

# Development Strategy



The business of KEGOC has a strategic importance for the development of the entire economy of Kazakhstan and can affect the interests of a wide range of stakeholders.

The business of KEGOC has a strategic importance for the development of the entire economy of Kazakhstan and can affect the interests of a wide range of stakeholders, which shall be taken into account by the company, when making decisions and building a long-term strategy. The company focuses on careful consideration of the interests of the society and proactive development of Kazakhstan national power grid, decent working conditions and welfare of people, and protection of the environment. This is reflected in the development strategy of KEGOC.

The Government assigned to KEGOC the status of the system operator of Kazakhstan UPS and thus invested the Company with the following functions: secure parallel operation with power systems of other countries, maintain balance in the power

system, render system services, purchase ancillary services from the wholesale electricity market entities, transport electricity in Kazakhstan national power grid, service the grid and maintain its operational availability.

The important factors for successful development are:

- better efficiency of the Company and use of the portfolio approach to asset management and investment projects;
- tracking of the trends in the electric power industry that could have a significant impact on the development of the electric power industry (development of renewable energy sources (RES), digitalization of business, process automation and information security, etc.); and
- transformation of people's minds.



KEGOC BECAME  
COLLECTIVE  
MEMBER  
OF CIGRE

2016





## Long-Term Strategic Objectives

### **GOAL 1.**

#### **Ensure reliable operation of Kazakhstan UPS,**

i.e., quality delivery of functions of the System Operator of the UPS of Kazakhstan; quality operational maintenance, repair and modernization of existing assets; increasing the transmission capacity of the NPG through the construction of new power transmission lines and substations; technological development and digitalization of business.

### **GOAL 2.**

#### **Ensure efficient operation of KEGOC**

by increasing the efficiency of invested capital and developing new types of business; implementation of KEGOC's Transformation Programme and the development of international cooperation.

### **GOAL 3.**

#### **Enhance corporate governance and sustainability**

by improving the OHS management system; improving corporate governance; human capital development and environmental protection.

## Strategic Goals

### Performance in 2020

The Development Strategy roadmap includes projects, activities and strategic KPIs.

The list of investment projects was made using the portfolio approach, i.e., investment projects are based solely on the principles of operational and commercial viability, the achievement of long-term interests of the company and the return of invested capital.

#### GOAL 1.

##### Ensure reliable operation of Kazakhstan UPS

In order to meet the objective of **quality maintenance, repair and upgrade of the existing assets**, KEGOC launched a large-scale rehabilitation of 220-500 kV overhead lines.

Within the first stage of rehabilitation of 220-500 kV overhead lines of KEGOC branches the implementation of the project of “Rehabilitation of 220-500 kV overhead lines of KEGOC branches” with total length of 2,029 km was continued. Since the start of the project, 850 km of 2,029 km of overhead lines have been rehabilitated, of which 625 km were rehabilitated in 2020.

Within the second stage of “Rehabilitation of 220-500 kV overhead lines of KEGOC branches” project the selected contractor continued the development of feasibility study. The rehabilitation project is expected to cover 48 overhead lines of 220-500 kV owned by KEGOC.

Also in 2020, the implementation of the project for “Replacement of the ground wire at 220 kV Ust-Kamenogorskaya – SS 14 power transmission line” was completed.

A number of strategic investment projects are being implemented by KEGOC **to increase the capacity of Kazakhstan's NPG through the construction of new transmission lines and substations.**

- “West Kazakhstan Electricity Transmission Reinforcement Project” is aimed at increasing the capacity and reliability of power supply to consumers in the Zone West of UPS of Kazakhstan by strengthening the 220 kV power grids in the western regions of the country. The project involves the construction of the second circuit of the existing 220 kV Uralskaya – Pravoberezhnaya – Inder – Karabatan – Kulsary – Tengiz line about 820 km long.

- “Turkestan External Power Supply Reinforcement Project” is being implemented in accordance with the Decree of the President of the Republic of Kazakhstan No. 762 of 29 September 2018 “On approval of the Concept of the Master Plan for the Development of Turkestan as a Cultural and Spiritual Centre of the Turkic World”. Construction of the new 220 kV substation in the Turkestan region will connect it to the existing 220 kV network.

A high-speed backbone network was built and commissioned as a part of an effort to develop fibre-optic communication lines for data transmission. The design of the FOCL to the Data Processing Centre of KazakhTelecom JSC in Pavlodar and the communication hub of KazTransCom JSC for commercial interaction with communication service providers has been completed. Implementation of a system of remote access to corporate e-mail and implementation of the target model of accounting and tax accounting component of the ERP system has been completed. Delivery of WAMS equipment to the Kazakhstan NPG and construction work on the project has been completed. An acceptance certificate has been signed for the project.

# 2,029

**KM TOTAL OF REHABILITATED  
220-500 KV TRANSMISSION LINES**

A project is being implemented to automate the operating control in Kazakhstan UPS as a part of the “Digital Kazakhstan” programme and includes 3 components:

1. The monitoring and control system based on WAMS / WACS synchrophasor technologies utilises the most of available network transmission capacity in real-time. The project is expected to be completed in 2021;
2. The Centralised Emergency Control System (CECS) ensures the automatic stability of the power system in the event of a disturbance. The system has been put into operation;
3. Automatic Frequency and Power Control (AFPC) system automatically balances generation-consumption of electricity in the power system. The project is expected to be completed in 2021.

Also, during 2020, the Company has been assessing the feasibility of the following promising capacity enhancement projects:

- North-South HVDC Construction Project is expected to cover the necessary backbone network capacity along the strategic North-South power flow direction and improve the reliability of power supply to Zones South and Central of the UPS of Kazakhstan in all possible network schemes (jointly or separately with the CA IPS).
- the project of the External Power Supply to the Industrial Zone of Ekibastuz requires construction of a new 500 kV substation including connection to the 1150 kV Ekibastuzskaya SS, which will supply power to consumers of the Industrial Zone of Ekibastuz.

This substation will supply power to the Industrial Zone of Ekibastuz and consumers of the Ekibastuz energy hub.

### Goal 1 performance

Name of KPI	2018 / actual	2019 / actual	2020 / plan	2020 / actual
WWP,%	98.78	99.64	98.35	<b>98.63</b>
SML, minutes	1.11	0.52	1.00	<b>5.21</b>

#### The main objectives for 2021 are:

- quality delivery of the functions of the system operator of the UPS of Kazakhstan and higher consumer satisfaction with system services. With this objective in mind, a feasibility study for the SCADA upgrade is envisaged;
- high-quality maintenance, repair and modernization of the existing assets. For this objective KEGOC plans to continue implementation of the project stages for rehabilitation of 220- 500 kV OHTL at KEGOC branches and to equip the substations with modern complex security technical systems including video surveillance systems, access control management systems and perimeter

alarm systems, build checkpoint buildings, fences and security lighting.

- Improve the transmission capacity of Kazakhstan NPG through the construction of new power transmission lines and substations Work will continue on ongoing and future projects related to the construction of new overhead lines and the strengthening of external power supply.

The technological development and business digitalization efforts of the company will continue in 2021 with the project for “Operating Control Automation of Unified Power System of Kazakhstan” included in “Digital Kazakhstan” government project.

## GOAL 2.

### Ensure efficient operation of KEGOC

As part of the implemented SAP PPM (Project Portfolio Management) system, the 2020-year projects have been initiated in the system, classified and transferred to PS project management system with the

appropriate status. A step-by-step approach to decision-making and implementation of major and significant projects with approval of their parameters by KEGOC's Board of Directors is applied.

In 2019 the company updated the Portfolio and Roadmap of the Business Transformation Programme. The benefits of the Business Transformation Programme projects for 2020 amounted to KZT 695 million.

# 625

## KZT MILLION OF BENEFITS FROM THE BUSINESS TRANSFORMATION PROGRAMME

In accordance with the Information Security Development Programme for 2018-2022, KEGOC put into commercial operation the data leakage prevention (DLP) system and the privileged access management (PAM) system. The company also continued its effort on the implementation of a centralised authentication system for industrial devices (NAC). TUV NORD carried out an external audit of the information security management system in accordance with ISO 27001.

A certificate of compliance was obtained as a result of the audit.

In 2020, the transition to a print-as-service (a set of services for the provision of equipment, its technical support and maintenance, as a single service, billed per printed sheet) in the Company's branches has been completed. The implementation of this approach has resulted in savings of KZT 80.57 million for 2020.

Also, as part of the Business Transformation Programme Roadmap, KEGOC carried out work for the following projects: "Building effective human resources capacity", "Development of data architecture", "Research work on the use of data analysis in production processes", "Automation of HSE processes", "Enhancement of project and portfolio management".

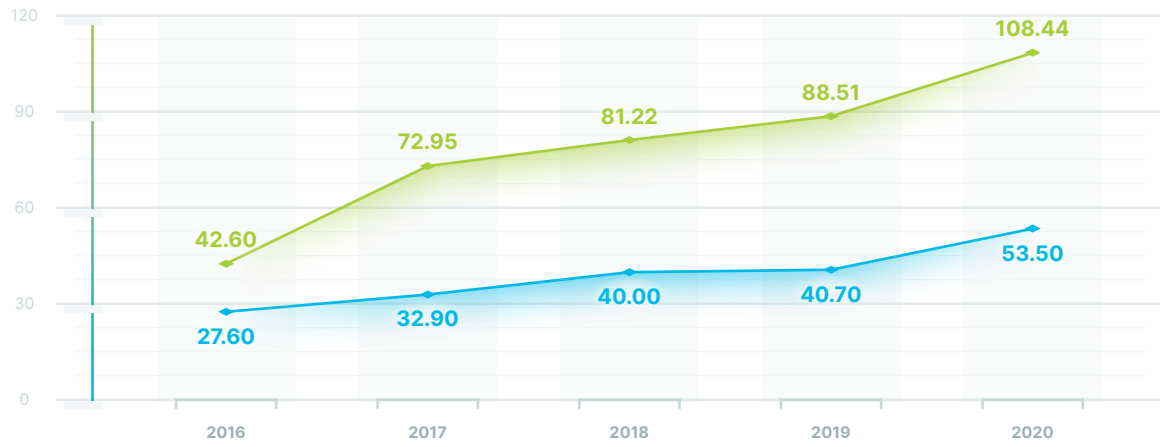
To develop international cooperation, the Company actively participated in the work of the CIS Electric Power Council and the Eurasian Economic Union.

### Goal 2 performance

Name of KPI	2018 / actual	2019 / actual	2020 / plan	2020 / actual
<b>EBITDA, KZT billion</b>	81.2	88.5	100.5/87.7*	<b>108.4</b>
<b>Net income, KZT billion</b>	40.0	40.7	50.4/28.5*	<b>53.4</b>
<b>ROACE, %</b>	7.16	7.47	10.61/6.57*	<b>9.48</b>
<b>NAV, KZT billion</b>	416.2	422.2	433.2	<b>441.2</b>

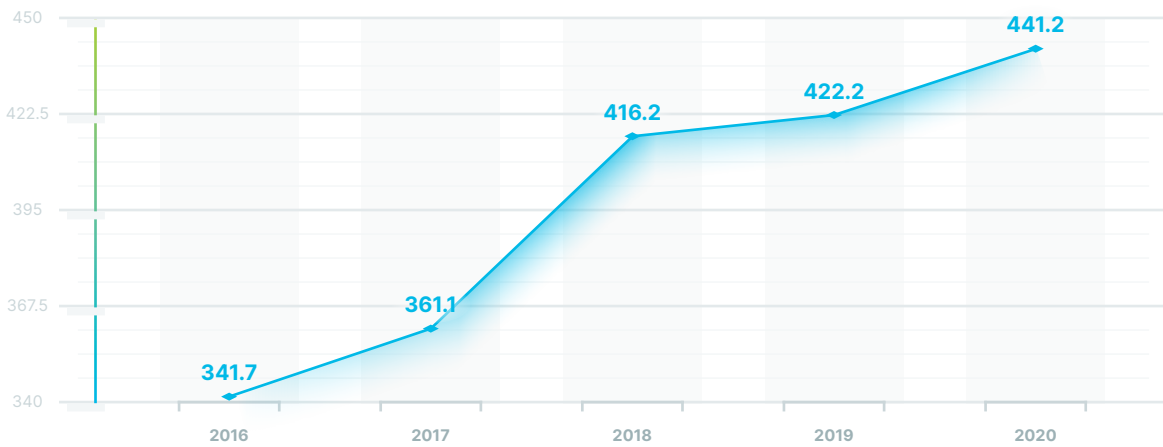
\* Indicators are calculated in accordance with Annex 4 to KEGOC Development Strategy 2018-2028 (impact of key external and regulatory factors).

Financial performance, KZT billion



—●— EBITDA  
—●— Net income

NAV, KZT billion



—●— NAV



To meet the challenge of enhancement of the efficiency of invested capital and developing new businesses, KEGOC plans to complete a project to introduce a portfolio approach to investment planning and project management. In 2021, the Company also has a lot of work to do to approve the cap tariffs for system services for the period 2021-2025.

The development of international cooperation is planned to be pursued through the activities of the CIS Electric Power Council, EEC, CEC CA, WEC, IEC, CIGRE.

Also, as part of the implementation of the KEGOC Business Transformation Programme, the company will continue implementation of the expanded enterprise processes.

### GOAL 3. Enhance corporate governance and sustainability

The Company is committed to its systemic effort in the area of occupational health and safety. Ensuring workplace safety and employee health is an absolute priority for the Company. Safe labour conditions, low-level of operational injuries, improved operational and sanitary-household and labour conditions of the employees, as well as low level impact of harmful and adverse factors are the constant development priorities of the Company.

In 2020, the Company's branches conducted a behavioural safety audit. KEGOC has been implementing Occupational Health and Safety Management System Programme 2020, in accordance with the international standard ISO 45001.

In addition, the Company organized annual and pre-shift medical examinations of the operating personnel.

Also, defibrillator emergency training has been provided.

No occupational diseases of the Company's employees were reported in 2020.

In 2020, KEGOC's Corporate Governance Improvement Plan for 2019-2020 was implemented. In 2020, 380 internal IMS audits were conducted in the structural business units of the Executive Administration, MES branches, and NDC SO.

The Company has made significant progress in implementing the principles of sustainable development: the Company's performance shows tangible achievable results in the area of overall sustainable development and the areas of economic, environmental and social performance of the Company. The Company aimed to achieve the strategic goal of "BBB" corporate governance rating in 2020, however, the corporate governance diagnostic of the Fund has been postponed until 2021 and the Company will develop an Action Plan to enhance KEGOC's corporate governance for 2021 in line with the consultant's recommendations and the

results of the self-assessment by the Board of Directors.

The activities of the Roadmap for the implementation of KEGOC's Human Resources Policy 2019-2022, environmental protection, energy saving, and energy efficiency measures and the Environmental Programme were carried out. The human resources of KEGOC are the most important strategic factor for the Company's development success.

One of the key indicators of KEGOC's HR policy is the Personnel Engagement Index (calculated based on questionnaires and an online survey of administration and management employees) and Social Stability determined among operation personnel. In 2020, the Employee Engagement Index was 90% and Social Stability Index was 91%, which generally indicates a favourable social environment and successful social policy pursued by the Company.

### Goal 3 performance

Name of KPI	2018 / actual	2019 / actual	2020 / plan	2020 / actual
<b>LTIFR</b>	0.29	0	3.6	<b>0</b>
<b>Frequency of fatal accidents at work</b>	0.25	0	0	<b>0</b>
<b>Corporate governance rating</b>	BB	-	BBB	<b>BB*</b>

\* In accordance with the letter of Samruk-Kazyna JSC, the diagnostics of Corporate Governance to confirm the level of corporate governance "BBB" is postponed to 2021. Therefore, the assessed level of corporate governance has been left at the level confirmed in 2018.

In 2021, to meet the objective of enhancing the occupational safety management system, improvements in safety performance with a zero tolerance for fatal occupational accidents are envisaged.

Human capital development will be carried out as part of the implementation of KEGOC's Human Resources Policy Roadmap 2019-2022.



## Outlook

Given the country's stable economic growth, KEGOC anticipates an increase in electricity consumption and production in the future, which will increase the amount of electricity transmission and regulated services provided by the Company. Therefore, KEGOC expects future growth in revenues and other financial indicators (ROACE, EBITDA, NAV). However, much of the positive growth in these indicators depends on the forthcoming approval of system cap tariffs for system services for the next five years this year.

KEGOC will continue to implement projects to modernise and develop its assets that ensure the reliable operation of the UPS of Kazakhstan and contribute to a qualitative improvement in such indicators as system uptime (WWP), system minutes lost (SML), electricity not supplied (ENS) and customer satisfaction with system services.

KEGOC's future sustainable development will be ensured through further improvement of corporate governance and occupational health and safety management system, and through increasing the Company's responsibility for environmental protection in accordance with the plans and programmes developed.

The key performance indicators, or KPIs, are the key indicators of achievement of the Company's strategic goals and objectives, reflecting the effectiveness of its operations.

The Company's KPI system is focused on:

- implementation of the Company's Development Strategy and Business Plan, major strategic projects and initiatives;
- enhancing of the operational and financial performance of the Company;
- ensuring of the safe and accident-free operation of the Company;
- balanced approach to assessing the effectiveness of the Company's activities.

The corporate KPIs and executive KPIs are approved by the Company's Board of Directors. The KPIs for managerial staff and branch heads are approved by the Company's Management Board.

The corporate KPIs and executive KPIs are monitored for the six and nine months of the reporting year. At the end of the reporting year, the actual KPI values of all levels are calculated.

On 19 March 2020, KEGOC's Board of Directors approved the corporate KPIs and their target values for 2020, which include financial and economic indicators, the Company's operational efficiency indicators and occupational safety indicators. At the end of 2020, the corporate KPI targets have been achieved with the exception of the Corporate Governance Rating KPI: in accordance with a letter from Samruk-Kazyna JSC, the corporate governance diagnostic, which was planned to confirm "BBB" level, has been postponed until 2021. Therefore, the estimated level of corporate governance has been left at the level confirmed in 2018.

Leadership and management KPIs are reviewed regularly to ensure they are relevant and in line with strategic goals and objectives. The Company will continue to monitor the applicability and relevance of these KPIs. The remuneration system for executives and managers is directly linked to KEGOC's performance, while the terms of appointment and determination of annual bonuses are linked to KPIs and the Company's strategic priorities.