

## **Policy of “KazTransOil” JSC on attracting services of audit organization**

### **1. General provisions**

1. The Policy aims at arrangement of efficient activity on attracting services of audit organizations (inclusive of non-audit services rendered by audit organizations), introducing unified procedures of their selection, ensuring maintenance by auditors of “KazTransOil” JSC (hereinafter - KTO) of the status of independence when rendering audit and non-audit services, and preventing conflicts of interests.

2. The key provisions specified in the Policy shall allow KTO to attract auditors for rendering certain audit and non-audit services ensuring the unbiased and independent approach of auditors.

3. The Policy specifies a number of guidelines and procedures to be constantly applied and observed.

Subsidiary and jointly controlled organizations of KTO are recommended to develop own Policies on attracting services of auditing agencies with account of the provisions of this Policy.

### **2. Selection of an Auditor**

4. The key criteria for selecting an audit organization shall be the following:

1. the quality of services. The quality of services rendered by an audit organization shall be defined by the following factors:

- proficiency level of employees working for an audit organization;
- work experience of specialists employed in an audit organization, both within the domestic and foreign markets;
- employees' competence in oil and gas sector;
- availability of a dedicated technical support team (experts in accounting issues in line with the IFRS provisions for oil and gas sector of economy) in Kazakhstan, or assumption by an audit organization of an obligation to create such a group;

2. efficiency and timeliness of rendering services;

3. cost of services.

### **3. Classification of non-audit services**

5. KTO believes that rendering of certain services, not related to auditing, and the remuneration rate for non-audit services paid to an audit organization may result in a conflict of interests or actual or assumed loss of unbiased approach. Each of potential services of an audit organization shall be grouped within one of the following categories:

**Category A:** non-audit services that may influence independence of securing current liabilities of an audit organization and which may be rendered by an audit organization in line with the Law of the Republic of Kazakhstan “On Audit activity” (hereinafter - the Law) and in compliance with provisions specified in the Code of Ethics for Professional Accountants, such as:

- 1) related services to the core activity in line with auditing standards;
- 2) consulting on the issues of application of the laws on taxes and other mandatory payments to the budget and maintaining of tax records;
- 3) production of primary statistics;
- 4) analysis of the financial and economic activity, financial planning, economic, financial, and management consulting;
- 5) training in maintenance of accounting records and preparation of financial statements, taxation, auditing, and analysis of the financial and economic activity and financial planning;
- 6) recommendations on automation of the process of accounting records maintenance and preparation of financial statements, training in automated accounting records maintenance and preparation of financial statements;
- 7) development textbooks of methods and recommendations on accounting records maintenance and preparation of financial statements, auditing, analysis of the financial and economic activity and financial planning, on rendering related services to the core activity in line with auditing standards;
- 8) legal services related to auditing.

**Category B:** non-audit services that may result in loss of independent status in securing current obligations of an audit organization and shall be deemed to be prohibited services under the Law and other restrictions specified in the Code of Ethics of Professional Accountants, such as reconstruction and maintenance of accounting records, preparation of financial statements.

6. Services under Category A may be rendered by an audit organization carrying out a mandatory audit in compliance with the Law.

KTO shall not attract an audit organization carrying out a mandatory audit of KTO for rendering services under B Category.

7. The Internal Audit Committee of the Board of Directors shall consider, as and when required, an issue about correctness of classifying non-audit services.

#### **4. Approval of Non-Audit Services**

8. An advanced approval of the Internal Audit Committee shall be required before any audit organization is attracted for providing services in Category A. In the framework of an inquiry on selection of the Auditor an audit organization shall be required to provide reasons for which the Internal Audit Committee's approval will not endanger the independent status of this audit organization.

The materials submitted to the Internal Audit Committee on the said matter shall include the schedule of payment for rendering the Auditor's non-audit services during a year, subdivided into various categories of services, as well as the forecast fee payable with respect to the proposed rendering of services.

9. Members of the Audit Organization carrying out auditing of KTO's financial statements cannot be engaged in rendering consulting services referred to Category A.

10. An audit organization can not render to KTO consulting services amounting to over 50% of the total fee paid to the Auditor (other than the consulting services related to auditing of the financial statements and other information).

11. Resolutions adopted by the Internal Audit Committee on item 8 of the Policy shall be submitted for information to the Board of Directors.

## **5. Conflict of Interests in Rendering Non-Audit Services by an Audit Organization**

12. While receiving financial statements auditing services, KTO shall consider the possibility of appearance of any threat to independent status of an audit organization due to:

- 1) the nature of services received earlier from that audit organization;
- 2) financial or business relations with that audit organization within or after the period covered in the financial statements.

In case of KTO's failure or inability to take measures to eliminate a threat to self-control of an audit organization or reducing it to an acceptable level, KTO cannot receive financial statements audit services from such an audit organization.

13. In line with the Law, an Audit organization shall not be allowed to carry out audit:

- 1) of clients, in which this audit organization or its employees carrying out such an audit are participants or lenders;
- 2) of organizations, with which an audit organization has concluded a civil liability insurance contract;
- 3) of organizations, to which services specified in sub-item 2) of item 2 of Article 3 of the Law (reconstruction and maintenance of accounting records, preparation of financial statements ) have been rendered within the last three years;
- 4) if action persons of an audit organization have labour relations or are close relatives or relatives-in-law of the officials of an audited entity, or its shareholder (participant) owning ten and more per cent of shares (or participation shares in the equity capital) of an audited entity;
- 5) if action persons of an audit organization have personal property interests in an audited entity;
- 6) if an audit organization has monetary liabilities to an audited entity, or an audited entity has monetary obligations to an audit organization, other than audit obligations;
- 7) in cases resulting in conflicts of interests or creating a threat of such a conflict, other than obligations arising out of concluded public contracts.

14. Services received by KMG from an audit organization shall not violate the principles of objectivity and confidentiality:

- 1) when an audit organization has joint ventures or similar associations in which the majority of participants are KMG's competitors;
- 2) when an audit organization renders services to KMG and other organizations, whose interests are in conflict, or they are disputing or discussing issues, operations and problems with each other.

## **6. Periodic Reporting**

15. At least once a year KTO's Chief Financial Officer shall ensure provision of a report to the Audit Committee that covers the information for the preceding period of 12 months, including:

- 1) the scope of audit services rendered by the Auditor;
- 2) the scope of non-audit services rendered by the Auditor (broken down into different service categories);
- 3) the fee (per each individual service and in the aggregate), paid by KMG to the Auditor for rendering such services.

## **7. Rotation of Partners in the Project**

16. KTO shall require from the Auditor to comply with the principle of rotation of partners in the project (primarily responsible for auditing) every five years in case if the audit organization does not change.

## **8. Employment of Auditor's specialists by KTO**

17. In case a person is to be appointed (elected) to the position of an executive employee or Chief Accountant of KTO, and he/she is participating in a mandatory audit of KTO as the Auditor's employee or has participated in a mandatory audit of KTO as the Auditor's employee within two years prior to the date of his/her appointment (election) to KTO, to prevent a conflict of interests, a prior approval of the nominee by the Audit Committee shall be required for further consideration of the issue about his/her appointment (election).

Moreover, former members of an audit organization can be appointed to executive positions or positions assuming significant influence on preparation of the financial statements at least within a year after their dismissal from an audit organization.

## **9. Annual Confirmation of an Auditor**

18. The Auditor shall provide confirmation to the Audit Committee (at least, once a year) of the following:

- 1) the Auditor's independence has been maintained;
- 2) absence of any financial interests in the companies of KTO Group on the part of the Auditor and its partners;
- 3) absence of any financial interests in KTO on the part of members of the auditing group;
- 4) except as provided in this Policy, there are no other cases of rendering services between KTO and the Auditor;

- 5) no part of the fee paid by KTO to the Auditor shall be paid on grounds of an emergency;
- 6) the total amount of the fee received by the Auditor for each service rendered to KTO shall not exceed 15 per cent of the Auditor's total income;
- 7) absence of any disputes between KTO and the Auditor.

19. The Internal Audit Committee shall annually acknowledge to the Board of Directors provision of the Auditor's confirmation specified in item 18 of this Policy.

#### **10. Scope of the Policy**

20. This Policy shall be applied only in rendering audit and non-audit services by an Auditor carrying out auditing of KTO's consolidated and separate financial statements.

#### **11. Final provisions**

21. This Policy shall be reviewed as for relevance of the requirements set herein on a regular basis. The Audit Committee shall consider issues about compliance with the Policy provisions as and when needed, with possible involvement of the Internal Audit Service for such purposes.