

**Approved  
by the resolution of the Board of Directors  
of “KazTransOil” JSC  
dated April 9, 2018  
(minutes of the meeting No. 5/2018)**

## **Progress Report on “KazTransOil” JSC compliance with principles and provisions of the Corporate Governance Code for 2017**

In acc. with the Corporate Governance Code (hereinafter – the Code) confirmed by the AGM resolution dated May 27, 2016 (Minutes No.3/2016), KTO annually drafts a Progress Report on compliance/incompliance with the Code principles and provisions.

The Code is aimed at improvement of the KTO corporate governance, ensuring transparency and confirming the commitment of KTO to good corporate governance standards. The Code principles are as follows:

1. The Government as the shareholder of “Samruk-Kazyna” SWF” JSC\*.
2. Interaction of “Samruk-Kazyna” SWF” JSC with organizations. The role of “Samruk-Kazyna” SWF” JSC as the national governing holding.
3. Sustainable development.
4. Rights of shareholders and fair attitude towards shareholders.
5. Effectiveness of a Board of Directors and an executive body.
6. Risk management, internal control and audit.
7. Transparency.

KTO understands the corporate governance importance and pays significant attention to the need for compliance of the KTO internal documents and practices with its principles.

\* The first Code principle has a specific nature, and relates to the specifics of SK management, interaction between SK and the RoK Government.

№	Regulation/ Principle	Complied/ Not complied	Actions taken to comply with regulations/principles
1	<b>Interaction of “Samruk-Kazyna” SWF” JSC with organizations. The role of “Samruk-Kazyna” SWF” JSC as the national governing holding.</b>	Complied	<p>The KTO corporate governance system ensures proper governance and control over its activities, and is aimed at growth of a long-term value and sustainable development.</p> <p>KTO and its officials are responsible for growth of the KTO long-term value and sustainable development, and the decisions made and actions/omissions, as duly established by the RoK legislation and internal documents.</p> <p>One of the main elements for evaluation of the KTO executive body performance is the system of key performance indicators (hereinafter – the KPIs). The list and target values of the KPIs shall be confirmed by the KTO Board of Directors.</p> <p>So, the KTO BoD in its decision dated February 1, 2017 (Minutes No.2/2017) confirmed the corporate KPIs of KTO for 2017 and their target values, as well as the incentive KPIs of the KTO executive employees for 2017 and their target values, in its decision dated March 15, 2017.</p> <p>The extent to which the KPIs are achieved, that has an effect on remuneration of the KTO managerial employees, is assessed every year.</p>
2  2.1	<b>Sustainable development</b>  <i>Environmental protection</i>	Complied	<p>Sustainable development is a priority in the Company’s activities that is targeted at business development along with environment preservation and protection, creation of favorable working conditions, maintenance of safety at work and contribution to the development of local communities, in which the Company operates.</p> <p>The Company’s bodies regularly review and analyze the key results of the Company’s efforts in the area of sustainable development, also in terms of HR management, environmental protection, and functioning of an integrated management system.</p> <p>While carrying out the activities in the area of sustainable development, the Company is guided by the principles and provisions set out in the United Nations Global Compact, ISO 26000 Social Responsibility, AA1000 serial standards</p>

		<p>“Stakeholder Engagement Standard”, GRI G4 and the relevant activities are regulated by a number of internal documents of the Company in particular areas related to sustainable Development that are posted on the Company’s corporate website.</p> <p>The KTO BoD in its decision dated Dec. 13, 2017 (Minutes No.11/2017) confirmed the Stakeholder Map that contains a list of interested parties that influence or may influence the Company’s activity.</p> <p>The Company pays much attention to the measures on mitigating the negative impact of its activities on the environment, and implementation of the principles for rational use of natural resources.</p> <p>The Company strictly adheres to the RoK Environmental Code, advanced international standards, the KTO Policy in the area of safety and labor protection, environmental protection and other internal corporate documents, and identifies and assesses environmental risks, ensures transparency and openness of its actions in the area of environmental protection.</p>
2.2	<i>Safety and labor protection</i>	<p>In 2017, the SGS international certification body confirmed the compliance of the Company’s activities with ISO 14001:2015.</p> <p>The Company invested KZT669.4 million in environmental protection, and made environmental payments in the amount of over KZT87.8 million within the reporting period.</p> <p>Any emergency situations that caused the shutdown of production or environmental damage during oil transportation were not recorded in 2017.</p>
2.3	<i>HR and social policy</i>	<p>In the area of safety and labor protection, the Company strives to ensure trouble-free operation of production facilities, creates and maintains safe working conditions, takes care of employees’ health, and clearly follows the requirements of the RoK legislation, international and national standards, HSE Policy and internal documents of the Company.</p> <p>KTO confirmed its HSE Policy in June 2017.</p> <p>Also, a large-scale work was done for revision and updating of its regulations in the area of health and safety. This helped draft and approve the KTO Code of Health</p>

and Safety called “Colden Rules” that include the key safety requirements.

3 occupational accidents were registered in the Company in 2017, as a result of which 3 people were injured.

The HR Policy of the Company for 2015-2019 determines a system of principles, key directions and levels of HR management.

The Company builds its HR and social policy in accordance with the RoK legislation and the collective agreement concluded with the Company’s team of employees.

The Company pays special attention to social stability and favorable working climate based on a balanced HR policy and systematic arrangements aimed at regulation of socio-working conditions.

The Company provides a guaranteed social package for its employees that helps improve their living conditions. Also, the Company provides additional benefits and guarantees, as stated in the collective employment agreement. The agreement covers 100% of the Company’s staff (except for the representative offices’ employees).

In the area of HR management, the Company works in such areas as improvement of the organizational structure and quality of personnel, labor efficiency management, implementation of the main Youth Policy objectives and directions, and corporate culture formation and development.

The recruitment procedure goes in accordance with the Rules on competitive staff selection to vacant positions and adaptation of new employees in the Company. The Company searches and selects qualified specialists, has a nominee database, implements transparent hiring procedures in selection of people to vacant/working positions, also partially using testing.

681 staff training events were held in 2017. Many employees had trainings in several specialties (areas) for training, retraining and advanced training.

The Company provides broad possibilities for revealing potential and career growth of its employees.

The Company has formed a staff reserve pool aimed at ensuring the succession and upbringing of own managerial staff. 59 people throughout the

2.4	<i>Procurement system and local content</i>		<p>Company, incl. 18 people in the Company headquarters, were on the staff pool in 2017.</p> <p>The Company provides broad opportunities for disclosing the potential and career growth of its employees.</p> <p>Since the pool formation in 2010, 27 employees from it got managerial positions, incl. 10 employees in 2017.</p> <p>An important direction of the Company's HR Policy is to work with young specialists. An integrated approach is being implemented to attract young professionals to work in the Company, and to work with young personnel, as stated in the Company's Youth Policy.</p> <p>The index of involvement of the Company's personnel made up 64% in 2017.</p> <p>An effective procurement system and timely provision of high-quality goods, works and services for the central office and branches of the Company are important for sustainable development of the Company's business, taking into account its scale.</p> <p>When choosing suppliers, the Company is guided by the Rules on procurement of goods, works and services of "Samruk-Kazyna" SWF" JSC and organizations, fifty or more percent of voting shares (interests) of which are directly or indirectly owned by "Samruk-Kazyna" JSC based on the right of ownership or trust management.</p> <p>The Company concluded contracts totaling KZT90,408 million in 2017.</p> <p>The share of local content in the 2017 contracts made up 68%.</p> <p>The information about goods, works and services procured in the Company is posted on the corporate web-site of the Company.</p>
3	<b>Rights of shareholders (stakeholders) and fair attitude towards shareholders (stakeholders)</b>	Complied	<p>One of the key principles of the Company's activity is the most open and effective interaction with its shareholders. The basic rights of shareholders are exercised in accordance with the RoK legislation and the KTO Charter.</p> <p>The issues of information disclosure are regulated by legislative acts, the KTO Charter and the Information Disclosure Rules.</p> <p>The KTO Board of Directors guarantees equal treatment to all shareholders, gives them an opportunity to participate in management of the Company through the General</p>

			<p>Meeting of Shareholders, receive information on the Company's activities and exercise their right to receive dividends. The procedure and order of General Meetings ensures equal attitude to all shareholders.</p> <p>The Company's major shareholder is "KazMunayGas" NC JSC, which owns 90% of the Company's common shares.</p> <p>The Company and "KazMunayGas" NC JSC, as its major shareholder, in connection with the initial placement of the Company's shares on Kazakhstan Stock Exchange, concluded a Relationship Agreement on October 30, 2012 that establishes transparent market principles for interaction between the Company and its major shareholder and allows the Company to act in the interests of all its shareholders.</p> <p>The information touching the interests of shareholders is timely posted on the Company's corporate website, internet resources of "Kazakhstan Stock Exchange" JSC and the Financial Reporting Depository.</p> <p>The Company has an IR Service, which main task is to arrange effective communication between the Company's management and the investment community (potential investors, minority shareholders and professional participants of the securities market) in order to maintain and strengthen the Company's reputation as an investment attractive company.</p> <p>On May 25, 2017, the annual financial statements and consolidated financial statements of the Company for 2016, the order of distribution of the Company's net income for 2016, retained earnings for past years, decision to pay dividends on common shares and the size of a dividend per common share were confirmed at the Annual General Meeting of Shareholders of the Company, as well as the BoD Annual Report for 2016, claims of the KTO shareholders against actions of KTO, etc.</p> <p>The shareholders and interested parties also receive information from the annual report that includes, inter alia, the BoD report and audited annual financial statements.</p> <p>No addresses of the shareholders against actions of the Company and its officials were received in 2017.</p>
4	<b>Effectiveness of the Board of Directors and</b>	Complied	<p>The Board of Directors is the strategic governing body of the Company, which controls the MB performance within its competence, and is responsible for effective management and proper control over the Company's activities in acc.with the</p>

	<b>executive body</b>	<p>applicable decision-making system.</p> <p>The Company's Board of Directors includes seven members, three of them are independent directors. CEO is also a BoD member. The BoD Chair is Daniyar Berlibayev, the KMG representative. Also, Nurtas Shmanov and Ardak Mukushov are representatives of the major shareholder on the Company's BoD.</p> <p>All BoD members have a high professional reputation and significant experience in the industry.</p> <p>The criteria for selection of members of the Board of Directors, including independent directors, are determined by the RoK Law "On Joint-Stock Companies", the Charter, the Corporate Governance Code and the Regulations on Board of Directors.</p> <p>The Report on BoD performance is annually presented as part of the KTO Annual Report.</p> <p>11 in-person meetings of the Board of Directors were held in 2017, where decisions were made on 130 issues in key areas of the Company's activities. Also, the BoD considered a range of issues referred to the competence of general meetings of participants/shareholders of SJCO.</p> <p>The additional info on the BoD 2017 decisions is available on the Company's web-site in "Corporate Governance" section.</p> <p>The Company has three committees for preliminary consideration of the most important issues and making recommendations for the BoD: SPC, IAC, NRC, acting in acc.with the relevant regulations. SPC held 6 in-person meetings in 2017, IAC – 9 in-person and 2 absentee meetings, NRC – 5 in-person meetings.</p> <p>The Board of Directors was evaluated in 2017 by independent external consultants from "TopCompetence" LLC, Russian Federation and "Olympex Advisers" LLC, Republic of Kazakhstan possessing significant experience in evaluation of boards of directors of international public companies.</p> <p>The evaluation results let make the conclusion that the Board of Directors effectively fulfills its function in protecting rights and legitimate interests of shareholders, strategy development, monitoring of activity of subsidiary and dependent companies, effectively interacts with KTO management staff. The recommendations</p>
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			<p>for further development and improvement of work were given. The evaluation results were considered at the formal Board meeting. As a result of the discussion, the decision was made to update an action plan on how to improve the performance of the Board and its committees.</p> <p>The BoD members, except for the INEDs, act on a pro-bono basis. The procedure for remuneration and/or compensation of costs for the INEDs is regulated by the Rules on remuneration and/or compensation of costs for INEDs of KMG JSCs.</p> <p>The Company's Management Board is a collegial executive body that runs the ongoing activities of the Company. It performs its functions on the basis of the Company Charter, Regulations on Management Board and other internal documents of the Company.</p> <p>The Company's Management Board is headed by the General Director (Chair of the Management Board). The MB competences and GD powers are set out in Article 12 of the Charter.</p> <p>The MB had 39 in-person meetings in 2017. The decisions on 209 considered issues were adopted by the Management Board of the Company, 208 tasks were given with all of them having been accomplished. At the same time, 88 issues considered by the Management Board were submitted for consideration of the Company's Board of Directors with 4 of them further submitted for the General Meeting of Shareholders.</p>
5	<b>Risk management, internal control and audit</b>	Complied	<p>The important element of the KTO corporate governance system is the risk management system that includes the corporate risk management system (hereinafter – the CRMS) and the internal control system (hereinafter – the ICS).</p> <p>The BoD updated and confirmed the Policy on corporate risk management system in 2017. The CRMS is aimed at timely identification, assessment, monitoring, reduction in probability of realization and consequences of potential risk events that may affect the KTO strategic and operational goals. At the same time, one of the main tasks of CRMS is introduction and operation of the vertical process of production/non-production risk management, where goal owners, risk/risk factor owners at each management level apply the most effective risk management methods (control procedures) after identifying, assessing and analyzing risks/risk factors.</p> <p>The results of identification and assessment of production and non-production</p>



		<p>risks performed in 2017 for the planned period (2018), risk management action plans aimed at reducing the possibility of their implementation and mitigation/prevention of possible financial losses, risk appetite, tolerance levels and key risk indicators were confirmed by the BoD on December 13, 2017 (Minutes No.11).</p> <p>The Company's ICS is aimed at timely finding and analysis of process-level risks characteristic for the Company's activities, as well as determination and analysis of control procedures on management of these risks in three key areas of ICS: operational activity, preparation of financial statements and compliance with legal and regulatory requirements.</p> <p>For the further improvement of internal controls, the following measures were taken in 2017:</p> <ol style="list-style-type: none"> <li>1) the business process classifier of the KTO HQ and divisions was updated;</li> <li>2) flow charts and risk and control matrices for key business processes of the KTO HQ were updated;</li> <li>3) flow charts and risk and control matrices for key business processes of the KTO divisions were drafted.</li> </ol> <p>The Company's BoD, in its decision dated November 15, 2012 (Minutes No.15/2012), established the Internal Audit Service (IAS) for control over financial and economic activities, assessment in the area of internal control, risk management, execution of documents in the area of corporate governance and consultations in order to improve the Company's activities.</p> <p>The IAS is directly subordinate to the BoD and reports to it.</p> <p>The IAS work is led by the Internal Audit Committee.</p> <p>The IAS acts in accordance with the Annual Audit Plan subject to confirmation by the BoD.</p> <p>5 audits of particular business processes of the Company, as well as audits of production, operational and financial processes of the Company's SJCE were performed in accordance with the 2017 Annual Audit Plan.</p> <p>The IAS fixed 123 findings and issued 166 recommendations during the 2017 audits. On all the recommendations, the audit entities drafted and confirmed the Plans of Corrective Actions of Identified Inconsistencies.</p>
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6	Transparency	Complied	<p>The Company provides timely and full disclosure of information on all aspects of its activity except for the cases when the info constitutes commercial, official or other secret protected by law. In the area of information disclosure, the Company is guided by:</p> <ul style="list-style-type: none"> <li>- RoK Law “On JSCs” dated May 13, 2003;</li> <li>- RoK Law “On Securities Market” dated June 2, 2003;</li> <li>- RoK Law “On Accounting and Financial Reporting” dated February 28, 2007;</li> <li>- Resolution of the Management Board of the RoK National Bank “On approval of the Rules on placement of information on corporate events, financial statements and audit reports, lists of affiliates of joint-stock companies, as well as information on total remuneration of executive body members for a year on Internet resources of the financial reporting depository and stock exchange” dated January 28, 2016 No.26;</li> <li>- Listing Rules confirmed by the resolution of the KASE Exchange Board (Minutes No. 15 dated April 27, 2017);</li> <li>- Charter and Corporate Governance Code, Rules on information disclosure, Rules on internal control over disposal and use of insider information and other internal documents of the Company.</li> </ul> <p>The info on compliance with the Internal Control Rules over use of insider information and the report on training of insiders were considered at the IAC meeting on February 15, 2018 (Minutes No.1/2018-IAC).</p> <p>In general, the work on enhancing transparency in the Company via timely disclosure of up-to-date information on the Company’s activity is done in a proper way. KASE awarded KTO with Diploma “For Commitment to Transparency” in 2017. The decision was made by the KASE Management Board on February 6, 2018 in acc.with the KASE internal document “Rules on annual encouragement of listing companies”. KTO held the training for insiders in November 2017 to review the specifics of information disclosure, etc. KTO totally has 106 insiders, incl. 8 MB members.</p> <p>No facts of untimely provision of information or remarks to relevant documents from regulating bodies were fixed.</p>
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