

**Approved
by the resolution of the Board of Directors
of “KazTransOil” JSC
dated April 14, 2017
(minutes of the meeting No. 4/2017)**

**Report on “KazTransOil” JSC compliance with principles and provisions
of the Corporate Governance Code for 2016**

The Corporate Governance Code (hereinafter – the Code) was confirmed by the resolution of the KTO General Meeting of Shareholders dated May 27, 2016 (Minutes No.3/2016). 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	Interaction of “Samruk-Kazyna” SWF” JSC with organizations. The role of “Samruk-Kazyna” SWF” JSC as the national governing holding.	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 November 21, 2016 (Minutes No.12/2016) confirmed the adjusted corporate KPIs of KTO for 2016 and their target values, as well as the adjusted incentive KPIs of the KTO managerial employees for 2016 and their target values.</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	Sustainable development	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</p>
2.1	<i>Environmental protection</i>		

		<p>Global Compact, ISO 26000 Social Responsibility, AA1000 serial standards “Stakeholder Engagement Standard”, 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. 15, 2014 (Minutes No.13/2014) 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 2016, the Company performed the audit that confirmed the system compliance with the requirements of such international standard as ISO 14001:2004. Also, the SGS international certification body confirmed the compliance of the Company’s activities with ISO 14001:2015.</p> <p>The Company invested KZT483.1 million in environmental protection, and made environmental payments in the amount of over KZT77.9 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 2016.</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 and internal documents of the Company.</p>

In 2016, the SGS international certification body confirmed the compliance of the Company's activities with OHSAS 18001: 2007.

Two group accidents were registered in the Company in 2016, as a result of which 14 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.

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 2016 Rules on competitive staff selection to vacant positions and adaptation of new employees in the Company processed in accordance with the requirements of "KazMunayGas" NC JSC in terms of meeting the conditions of hiring procedure transparency and the principles of meritocracy, as well as creating a competition commission in the Company. Also, the Rules determine the procedure for adaptation of new employees in the Company. To ensure transparency of procedures, there is a search and selection of qualified specialists, maintenance of a candidate database, introduction of transparent competition procedures for recruitment of personnel for vacant positions, also using tests to check the level of knowledge of candidates.

In 2016, 797 events were held within staff training/development programs. Many of the employees had training in several specialties (areas) for training, retraining and advanced training.

The Company provides broad opportunities for disclosing the 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. 65 people throughout the Company, incl. 20 people in the Company headquarters, were on the staff pool in 2016.

			<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>In 2016, the Company arranged a Board of Young Professionals aimed at forming an active life position and increasing the creative initiative of young professionals, uniting them to realize own potential and ensuring the Company is in the lead.</p> <p>The Regulations on Board of Young Professionals of the Company were confirmed on December 28, 2016. They define the goal, main tasks, functions, structure and composition of the Board, and the rules of its work.</p> <p>In December 2016, trade unions were formed in the headquarters and in all four branches of the Company, and the chairpersons of the trade union committees were elected. On December 27, 2016, a new Collective Agreement was signed between the Company and the team of employees for 2017-2019.</p> <p>The index of involvement of the Company's personnel made up 66% in 2016.</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>No significant changes in the corporate procurement and local content system were made in the reporting period.</p> <p>The Company concluded contracts totaling KZT47,865 in 2016.</p> <p>The share of local content in the 2016 contracts made up 61,2%.</p> <p>The information about goods, works and services procured in the Company is posted on the corporate web-site of the Company.</p>
2.4	<i>Procurement system and local content</i>		

3	Rights of shareholders (stakeholders) and fair attitude towards shareholders (stakeholders)	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 Meeting of Shareholders, receive information on the Company's activities and exercise their right to receive dividends.</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>The Annual and three Extraordinary General Meetings of Shareholders were held in 2016.</p> <p>On May 27, 2016, the annual financial statements and consolidated financial statements of the Company for 2015, the order of distribution of the Company's net income for 2015, 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 Company's</p>
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			<p>Annual Report for 2015, the BoD Annual Report for 2015, changes and additions to the Charter, Corporate Governance Code, changes and additions to the Methodology on valuation of shares in case of KTO buy-back on the informal securities market.</p> <p>On January 14, 2016, the Extraordinary General Meeting of Shareholders took a decision on determination of an auditor to audit the Company in 2016-2018, the cost of its services for audit of financial statements and single-source procurement.</p> <p>On January 29, 2016, the Extraordinary General Meeting of Shareholders took decisions on early termination of powers of members of the KTO BoD, determination of the quantitative composition, term of powers of the new BoD, election of its members, incl. the Chair, setting the size of salary and terms of remuneration and compensation of costs for INEDs for fulfillment of their duties.</p> <p>On October 20, 2016, the Extraordinary General Meeting of Shareholders took decisions on determination of the BoD quantitative composition, election of its member, and determination of a BoD member as a representative of the shareholder.</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 2016.</p>
4	Effectiveness of the Board of Directors and executive body	Complied	<p>The Board of Directors is the governing body of the Company, which determines the strategic goals, priority areas of development and establishes the main long-term focuses for the Company, ensures the availability of necessary financial and human resources for implementation of the set goals, and considers other significant issues.</p> <p>The Company's Board of Directors includes seven members, three of them are independent directors. 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>13 in-person meetings of the Board of Directors were held in 2016.</p> <p>The Board of Directors was evaluated in 2016 by independent external</p>

			<p>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 were considered at the in-person Board meeting on May 26-27, 2016. The Board of Directors, in its decision dated June 27, 2016 (Minutes No.8/2016), confirmed the Action Plan on how to improve the performance of the Board and its committees.</p> <p>On many aspects of the BoD activities, the evaluation showed a solid growth in quality and effectiveness of the BoD performance that is evidenced, inter alia, by the growing corporate governance ratings of the Company.</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 Article12 of the Charter.</p> <p>The MB had 33 in-person meetings in 2016. The decisions on 205 considered issues were adopted by the Management Board of the Company, 222 tasks were given with all of them having been accomplished. At the same time, 75 issues considered by the Management Board were submitted for consideration of the Company’s Board of Directors with 6 of them further submitted for the General Meeting of Shareholders.</p>
5	Risk management, internal control and audit	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 Company’s CRMS is aimed at timely identification, evaluation, monitoring and reduction of potential risk events that may affect the Company’s strategic and operational goals. The Company’s Board of Directors confirmed the Risk Management</p>

		<p>Policy, which implies finding the main aspects related to the Company's risk management approaches, powers and responsibility of risk management participants. The order of activities within the framework of this system is fixed in the Company's internal documents in the area of risk management.</p> <p>All the information on identified risks is presented in the Company's Risk Management Program for 2016-2018 confirmed by the Company's Board of Directors (hereinafter – the RMP). The RMP includes an updated risk register, risk map of the Company and its subsidiaries and jointly controlled entities (SJCE), calculation of own retention capacity and risk boundaries, statement of risk appetite, levels of tolerance and key risk indicators for key risks, also an action plan on risk management of the Company and its SJCE.</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>The Company's Board of Directors annually confirms the Risk Management Action Plan, which contains preventive measures (impact on risk factors) and corrective measures (impact on consequences), information on responsible employees, terms of implementation and cost of measures (if necessary). The necessary operational and strategic decisions on key risk management were made by the Company's management based on the results of CRMS performance within the confirmed risk appetite. The risk appetite characterizes the own level of risk retention, within which the Company may achieve its strategic goals.</p> <p>In general, the work planned for key risk management in 2016 was performed in full. The Company took corresponding response measures for reducing probability of key risk realization and mitigation/prevention of possible financial losses.</p> <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</p>
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			<p>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 acc.with the Annual Audit Plan subject to confirmation by the BoD.</p> <p>In 2016, 5 audits of particular business processes of the Company, corporate governance assessment, as well as audits of production, operational and financial processes of the Company's SJCE were performed in acc. with the 2016 Annual Audit Plan.</p> <p>The IAS fixed 87 findings and issued 158 recommendations during the 2016 audits. On all the recommendations, the audit entities drafted and confirmed the Plans of Corrective Actions of Identified Inconsistencies.</p>
6	Transparency	Complied	<p>In the area of information disclosure, the Company is guided by:</p> <ul style="list-style-type: none"> - RoK Law "On JSCs" dated May 13, 2003; - RoK Law "On Securities Market" dated June 2, 2003; - RoK Law "On Accounting and Financial Reporting" dated February 28, 2007; - 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; - Listing Rules confirmed by the resolution of the KASE Exchange Board (Minutes No. 29 (h) dated November 5, 2009); - 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. <p>The Company ensures timely and full disclosure of information for interested parties on all aspects of its activity, except for the cases when it constitutes commercial, official or other secret protected by law.</p>

			<p>The 2016 Report on transparency was approved by the Company's Management Board and considered at the Company's Board of Directors on March 15, 2017.</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.</p> <p>The trainings attended by 71 employees of the Company were arranged in November of 2016.</p> <p>No facts of untimely provision of information or remarks to relevant documents from regulating bodies have been fixed.</p> <p>Moreover, in acc.with the RoK Law "On natural monopolies and regulated markets", the Company compiled the Report dated March 15, 2016 on provision of regulated services for consumers and other interested parties for the reporting period.</p> <p>The Company prepares annual, half-year and quarterly FSs, in acc.with international standards. The reports are posted on internet resources of the financial reporting depository, stock exchange and the Company's corporate web-site in time.</p> <p>The external audit of the Company's FSs for 2016 was done by "Ernst&Young" LLP that confirmed the authentic reflection of the Company's financial position as of December 31, 2016, as well as financial results and cash flows for the year then ended, in acc.with international financial reporting standards.</p>
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