

Confirmed
By resolution of the Sole Shareholder of
JSC “KazTransOil”
(minutes of the meeting
of the Management Board
of JSC NC “KazMunaiGas”
dated 2 August, 2012 No. 92)

Report
of the Board of Directors of JSC “KazTransOil”
on work accomplished in 2011

Astana, 2012

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1. General information about the Board of Directors

Managerial body of the Joint Stock Company “KazTransOil” (hereinafter – the Company) is the Board of Directors. The Board of Directors operates in accordance with the Law of the Republic of Kazakhstan “On Joint Stock Companies”, Charter, Code of Corporate Governance, Regulation on the Board of Directors and other internal documents of the Company.

The composition of the Board of Directors is defined by decision of the Sole Shareholder – JSC “National Company “KazMunaiGas”.

In accordance with the Law of the Republic of Kazakhstan “On Joint Stock Companies” the number of members of the Board of Directors shall comprise at least three persons. Not less than thirty percent of composition of the Board of Directors of the company shall be represented by the Independent Directors.

2 independent Directors – Daniel Mihalik and Moustafa Habib – were elected into the Board of Directors of the Company.

General Director Kayrgeldy Kabyldin, heading the Management Board, is also the member of the Board of Directors of the Company and is the sole representative of executive body of the Company in the Board of Directors.

Two other members of the Board of Directors, including the Chair Nurtas Shmanov, are the representatives of the Sole Shareholder.

2. Composition of the Board of Directors as of December 31, 2011

As of December 31, 2011 the Board of Directors consisted of five members, represented by:

Name	Position
Nurtas Shmanov	Chair of the Board of Directors,
Kayrgeldy Kabyldin	member of the Board of Directors
Arman Darbayev	member of the Board of Directors
Daniel Mihalik	Independent Director
Moustafa Habib	Independent Director

Due to expiration in August 2011 of term of powers of the Board of Directors, in accordance with resolution of the Sole Shareholder dated September 8, 2011 the Board of Directors of the Company consisting of five members was elected in the same composition. Nurtas Shmanov was elected as Chairman of the Board of Directors.

In accordance with resolution of JSC “Samruk-Kazyna” dated October 10, 2011 (minutes No.43/11) powers of the General Director (Chair of the Management Board) of the Company Nurbol Sultan were early terminated, Kayrgeldy Kabyldin was elected as the General Director (Chair of the Management Board) of the Company.

In this regard in accordance with resolution of the Sole Shareholder dated October 12, 2011 powers of member of the Board of Director Nurbol Sultan were early terminated starting from October 10, 2011. In accordance with the same decision Kayrgeldy Kabyldin was elected into composition of the Board of Directors for the term of powers established for the Board of Directors of the Company on a whole.

3. Criteria of selection of members of the Board of Directors

Criteria of selection of members of the Board of Directors, including Independent Directors, are specified in the Law of the Republic of Kazakhstan “On Joint Stock

Companies”, Company’s Charter and Corporate Governance Code.

In accordance with Code of Corporate Governance the Board of Directors established a fact of independency of directors and considers that Moustafa Habib and Daniel Mihalik are independent in terms of taking decisions. The Board of Directors established absence of relations or circumstances which affect or might affect significantly the independent decisions of given directors.

4. Competence of the Board of Directors

The Board of Directors determines strategic goals, priority directions of development and sets basic milestones of activity of the Company for a long term prospective, ensures availability of necessary financial and human resources to implement the goals set and considers other substantial issues.

The Board of Directors is authorized to resolve any issues which are not attributed to the exceptional competence of the Sole Shareholder and the Management Board in accordance with Law of the Republic of Kazakhstan “On Joint Stock Companies”, Charter and Corporate Governance Code of the Company.

The issues attributed to exceptional competence of the Board of Directors can not be transferred for resolving to the Management Board of the Company.

The Board of Directors is not entitled to take decisions on the issues attributed to the competence of the Management Board of the Company in accordance with Company’s Charter, as well as take decisions, contradicting to the interests of the Sole Shareholder.

5. Liability of the Board of Directors

Distribution of powers between the Board of Directors, the Management Board and the General Director (Chair of the Management Board) is stipulated in articles 11 and 12 of the Charter of the Company.

The Board of Directors is liable to the Sole Shareholder for effective administration and proper control over operation of the Company in accordance with confirmed system of taking decisions.

The Board of Directors oversees activity of the Management Board.

6. Information on the meetings of the Board of Directors

The Board of Directors holds the meetings basing on the principle of rationality, effectiveness and regularity.

During 2011 the Board of Directors held 15 meetings, including nine formal and six – by the means of absentee voting, having taken decisions on 130 issues.

7. Core issues, considered by the Board of Directors in 2011

Apart from other the Board of Directors considered the following issues throughout the year:

- Draft Development strategy of the Company till 2020;
- Preliminary approval of consolidated financial statements and stand-alone financial statements for previous year;
- Proposals to the Sole Shareholder on procedure of distribution of net income of the Company for 2010 and dividend size for 2010 in calculation per one simple share of the Company;
- Election of members of the Management Board of the Company;
- Determination of remuneration of members of the Management Board;
- Confirmation of the Business-plan of the Company for 2012-2016;
- Consideration of Report on results of achievement of key performance indicators

of the Company for 2010;

- Election of Committee members of the Board of Directors;
- Conclusion by the Company of the interested-party deals;
- Determination of term of powers, size of official salary, terms of labor and bonuses payment to the General Director (Chair of the management Board) of the Company;
- Nomination, determination of term of powers of the Corporate Secretary of the Company, determination of size of official salary and terms of his remuneration;
- Structure of the Central office of the Company;
- The issues associated with implementation of “People’s IPO “ program;
- Goodwill impairment of Batumi Industrial Holding Limited company and plans on improvement of efficiency of given asset;
- Assessment of risks of Batumi Industrial Holding Limited company which may negatively affect achievement of planned indicators for 2011-2020;
- On results of financial and economic activity of Batumi Industrial Holding Limited company for 9 months of 2011 and results expected in 2011;
- The issues attributed to the competence of General Meetings of Participants/Shareholders of subsidiary and jointly controlled organizations;
- Report of the Board of Directors and the Management Board on work done in 2010;
- Annual report of the Company for a preceding year;
- The issues associated with labor and industrial safety.

In 2011 the Board of Directors confirmed the following documents of the Company:

- Risk management policy;
- New edition of Rules on assets sale;
- New edition of Accounting policy of group of companies;
- Program of induction of newly elected members of the Board of Directors;
- Action plan on introduction and improvement of corporate system of risk management and internal control system for 2011-2020;
- Amendments and addenda to Tax Accounting Policy.

Additional information on resolutions of the Board of Directors in 2011 is available on web-site of the Company www.kaztransoil.kz

**Attendance of meetings of the Board of Directors by
members of the Board of Directors**

Members of the Board of Directors	Number of meetings of the Board of Directors held in 2011	
	9 – formal	6 – absentee
Nurtas Shmanov	9	6
Nurbol Sultan	4	5
Kayrgeldy Kabyldin	3	3
Arman Darbayev	8	6
Daniel Mihalik	9	6
Moustafa Habib	9	6

8. Committees of the Board of Directors

For the purposes of enabling efficient performing of functions the Board of Directors founded Nomination Committee and Remuneration Committee.

In accordance with provisions of Corporate Governance Code the Nomination Committee consists of three directors, two of them are independent. Chair of Nomination Committee is elected by the Board of Directors from among the number of Independent Directors.

The Remuneration Committee consists of three directors; at least two of them shall be Independent Directors. Chair of Remuneration Committee is elected by the Board of Directors from among the number of Independent Directors.

Terms of powers of the members of Committees coincide with terms of their powers as members of the Board of Directors; however they can be annually reconsidered by the Board of Directors.

Due to expiration in August 2011 of term of powers of the Board of Directors on November 29, 2011 the Board of Directors resolved to elect new composition of Nomination committee. According to the same resolution members of Remuneration Committee were reelected for a new term.

Nomination Committee

In 2011 the composition of the indicated Committee included two Independent Directors: Daniel Mihalik (Chair of Committee), Moustafa Habib, and Nurbol Sultan (till October 10, 2011) and Kayrgeldy Kabyldin (from November 29, 2011).

Objectives of Nomination Committee

Key objectives of the Nomination Committee are elaboration and provision the Board of Directors with recommendations on election or appointment of candidates to Independent Directors, composition of the Management Board and other positions, appointment or coordination of appointments on which are carried out by the Board of Directors.

The meetings of Nomination Committee are held upon necessity. During 2011 the Nomination Committee met twice. The Nomination Committee considered the issues:

- On composition of the Board of Directors of the Company;
- Submission of recommendations on election of Independent Director;
- Election of member of the Management Board of the Company.

Remuneration Committee

In 2011 the Remuneration Committee was composed as follows Moustafa Habib (Chair of Committee), Arman Darbayev and Daniel Mihalik.

Objectives of Remuneration Committee

The Remuneration Committee is established for the purposes of development and submission of recommendations to the Board of Directors on the issues of remuneration of Directors, members of the Management Board and other employees of the Company, the appointment or coordination of appointment on which are carried by the Board of Directors, in accordance with goals, objectives, current position of the Company and level of remuneration in the same companies, introduction of structured and open system of remuneration.

Meetings of Remuneration Committee are held upon necessity. During 2011 the Committee held one meeting devoted to elaboration of recommendations on the issue of determination of size of official salary and terms of labor and bonus payment to the member of the Management Board.

9. Interaction with the Sole Shareholder

The Board of Directors realizes the importance of constant and effective

interaction with the Sole Shareholder.

The Company in time and in full volume informs the Sole Shareholder on operating, which affects the interests of the Sole Shareholder in the procedure, stipulated in the Charter and internal documents of the Company.

The Company provides the following reports to the Board of Directors:

- Half-year: on management of subsidiary and jointly controlled organizations, on impact of results of financial and economical activity of subsidiary and jointly controlled organizations on key performance indicators of the Company;
- annual: on implementation of Business-plan of the Company.

10. Remuneration of the Independent Directors

The procedure of payment of remuneration and reimbursement of expenses to the Independent Directors are provided in Rules on payment of remuneration and reimbursement of expenses to independent directors of joint stock companies of JSC NC "KazMunaiGas".

The Independent Directors shall receive the following remuneration, set by the Sole Shareholder of the Company:

- Fixed remuneration;
- Additional remuneration for participation in formal meetings of committees under the Board of Directors.

The Company reimburses to the Independent Directors expenses (for travelling, accommodation, per diem allowances), related to participation at meetings of Committees of the Board of Directors conducted in a place other than the place of permanent residence of Independent Directors.

Remuneration to Independent Directors shall be paid subject to fulfillment of the following terms:

- Fulfillment in good faith of powers of a member of the Board of Directors, using the ways that at most reflect interests of KTO;
- Governance by the RoK legislation and KTO Charter in decision making;
- Participation at in-person meetings, except of cases of being ill, being on a business trip or on leave, and participation in all absentee meetings of KTO Board of Directors.

The Sole Shareholder (by its resolution dated of September 8, 2011) determined rates of the fixed and additional remuneration to Independent Directors of KTO. KTO concluded correspondent agreements with Independent Directors Daniel Mihalik and Moustafa Habib.

Amounts of remuneration accrued to Independent Directors for a year ended December 31, 2011, US\$

Independent Director	Annual Remuneration	Participation at in-person meeting of the Committee	Total net of taxes	Total inclusive of taxes
Moustafa Habib	76 869	2000	78 869	87 632
Daniel Mihalik	76 869	2000	78 869	87 632
Total:	153 738	4000	157 738	175 264

All the other members of the Board of Directors do not receive any remuneration as members of the Board of Directors for their work in this body.

11. Assessment of position of the Company and prospective of its development

The main strategic objective of the company is to provide a safe, reliable and economically attractive mean of transporting Kazakhstan oil production to the international market. Anticipating the needs of the country, with an efficient investment policy, is a key success factor.

The company's current network comprises 5 495 kms ensuring the transportation of 59% of the total oil production. Consolidated volume of oil transportation in 2011 equals to 66 873 th.tons.

While conducting its operations, the company's main priority is the safety of its employees and the protection of the environment.

On the human resources front, the company tries to develop its workforce for the mutual benefit of the company and the employees aiming to create the right work environment and conditions to attract and develop the best talents in the country.

Considering the forecasted significant growth of oil production in the country and, in particular for Tengiz, Karachaganak and Kashagan as well as other potential offshore deposits, additional transportation capacities will be required in the future.

To achieve its objectives, the company is working on developing new oil transportation routes and capacity expansions to satisfy demand on a timely basis.

The company will also work to improve the competitiveness of the transportation route using the Batumi Oil Terminal, thus, providing a further diversification to the Country export corridors.

Success in the realization of the long-term development plans and improvements in performance and competitiveness are being facilitated by the company's continued progress in implementing highly effective business processes and corporate governance.

12. Risk Management

Risk management is the key component of the corporate governance system of KTO; it is aimed at due and timely identification of and taking measures with regard to risks which may adversely influence the value and reputation of KTO and its subsidiary and jointly-controlled organizations. In line with the Policy of Risk Management KTO introduces the best practices of risk-management to ensure stable operation and protection of the value of KTO from risks as a whole.

Directors confirm that during 2011 the processes were functioning on determining, assessing and managing substantial risks, which the Company faced. These processes have been integrating at all managerial levels and functions, and are in tight connection with strategic planning.

The following can be attributed to key events on introduction and improvement of the risk management system in the accounting period:

- approval of the Risk Management Policy that defines goals, objectives, and basic principles of risk management, as well as the authorities and responsibility of participants of the risk management process;
- approval of the Action Plan on introduction and improvement of the corporate system of risk management and internal control of KTO for 2011-2012, which also includes the activities related to subsidiary and jointly-controlled organizations;
- holding of a separate meeting by the Board of Directors for assessment of risks on assets of Batumi Industrial Holding Limited, which may adversely influence achievement of the target indicators of 2011-2020;
- with regard to the analysis of integration of the risk management process to

different management levels of KTO, the Concepts was developed for transition to an operation management system based on risk assessment;

- alteration of the composition of the Risk Committee under the Management Board of KTO.

13. Report of the Management Board of the Company for 2011

The management of current activity of the Company is carried out by a collegial executive body represented by the Management Board.

The basic principles of activity of the Management Board are honesty, scrupulosity, rationality, prudence, regularity, as well as full observance of rights and interests of the Sole Shareholder represented by JSC NC “KazMunayGas” and answerability to the decisions of the Sole Shareholder and the Board of Directors.

The Management Board carries out its functions on the basis of the Charter of the Company, Regulation on the Management Board and other internal documents of the Company.

The Management Board is entitled to take decisions on any issues regarding the operating of the Company, not attributed to the exceptional competence of the Sole Shareholder and the Board of Directors of the Company by the legislation of the Republic of Kazakhstan and the Charter.

The Management Board of the Company is headed by the General Director (Chairman of the Management Board).

Powers allocation between the Management Board and General Director (Chairman of the Management Board) of the Company is specified in Article 12 of the Charter and Article 3 of the Regulation on Management Board of the Company.

14. Responsibility of the Management Board

The Management Board shall be responsible for disclosure of information and media coverage of KTO operation in line with provisions of the RoK legislation and is obliged to ensure protection and safety of the internal (official) information.

The Management Board shall be accountable to the Board of Directors for the activities conducted for implementation of KTO goals.

In 2011 the composition of the Management Board of KTO included the General Directors, Deputy General Directors, and other key officials of KTO.

In 2011 the following changes were introduced in the composition of the Management Board:

- on July 1, 2011 powers of Zhanna O.Sultangaliyeva, a member of the Management Board were terminated ahead of schedule;
- on October 10, 2011 powers of Sultan S.Nurbol, General Director (Chairman of the Management Board) were terminated ahead of schedule and Kaigeldy M.Kabyldin was elected as the General Director (Chairman of the Management Board) of KTO;
- on December 9, 2011 Ruslan A.Mestoyev was elected as a member of the Management Board of KTO.

15. Composition of the Management Board as of December 31, 2011

Kairgeldy Kabyldin	General Director (Chairman of the Management Board)
Talgat Taubaldiyev	Deputy General Director
Assem Nussupova	Managing Director for Economy and Finance
Bolat Otarov	Managing Director for Transportation
Alexey Pirogov	Managing Director for Operations
Ruslan Mestoyev	Managing Director for Business Support
Zhaidarman Isakov	Director of Legal Department

16. Information on meetings of the Management Board

The Management Board holds its meeting on the regular bases and when the need arises.

In 2011 38 meetings of the Management Board of the Company were held, 178 items were considered.

Among the most important issues, considered by the Management Board, the following issues can be outlines, but not limited to:

- утверждение документов, принимаемых в целях организации деятельности Компании;
- оказание Компанией спонсорской (благотворительной) помощи;
- реализация имущества Компании, не связанного с производством и предоставлением Компанией регулируемых услуг, а также с осуществлением деятельности, разрешенной для Компании в соответствии с Законом Республики Казахстан «О естественных монополиях и регулируемых рынках».

- conclusion by the Company of interested-party transactions with the companies, of the group of JSC “Samruk-Kazyna”;
- approval of documents accepted for the purposes of organization of operation of the Company;
- approval of the Plan of Restructuring of the Group of Batumi Industrial Holdings Ltd;
- rendering of sponsorship (charity) by the Company;
- disposal of KTO property not related to production or rendering KTO regulated services, as well as to conducting the permitted activity by KTO in line with the RoK Law About Natural Monopolies and regulated markets.

In the accounting period in line with provisions of KTO Charter the Management Board provisionally approved the issues submitted then for consideration of the Board of Directors and/or the Sole Shareholder; among them was approved the following:

- resolutions on issues of activity referred to the competence of the General Meeting of Shareholders (Participants) of subsidiary and jointly-controlled organizations, in which ten and over per cent shares (participation shares in the chartered capital) belong to KTO;
- draft documents of KTO on risk management aimed at ensuring observance and analysis of efficiency, as well as improvement of such procedures;
- draft reports of KTO;

- draft Business Plans and adjustments to them;

In the reporting period (2011) all meetings of the Management Board of the Company were formal.

In the reporting period the payment of bonuses to the members of the Management Board of the Company for work in the executive body for 2011 was not made.

17. Risk Committee

The Risk Committee is a consultative and deliberative body under the Management Board of KTO. The major goals of activity of the Risk Committee are consideration of issues of risk management in KTO and preparation of recommendations to the Management Board.

In 2011 the composition of the Risk Committee included the General Director (Chairman of the Management Board), Deputy General Director, Managing directors and heads of a number of structural subdivisions of KTO.

In the accounting period the Risk Committee held 5 meetings, and considered the following documents:

- draft Risk Management Program for 2012-2014;
- register of risk and activities on mitigation of risks of Batumi Industrial Holdings Limited.