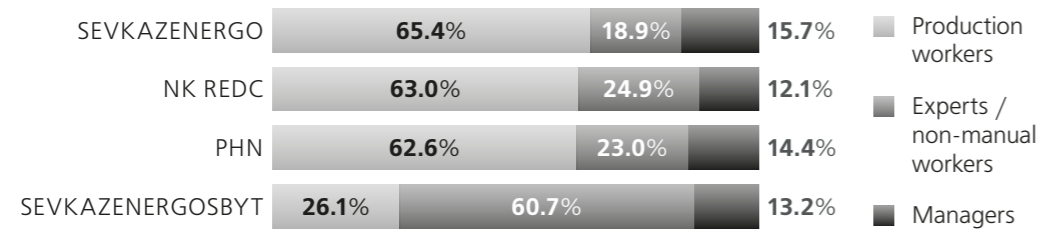


Share of employees in the "Executives" category was 13.6% of the total staffing number, which is optimally balanced indicator.

**Personnel structure by grade and sex**

Category of Personnel	Total Number of People	Men		Women	
		People	Share	People	Share
Staff strength	2,544	1,625	63.9%	919	36.1%
Managers	346	261	16.0%	85	9.3%
Experts / non-manual workers	658	279	17.2%	379	41.2%
Production workers	1,540	1,085	66.8%	455	49.5%

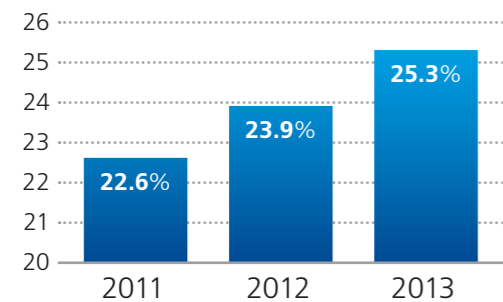
**Distribution of staff by category in subsidiaries of the Company**



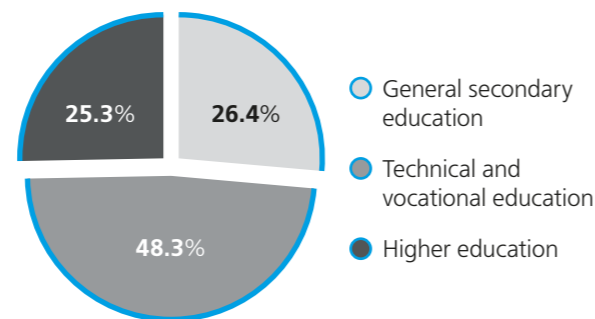
Distribution of personnel by categories in subsidiaries of the Company is adequate.

There was a general increase in the number of employees that have higher education by 1.4% compared to 2012 and a 2.7% increase compared to 2011.

**Dynamics of employees with higher education (%)**



**Employees education level**

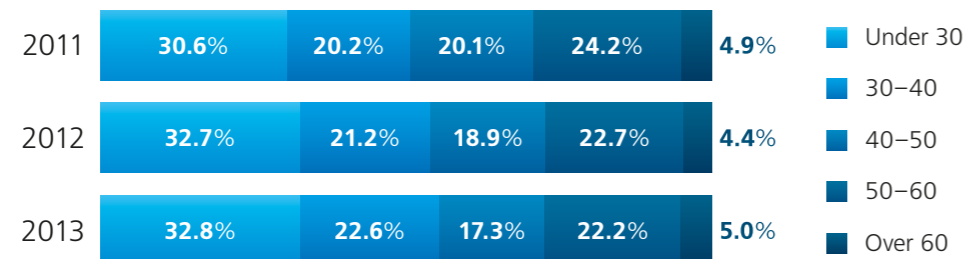


The number of employees of the Company studying on distance learning in the field of energy and Vocational Education on 12/31/2013 was:

- Higher Education – 52 employees;
- Technical and Vocational Education – 48 employees.

The age range of the Company's employees is characterized by a high proportion of workers who are in their most productive professional employment age. The proportion of workers under the age of 40 year is 55.5% of the total number.

**Age range of employees**



**The average age of a management worker at "SEVKAZENERGO" JSC and subsidiaries**

	SEVKAZENERGO	NK REDC	PHN	SEVKAZENERGOSBYT
Average age, years	40.5	38.9	40.8	38.8

**EDUCATION AND DEVELOPMENT OF THE PERSONNEL**



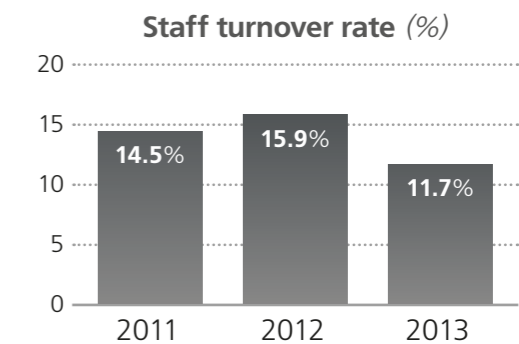
The corporate training and development system includes the following areas: mandatory, regulatory training; development of managerial skills; development of professional competencies.

Education and development indicators	2011	2012	2013
Number of employees trained, retrained and passed for professional development, including:	1,328	814	1,275
passed mandatory training on industrial safety, occupational safety training for civil defense and emergencies, permitted to work	859	665	1,033
Trained according to QMS ISO9001, ISO14001, OHSAS1800	18	12	26
Training, certification, recertification	451	137	216

**PERSONNEL FLOW**

The Company employee turnover ratio has decreased in 2013 to 11.7%. In 2013, a program of activities aimed at improving the situation was implemented:

- Cooperation with higher and secondary special educational establishments with an emphasis on specialty profile to attract young professionals.
- Mentoring institute development for quick adaptation of new employees and motivating teachers to transfer their experience.
- Assessing capabilities of enterprises in housing expansion.
- Optimization of regular staffing of enterprises to identify the wage fund reserves and direction of released funds to increase wages.



## PERSONNEL RESERVE

In 2013, the personnel reserve of 244 heads of higher, secondary and primary levels of management was formed. The personnel reserve was developed based on the program of preparation of individual plans of professional, organizational and managerial training of reservists, including training, professional development, mentoring, performing administrative functions, and the temporary movement of personnel. The external personnel reserve is being formed.

## MOTIVATION AND STAFF INCENTIVES

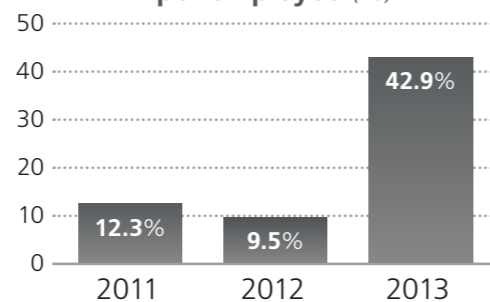
Financial stimulation and the provision of social benefits and guarantees to employees of enterprises of "CAEPCO" JSC are important tools in motivating staff to increase productivity and efficiency in general.

The staff motivation system of the Company includes official salaries, allowances and additional compensatory and incentive-based payments and bonuses for completing key performance indicators.

A time-bonus wage system is used in "SEVKAZENERGO" JSC.

The Target Level of Wages in the Company corresponds to the average rate on the market of Kazakhstan companies in the industrial sector of the economy.

Dynamics of average income per employee (%)



### Staff income structure

The Permanent Part	The Variable Part
<ul style="list-style-type: none"> <li>Position salary / wage rate</li> <li>Bonuses and allowances established by the current legislation of Kazakhstan</li> <li>Bonuses and allowances established by corporate standards</li> </ul>	<ul style="list-style-type: none"> <li>Regular bonuses</li> <li>Lump-sum bonuses</li> <li>Long-term bonuses</li> </ul>

### Social support, guarantees and compensatory payments of the company

Goals	Social Package
Motivating the staff for long-term performance	<ul style="list-style-type: none"> <li>Additional professional pension contributions in the amount of 5%</li> <li>Award for anniversaries, retirement</li> <li>Award to pensioners on professional holidays and anniversaries</li> <li>Company veteran support program</li> </ul>

### Social support, guarantees and compensatory payments of the company

Goals	Social Package
Effective compensatory and concession system	<ul style="list-style-type: none"> <li>Payment vouchers to camp for children up to 14 years</li> <li>Compensation cost of housing and communal services, dormitory benefits</li> <li>Professional competition bonuses</li> <li>New Year gifts for children</li> </ul>
Maintaining health and performance efficiency of the personnel	<ul style="list-style-type: none"> <li>Insurance against work accidents and diseases</li> <li>Obligatory medical insurance</li> <li>Cost recovery for sanatorium-preventive treatment</li> </ul>
Social assistance to the workers	<ul style="list-style-type: none"> <li>Financial assistance for child birth</li> <li>Financial assistance for funeral services</li> <li>Paid educational leave</li> </ul>
Sports and recreational activities	<ul style="list-style-type: none"> <li>Cost recovery for meals to participants of sporting events</li> <li>Cost recovery for holding cultural events and collective recreation</li> </ul>

## OCCUPATIONAL SAFETY



At the subsidiary enterprises of the "SEVKAZENERGO" JSC a safe environment for staff is provided taking into account industry-specific risks and hazards at the workplace.

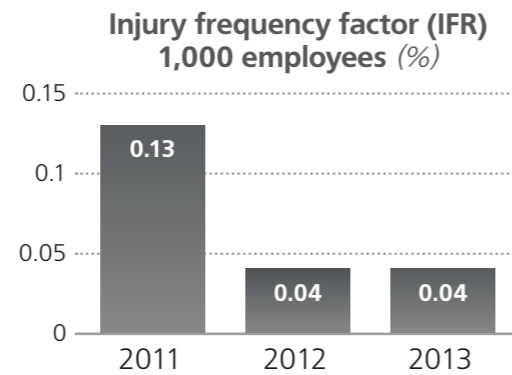
In the context of improving the management system of occupational safety, the enterprises use the international standard OHSAS 18001.

During the operation, enterprises implement actualize occupational safety policy making it available to staff and allocate resources for that purpose.

The corrective actions are carried out if necessary to continuously improve the occupational health and safety.

Strategic Objectives in the Field of Occupational Health and Safety are:

- Improving the occupational safety;
- Improvement of working conditions in the work-place;
- Staff recreation through medical preventive activities.



**Occupational safety main indicators**

	2011	2012	2013
Number of traumatic cases	3	1	1
Number of production conferences held	100	118	226
Number of days spent on occupational safety	36	55	76

**SPORTS AND LEISURE**

Employees of “SEVKAZENERGO” JSC enterprises take an active part in the annual sports day “Densaulyk” in various sports, including winter fishing, bowling, billiards, orienteering and more. By the end of 2013, the Company “SEVKAZENERGO” took first place in the “Densaulyk” Games.

In addition, internal competitions among enterprises of the group are held annually in twelve kinds of sports. In 2013, an open tournament on mini-football was organized on the 50th anniversary of “NK REDC” JSC.



**CHARITY AND SPONSORSHIP**

“SEVKAZENERGO” continuously supports regional boarding schools for orphans and children left without parental care. The rooms of students are repaired annually, children go bowling, go to water parks, and go to movie theaters during the holidays. They are also provided with office supplies, clothing and furniture. The funds are allocated for the purchase of gifts for birthdays of wards and for graduates on their graduation day.

All labor and WWII veterans, as well as the pensioners of companies receive an annual material support in the form of food packages, monetary rewards, and coal provisions for jubilee holiday dates. The patronage of veterans is conducted at their homes. The concerts and dinners are held on May 9.

**INTERACTION WITH TRADE UNIONS**

“SEVKAZENERGO” JSC has functioning trade union organizations. The collective agreements are concluded for 2014-2016.

The number of employees in unions in 2012 was 1,880 people, which is 77% and in 2013 it was 1,862 people, representing 73% of total employees.

Interaction with trade union committees in subsidiaries of the Company:

- Concluding collective agreements;
- The control of contractual compliance for collective agreements;
- Employment in the conciliation commission;
- Participation in the work of committees, conduction complex surveys concerning occupational safety issues, health issues, and working certifications;
- Organization of care for orphans and children left without parental care;
- Working with the Council of Veterans;
- Participation in the organization of sports and recreation, cultural activities and providing summer camps for children of employees, compensating for part of the cost of treatment of workers in the recreational institutions;
- Assistance in securing workers labor and recreation regime and compliance with vacation schedules;
- Proposals on necessary arrangements for industrial sanitation based on the workers requests;
- Current questions concerning the activities of employees in unions.



## Environmental policy

Environment issues in the “SEVKAZENERGO” JSC are among the priorities of the company’s development strategy. The Company’s environmental issues are carried out in accordance with international standards of quality and environmental management.

The environmental policy of the Company is developed in accordance with the Concept of environmental security of the Republic of Kazakhstan for 2004-2015, the Environmental Code and ISO 14000 series of standards based on the tasks set in the Environmental and Social Action Plan.

Since 2009, the Company has been implementing the Environmental and Social Action Plan (ESAP), comprising projects aimed to improve the environmental parameters of the Company and occupational safety at the enterprises of “SEVKAZENERGO” JSC. The Company submit an annual public report on the ESAP work.

The fundamental liabilities of environmental management policy of “SEVKAZENERGO” JSC are:

- power saving and rational usage of natural and power resources at all stages of electric and heat power production;
- reduction of emissions and wastes from electric and heat power production and its environmentally safe management;
- execution of actions, directed towards the decrease and avoidance of accident rate and decrease of negative impact on environment;
- openness and availability of environmental information, immediate informing of all interested parties on occurred accidents, environmental consequences and its liquidation measures;
- constant improvement of performance indicators of processes of integrative management systems;
- providing compliance with legislative base of the Republic of Kazakhstan and requirements of the international standards ISO 14001.

Prevention of environmental pollution is determinative for all decisions of operational activity at electric and heat production. The level of impact on the environment and the efficient use of energy and natural resources are assessed at introduction of new technologies.

For all new building and reconstruction projects special subdivision oriented to environmental issues – “Assessment of Impact on the Environment” is developed. To comply with all Kazakhstan environmental standards, the projects pass the state ecological expertise.

“SEVKAZENERGO” JSC annually develops and realizes Objective achievement programs and activities in the sphere of environment protection for maintenance of quality control system and environmental management.

Activities on reduction of negative impact on environment held at enterprises:

- For reduction amount of polluting substances in the atmosphere, “SEVKAZENERGO” JSC equipped boiler units of substation with second-generation titan emulsifiers, instead obsolete ash and dust cleaner equipment as an alternative method of ash cleaning. The actual factor of smoke gases cleaning after installation of emulsifiers, reached 99.5%, instead of 96.8%. During the period of 2003-2012, titan emulsifiers are established on all 11 boiler units in CHP-2. Carrying out this action only over the last 5 years allowed to reduce total amount of polluting substances emissions from 42.5 thousand tons to 31.5 thousand tons; annual volume of a dust from 20.7 thousand tons to 4.9 thousand tons; concentration of a dust in smoke gases from 1,284 mg/nm<sup>3</sup> to 290 mg/nm<sup>3</sup> and also to reduce specific volumes of emissions as a whole.
- Modernization of boiler units with integration of tertiary blasting is implemented by “SEVKAZENERGO” JSC for the purpose of reduction of nitrogen oxide. In consequence of these actions, decrease of nitrogen oxide down to 430 mg/nm<sup>3</sup> in 2013, as against 600 mg/nm<sup>3</sup> in 2012, is stated.
- Application of clarified water having alkaline reaction, and repeatedly supplied from ash disposal area to boiler unit emulsifiers, chemically bonds sulphur oxides in to insoluble bonds and reduces emissions of this oxides to 10-15%.

- All 11 boiler unit of the station are equipped with devices for metering oxides of nitrogen, oxides of sulphur, dioxides of carbon, ashes for control over emissions in the atmosphere.
- Scheduled repair of dredging pump of CHP ash pond.
- Boom defense installed at outflow channel of lake B.Beloye.

The Company pays great attention to studying innovation technologies in power industry and possibility of its appliance on production process. Program on development of renewable energy recourses appears to be upcoming trend for the Company's strategic development.

In "SEVKAZENERGO" JSC environmental actions for 2013-2014, with total amount of KZT 6,497.4 mln are developed and agreed by the Ministry of environment and water resources of the Republic of Kazakhstan. In 2013, 13 environmental actions were planned for the sum of KZT 3,247.7 mln. All actions are executed in full for the amount of KZT 3,289.2 mln.

At enterprises of the Company, in terms of structural divisions, programs on industrial ecologic control and monitoring are developed and agreed by local body in sphere of environment protection.

"SEVKAZENERGO" JSC quarterly provides reports on performance of industrial ecologic control to authorized body in the sphere of environmental protection in compliance with the order of the Ministry of environmental protection of RK dated 14.02.2013, №16-p "Requirements to the reporting by results of industrial ecologic control".

### Arrangement of bottom ash waste

#### Report information on amount of bottom ash formation by permitted and factual level (tons)

Waste	"SEVKAZENERGO" JSC	
	Permitted	In fact
Bottom ash	1,150,619	1,024,094

### Emission of pollutants into the atmosphere, tons

Emission of pollutants into the atmosphere	"SKE" JSC		"NK REDC" JSC		"PHN" LLP	
	Limit	Actual	Limit	Actual	Limit	Actual
Coal Ash	5,752	4,916	–	–	–	–
Nitrogen Dioxide	5,076	5,045	0.14	0.08	0.123	0.116
Nitrogen Oxide	825	820	–	–	–	–
Sulphurous Anhydride	26,711	17,447	0.04	0.01	0.066	0.062
Carbon Monoxide	3,810	3,318	0.38	0.23	0.369	0.328
Other	11.3	3.9	14.18	12.21	4.148	3.668
<b>Total</b>	<b>42,186</b>	<b>31,552</b>	<b>14.74</b>	<b>12.53</b>	<b>4.706</b>	<b>4.174</b>

In 2013 enterprises of the Company prevented excess over normative maximum permissible emissions requirements.

### Emission of greenhouse gases (CO<sub>2</sub>)

After Kyoto protocol entered into legal force for the Republic of Kazakhstan, dated 17.09.09, in 2013, the Company organized work on implementation series of activities directed on data collection, preparation and legal paperwork necessary for receiving quota on greenhouse gases emission. All reporting documents passed conformation (verification) by independent organization that is accredited by authorized agency in sphere of environment protection, on implementation of conformation activity of Reporting documents. In 2013, "SEVKAZENERGO" JSC received Certificate on greenhouse gases emission:

- № 000062 dated 01.08.2013 for the value of 3,784,858 tons (according to the national plan of RK);
- № 000144 dated 25.11.2013 for the value of 4,255,578 tons (taking into account additional capacities of boiler unit № 6,7)

To provide constitutional rights of residents and social organizations of the Republic of Kazakhstan on receiving information about environment condition in fully and timely manner, and participation of society in making significant ecological decisions, the Company compulsorily publishes applications in mass media on realization of state ecological expertise, also conducts public hearings on projects implementation of which can affect people or environment. Public representatives and all interested bodies have an opportunity of studying projects' propound data.



# Financial reports

## Consolidated statement of financial position for period ended on December 31, 2013

*In thousands of Kazakhstani tenge*

ASSETS	31.12.2013	31.12.2012
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	51,769,250	44,011,993
Intangible assets	16,601	11,679
Advances paid for acquisition of property, plant and equipment	2,718,547	1,042,514
Restricted cash	131,805	180,370
<b>Total non-current assets</b>	<b>54,636,203</b>	<b>45,246,556</b>
<b>CURRENT ASSETS</b>		
Inventories	2,491,046	1,878,445
Trade accounts receivable	1,150,891	1,250,925
Advances paid for acquisition of of current assets	802,366	542,184
Taxes recoverable and prepaid	647,770	774,573
Income tax prepaid	62,716	98,214
Other accounts receivable	1,262,157	1,313,913
Other financial assets	628	1,453,608
Restricted cash	132,222	65,203
Cash and cash equivalents	659,289	499,476
<b>Total current assets</b>	<b>7,209,085</b>	<b>7,876,541</b>
<b>TOTAL ASSETS</b>	<b>61,845,288</b>	<b>53,123,097</b>
<b>EQUITY AND LIABILITIES</b>		
<b>EQUITY</b>		
Share capital	16,291,512	16,291,512
Additional paid-in capital	277,168	385,724
Property, plant and equipment revaluation reserve	4,885,166	5,356,629
Retained earnings	8,259,120	5,693,665
<b>Total equity</b>	<b>29,712,966</b>	<b>27,727,530</b>
<b>NON-CURRENT LIABILITIES</b>		
Bonds issued	6,431,571	6,492,844
Long-term loans	8,576,760	3,908,689
Deferred tax liabilities	7,039,225	6,107,522
Deferred revenue	202,383	202,383
Long-term accounts payable	64,465	728,108
Ash dump restoration liability	347,122	133,207
Employee benefit obligations	40,420	36,203
<b>Total non-current liabilities</b>	<b>22,701,946</b>	<b>17,608,956</b>

**Consolidated statement of financial position for period ended on December 31, 2013 (continuation)**
*In thousands of Kazakhstani tenge*

	31.12.2013	31.12.2012
<b>CURRENT LIABILITIES</b>		
Current-portion of the bonds issued	357,832	357,832
Trade accounts payable	2,261,684	1,736,138
Short-term loans and current portion of long-term loans	5,802,440	4,730,077
Advances received	612,020	511,791
Taxes and non-budget payable	170,976	112,044
Current portion of ash dump restoration liability	–	155,427
Current portion of employee benefit obligations	3,846	4,023
Other liabilities and accrued expenses	221,578	179,279
<b>Total current liabilities</b>	<b>9,430,376</b>	<b>7,786,611</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>61,845,288</b>	<b>53,123,097</b>

**Consolidated statement of comprehensive income for period ended on December 31, 2013**
*In thousands of Kazakhstani tenge*

	31.12.2013	31.12.2012
<b>REVENUE</b>	<b>20,961,920</b>	<b>16,584,956</b>
<b>COST OF SALES</b>	<b>(13,670,912)</b>	<b>(11,192,070)</b>
<b>GROSS PROFIT</b>	<b>7,291,008</b>	<b>5,392,886</b>
Selling expenses	(248,268)	(203,217)
General and administrative expenses	(1,996,148)	(1,711,811)
Finance costs	(1,538,548)	(1,403,397)
Finance income	209,690	199,360
Foreign exchange gain (loss)	25,721	(9,199)
Other income	68,914	308,382
<b>PROFIT BEFORE TAX</b>	<b>3,812,369</b>	<b>2,573,004</b>
<b>INCOME TAX EXPENSE</b>	<b>(1,022,359)</b>	<b>(733,821)</b>
<b>NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>2,790,010</b>	<b>1,839,183</b>
<b>EARNINGS PER SHARE</b>		
Earnings for the year per share, basic and diluted, in tenge	19.39	12.84

**Consolidated cash flow statement for period ended on December 31, 2013**
*In thousands of Kazakhstani tenge*

	31.12.2013	31.12.2012
<b>CASH FROM OPERATING ACTIVITIES</b>		
<b>Profit before income tax</b>	<b>3,812,369</b>	<b>2,573,004</b>
<b>Adjustments for:</b>		
Depreciation and amortization	2,299,496	1,846,028
Finance costs	1,538,548	1,403,397
Recovery of allowance for doubtful debts	(76,284)	(10,434)
(Recovery)/accrual of allowance for obsolete inventories	(8,361)	5,484
(Gain)/loss from disposal of property, plant and equipment and intangible assets	(1,532)	376
Employee benefit expenses	11,246	11,771
Recovery of provision on unused vacations	(808)	(1,806)
Foreign exchange (gain)/loss	(25,721)	9,199
Revenue from derecognition of guarantee fees	0	(121,449)
Finance income	(209,690)	(199,360)
<b>Cash flow before working capital changes</b>	<b>7,339,263</b>	<b>5,516,210</b>
<b>Changes in working capital</b>		
Change in inventories	(545,225)	(624,250)
Change in trade accounts receivable	149,466	(154,943)
Change in advanced paid for acquisition of current assets	(260,886)	(164,952)
Change in taxes recoverable and prepaid	163,508	(290,398)
Change in other accounts receivable	(66,263)	491,160
Change in trade accounts payable	560,856	767,956
Change in advances received	100,229	69,758
Change in taxes and non-budget payable	27,562	(1,484)
Change in other liabilities and accrued expenses	43,107	64,842
Change in ash dump restoration liability	0	(155,427)
Change in employee benefit obligations	(7,206)	(5,627)
<b>Cash generated by operating activities</b>	<b>7,504,411</b>	<b>5,512,845</b>
<b>Income tax paid</b>	<b>(35,458)</b>	<b>(75,137)</b>
<b>Interest paid</b>	<b>(1,595,505)</b>	<b>(1,289,759)</b>
<b>Net cash generated by operating activities</b>	<b>5,873,448</b>	<b>4,147,949</b>



**Consolidated cash flow statement for period ended on December 31, 2013  
(continuation)**
*In thousands of Kazakhstani tenge*

	31.12.2013	31.12.2012
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant, and equipment	(9,855,122)	(8,100,041)
Change in advances paid for acquisition of property, plant, and equipment	(1,676,033)	939,668
Purchase of intangible assets	(7,282)	(7,322)
Placement of deposits	(174,245)	(3,009,880)
Proceeds from interest accrued on the deposits placed	133,326	64,976
Withdrawal of deposits	1,620,359	2,584,103
Proceeds from disposal of property, plant, and equipment	72,735	89,789
<b>Net cash used in investing activities</b>	<b>(9,886,262)</b>	<b>(7,438,707)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loans	12,443,580	6,306,964
Bond issue	–	2,613,360
Repayment of loans	(6,769,156)	(6,184,479)
Repayment of bonds	–	(6,308)
Dividends paid	(578,959)	(252,053)
Contribution to share capital	–	481,000
Repayment of financial aid by a related party	(1,122,000)	(250,000)
Financial aid from a related party	200,000	1,000,000
<b>Net cash generated by financing activities</b>	<b>4,173,465</b>	<b>3,708,484</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>160,651</b>	<b>417,726</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>499,476</b>	<b>78,097</b>
<b>EFFECT OF EXCHANGE RATES ON CASH</b>	<b>(838)</b>	<b>3,653</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>659,289</b>	<b>499,476</b>

**Consolidated statement of changes in equity for period ended on  
December 31, 2013**
*In thousands of Kazakhstani tenge*

	Share capital	Additional paid-in capital	Property, plant and equipment revaluation reserve	Retained earnings	Total equity
<b>As of January 1, 2012</b>	<b>15,810,512</b>	<b>159,931</b>	<b>5,830,089</b>	<b>3,820,475</b>	<b>25,621,007</b>
Net profit and total comprehensive income for the year	–	–	–	1,839,183	1,839,183
Dividends	–	–	–	(252,053)	(252,053)
Contribution to share capital	481,000	–	–	–	481,000
Amortization of revaluation reserve	–	–	(473,460)	473,460	–
Adjustment to fair value, net of deferred tax in the amount of 46,850 thousand tenge	–	–	–	(187,400)	(187,400)
Adjustment to fair value, net of deferred tax in the amount of 56,449 thousand tenge	–	225,793	–	–	225,793
<b>As of December 31, 2012</b>	<b>16,291,512</b>	<b>385,724</b>	<b>5,356,629</b>	<b>5,693,665</b>	<b>27,727,530</b>
Net profit and total comprehensive income for the year	–	–	–	2,790,010	2,790,010
Dividends	–	–	–	(578,959)	(578,959)
Amortization of revaluation reserve	–	–	(471,463)	471,463	–
Adjustment to fair value, net of deferred tax in the amount of 29,266 thousand tenge	–	–	–	(117,059)	(117,059)
Adjustment to fair value, net of deferred tax in the amount of 27,139 thousand tenge	–	(108,556)	–	–	(108,556)
<b>At December 31, 2013</b>	<b>16,291,512</b>	<b>277,168</b>	<b>4,885,166</b>	<b>8,259,120</b>	<b>29,712,966</b>



# Glossary

**Aerial line** – an electric line for the transmission of electric energy through the wires located outdoors and attached by means of insulators and fittings to the supports or brackets.

**Ash dump** – a place for collecting and disposal of waste ash and slag left from combustion of solid fuels at heat and power plants.

**Available capacity** – a quantity equal to the installed capacity of the equipment minus power unrealizable for technical reasons (lack of chimney draft, turbine condenser cooling systems, etc.).

**Average output tariff** – tariff, calculated as ratio of sales revenue to net supply.

**Boiler unit** – assembly for obtainment of steam under pressure or hot water as a result of fuel burning, electric energy utilization, warmth of flue gases or technological process.

**Bottom ash waste** – dust like mass (ash), also coal slag formed in the result of organic coal burnout, in the form of volatile compound (smoke and steam), and nonburning mineral part, evolving in the form of hard furnace refuse.

**Combined heat and power (CHP)** – thermal power plant that produces electricity, and heat, distributed to consumers in the form of steam and hot water.

**Committees of the Board of Directors** – collegial body, created for work in special area concerning the management or governance.

**Electricity Transmission Line (ETL)** – The construction of the wire cable and auxiliary devices for the transmission of electricity from power plants to consumers.

**Emission control** – complex of activities for collecting, transportation, processing, recycling or utilization of production wastes and control over whole process.

**Emission of pollutants** – different types of waste hitting to environment.

**Environmental measures** – all types of economic activity of the enterprise, directed on reduction and elimination of negative impact on environment, preservation, improvement and rational use of available natural and resource potential.

**General meeting of shareholders** – supreme governing body in joint-stock company, consisting of shareholders-owners of ordinary registered shares of the company. Shareholders participate in general meeting periodically but not less than once a year (annual general meeting of shareholders) for settlement of issues relegated to their competence by Articles of Agreement.

**Gig calorie** – a unit of measurement of thermal energy used for assessment in power, heating, utilities sector.

**High voltage power lines** – the structures for power transmission by wire to a distance.

**Information disclosure** – provision of information on Company's activity to targeted audience with periodicity meeting organization requirements, regulating emitters' activity, demands of interested bodies taking into account best practices of corporate governance in the field of information disclosure.

**Information policy** – priorities and standards of the Company's information activities towards its targeted audience and public.

**Insider information** – any information on equity securities and transactions, also about emitter and its activities, unknown for third parties, disclosure of which can make essential impact on market costs of these securities.

**Installed heat power of the station** – the sum of all maximum guaranteed capabilities for all equipment run into operation, according to the act, designed for heat supply to external customers and for its own needs with steam and hot water.

**Installed power capacity of the energy system** – total of actual power of all turbine and power plants of electric power system, in accordance with their passport or technical conditions.

**Internal audit management** – activity regulated by internal documents on control over management branches and various aspects of company's functioning, executed by representatives of special control body within help to governing bodies.

**Internal Control System** – complex of procedures, organizational activities and methodologies, adopted by the Company's executives for monitoring correct and efficient running of financial economic activity.

**Investment program** – set of adjacent intentions and actions on implementation of investments and realization of specified financial and economic, production and social results that stand for investment project.

**Management Board** – is executive collegial body implementing governance of company's current activity.

**Production monitoring** – complex system for observation of environment condition, assessment and estimation of environmental condition changes under the influence of production factors.

**Production residual** – pieces of material recourses being lost at production process. Production residuals and by-products (useful products of raw material processing, gathering of which is not objective for the enterprise) that can serve as a recoverable recourse.

**Quota arrangement mechanism** – establishment of restrictions on emission of certain substances (for example carbon dioxide, sulphur oxide, nitrogen oxide) in specified territory for particular period.

**Substation** – electric installation used for conversion and distribution of electricity and consisting of transformers or other power converters, switchgear, means of control and auxiliary facilities.

**System of corporate governance** – interaction system between shareholders and executives of the company, including its board of directors, as also with other interested parties, by means of which shareholders rights are being implemented; set of mechanisms, allowing shareholders (investors) control activities of company's executives and solve occurring problems.

**Targeted audiences** – community groups within and outside of the Company, come in touch at performance of its activities.

**The Board of Directors** – governing body of the joint-stock company that is formed by election of members at general meeting of the JSC.

**Titanic emulsifiers** – construction parts of which is made from titanium, allowing purification of smoke gases from ash.

**Turbine** – the prime mover with the rotational movement of the working body of the rotor, which converts the mechanical energy of the supplied steam, gas, or water into kinetic ones.

**Turbine unit** – set of steam turbine, electro generator and activator banded by single shaft train; provides transformation of potential energy of steam into electric energy.

# Abbreviations list

<b>ASCAE</b>	Automated system for commercial accounting of electric energy	<b>MVA</b>	megavolt amper
<b>ASCAHE</b>	Automated system for commercial accounting of heat energy	<b>MW</b>	Megawatt
<b>AN</b>	Administrative Needs	<b>NB</b>	Nominal bore
<b>ARU</b>	Ash Removal Unit	<b>NK REDC</b>	"North Kazakhstan Regional Electric Distribution Company" JSC
<b>BU</b>	Boiler Unit	<b>OHSAS</b>	International occupational safety management and industrial safety system
<b>CAEPCO</b>	"Central-Asian Electric Power Corporation" JSC	<b>OL</b>	Overhead Lines
<b>CAPEC</b>	"Central Asian power energy company" JSC	<b>OPTS</b>	Outdoor Package Transformer Substation
<b>CHP</b>	Combined heat and power plant	<b>PCHP-2</b>	Petropavlovsk combined heat and power plant # 2
<b>CL</b>	Cable Lines	<b>PHN</b>	"Pavlodar Heat Network" LLP
<b>EBRD</b>	European Bank for Reconstruction and Development	<b>PL</b>	Power Lines
<b>EDZ</b>	Electricity Distribution Zone	<b>PS</b>	Pump Station
<b>Gcal</b>	Giga-calorie	<b>QMS</b>	Quality Management System
<b>Gcal·h</b>	Gcal per hour	<b>RMAS</b>	Remote Management Automated System
<b>HC</b>	Heat Chamber	<b>RMS</b>	Risk Management System
<b>HVPL</b>	High-Voltage Power Line	<b>SCG</b>	Switch and Control Gear
<b>IIF</b>	Islamic Infrastructure Fund	<b>SIW</b>	Self-supported Isolated Wire
<b>ISO</b>	International Organization for Standardization	<b>SKE</b>	"SEVKAZENERGO" JSC
<b>JSC</b>	Joint-Stock Company	<b>SPAID</b>	State Program of Forced Industrial-Innovative Development
<b>kV</b>	kilovolt	<b>SS</b>	Substation
<b>kVA</b>	kilovolt amper	<b>TP</b>	Transit Pipeline
<b>kW·h</b>	Kilowatt hour	<b>TS</b>	Turbine Set
<b>MCI</b>	Monthly Calculation Index	<b>VAT</b>	Value Added Tax
<b>Media</b>	Mass Media		

# Contact information

## “SEVKAZENERGO” JSC

Address: 215 Zhambyl St.,  
Petropavlovsk 150009, Kazakhstan

Tel.: +7 (7152) 31-43-24

Fax: +7 (7152) 41-28-28

Email: [info@sevkazenergo.kz](mailto:info@sevkazenergo.kz)

Site: [www.sevkazenergo.kz](http://www.sevkazenergo.kz)

## Responsible persons for collaboration with investors and shareholders

Full name	Contact information
<b>Alla Anatoliyevna Yazovskaia,</b> Vice-Chairman of the Management Board for economics and finance “SEVKAZENERGO” JSC	Republic of Kazakhstan Petropavlovsk, Zhambyl street, 215 tel: +7 7152 31 43 24 fax: +7 7152 41 28 28
<b>Tatiana Vyachislavovna Alekseyevne,</b> Chief accountant “SEVKAZENERGO” JSC	Republic of Kazakhstan Petropavlovsk, Zhambyl street, 215 tel: +7 7152 31 43 24 fax: +7 7152 41 28 28
<b>Nataliya Mikhailovna Dzhamanchalova,</b> Director SKF LLP “Juridical agency “Korgau”	Republic of Kazakhstan Petropavlovsk, A.Shazhimbayev street, 144 tel: +7 7152 31 43 07

## AUDITOR

The External Auditor of “SEVKAZENERGO” JSC is **“Delloite”** LLP; (License for audit activities №0000015, series MFU-2 dated 13.09.2006, issued by the ministry of finance of the Republic of Kazakhstan, license is termless).

Registered office “Delloite” LLP: Almaty, Almaty Financial Center, Building B, Al Farabi avenue, 36.

## REGISTRAR

The Registrar of “SEVKAZENERGO” JSC is **“The Integrated Securities Registrar”** Joint Stock Company (certificate of state registration number 1678-1910-02-AO issued 01.11.2012).

Legal address of “The Integrated Securities Registrar” JSC: RK, Almaty, Abilay Khan Avn. 141;