

Analytical report on the results of the internal analysis of corruption risks in “KazTransOil” JSC for the period 2019-2020

Nur-Sultan

May 11, 2021

In order to identify and study the causes and conditions that may contribute to the commission of corruption offenses in “KazTransOil” JSC (hereinafter – the Company), in the period from April 5, 2021 to May 11, 2021, a working group (hereinafter – the working group) established by order №29 of the acting General Director (Chairman of the Management Board) of the Company dated April 1, 2021 “On conducting an internal analysis of corruption risks in “KazTransOil” JSC as follows:

Rustem Baymukhambetovich Iskakov – Director of the Corporate Security Department, Head;

Elena Sergeevna Drouz – Head of the Compliance Control Service, Deputy Head;

Askar Amirbayevich Baymakhanov – Deputy Director of the Legal Expertise of Contracts Department;

Nurgul Sarsenbaevna Munbayeva – Coordinator of the Human Resources Management Department;

Zhanat Bisenbaevna Zhaksylykova – Head of the Risk Management and ISM Section of the Business Process and Risk Management Department;

Assem Bolatovna Issenova – Head of the Business Process Management Section of the Business Process and Risk Management Department;

Tuyakbay Sergeevich Bekibaev – Chief Manager of the Corporate Security Sector of the Corporate Security Department;

Bakytzhan Kenesbekovich Yelshibekov – Chief Manager of the Compliance Control Service;

Ilyana Anatolyevna Ten – Chief Manager of the Information Security Sector of the Corporate Security Department;

Yerlan Spandiyarovich Baizhigitov – Manager of the Corporate Security Sector of the Corporate Security Department,

an internal analysis of corruption risks in the Company were conducted in the following areas:

1) identification of corruption risks in the Company's organizational and managerial activities on the following issues:

provision of oil transportation services;

human resource management;

organization of procurement of goods, works and services;

conflict of interest resolution;

2) identification of corruption risks in the Company's internal documents affecting the Company's activities.

The basis for conducting an internal analysis of corruption risks in the Company

Order №29 of the acting General Director (Chairman of the Management Board) of the Company dated April 1, 2021 “On Conducting an Internal Analysis of Corruption Risks in “KazTransOil” JSC.

Information on identified corruption risks

1. Identification of corruption risks in organizational and managerial activities on the following issues:

Provision of oil transportation services

Oil transportation is the main strategic direction of the Company, ensuring its stable functioning and development.

Oil transportation through the Company's main oil pipeline system is carried out in accordance with the oil transportation schedules approved by the Ministry of Energy of the Republic of Kazakhstan and contracts concluded with consumers in the following areas:

- oil export via the “Atyrau-Samara” oil pipeline (through the territory of the Russian Federation);
- oil supply to the domestic market: to “Atyrau Oil Refinery” LLP, “PetroKazakhstan Oil Products” LLP, “Pavlodar Petrochemical Plant” LLP and “CASPI BITUM” LLP;
- shipment of oil to tankers in the port of Aktau;
- transshipment of oil to the system of “CPC-K” JSC, “MunaiTas” LLP and “Kazakhstan-China Pipeline” LLP;
- oil loading into tank cars from a railway overpass Oil Loading Point “Shagyr” and Oil Pumping Station n.a. T. Kasymov.

In addition, the Company in accordance with the Law of the Republic of Kazakhstan “On Main Pipeline” and the resolution of the Government of the Republic of Kazakhstan dated October 8, 2012 No.1273 “On national operator of the main oil pipeline” on behalf of, at the expense of and on behalf of the Kazakh oil senders on the basis of contracts concluded with them for the provision of services for the organization of oil transportation through the territories of other states and powers of attorney issued by them, concludes in accordance with the established procedure relevant contracts with organizations, including organizations of other states that provide services for the transportation of oil, oil transshipment through sea terminals, freight forwarding (forwarding) services during oil transshipment through sea terminals, and other contracts necessary to ensure the transportation of oil transported from the territory of the Republic of Kazakhstan via the main oil pipeline owned by the Company through the pipeline systems of other states.

When providing the above-mentioned services, the Company, among other things, is guided by the following documents:

- 1) Agreement between the Government of the Russian Federation and the Government of the Republic of Kazakhstan on Oil Transit (St. Petersburg, June 7, 2002);
- 2) Agreement between the Government of the Republic of Kazakhstan and the Government of the Russian Federation on cooperation in the field of transportation of Russian oil through the Territory of the Republic of Kazakhstan to the People's Republic of China (Moscow, December 24, 2013);

3) Framework Agreement between the Government of the Republic of Kazakhstan and the Government of the People's Republic of China on the development of Comprehensive Cooperation in the Field of Oil and Gas (Beijing, May 17, 2004);

4) Contract on the Eurasian Economic Union (Astana, May 29, 2014);

5) Contract on the Customs Code of the Eurasian Economic Union (Moscow, April 11, 2017);

6) The Law of the Republic of Kazakhstan "On the main pipeline";

7) The Law of the Republic of Kazakhstan "On Natural Monopolies";

8) Resolution of the Government of the Republic of Kazakhstan dated October 8 2012 No. 1273 "On the National Operator of the Main Oil Pipeline";

9) Typical contract for the provision of oil transportation services, approved by Order of the Minister of National Economy of the Republic of Kazakhstan dated June 24, 2019 No. 58;

10) "Rules for the formation of the schedule of oil transportation through the main oil pipelines", approved by the Order of the Minister of Energy of the Republic of Kazakhstan dated April 8, 2015 No. 276;

11) "Rules for the formation of the oil supply schedule", approved by Order No. 191 of the Minister of Energy of the Republic of Kazakhstan dated May 17, 2018;

12) ST RK 1474-2016 Main oil pipelines. Instructions for oil accounting;

13) ST RK 1347-2005 Oil. General technical conditions;

14) ST AO 38440351-6. 003-2011 Main oil pipelines. Accuracy standards for the balance of delivered and received oil;

15) ST 6636-1901-AO-039-6.004-2019 Main oil pipelines. Requirements for oil and water quality control laboratories;

16) ST 6636-1901-AO-039-8.016-2019 Main oil pipelines. Requirements for oil and water quality control laboratories. Consumption rates for reagents, laboratory utensils and equipment;

17) ST AO 38440351-6. 001-2010 Main oil pipelines. Methods for determining technological and mobile oil residues in reservoirs;

18) ST JSC 38440351-8. 002-2019 Standards of technical losses of oil during transportation along the routes of "KazTransOil" JSC;

19) Instructions for waste management of analytical and chemical laboratories of "KazTransOil" JSC;

20) Instructions for the management of non-conforming products in "KazTransOil" JSC;

21) Rules for business planning of "KazTransOil" JSC.

In accordance with the legislation of the Republic of Kazakhstan on natural monopolies, tariffs for regulated services should not be lower than the cost of the costs necessary for the provision of services, and take into account the possibility of making a profit that ensures the effective functioning of the natural monopoly entity. Tariffs for oil transportation services to the domestic market of the Republic of Kazakhstan are approved by the authorized body in the field of natural monopolies.

Tariffs for oil transportation services for export outside the Republic of Kazakhstan and transit through the territory of the Republic of Kazakhstan are approved by the Company independently. To calculate these tariffs, the Company has approved and applies the Methodology for calculating tariffs for the services of "KazTransOil" JSC for the transportation of oil through main pipelines for export outside the Republic of Kazakhstan and transit through the territory of the Republic of Kazakhstan.

The cost of transporting Russian oil for transit through the territory of the Republic of Kazakhstan to the People's Republic of China is approved by the Ministry of Energy of the Republic of Kazakhstan.

Oil shippers make monthly orders and requests for oil transportation and send them through the site tasmaldau.kz. These documents are automatically received by the Company with the creation of a registration card for incoming documents in the Lotus Notes/Domino electronic document management system.

Also, various documents (telegrams, notifications, payment orders, invoices, statements from the positional schedule, etc.) are automatically created in information systems (SAP ERP, ASUB [Automated Control and Security Systems]), which are sent automatically through the site tasmaldau.kz.

Thus, taking into account the sufficient regulation of the oil transportation process at the legislative and internal levels, as well as the increasing share of automation (digitalization) of business processes, the risks of committing corruption offenses in this area were not detected. According to the results of inspections of the Company by the control bodies for the period 2019-2020, no comments were issued regarding corruption risks.

At the same time, it should be noted that every year, in order to continuously improve the quality of services provided, in accordance with the Methodology for determining the degree of satisfaction of consumers of services of "KazTransOil" JSC, consumers are surveyed for their satisfaction with the services provided by the Company. According to the results of the survey, the degree of satisfaction of consumers of oil transportation services in 2019 - 2020 was 100%.

Human Resource Management

The process of human resources management in the Company covers such areas as the organization and remuneration of labor, management of personnel motivation, recruitment, placement and evaluation of personnel, training and development of the Company's personnel, as well as the management of the Company's social policy.

Ensuring the functioning of the Company's human resources management system is the task of the Human Resources Management Department (hereinafter – the HRMD).

In its activities, the HRMD is guided, among other things, by the following documents:

- 1) Labor Code of the Republic of Kazakhstan;
- 2) Youth Policy of "KazTransOil" JSC;
- 3) Code of Business Ethics of "KazTransOil" JSC;
- 4) Code of Social Responsibility of "KazTransOil" JSC;
- 5) Rules for the collection, processing and protection of personal data in "KazTransOil" JSC;
- 6) Rules on official business trips of employees of "KazTransOil" JSC;
- 7) Rules on the procedure for awarding and encouraging employees of "KazTransOil" JSC and its subsidiaries and Jointly Controlled Organizations, veterans of "KazTransOil" JSC;
- 8) Rules of training and development of employees of "KazTransOil" JSC;
- 9) Rules of certification of employees of "KazTransOil" JSC;
- 10) Rules of the contest "Best in the profession" in "KazTransOil" JSC;

11) Internal labor regulations of the central office and the Operator Services Department of “KazTransOil” JSC;

12) Rules for the development of job descriptions and instructions for working professions of employees of “KazTransOil” JSC;

13) Rules for the development of Regulation on structural divisions in “KazTransOil” JSC;

14) Regulation of social support of unemployed pensioners and disabled persons in “KazTransOil” JSC;

15) Instructions on accounting of working hours of employees of “KazTransOil” JSC;

16) Regulation on the Department of Human Resources Management of the “KazTransOil” JSC;

17) Regulation on the shift method of work in “KazTransOil” JSC;

18) Regulation on the Council of Young Specialists of “KazTransOil” JSC.

The procedure for selecting and approving personnel for vacant positions is defined by the following internal documents of the Company:

1) The Rules of competitive selection of personnel for vacant positions and Working Professions in “KazTransOil” JSC, approved by the decision of the Company's Management Board dated February 18, 2019 (minutes of the meeting No. 5);

2) The Procedure for approving candidates for certain vacant positions, as well as vacancies in working professions in branches, representative offices and other geographically separate structural divisions of “KazTransOil” JSC, approved by Order No. 162 of the General Director (Chairman of the Management Board) of the Company dated September 27, 2017.

Regulatory documents affecting the activities of the Human Resources Management Department

During the analysis, the Regulation on the Human Resources Management Department of “KazTransOil” JSC, approved by the decision of the Company's Management Board dated December 7, 2020 (minutes of the meeting No. 29), the Rules for competitive selection of personnel for vacant positions and working professions in “KazTransOil” JSC, approved by the decision of the Company's Management Board dated February 18, 2019 (minutes of the meeting No. 5), the procedure for approving candidates for certain vacant positions, as well as vacancies in working professions in branches of the Company were studied., representative offices and other geographically separate structural divisions of JSC "KazTransOil", approved by Order No. 162 of the General Director (Chairman of the Management Board) of the Company dated September 27, 2017, and other internal documents regulating the activities of the Human Resources Management Department.

The main directions of the Company's sponsorship and charitable assistance, as well as the procedure for forming the expenditure part of the budget for sponsorship and charitable assistance, ensuring monitoring and control over its expenditure are determined by the Charity Policy “Samruk-Kazyna” JSC, approved by the decision of the Board of Directors of JSC “Samruk-Kazyna” dated January 28, 2016 (minutes of the meeting No. 126), and the Rules for providing sponsorship (charitable) Assistance to the closed JSC “KazTransOil”, approved by the decision of the Board of Directors of the Company dated April 28, 2004 (minutes of the meeting No. 4). So since 2017, all sponsorship and

charitable assistance is provided only by the Fund for the Development of Social Projects "Samruk-Kazyna Trust", which is a single operator for the provision of sponsorship and charitable assistance from the entire group of companies of JSC "Samruk-Kazyna". In 2020, the Head of State proposed measures to counter the spread of coronavirus infection, including assistance in equipping the country's medical institutions with the necessary equipment to combat the pandemic. In this regard, as part of the implementation of measures to counteract the spread of COVID-19, the Company provided sponsorship for the purchase of 68 stationary artificial lung ventilation (ventilator) devices, for their further transfer to regional state medical institutions.

The Human Resources Management Department has organized the process of assessing the professional competencies of employees by conducting their certification in accordance with the Rules of Certification of Employees of "KazTransOil" JSC, approved by the decision of the Company's Management Board dated October 5, 2018 (minutes of the meeting No. 25). In accordance with the requirements of these Rules, an attestation commission is created, which conducts both regular and extraordinary attestations. The Human Resources Management Department, in turn, ensures the preparation and organization of certification in the Company. Certification is carried out by conducting computer testing. An employee who has scored a threshold level of at least 60% of correct answers is considered to have passed the test. Employees who score less than the threshold level have the opportunity to retest. Based on the results of testing, the certification commission makes a decision/makes recommendations. In case of disagreement with the decision of the certification commission of the Company based on the results of the revision of the decision, the Company's employees have the right to appeal this decision to the General Director (Chairman of the Management Board) of the Company by applying in writing.

According to the results of the analysis, the following was found.

A significant number of internal documents of the Company on personnel management issues require updating, including taking into account changes in the legislation of the Republic of Kazakhstan, the Company's structure or other internal documents of the Company (including, but not limited to,

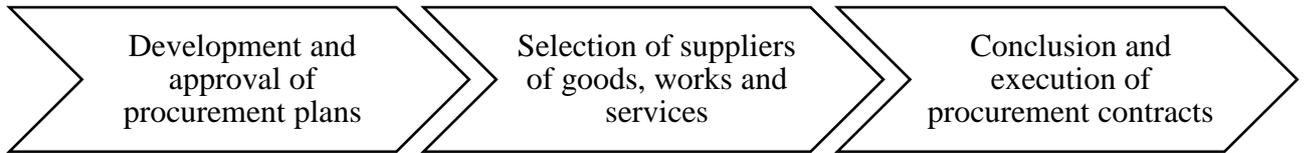
A code of social responsibility of JSC "KazTransOil", ST AO ISM 38440351-037-2010 HR Staff, Rules for the collection, processing and protection of personal data of JSC "KazTransOil", the Rules of competitive selection for vacant posts and jobs in JSC "KazTransOil").

Other risks that can contribute to corruption offenses, the results of audits external audit, acts of state bodies, as well as appeals of individuals and legal entities in the activities DOOR during the reporting period have been identified.

Organization of procurement of goods, works and services

The Company makes procurement management on the principles of compliance with the Company's development strategy, interconnectedness of procurement management processes, cost minimization, timely provision of necessary goods, works and services of the required quality, transparency and transparency of the procurement process, as well as control and responsibility for decisions made. In addition, the Company gives preference to suppliers who adhere to the established requirements in matters of labor protection and the environment.

Procurement procedures are carried out on the electronic platform of “Samruk-Kazyna Contract” LLP and include the following stages:



Automation of procurement and the introduction of the electronic contract system have significantly reduced the time spent at each stage of the procurement process.

Implementing the state policy on the development of the national economy and local content, the Company strives to increase the share of purchased goods from Kazakhstani manufacturers and from organizations of Samruk-Kazyna JSC in order to develop intra-holding cooperation.

As a result of the purchases, long-term contracts for 2020-2024 were concluded with domestic producers and organizations of disabled people for a total amount of 3 376 mln.KZT. In addition, in 2020, contracts were concluded for a period of 1 year with domestic producers in the amount of 4 928 mln. KZT, which were implemented by 100%.

Total volume of purchases under the annual plan of purchases of goods, works and services

In 2019, the Company's debt amounted to 57 245 698. 66 ths. KZT (there are no outstanding lots). The total volume of purchases under the Company's long-term procurement plan for goods, works and services in 2019 amounted to 10 438 713. 11 ths. KZT (there are no outstanding lots).

The total volume of purchases under the Company's annual procurement plan for goods, works and services in 2020 amounted to 43 935 072 587. 70 KZT (there are no outstanding lots). The total volume of purchases under the Company's long-term procurement plan for goods, works and services in 2020 amounted to 34 447 137 524. 20 KZT (there are no outstanding lots).

As part of the analysis, the working group examined the legal framework governing procurement activities in the Company, including, but not limited to:

- 1) Law of the Republic of Kazakhstan "On the National Welfare Fund";
- 2) Procedure for procurement by the JSC "National Welfare Fund "Samruk-Kazyna" and organizations, fifty or more percent of the voting shares (participation interests) of which are directly or indirectly owned by JSC "Samruk-Kazyna" on the right of ownership or trust management;
- 3) Standard for managing the procurement activities of the joint-stock company "National Welfare Fund "Samruk-Kazyna" and organizations, fifty or more percent of the voting shares (participation interests) of which are directly or indirectly owned by JSC "Samruk-Kazyna" on the right of ownership or trust management;
- 4) Rules for purchasing through an electronic store;
- 5) Rules for monitoring the implementation of purchases by a joint-stock company "National Welfare Fund" Samruk-Kazyna " and organizations, fifty or more percent of the voting shares (participation interests) of which are directly or indirectly owned by JSC "Samruk-Kazyna" on the right of ownership or trust management;
- 6) Procedure for supporting manufacturers;
- 7) Rules for managing the procurement activities of the JSC "National Company" KazMunayGas" and organizations, fifty or more percent of the voting shares (participation interests) of which are directly or indirectly owned by JSC NC "KazMunayGas" on the right of ownership or trust management;

8) Rules of preparation, conclusion, registration and execution of contracts in “KazTransOil” JSC;

9) The procedure for purchasing goods, works and services necessary for the design, reconstruction, and construction of facilities provided for under the project to increase the capacity of the Kazakhstan - China oil pipeline (Kumkol - Atasu oil pipeline).

Based on the results of the study of the documents regulating the procurement process in the Company, as well as taking into account the electronic format of their conduct, the working group comes to the conclusion that the procurement procedure in the Company is sufficiently detailed and transparent, minimizing non-legal contacts between representatives of the customer and a potential supplier, as a result of which there are no prerequisites and grounds for corruption risks.

For the period 2019-2020, the facts of the purchase of goods, works, and services that are not provided for in the approved procurement plan (s) have not been established.

Thus, the existing procurement procedures for goods, works and services used in the Company are sufficiently effective and transparent to identify and prevent all forms of corruption offenses.

Regulation of conflict of interest

The process of regulating conflicts of interest in the Company is regulated by the provisions of the Law of the Republic of Kazakhstan "On Combating Corruption", as well as the provisions of the Policy on Resolving Conflicts of Interest among Employees and Officials of JSC NC "KazMunayGas" and its subsidiaries and affiliates (in the part that does not contradict the internal documents of the Company) and the following internal documents of the Company, approved in accordance with the established procedure:

- 1) Code of Business Ethics of “KazTransOil” JSC;
- 2) Anti-Corruption Policy of “KazTransOil” JSC;
- 3) Anti-corruption standards of “KazTransOil” JSC;
- 4) Regulation for conducting anti-corruption monitoring and internal analysis of corruption risks in “KazTransOil” JSC;
- 5) Policy on risk management of violations in “KazTransOil” JSC;
- 6) Policy on resolving the conflict of interests of officials and employees of “KazTransOil” JSC;
- 7) Regulation on the Management Board of “KazTransOil” JSC;
- 8) Regulation on the Compliance Control Service of the JSC "KazTransOil»;
- 9) Order of the General Director (Chairman of the Management Board) "Issues of distribution of duties, Powers and Responsibilities between Members of the Management Board and other managers of “KazTransOil” JSC, No. 58 dated July 8, 2020

The main, most important, principles and rules of business conduct that guide all officials and employees of the Company are defined by the Code of Business Ethics of “KazTransOil” JSC, approved by the decision of the Board of Directors of the Company dated December 10, 2020 (minutes of the meeting No. 12/2020).

According to the Regulation on the Compliance Control Service, approved by the decision of the Company's Management Board dated October 21, 2020 (minutes of the meeting No. 25), monitoring the presence of conflicts of interest among officials and other employees of the Company and assisting in ensuring measures to resolve it is the function of this service.

In accordance with the Policy on resolving conflicts of Interests of Officials and employees of "KazTransOil" JSC, approved by the decision of the Board of Directors of the Company dated February 26, 2015 (minutes of the meeting No. 2/2015), the Company establishes obligations for its officials to prevent situations of conflict of interests and participation of the Company's officials in the consideration of issues in which they have a conflict of interests, making decisions on them, as well as mandatory communication of information about the existing conflict of interests to the Chairman of the Board of Directors of the Company. Also, this Policy establishes similar obligations for other employees of the Company, aimed at preventing the occurrence of a conflict of interest. In addition, this Policy defines appropriate measures in the event of a conflict of interests between officials and employees of the Company (restriction of access of an official or employee to specific information, suspension (permanent or temporary) from participating in the discussion of issues in which there is or may be a conflict of interest, and making decisions on them, reviewing and changing the duties/job responsibilities of an official or employee, etc.).

In addition, in accordance with the Regulation on Management Board of "KazTransOil" approved by the resolution of the Board of Directors dated March 15, 2017 (minutes of meeting No. 3/2017), members of the Management Board:

on a regular basis carry out monitoring for the presence of a conflict of interest and prevent the occurrence of situations of conflict of interest shall not participate in the consideration of matters in which they have conflicts of interest, including requesting information on these issues, and do not make decisions on them;

take measures to restrict the access of a member of the Company's Management Board to information on issues in which this member of the Management Board has a conflict of interest;

inform the Chairman of the Board of Directors or the General Director (Chairman of the Management Board) of the Company in writing about the existing conflict of interests;

provide the Company with information about its affiliates within the time period established by the Law of the Republic of Kazakhstan "On Joint-Stock Companies" and the Company's Charter;

they confirm in writing their familiarity with the Company's procedures for resolving conflicts of interest and their obligation to comply with them.

Also, the Regulation on the Management Board of JSC "KazTransOil" prohibits the assignment of the duties of the General Director (Chairman of the Management Board) of the Company for the period of his absence to the members of the Management Board of the Company who are close relatives, spouses or relatives.

On a quarterly basis, JSC NC "KazMunayGas" is sent a log of registration of information about identified conflicts of interest among employees and officials of the Company.

During the reporting period, there were no situations of conflict of interests in the Company.

It should be noted that on the facts of corruption and other illegal actions, officials and employees of the Company can contact by phone +7(7172)555-210, by the electronic information system of the Company's trust-doverie@kaztransoil.kz, to the special dedicated line "No corruption!" 5213@kaztransoil.kz.

At the same time, their rights should not be infringed in the event of such treatment.

Thus, the existing procedures in the Company aimed at identifying and resolving conflicts of interest are quite effective.

2. Identification of corruption risks in internal documents affecting the Company's activities

In the opinion of the working group, there are no discretionary norms in the Company's internal documents regulating its business processes, which are the subject of the analysis.

In addition, as a member of the Association of Legal Entities "Kazakhstan Association of Oil-Gas and Energy Sector Organizations "KAZENERGY", as well as the National Chamber of Entrepreneurs of the Republic of Kazakhstan "Atameken", the Company regularly participates in the normative process aimed at improving the applicable legislation of the Republic of Kazakhstan and, accordingly, improving its own legal framework used in the organizational and managerial activities of the Company.

Conclusion and recommendations on how to eliminate the identified corruption risks

The internal analysis of corruption risks in the Company showed that, despite the measures taken to reduce the causes and conditions that contribute to the occurrence of corruption offenses, both in relation to the current legal acts and internal documents of the Company, and in relation to the organizational and managerial activities of the Company, further work is required to minimize possible corruption risks, as well as the causes and conditions that contribute to them. Based on this conclusion, the following recommendations can be made.

In order to prevent corruption risks in the Company:

1) The Transportation Department of the Company to conduct negotiations with service consumers in accordance with the established procedure and include (as agreed) the section on anti-corruption in the newly concluded contracts of the Company for the provision of services for the transportation of oil and for the provision of services for the organization of oil transportation through the territories of other states;

2) The Human Resources Management Department with the aim of harmonization of rules of internal documents on personnel management, including consideration of changes of the legislation of the Republic of Kazakhstan, the structure of Company or other internal documents of the company, in the prescribed manner to ensure the mainstreaming of internal documents of the company for management personnel and job descriptions of employees of the company including the provisions on combating corruption (if necessary);

3) taking into account the principles of cost minimization, as well as transparency of the procurement process, the Administrators of budget programs and the Contracts and Local Content Development Department of the Company are invited to consider the possibility of shifting the focus in favor of procurement methods with a competitive environment (for example, the method of tender or request for price proposals);

4) The Compliance Control Service of the Company to continue its work in accordance with the established procedure aimed at monitoring the existence of conflicts of interest among officials and other employees of the Company and assisting in ensuring measures to resolve them.