

**Confirmed by  
the BoD resolution  
dated \_\_\_\_\_2019  
(Minutes No. \_\_\_\_\_)**

## **Progress Report on “KazTransOil” JSC compliance with principles and provisions of the Corporate Governance Code for 2018**

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 23, 2018 (Minutes No.3/2018) confirmed the corporate KPIs of KTO for 2018 and their target values, as well as the incentive KPIs of the KTO executive employees for 2018 and their target values, in the same decision.</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	<b>Sustainable development</b>	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>

2.1 *Environmental protection*

“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.

Sustainable development management issues is integrated into the system of corporate governance of KTO and is performed at all levels of the Company.

The KTO BoD and Management Board are actively involved into the process of environmental, social, and economical impact of KTO management and regularly consider the issues of sustainable development.

Stakeholder Map was confirmed in KTO, which contains a list of interested parties that influence or may influence the Company’s activity.at Stakeholder Map compilation KTO assesses stakeholder’s impact on KTO and degree of their interest to KTO on the basis of concrete interaction parameters. The Map is to be updated once in three years.

Environment protection and safety are core composite elements of Company’s sustainable development.

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.

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.

Management of environment safety (ES) issues is performed at two levels. It is coordinated by HSE Department in the headquarters, and IS, LS and ES section in stand-alone structural divisions.

The system of ES management covers all directions of operational activity of KTO and is certified for compliance with the provisions of standard ISO 14001:2015. The system is a part of KTO IMS. In 2018 “SGS Kazakhstan Ltd” accomplished a certification audit of IMS in the result of which KTO confirmed compliance with

provisions of 14001:2015.

The Company invested KZT 1,232 million in environmental protection, and made environmental payments in the amount of KZT 95,925 thousand within the reporting period.

No emergency situations that caused the shutdown of production or environmental damage during oil transportation were recorded in 2018.

2.2 *Safety and labor protection*

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.

Key internal documents

- HSE Policy of KTO
- Unified HSE system in KTO
- Declaration of industrial safety of KTO
- Code of KTO in the area of labor safety “Golden rules”;
- Code of leadership and adherence of employees of KTO to observance of provisions of HSE, fire and transportation safety
  - Policy of KTO related to alcohol, drugs and psychotropic substances;
  - Procedure of reporting on accidents in KTO

2.3 *HR and social policy*

Improvement of HR policy of KTO is considered as a core factor for sustainable long-term development of the Company.

Priorities of HR policy of the Company include a worthy wage level and establishment of a system of employees' social support, a possibility of professional development and career growth, building and implementation of effective employee

incentive program, staff's satisfaction increase.

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 legislation of the Republic of Kazakhstan and collective agreement, concluded with employees of KTO.

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).

To assess the level of satisfaction and employee engagement the Center of social partnership on the annual basis researches social stability among operating staff and degree of engagement among administrative and managerial staff. Rating of social stability grew in 2018 (+3%) and amounted to 67%, index of employees engagement amounted to 77%.

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.

In 2018 KTO ran a reorganization of management structure which resulted in substantial increase in responsibility of employees of the central office as well as stand-alone structural divisions of KTO. In this regard all employees of the central office and heads of SASD starting from 2018 are paid annual remuneration on the basis of KPIs with account of achieving KTO's strategic goals and indicators of individual performance.

Within the frames of given approach a vertical-integrated structure of KPI is established allowing to allocate responsibility for achievement of strategic goals to each responsible participant of KTO business-processes.

The recruitment procedure goes in accordance with the Rules on competitive staff

2.4	<i>Procurement system and local content</i>	<p>selection to vacant positions and adaptation of new employees in the Company.</p> <p>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.</p> <p>683 staff training events were held in 2018. Many employees had trainings in several specialties (areas) for training, retraining and advanced training. The total cost of training in 2018 amounted to KZT449 mln.</p> <p>The Company provides broad possibilities for revealing potential and career growth of its employees.</p> <p>The Company has formed a staff reserve pool aimed at ensuring the succession and upbringing of own managerial staff. The Company conducts the policy for internal rotation and consequent appointment of employees on managing positions within development of practices of staff reserve. The Company strives to implement employees' needs in career building, creating equal opportunities for all employees on the basis of assessment of results of work, experience, business and personal qualities. Employees included in the staff reserve pool are in priority when appointing on vacant managing positions.</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</p>
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			<p>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 KZT130,871million in 2018.</p> <p>The share of local content in the 2018 contracts made up 67%.</p> <p>The information about goods, works and services procured in the Company (procurement plans, announcements, minutes on the results, contracts) is posted and compiled on the portal of e-procurements of “Samruk-Kazyna” JSC <a href="http://zakup.sk.kz">zakup.sk.kz</a>.</p>
3	<p><b>Rights of shareholders (stakeholders) and fair attitude towards shareholders (stakeholders)</b></p>	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 Procedures of interaction between structural divisions of “KazTransOil” JSC when posting information on the internet-resources of financial statements depository and “Kazakhstan Stock Exchange” JSC, and corporate web-site of KTO.</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. 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 24, 2018, the following issues were considered at the Annual General Meeting of Shareholders of KTO:</p> <ul style="list-style-type: none"> <li>• On confirmation of the annual financial statements and consolidated financial statements of the Company for 2017;</li> <li>• On confirmation of the procedure of distribution of the Company's net income for 2017, retained earnings for past years, taking decision to pay dividends on common shares and the size of a dividend per common share of KTO;</li> <li>• On confirmation of the Annual report of the Board of Directors of KTO on work done in 2017;</li> <li>• On addresses of shareholders of KTO on actions of KTO and its officials in 2017 and results of their consideration;</li> <li>• On amending the KTO Charter;</li> <li>• On amending the document of integrated management system – Regulation on the General Meeting of Shareholders of KTO;</li> <li>• On amending the document of integrated management system – Regulation on the Board of Directors of KTO;</li> </ul> <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 2018.</p>
4	<b>Effectiveness of the Board of Directors and executive body</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 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</p>



Berlibayev, the KMG representative. Also, Nurtas Shmanov and Ardak Mukushov are representatives of the major shareholder on the Company's BoD. The term of office of Ardak Mukushov was early terminated at his own initiative on the basis of written notification of the Board of Directors starting from November 30, 2018.

All BoD members have a high professional reputation and significant experience in the industry.

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.

The Report on BoD performance is annually presented as part of the KTO Annual Report.

13 in-person meetings of the Board of Directors were held in 2018, where decisions were made on 120 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:

- On confirmation of annual financial statements of SJCO in 2017;
- On confirmation of budgets of SJCO for 2019;
- On election of Supervisory Board of "Kazakhstan-China Pipeline" LLP;
- On determination of position of KTO as a participant to "Kazakhstan-China Pipeline" LLP on the issue of distribution of net income of KCP for 2017;
- On determination of position of KTO as a participant to "Munai-Tas" LLP on the issue of distribution of net income of MT for 2017;
- On confirmation of stand-alone financial statements and consolidated financial statements of Batumi Oil Terminal for 2017;

The additional info on the BoD 2018 decisions is available on the Company's web-site in "Corporate Governance" section.

The Company has three committees for preliminary consideration of the most important issues and making recommendations for the BoD: SPC, IAC, NRC.

Committee members are appointed by the KTO Board of Directors.

		<p>The procedure of forming and organization of Committees activity is provided in the relevant Regulations.</p> <p>SPC held 5 in-person meetings in 2018, IAC – 7 in-person and 2 absentee meetings, NRC – 5 in-person meetings.</p> <p>The Company regularly conducts a comprehensive evaluation of BoD and committees’ performance, individual assessment of directors in accordance with the best international practice.</p> <p>The Board of Directors was evaluated in 2018 by independent external consultants from “KPMG Tax and Advisory” LLP. Approach of KMG is based on the continued practical experience of specialists, availability of vast methodological base, base of knowledge and implementation of advanced standards.</p> <p>The evaluation included an analysis of internal documents and minutes of the Board and its committees, Board reports, questioning of the Board members, individual interviews of the independent consultants with the Board members, Corporate Secretary and Management Board members on such issues as the Board role and functions, composition and structure of the Board and its committees, order of their work, interaction with the management and other bodies of KTO, priorities of work of the Board and its committees.</p> <p>The analyses of issues considered by the Board of Directors in 2017 indicated that the priority was given to consideration of the issues on subsidiary and jointly controlled entities management, corporate governance and financial and economic activity. Along with the issues on business-planning, financial and investment activity, improvement of Board performance and corporate governance on a whole were also in priority.</p> <p>A high level of competence of the Board members was marked, as well as a key role of Board Chairman and efficient organizational work of Corporate Secretary Service with shareholders and members of the Board of Directors during the meetings.</p> <p>A high performance of the Board of Directors was marked as a result of evaluation and compliance with provisions of the laws of the Republic of Kazakhstan, KTO internal documents and principles of international corporate governance practice in all substantial aspects.</p> <p>The BoD members, except for the INEDs, act on a pro-bono basis. The procedure</p>
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			<p>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 JSC.</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>During 2018, the Management Board held 33 in-person meetings, no absentee meetings were held. The Management Board considered 256 issues, and the relevant decisions were made, it gave 277 instructions, which were totally executed. At the same time, 79 issues were further submitted for the BoD consideration, with 8 issues submitted for the AGM consideration. During the meetings the issues on such key directions, as strategic development, corporate governance, financial and economic activity, risk management and internal control were considered and decisions were made.</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 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.</p> <p>According to the new methodology of CRMS, updated in 2017, the work on introduction of the vertical process of production and non-production risks management will be continued in 2018, as well as integration of the process of risk management with key business-processes of the Company.</p> <p>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</p>

risks/risk factors. Identification and assessment of risks was performed on the basis of updated unified classifier of risks of KMG and its subsidiaries (URC). The results of identification and assessment of production and non-production risks for 2019, including action plans on their management are confirmed by the resolution of the Board of Directors of KTO (MoM #13/2018 dated December 2018).

In the reporting period in order to prevent/reduce the probability of risk events realization the heads of structural divisions of KTO and its subsidiary and jointly controlled entities took necessary preventive measures and relevant response measures in the result of risks realization.

A work planned on KTO risk management in 2018 was done in a full scope.

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.

For the further improvement of internal controls, the following measures were taken in 2018:

- 1) the business process classifier of the KTO HQ and divisions was updated;
- 2) flow charts and risk and control matrices for key business processes of the KTO HQ were updated;
- 3) flow charts and risk and control matrices for key business processes of the KTO divisions were updated.

The Internal Audit Service (IAS) runs its activity to control 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.

The IAS is directly subordinate to the BoD and reports to it.

The IAS work is led by the Internal Audit Committee.

The IAS acts in acc.with the Annual Audit Plan subject to confirmation by the BoD.

4 audits of operational and financial processes of oil pipeline divisions of the

			<p>Company, as well as KCP, BOT, BSP, Petrotrans Limited, and a stand-alone audit of a business-process on maintenance of production-technological communication and automated management system of technological processes and metrological maintenance of KTO were performed in acc. with the 2018 Annual Audit Plan.</p> <p>The IAS fixed 150 findings and issued 193 recommendations during the 2018 audits. On all the recommendations, the audit entities drafted and confirmed the Plans of Corrective Actions of Identified Inconsistencies.</p>
6	<b>Transparency</b>	Complied	<p>The Company ensures 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, procedure of interaction between the structural divisions of KTO when publishing information at the internet-resource of depository of financial statements and “Kazakhstan Stock Exchange” JSC, corporate web-site of KTO 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 March 4, 2019 (Minutes No.2/2019-IAC).</p> <p>In general, the work on enhancing transparency in the Company via timely</p>

		<p>disclosure of up-to-date information on the Company’s activity is done in a proper way.</p> <p>KASE awarded KTO with Diploma “For Commitment to Transparency” in 2018. According to KASE experts KTO is leading in number of information disclosure in addition to the listing rules.</p> <p>KTO held the training for insiders on November 20-23, 2018 through the workshop “Legal regulation of usage of insider information”.</p> <p>The above workshop was held for 4 days in 4 sessions, with duration 150 minutes each, in groups with 22-29 persons. During the training some peculiarities of insider information disclosure were considered, possible risks, related to illegal usage of insider information, kinds of responsibility, provided in laws of RoK for violations in given area, and concrete practical cases were considered, which emerge in routine business. The total number of trained employees – insiders of the Company amounted to 104 persons.</p> <p>No facts of untimely provision of information or remarks to relevant documents from regulating bodies were fixed.</p> <p>The Company prepares annual, semi-annual and quarterly financial statements in acc.with international standards of financial statements. The statements are published at the internet-resources of depository of financial statements, stock exchange and corporate web-site of the Company.</p> <p>The independent audit of KTO statements for 2018 was performed by “Ernst and Young” LLP, who confirmed credibility of reflection of financial situation of the Company as of December 31, 2018 and financial results and cash flows for year ended on the indicated date in acc.with IFRS.</p>
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