**“Samruk-Energy” JSC Management Report on the performance results for 2015**

1. **The Group’s overview**

“Samruk-Energy” JSC (hereinafter – the Company) was established on April 18, 2007 pursuant to resolution of general meeting of founders for the purpose of development and implementation of a long-term state policy on upgrading the existing and introduction of new generating facilities. The Company’s founders at the time of its establishment were “Kazakhstan Holding for Management of State Assets “Samruk” JSC and “KazTransGas” JSC. The Company was registered on May 10, 2007 in Almaty city.

As a result of reorganization on November 3, 2008 made through merger of “Kazakhstan Holding for Management of State Assets “Samruk” JSC and Sustainable Development Fund “Kazyna” JSC, “Sovereign Wealth Fund “Samruk-Kazyna” JSC, which is a legal successor of “Kazakhstan Holding for Management of State Assets “Samruk” JSC became the shareholder of the Company.

Today, the Company is the largest diversified energy holding company that has successfully integrated into the international power balance and develops highly efficient power supply system as well as ensuring sustainable development of all Kazakhstan’s sectors.

The Group's core activities are the production of electricity, heat and hot water based on coal, hydrocarbons and water resources and sale of electricity to population and industrial enterprises, transportation of electricity and electricity technical distribution in the grid, construction of hydro and thermal power plants, as well as lease of property complexes of hydro power plants, and coal mining .

The Company comprises largest power generating companies, which include power plants of national importance such as Ekibastuz GRES-1 and GRES-2, as well as power plants producing heat and electricity in Almaty region and in Aktobe city; there are principal hydropower plants of the Republic, that are included in the Irtysh cascade of hydropower plants as well as hydropower plants of country’s southern region (Shardarinskaya HPP and Moynak HPP). Also the Company's assets include regional distribution power grids and supply companies in Almaty, Mangistau, East Kazakhstan regions and "Bogatyr Komir" LLP, the largest coal mining entity in Kazakhstan. The company supplies coal to generating facilities of the Group and third parties located both in Kazakhstan and in the Russian Federation.

Forecasting of key financial and economic indicators of the Company's performance is based on macroeconomic indicators that are provided by “Sovereign Wealth Fund “Samruk-Kazyna” JSC, the Company's shareholder. Approved Development Plan of the Company for 2016-2020 was formed taking into account macroeconomic indicators - change in the calculated US dollar rate which equals to 360 KZT, considering the inflation index of 6-8% - in line with the updated Forecast of social and economic development of the state for 2016-2020 adopted by the Government on February 23, 2016 (Minutes No. 6).

Operating activity of the Group's subsidiaries and its joint ventures, being natural monopoly and regulated markets entities and entities occupying a dominant position in a competitive market are governed by the laws of the Republic of Kazakhstan "On Power industry", "On natural monopolies and regulated markets", "On competition" and the RK Code "On entrepreneurship" re-entered into force from January 2016.

Tariff regulation, depending on the type of activity of power companies, falls within the competence of the Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of Kazakhstan (hereinafter – CRNM and PC) or sector ministry - the Ministry of Energy (hereinafter - ME).

Electricity tariffs for energy producing organizations (EPO) were approved by the order of the Energy Minister "On approval of capped tariffs for electricity for energy producing organizations" No. 160 dated February 27, 2015 for a term of 2016-2018. Tariffs for transmission and distribution of electricity for power transmission companies (KEGOC and RECs), for heat production (EPO) and tariffs for energy supply (PSO) are regulated by CRNM and PC. Regulation and control by CRNM PC is carried out in strict accordance with the legislative and regulatory acts.

Tariff decisions are substantially influenced by social and political issues. Economic, social and other policies of the Republic of Kazakhstan Government may have a significant impact on the Group's operating activity.

Main directions of the Company’s activity are:

• Electricity production

• Thermal energy production;

• Transmission and distribution of electricity;

• Electricity sale;

• Production of power generating coal;

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Work types** | **2014** | **2015** | Deviat.2015/2014 | **2016** | **2017** |
| **(forecast)** | **(actual)** |
| Electricity generation volumes, (mln.kWh) | 28 216 | 22 318 | 79% | 23 259 | 26 059 |
| Electricity transmission volumes (mln.kWh) | 12 344 | 12 114 | 98% | 12 332 | 13 068 |
| Electricity sales volumes (mln.kWh) | 8 605 | 8 414 | 98% | 8 758 | 9 135 |
| Heat production volumes (thous.Gcal) | 7 561 | 6 913 | 91% | 7 359 | 7 987 |
| Coal sale volumes, mln.tons | **38,1** | **33,9** | 89% | **32,5** | **35,7** |

The decrease in electricity production volumes in 2015 compared to volumes of 2014 by 21% (or 5 898,4 million kWh) is due to reduction in electricity generation at the following power plants:

-"GRES-2" JSC and "GRES-1" LLP, due to the decrease in electricity sales in Kazakhstani market;

- "Shardarinskaya HPP" JSC is due to low water level in Syrdarya river and Shardara water reservoir;

- ZhGRES by 53% (or 1 345 kWh) due to sale of the asset in May 2015.

However, "The first wind power plant" LLP was put into operation in August 2015; plant’s volume of production reached 79,2 million kWh.

Reduction in heat production by 8% in 2015 (by 648 thousand Gcal) is due to a decrease in heating load due to higher air temperature in comparison with the climatological temperatures.

Decrease in electricity transmission volumes by 2% (or 230,5 million kWh) and electricity sales volumes by energy supply organizations by 2% or by 191,4 million kWh against the fact of 2014 is due to warm weather conditions.

Coal sales volume reduction by 11% (or 4.2 million tons) is due to a decrease in demand of Russian consumers, "GRES-1" LLP and "GRES-2" JSC

The forecast for volume of electricity production mentioned in the Development Plan for 2016 - 2017 years indicates a positive trend in relation to the fact 2015. The increase in electricity production in 2016 to 941 million kWh is to be achieved mainly by "Ekibastuz GRES-2" JSC and "Ekibastuz GRES-1" LLP. Volumes of heat production in the plan for 2016-2017 are expected to increase by 6 -15% to the fact of 2015, mainly due to increased heat production by "Almaty Power Plants" JSC.

In terms of electricity transmission and distribution volumes in 2016 is expected to increase due to growth in "AZhC" JSC and “EK REC" JSC consumers applications.

The volume of coal sales in the forecast for 2016 is reduced by 1,4 million tons, or 4% less than the fact of 2015 due to decrease in forecast coal consumption by key consumers of the Russian Federation and Kazakhstan. In the forecast for 2017, coal sales volume increases by 10% or 3,2 million tons by 2016. The volume of production and sales of coal for 2015-2016 are provided taking into account the forecast electricity generation volumes in the Republic of Kazakhstan and the Russian Federation.

The following significant events and changes in operations of the Company took place in 2015

|  |  |
| --- | --- |
| **Date** | **Event** |
| 1 February | Reduction in the selling price for electricity produced by "Ekibastuz GRES-1" LLP and "Ekibastuz GRES-2" JSC |
| 20 February | Standard & Poor downgraded Samruk-Energy’s ratings to "BB / B 'and« kzA + », “stable” forecast |
| 27 February | Conducting a briefing in CCS" On implementation of SPAIID projects in energy sector and activity of " Samruk-Energy" JSC in 2014 |
| 2 March | “Samruk-Energy” JSC plans to reduce capex by 23% in 2015 |
| 10 April | Reduction in "AlmatyEnergoSbyt" LLP tariff for Almaty city ultimate consumers |
| 27April | The work of WEC’s Kazakhstan National Committee was highly evaluated by the World Energy Council |
| 18 May | "Samruk-Energy" JSC sold 50% of "T.I. Baturov Zhambyl GRES " JSC shares |
| 19May | Increase in the individual tariff of "Moynak HPP" JSC due to appreciation of investment projects and expenses. |
| 22 May | A number of agreements on development of innovative technologies by "Samruk-Energy" JSC were signed in the framework of AEF |
| 20 June | Conducting briefing in CCS "Eurasian Forum KAZENERGY: “ New Energy Horizons, cooperation and investments prospects " |
| 4 July | The launch of the Company’s Transformation Program |
| 14 August | Completion of construction / commissioning of wind power plant - "The first wind power plant" LLP |
| 17 September | The Company received a waiver (letter of consent) from the European Bank for Reconstruction and Development on financial covenants stipulated by the loan agreement on "Modernization of  Shardarinskaya HPP" project |
| 23 November | The Company paid off bonds in the amount of 3 bln.KZT |
| 2 December | An access to the EBRD loan proceeds was opened and first disbursement was effected within “Modernization of Shardarinskaya HPP” JSC implementation project. |
| 15 December | Affirmation of “BB/B” and “kzA+” ratings by Standard&Poors |
| 21 December | Approval of individual tariff of "Shardarinskaya HPP" JSC, due to increase in the cost of equipment for plant’s modernization in 2015 in the amount of 9,50 KZT / kWh. (With an increase to current by 211%). The tariff was approved for the period from 2016 to 2022 |
| 23 December | Fitch Ratings agency confirmed the company’s ratings, forecast “Stable” |

**Main development directions of the company**

In order to optimize the structure of the company's assets and sale of assets that produces low return, as well as in accordance with the Decree of the Government of the Republic of Kazakhstan dated December 30, 2015 No. 1141 "On some matters of privatization for 2016-2020", a list of organizations and facilities of " Samruk-Kazyna" JSC group of companies that are subject to sale in the open market has been determined.

The mentioned Decree provides for the sale of stakes in the following companies of "Samruk-Energy" JSC group (hereinafter - assets) in 2016-2017:

* 100% of shares of "Aktobe CHP" JSC;
* 100% of shares of "EK REC" JSC;
* 100% interest in "Shygysenergotrade"LLP;
* 75% + 1 share of "MDPGC" JSC;
* 100% of shares of "AZhC"JSC;
* 100% of shares of "APP" JSC;
* 100% interest in "AlmatyEnergoSbyt" LLP;
* 100% interest in "Tegis Munay"LLP.
* 100% interest in "Mangyshlak Munay" LLP
* 70% stake in "Shelek-28" LLP
* 90,004% stake in "Karagandagiproshakht and K" LLP

- One of the priority directions of the Company's development in the coming years is to implement business transformation program of "Samruk-Energy" JSC. “Samruk-Energy” JSC Business transformation program allows identifying business models of the Company’s strategic development and creates a solid platform for achieving the Company's strategic development objectives set out in the Long-Term Development Strategy of "Samruk-Energy" JSC for 2012-2022.

The transformation program is based on parallel work in three key areas:

• Processes - formation of uniform, transparent, standardized process model, which describes the company's activity.

• Technology – determination of activities ‘processes that are subject to automation.

• People - Analysis of skills and competencies of people needed to perform new tasks and increasing their level.

- One of important business directions of the Company is implementation of export potential. Appropriate implementation of this Company’s activity requires the obtaining of National operator status. The obtaining of this status by Samruk-Energy substantiates the purpose of reliable electricity supply to consumers of the Republic of Kazakhstan, as well as performing the role of a guide of state interests in the international market.

- In the framework of implementation of the company’s strategic goals such as a high-tech development, leadership in the Republic of Kazakhstan and the effective monetization of excess capacity for export, the Company plans to implement a number of investment projects:

- Modernization of "Shardarinskaya HPP" JSC, commissioning date - 2018. The implementation of the project will enable to increase the capacity of Shardarinskaya HPP by 26% up to 126 MW, and will extend the power plant’s service for 35-40 years.

- The company plans an ambitious development in the field of alternative energy sources. The Company's plans involve introduction of up to 10% of RES: WPP, SPP and small hydro using its own installed capacities. This will allow becoming a sustainable leader in green power industry in Central Asia region.

Currently, the construction of several power plants with total capacity of more than 0,85 GW has been scheduled or under study, those are:

• Construction of 50 MW WPP in Yereimentau region;

• Construction of 60 MW WPP in Shelek corridor including a potential expansion up to 300 MW;

• construction of 4 small hydropower plants by "Kazhydrotechenergo" LLP for a total capacity of 60,8 MW;

• Construction of counterregulating Kerbulak HPP on Ili River, with capacity of 33 MW.

Projects requiring additional elaboration:

• WPP construction in Yesil district of Akmola region with total capacity of 205 MW;

• Reconstruction and modernization of Almaty HPP cascade with the increase in capacity by 7,5 MW;

• Construction of 50 MW SPP in Kapshagay city with expansion potential up to 100 MW.

**2. Main principles of accounting policy and valuation**

“Samruk-Energy” JSC group of companies applies the equity method in consolidation for the purpose of common approach in preparation of the report on financial and operating results. In addition, according to current accounting policy, fixed assets and intangible assets are stated at the initial cost, i.e. without revaluation.

Based on the above, turnovers of large companies such as “SEGRES-2” JSC, “Forum Muider B.V” the company comprising coal assets, where “Samruk-Energy” JSC holds 50% interest, were excluded from the consolidated balance when using the equity method.

When generating a consolidated financial result of “Samruk-Energy” JSC, the profit share of these companies is reflected in the item “the share of profit/loss of organizations accounted using the equity method”

In addition, financial result of the associated company “Balkhash TPP" JSC (37.92% interest) is shown the in equity income

Acquisitions of subsidiaries are accounted for using the purchase method and are evaluated at their fair value at the acquisition date.

Transactions in foreign currencies are translated into local currency at the exchange rate on the transaction dates. Gains and losses from exchange rate differences resulting from payments on such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates at the year-end are stated in profit and losses.

Financial instruments are mentioned at fair value, initial cost or amortized cost depending on their category.

Depreciation of fixed assets is calculated according to straight line depreciation method of their cost until their liquidation cost over their useful life. All intangible assets are depreciated according to straight-line method.

Goodwill is carried at cost less accumulated impairment losses. Testing of goodwill is carried out once a year at a minimum.

Disposed asset or the asset classified as held for sale is accounted in discontinued operations; this asset may represent a major type of business, and be part of a single plan for disposal of assets of the Company’s group.

**Performance results and significant factors that have an impact on operations.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **Indicator, mln.tenge** | **2014(1)** | **2015** | **2016** | **2017** |
| **(forecast)** | **(forecast)** |
| **11** | **Revenue from sales of goods and services** | **221 150** | **228 865** | **255 685** | **121 292** |
| **22** | **Costs of goods sold and services rendered** | **157 207** | **165 932** | **198 704** | **72 277** |
| **33** | **Gross profit** | **63 943** | **62 933** | **56 981** | **49 014** |
| 44 | Financing income (3) | 3 682 | 2 729 | 257 | 1 759 |
| 55 | Other income (2) | 70 647 | 4 028 | 913 | 155 |
| 66 | Expenses on sales of products and services | 2 516 | 3 029 | 3 153 | 3 916 |
| 77 | General and administrative expenses | 13 891 | 13 940 | 14 673 | 8 841 |
| 88 | Financing costs (4) | 24 018 | 23 412 | 22 037 | 22 200 |
| 19 | Other expenses from non-core activities (2) | 86 500 | 93 175 | 12 295 | 44 |
| 110 | Share of profit/loss accounted for using the equity method | 12 958 | -10 173 | 7 817 | 6 410 |
| 111 | Income (loss) from discontinued operations | 0 | 2 469 | 0 | 27 197 |
| 112 | corporate income tax expenses | 11 055 | 5 875 | 6 902 | 7 597 |
| 113 | Minority interest | -2 696 | 390 | 658 | 225 |
| **114** | **Total income** | **15 947** | **-77 835** | **6 249** | **41 714** |
| **115** | **Total income excluding expenses on exchange rate differences** |  | **29 016** |  |  |

(1) For purposes of comparability, 2014 figures were recalculated taking into account the transfer of subsidiaries and affiliates from discontinued operations to the full consolidation;

(2) in 2015 audit report, the income from “reversal of impairment loss” was set apart from other income and impairment loss was set apart from other income to a separate line “impairment losses” (NET)

(3) in the audit report, the balance of exchange rate difference 2014 is recorded in "financial income"

(4) in the audit report for 2015, foreign exchange loss is stated in "financial expenses"

Note: Revenue and cost by types of activity is given without elimination

**Consolidated total loss** at the end of 2015 amounted to (- 77 835) million tenge, which is due to a decrease in the exchange rate of tenge and the emergence of foreign exchange losses in the amount of 107 cmillion tenge.

In the following years the profit equals to 41 714 million tenge.

**Revenues from sales of products and services rendered** across "Samruk-Energy" JSC group of companies in 2015 amounted to 228 865 mln. tenge. An increase by 3.5% compared to the same period of last year was mainly due to the growth of tariffs for all activities of the Company. Considerable proportion of revenues is generated by proceeds from the sale of electricity by energy producing organizations, the volume of which in 2015 amounted to over 22,3 billion kWh. Also, a large share of income belongs to income from electricity sales by power supply organizations, the volume of sales of which in 2015 amounted to over 8,4 billion kWh, and from provision of services for power transmission and distribution in the amount of 12,1 billion kWh.

**2015 revenue structure by main types of activity**

Forecast for the future term: In the forecast for 2016, income from the sale is planned in the amount of 255 685 mln .tenge with growth by 2015 by 12% due to increase in volumes of production, transmission and sale of electricity as well as heat production.

**Income from products sale and services delivery by producers**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Indicator, mln.tenge** | **2014\*** | **2015** | **2016** | **2017** |
| **(forecast)** | **(forecast)** |
| **Income from products sale and services delivery** | **221 150** | **228 865** | **255 685** | **121 292** |
| “Samruk-Energy” JSC | 20 399 | 16 040 | 17 117 | 21 710 |
| “Green Energy” LLP | 15 | 109 | 137 | 189 |
| “Bukhtarminskaya HPP” JSC | 2 048 | 2 564 | 3 535 | 3 536 |
| “Shardarinskaya HPP” JSC | 2 422 | 2 085 | 2 485 | 3 499 |
| “Moynak HPP” JSC | 4 264 | 8 023 | 8 752 | 9 480 |
| “AlmatyEnergoSbyt” LLP | 85 042 | 88 215 | 95 565 |  |
| “Samrukenergostroyservice” LLP | - |  |  |  |
| “MDPGC” JSC | 8 655 | 8 986 | 10 342 |  |
| “AZhC” JSC | 31 431 | 32 662 | 34 218 |  |
| “APP” JSC | 51 909 | 53 175 | 53 240 |  |
| “Aktobe CHP” JSC | 5 710 | 6 109 | 8 926 |  |
| “East-Kazakhstan REC” JSC | 10 905 | 11 178 | 12 963 |  |
| “Shygysenergotrade” LLP | 26 222 | 27 731 | 31 042 |  |
| “EGRES-1” LLP | 73 792 | 78 249 | 83 249 | 99 806 |
| “FWPP” LLP | - | 1 741 | 3 850 | 4 119 |
| **Intragroup transactions (elimination)** | **-101 664** | **-108 162** | **-110 748** | **-21 710** |

*\*For purposes of comparability, 2014 figures were recalculated taking into account the transfer of subsidiaries and affiliates from discontinued operations to full consolidation*

"GRES -1" LLP, "APP" JSC, "AZhC" JSC, "AlmatyEnergoSbyt" LLP and "Shygysenergotrade" LLP occupies the main share in income from operations of the Company . Along with this, at consolidation of revenue from total amount, intragroup transactions are excluded mainly in power sales companies

**Prime cost of products and services delivery**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Indicator, mln.tenge** | **2014\*** | **2015** | **2016** | **2017** |
| **(forecast)** | **(forecast)** |
| Fuel | 37 302 | 38 844 | 41 145 | 19 630 |
| Labor remuneration and associated costs | 23 800 | 23 039 | 28 367 | 3 912 |
| The cost of purchased electricity | 28 105 | 19 946 | 27633 | 3045 |
| Depreciation of fixed assets and amortization of intangible assets | 27 401 | 37 648 | 45 104 | 31 866 |
| Repair and maintenance | 4 873 | 4 993 | 9 057 | 3 510 |
| Electricity transmission services and other services | 8 691 | 11 198 | 12 357 | 43 |
| materials | 5 321 | 5424 | 2 731 | 394 |
| Water supply | 4 438 | 4 456 | 5 247 | 2 119 |
| Grid losses | 4659 | 4260 | 4809 | 0 |
| Taxes except for income tax | 5 714 | 6 354 | 7 155 | 4 337 |
| Outsourced services | 2 174 | 3 105 | 6 286 | 476 |
| others | 4 729 | 6 665 | 8 813 | 2945 |
| **TOTAL** | **157 207** | **165 932** | **198 704** | **72 277** |

*\*For purposes of comparability, 2014 figures were recalculated for the transfer of subsidiaries and affiliates from discontinued operations to full consolidation*.

*\*\*Expenses on purchased electricity of the following subsidiaries and affiliates were considered in the item “Cost of purchased electricity”: AES, ShET, APP, ACHP, MHPP, SharHPP, GRES-1. AES expenses under this item for 2014 and 2015 were taken into account in the audit report (other SA were included in the “fuel” line) . For this reason, “Fuel” item data differ from data provided in the audit report.*

According to results of 2015, the prime cost amounted to 165 932 million tenge, which is more by 5.5% than the fact of 2014. The main growth was due to increase in tariffs for electricity transmission services, services for capacity control , on KEGOC services for balancing electricity generation and consumption , as well as due to taking into account the data on “GRES-1” LLP in a 100% share from April 1, 2014. In addition, the increase in expenses for of depreciation resulting from the revaluation of "Ekibastuz GRES-" LLP fixed assets as well as the implementation of investment programs in all subsidiaries influenced on the growth of the prime cost.

**The structure of prime cost by types of activities**

Forecast for the future term: In the forecast for 2016 the prime cost of goods sold and services rendered increased by 32 772 million tenge (19,7%). The main increase was due to growth of depreciation expenses in connection with assets modernization. Also the growth is connected with an annual increase in staff salaries, taking into account the inflation factor and the increase in purchased fuel prices and services provided by third parties. Prime costs in the forecast for 2017 are reduced due to exclusion of assets held for sale.

**Sales costs**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Indicator, mln.tenge** | **2014\*** | **2015** | **2016** | **2017** |
| **(forecast)** | **(forecast)** |
| Expenses for labor remuneration and other social payments of staff associated with sales process | 99 | 111 | 109 | 21 |
| Taxes, except for income tax | - | - | - | - |
| Other works and services associated with sales | 2 406 | 2 906 | 3 033 | 3 895 |
| Business trip expenses | 2,8 | 2 | 2 | 0 |
| Other sales costs | 8 | 10 | 9 | 0 |
| **TOTAL** | **2 516** | **3 029** | **3 153** | **3 916** |

*\* For purposes of comparability, 2014 figures were recalculated for the transfer of subsidiaries and affiliates from discontinued operations to the full consolidation*

“EGRES-1” LLP expenses were considered from April in 2014 which resulted in the increase of sales costs for 2015 by 613 mln.tenge.

In the forecast for 2016 the growth of sales costs by 4% is planned within the indexing, in 2017 a significant increase is due to growth of costs for services on dispatching and balancing of generation and consumption of electricity of “Ekibastuz GRES-1" LLP due to the increase in electricity production .

**Administrative expenses**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Indicator, mln.tenge** | **2014\*** | **2015** | **2016** | **2017** |
| **(forecast)** | **(forecast)** |
| Salaries and related expenses | 5 870 | 5 802 | 5 605 | 2 959 |
| Consulting and other professional services | 921 | 1 129 | 1549 | 714 |
| Taxes other than income tax | 650 | 620 | 374 | 17 |
| Rental expenses | 599 | 745 | 769 | 412 |
| Depreciation of fixed assets and amortization of intangible assets | 1 192 | 1 283 | 1322 | 1033 |
| travel and entertainment expenses | 276 | 297 | 267 | 195 |
| Bank charges | 153 | 219 | 156 | 19 |
| Communication costs | 111 | 150 | 167 | 92 |
| Other | 4 119 | 3 695 | 4 464 | 3 400 |
| **Total** | **13 891** | **13 940** | **14 673** | **8 841** |

*\* For purposes of comparability, 2014 figures were recalculated for the transfer of subsidiaries and affiliates from discontinued operations to the full consolidation.*

Administrative expenses at the end of 2015 made 13 940 mln.tenge, which corresponds to the level of expenditures as per 2014 fact.

Forecast for the future term: In the forecast for 2016 administrative expenses will increase by 5% against the fact of 2015 mainly due to the inclusion of costs for implementation of “Business transformation” program. In the forecast for 2017 administrative expenses will decrease in connection with the exclusion of assets held for sale.

**Financial costs**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Indicator, mln.tenge** | **2014\*** | **2015** | **2016** | **2017** |
| **(forecast)** | **(forecast)** |
| Interest expenses | 20 724 | 20 289 | 15 818 | 16 606 |
| Other financial costs | 3 294 | 3 123 | 6 219 | 5 594 |
| **TOTAL** | **24 018** | **23 412** | **22 037** | **22 200** |

*\* For purposes of comparability, 2014 figures were recalculated for the transfer of subsidiaries and affiliates from discontinued operations to the full consolidation*

*\*\* Financial expenses are shown together with foreign exchange loss in 2015 audit report.*

Financial expenses for the end of 2015 amounted to 23 412 mln. tenge, which is lower than the actual figure for 2014. Reduction is mainly due to the capitalization of a part of the loan obtained from the Fund for acquisition of Ekibastuz GRES-1.

Forecast for the future term: In the forecast until 2016 financing costs were taken into account in accordance with the revised financing terms of current loans and changes in exchange rates.

**Analysis of capital resources**

| **№** | **Subsidiaries and affiliates** | **2014** | **2015** | **2016** | **2017** |
| --- | --- | --- | --- | --- | --- |
| **actual** | **actual** | **plan** | **plan** |
|  | **Total** | **119 302** | **89 720** | **91 826** | **132 155** |
| **1** | **Investment projects including** | **73 945** | **46 873** | **41 366** | **55 954** |
| 1.1 | rehabilitation of power unit 1 with installation of new ESP | 1 211 | 3 439 | 4 323 | 15 000 |
| 1.2 | rehabilitation of power unit 2 with installation of new ESP | 35 116 | 2 909 |  |  |
| 1.3 | 500 kV OS upgrading | 1 722 | 4 539 | 7 820 |  |
| 1.4 | Expansion and reconstruction of Ekibastuz GRES-2 with installation of power unit No.3 (50%) | 5 711 | 4 184 | 5 751 |  |
| 1.5 | Transition to cyclic-flow technology of production, transportation, blending and loading of coal at “Bogatyr” mine (50%) |  | 226 |  | 9 692 |
| 1.6 | Development of power grids in Karasay district with construction of 110/10 kV substation “Shamalgan” (Ushkonyr) and 110/10 kV “Station Shamalgan” with transfer of loads from nearby 35/10kV SS. |  | 11 | 59 |  |
| 1.7 | Reconstruction and expansion of Almaty CHP-2. III stage. Boiler unit of st.No.8 | 8 655 | 13 621 | 215 |  |
| 1.8 | Reconstruction of combined ash disposal system at CHP-2 | 2 707 | 785 |  |  |
| 1.9 | Reconstruction and modernization of Aktobe CHP | 615 | 396 |  |  |
| 1.10 | Modernization of Shardarinskaya HPP | 383 | 1 762 | 8 655 | 20 119 |
| 1.11 | Construction of 45 MW WPP Yereimentau (1st stage) | 9 874 | 6 352 |  |  |
| 1.12 | Construction of 50 MW WPP in Yereimentau (2nd stage) | 0 | 364 | 852 | 8 681 |
| 1.13 | construction of GTPP based on Pridorozhnoe gas field | 2 185 | 2 072 | 945 | 915 |
| 1.14 | Other projects | 5 765 | 6 211 | 12 747 | 1 547 |
| **2** | **Maintenance of operating assets** | **42 671** | **39 380** | **47 589** | **66 509** |
| 2.1 | “EGRES-1” LLP | 16 120 | 19 532 | 26 956 | 39 219 |
| 2.2 | “Bogatyr Komir” LLP (50%) | 2 601 | 1 338 | 2 496 | 1 099 |
| 2.3 | “SEGRES-2”LLP (50%) | 4 502 | 732 | 1 010 | 1 930 |
| 2.4 | “AZhC” JSC | 8 193 | 8 708 | 10 739 | 12 074 |
| 2.5 | “APP” JSC | 5 783 | 3 663 | 1 670 | 4 766 |
| 2.6 | “Aktobe CHP” JSC | 796 | 1 082 | 626 | 742 |
| 2.7 | “Moynak HPP” JSC | 346 | 355 | 963 | 128 |
| 2.8 | “EK REC” JSC | 3 688 | 3 391 | 2 633 | 3 105 |
| 2.9 | “Shardarinskaya HPP” JSC | 56 | 51 | 118 | 21 |
| 2.10 | “Mangistau DPGC” JSC | 220 | 365 | 249 | 3 349 |
| 2.11 | “ZhGRES” JSC (50%) | 149 |  |  |  |
| 2.12 | “AlmatyEnergoSbyt” LLP | 67 | 76 | 73 | 48 |
| 2.13 | “Samruk-Green Energy” LLP | 52 | 3 | 7 |  |
| 2.14 | “FWPP” LLP | 70 | 52 | 25 |  |
| 2.15 | “Shygysenergotrade” LLP | 28 | 34 | 25 | 27 |
| **3** | **Maintenance of administrative assets** | **2 051** | **2 320** | **1 064** | **1 287** |
| **4** | **other** | **636** | **1 148** | **1 807** | **8 405** |

*Projects implemented in 2015*

Fourth stage of reconstruction of Almaty CHP-2 combined ash handling system was completed. The certificate of acceptance committee was received on April 2, 2015.

The construction of 45 MW wind power plant in Yereimentau district was completed. The certificate of acceptance committee was received on August 14, 2015.

*Projects planned to be completed in 2016*

The reconstruction of boiler unit of plant No.8 of Almaty CHP-2 will be completed in June. The project will allow covering the expected increase in heat loads and providing "Universiade-2017" facilities, industrial zone and dwelling houses built under "Affordable Housing - 2020" program with heat, as well as the project will enable producing additional 450 million kWh annually.

Completion of "Reconstruction and modernization of Aktobe CHP" project is expected in July. The project involves the replacement of turbine unit at plant No. 3 in connection with the development of the resource of the existing equipment. The project will increase the installed capacity of the plant from 88 MW to 117 MW.

The project "Modernization of 500 kV outdoor switchgear of Ekibastuz GRES-1" is expected to be completed in December. The project is aimed at improving the reliability and quality of power supply to consumers. The effect of the project is to prevent system crashes due to failure of equipment of 500 kV OS and ensuring the reliability of sale and transmission of electricity to Kazakhstani and Russian consumers.

*Projects planned to be completed in 2017*

The project "Construction of substation Turksib" is expected to be completed in June for reliable and uninterrupted power supply to the northern part of Almaty city where the loads are increasing; also the introduction of transformer capacity of 80 MVA is expected.

Modernization of Shardarinskaya HPP will be completed in December 2017. The project will increase the installed capacity of the plant from 100 MW to 126 MW.

**Liquidity**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **2014\*** | **2015** | **2016** | **2017** |
| **(plan)** | **(plan)** |
| Debt/EBITDA | 4,25 | 4,84 | 5,3 | 3,59 |
| Debt/equity | 1,08 | 0,85 | 0,94 | 0,38 |
| Current liquidity | 1,4 | 1,01 | 0,9 | 2,04 |

In general, changing of key financial and operating results affected the liquidity and financial stability. Debt / EBITDA ratio for 2015 was 4,84, that is, within the covenant established by the Fund, which is 5,0.

Within the activities aimed at compliance with the Company’s covenants, in 2015 the Company conducted a number of negotiations with the European Bank for Reconstruction and Development on discussing the possibility of granting a letter of consent (Waiver) on Debt / EBITDA covenant. According to the results of performed work, the Company received a letter of consent on increasing the debt / EBITDA ration from 4,5 to 5 for 2015 on September 17, 2015.

In order to ensure financial stability and compliance with the covenants of the Company in an unstable economic situation and high volatility of financial market, the Company carried out strict monitoring of attracting funding across the group during 2015. The efforts undertaken by the Company ensured compliance with financial covenants, reduction of debt and improvement of financial stability.

At the end of 2015, the Company ensured compliance with the covenant Debt / EBITDA with a value of 4,84 while the standard is 5 (according to the Waiver from the EBRD for 2015).

Debt / EBITDA figure in the plan for 2016 is expected to be 5,29. Change in the indicator is associated with an increase of debt by 10% compared to 2015. The growth of debt is due to increase in exchange rate for foreign currency loans as a result of applying the US dollar exchange rate at a level of 360 tenge (actual 340 tenge) in the plan and financing of investment projects: construction of 50 MW WPP Yereimentau and modernization of Shardarinskaya HPP. In 2017, this indicator improves to 3.59 in connection with redemption of Eurobonds.

Financial leverage indicator (debt / equity) was 0,85 in 2015, changing of the figure compared to the fact of the same period (1,08) is due to a decrease in equity by 10 529 mln.tenge in connection with reduction in retained earnings as a result of loss in 2015 (- 77 835) mln. tenge and an increase in debt capital by 86 977 mln.tenge.

This figure is expected to improve in 2016-2017, at the end of 2017 it is forecasted at 0,38, which is connected with repayment of obligations on Eurobonds.

The current liquidity indicator for 2015 made 1,01, there have been a slight decrease in comparison with the same period, but remains within the established norms. This indicator improves to 2,04 until 2017.

**Loan portfolio of “Samruk-Energy” JSC for 2014-2015**

mln.tenge

|  |  |  |
| --- | --- | --- |
| **Description** | **2014** | **2015** |
| ***Total debt including*** | ***319 166*** | ***411 003*** |
| “Samruk-Energy” JSC | 233 020 | 248 505 |
| Other subsidiaries and affiliates | 86 146 | 162 498 |

*According to financial statement*

The Company widely uses instruments such as loans and bonds for attracting financial resources, as well as attracts funds from the republican budget to finance social projects. At the same time, the Company uses both internal sources of financing, and external, such as the European Bank for Reconstruction and Development, the Eurasian Development Bank, etc.

The Agreement on the organization of financing of the project "Construction of 60 MW wind farm in Shelek corridor with the prospect of expansion up to 300 MW" between "Samruk-Energy" JSC, CDB and KDB was signed on September 1, 2015 during the visit of President of Kazakhstan to China.

The European Bank for Reconstruction and Development and "Shardarinskaya HPP" JSC entered into a loan agreement for financing the project "Modernization of Shardarinskaya HPP" on August 24, 2012. The access to loan proceeds of the Bank was opened on December 2, 2015 within the agreement and the first disbursement of funds under the credit line was made.

**6. Contingent liabilities, contractual obligations**

In accordance with environmental legislation, the Company has a legal obligation to restore ash disposal site that represents polygons of operations waste placement. Book value of the provision for restoration of ash dumps at the end of 2015 made 1 962,5 mln.tenge.

Capital commitments at the end of the reporting period include the contractual obligations for acquisition of fixed assets totaling 128,417 mln. tenge, obligations under the contract for subsoil use, for implementation of the work program, for exploration activities at the gas field – for the amount of 856 mln. tenge, the share of capital commitments of shared companies amounted to 49 037 mln.tenge.

In accordance with an agreement on investment commitments ME RK commitment to generating companies by the end of 2015 amounted to 78 289 million tenge.

**7. Comparative analysis (benchmarking)**

The purpose of carrying out benchmarking is to compare operating and financial results with foreign peer companies to determine strengths and weaknesses of "Samruk-Energy" JSC. The following indicators were used for benchmarking:

- Annual power generation;

- installed capacity utilization factor;

- EBITDA margin;

- Return on invested capital (ROIC);

- Gearing ratio (debt / equity)

 - Debt / EBITDA

Results of benchmarking:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Financial stability indicators** | Samruk-Energy JSC | Inter RAO UES PJSC | \*E.ON Russia JSC | Tauron Polska Energia SA |
| debt/EBITDA | 4,84 | 2,50 | - | 2,32 |
| Debt/Equity | 0,85 | 0,17 | - | 0,34 |

***\*E.ON Russia has no debts***

Sources: Bloomberg, annual report of the company

At present, compared with foreign peer companies Samruk-Energy JSC is inferior in some indicators. To this end, establishing leadership in power industry requires increasing market presence, which is stipulated by the adopted Company’s strategy. **Installed capacity utilization factor (ICUF)** of “Samruk-Energy” JSC is lower than that of counterparts, which is also connected with electricity generation volumes. Low ICUF indicator shows the existing additional load provisions of the company.

Along with that, Samruk-Energy JSC surpasses its peers in terms of **EBITDA margin.** This indicator indicates a high return on sales. In terms of **ROIC** (return on long-term invested capital) of Samruk-Energy is within an average range, which shows that investment efficiency (profitability, return) requires improvement.

A **financial stability** indicator shows that Samruk-Energy takes full advantage of available financial leverage.