

Appendix

to the decision of the Sole Shareholder

of JSC "KazTransGas"

(Management Board of JSC NC "KazMunayGas")

Minutes No. \_\_ dated "\_\_\_" \_\_\_\_\_ 2017

**Annual report of JSC** "**KazTransGas**"

**for 2016**

**Astana, 2017**

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**Letter to shareholders**

Dear Shareholders and Partners of JSC "KazTransGas"!

Joint-Stock Company "KazTransGas" is a part of the group of companies JSC National Company "KazMunayGas" and controls the network of transporting gas pipeline in the country, which is more than 18,000 km long and has annual capacity of up to 160 bln cm., a more than 45,000 km long network of gas distributing pipelines. It provides undisturbed operation of 31 compressor stations, on which 322 gas compressor units were installed, it also serves 3 underground gas storage facilities.

We present to your attention the annual report about the activities of Joint-Stock Company "KazTransGas" for 2016. It has summed up the main results and directions of production activities, formulated business principles, social and personnel policy, indicated the progress in economic and social spheres over the past year. Over 17 years of the national operator’s activities in the gas and gas supply field has made considerable progress in the gas transportation industry, laborious work has been done on the reconstruction and modernization of gas transmission networks, new projects are being developed, and the horizons of activity are broadening in general.

JSC "KazTransGas" finished the year with optimal indicators. Following the results of 2016, the volume of gas transportation through the MGL amounted to 88.1 billion m3: of which the volume of international transit is 58.3 bln cm. The production indicators were met, both in terms of regional gas transportation, and in part of trading operations with gas. In general, JSC "KazTransGas" group of companies paid 27.8 bln KZT of taxes and other mandatory payments to the state budget. The company implemented successfully large-scale projects, including international projects, it introduces modern technologies. In 2016, significant facilities were put into operation to expand the capacities of Kazakhstan's gas transportation system: Compressor stations No. 4 and No. 8 of thread "C" of MGL "Kazakhstan-China" were put into operation, bringing the capacity to 20 bln cm. of gas per year. Gas transportation began from the western Kashagan, Tengiz and Karachaganak fields in the direction of the southern regions of the Republic of Kazakhstan via the MGL system Beineu-Bozoy-Shymkent. Akyr-Tobe booster compressor station has been put into operation with the possibility of supplying gas to the volume of up to 2 bln cms of gas per year from the MGL BGR-TBA to the MGL "Kazakhstan-China" and further export to the PRC. According to the results of the analytical research of Russian experts, the gas transmission system of Kazakhstan is recognized as the best in the Central Asian region.

The country's leadership has set clear long-term goals for the National Operator. We have everything necessary to implement the project successfully: highly professional and initiative staff, a serious investment potential, a strong and dynamically developing material and technical base. It means that Kazakhstan's gas transmission arteries will continue to ensure the effective functioning of the growing economy of our country. Our main value is people, our mission is to bring warmth and comfort to every home. That is why the many-thousand collective of gas specialists work hard to turn "Energy of the Great Steppe" for the benefit of Kazakhstan people.

Chairman of the Board of Directors Chairman of the Board

JSC "KazTransGas" JSC "KazTransGas"

K. Sharipbaev R. Suleymanov

**Company overview**

*The company "KazTransGas" was established in accordance*

*with the Decree No. 173 of the Government of the Republic of*

*Kazakhstan dated February 5, 2000. Closed Joint-Stock*

*Company "KazTransGas" was renamed into the Joint-Stock*

*Company "KazTransGas" dated June 9, 2004 in accordance*

*with the Law of the Republic of Kazakhstan "On Joint Stock*

*Companies" No. 415-II dated May 13, 2003. The certificate*

*of state re-registration of the legal entity No. 13898-1901- AO*

*dated June 9, 2004 was issued by the Department of Justice*

*in Astana.*

The gas industry of the Republic of Kazakhstan has a significant potential for further development, which allows Kazakhstan to become one of the leading natural gas producers in the future. Joint-Stock Company "KazTransGas" is the largest gas supply company of the Republic of Kazakhstan, representing the interests of the state on the gas market of the country and in the world.

The Sole Shareholder is JSC National Company "KazMunayGas". JSC "KazTransGas" manages the transportation of natural gas through main gas pipelines, handles the gas production and sales on the domestic and external markets, develops, finances, constructs and operates pipelines and gas storage facilities.

In accordance with the Decree of the Government of the Republic of Kazakhstan No. 914 dated July 5, 2012, Joint-Stock Company "KazTransGas" was defined as a national operator in the field of gas and gas supply.

In the reporting period, "KazTransGas" group of companies included 13 subsidiaries and affiliates representing in the following business directions:

* *Expansion of the resource base*: "Amangeldy Gas" LLP, "KMG-Kansu Operating" LLP, "Saryarka Gaz Damu" LLP;
* Main gas transportation: JSC "Intergas Central Asia", "Asian Gas Pipeline" LLP, "Beineu-Shymkent Gas Pipeline" LLP, "KazTransGas-Bishkek" LLC, JSC "Astana Gas KMG";
* transportation through gas distribution systems: JSC "KazTransGas Aimak", "KazTransGas-Tbilisi" LLC;
* trade operations with gas: "KazTransGaz-Onimderi" LLP, "KazRosGaz" LLP.
* "other SDEs: "Intergas Finance B.V."

**Evaluation of the positions of JSC "KazTransGas" and prospects for its development on the results of 2016**

According to BP's data on explored natural gas reserves (0.9 trillion m3) Kazakhstan ranks 25th in the world (0.5% of the world's total reserves). The extracted gas reserves has approved by the State Commission of the Republic of Kazakhstan on the Reserves at the level of 3.9 trillion. m3, including the dissolved - 2.6 trillion. m3, and free - 1.3 trillion m3.

**Volumes of proved reserves of natural gas by countries, trillion m3**

**Distribution of extracted gas reserves by deposits, %**

The main part of the gas resources in Kazakhstan focused on large fields developed or prepared for development, including oil fields as Tengiz, Kashagan, Royal (Atyrau region), gas condensate fields as Karachaganak (West Kazakhstan region), Zhanazhol, Urikhtau (Aktobe region) and others .

The reserves of free gas in the RK industrial categories are explored on more than 70 gas, gas condensate and oil and gas fields. About 30 deposits are under development, to which 86% of the initial gas reserves of industrial categories are related. Despite this, a significant part of these fields is not connected to a unified gas supply system (hereinafter - UGSS): only 15 of 215 (about 7%) are connected to the UGSS.

Currently "Amangeldy Gas" LLP continues the development of the Amangeldy group of gas fields in Zhambyl region on the basis of the Сontract for the combined exploration and production of hydrocarbons dated December 12, 2000.

Extracted reserves of natural gas comprises as at 01.01.2017: at the Amangeldy deposit 9,053.6 mn – cm., at the Zharkum deposit, 795.1 mn. cm. and 5 233 mn cm. at the Ayrakty field.

Nevertheless, the positions of "KazTransGas" on the RK market are weak according to gas reserves and volumes of gas production and its share is about 1-2%.

In this regard JSC "KazTransGas" considers to connect the users of subsoil producing associated petroleum gas to the UGSS as a critical task in order to provide energy security of RK.

The concept of the development of the gas sector of the Republic of Kazakhstan until 2030 determines the vision and key approaches to the stage-by-stage reforming and complex development of the gas sector of the Republic of Kazakhstan, provides the existing significant potential in Kazakhstan in area of exploration and production of coalbed methane in addition to traditional gas resources. JSC "KazTransGas" conducts geological exploration of coalbed methane under the innovative investment project "Coalbed methane production in the Karaganda coal basin" at the execution of the updated Plan of Activities (Roadmap) for the implementation of the instruction of the President of the Republic of Kazakhstan N. Nazarbayev, approved by the Minister of Energy of the Republic of Kazakhstan in September 2016 on the organization of exploration and production of coalbed methane.

One of the most perspective transit directions for Kazakhstan is MGL Kazakhstan-China with a traffic capacity of 30 billion cubic meters of natural gas per year and the planned increase the capacity of MGL to 55 bn cm. in 2017 (taking into account the input of compressor stations by thread C). To date, this is the largest investment project in the country's oil and gas industry.

The project of the construction of Main gas pipeline "Beineu-Bozoy-Shymkent", providing the traffic capacity till 10 billion cubic meters will contribute to improving the energy security of Kazakhstan and will ensure the gas supply from the western gas producing regions of the country to the south, and, thereby, reduce dependence on the delivery of Uzbek and Turkmen gas. The implementation of the project will have a positive multiplicative effect, expressed in the possibility of continuing gasification in the not gasified areas of Kyzylorda, northern regions of South Kazakhstan, Zhambyl and Almaty regions, as well as expansion of export routes.

Gas transportation includes the system of Main Gas Line (MGL), compressor stations (CS), underground gas storages (UGS), as well as gas distribution pipelines.

Together, the "KazTransGas" group of companies used gas pipelines with a total length of about 63,000 km. Including about 18 thousand km of main and about 45 thousand km of distribution gas pipelines.

At present 10 out of 14 regions of the Republic of Kazakhstan have been gasified, mainly regional centers. The level of coverage of gasification of the population of the Republic of Kazakhstan in 2016 was 45.5%.

***Presence map***

****

The approved General Scheme of Gasification for 2015-2030 is aimed at creating the conditions for ensuring Kazakhstan's domestic needs in gas through not only large-scale construction of new gas pipelines, but also searching for alternative and rational sources of gas supply to the regions of the Republic. In addition, incentive measures will be provided for using gas as motor fuel vehicles to stimulate and develop the gasification of regions with liquefied natural gas.

Kazakhstan aims at developing all economically profitable routes for transit and export supplies of natural gas based on the principles of multi-vector supply of hydrocarbons to domestic and external markets. At the same time, it remains important for Kazakhstan to maintain a coordinated energy policy with neighboring countries, since transit-export routes pass through their territories.

Kazakhstan's export gas potential is not so high subject to increasing of domestic consumption and significant volumes of reinjection. Significant growth in export supplies is possible, for example, through the reduction of gas reinjection volume that however, is still not considered by technological schemes for the deposits development.

The share of JSC "KazTransGas" in the gas and gas supply of Kazakhstan in 2016 is presented in the following table.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Name | Commercial  gas  production | Delivery to the domestic market | Import | Export |
| Republic of Kazakhstan, bln. m3 | 28,5 | 13,1 | 4,8 | 13,3 |
| JSC «KazTransGas», bln. m3 | 0,3 | 12,4 | 4,8 | 2,6 |
| Share of KazTransGas, % | *1,1* | *94,6* | *100* | *19,3* |

In accordance with the Law of the Republic of Kazakhstan "On gas and gas supply", the National operator - JSC "KazTransGas" implements the priority right of the state to purchase raw and commercial gas from subsoil users of the Republic of Kazakhstan.

Since July 1, 2016 the Ministry of Energy of the Republic of Kazakhstan has approved the marginal pricing of the wholesale sale of commercial gas on the domestic market.

At present the main export market of Kazakh gas is the Russian Federation. A new export direction to the PRC will be opened with the release to full capacity of the gas pipeline Beyneu-Shymkent.

**Events of 2016**

* JSC "KazTransGas-Almaty" was reorganized by merging with JSC "KazTransGaz Aimak" pursuant to the Decree of the Government of the Republic of Kazakhstan No. 1141 dated December 30, 2015.
* 70% of "KazRosGaz" LLP's share in the authorized capital of "Football Club Kairat" LLP was sold pursuant to the Decree of the Government of the Republic of Kazakhstan No. 1141 dated December 30, 2015.
* The Representative Office of JSC "KazTransGas" in Moscow of the Russian Federation was closed due to JSC "Samruk-Kazyna" order (reference No. 15-1-11-05/108 dated 14.01.2016) about the closure of Representative Offices in foreign countries.
* The object of unfinished construction "Palace of Combats for 5000 places which located in Astana is transferred from JSC "KazTransGas" to the balance of "KazMunayGaz-Service" LLP to complete the construction of the object in accordance with the protocol of JSC "Samruk-Kazyna" No. 15-R dated August 4, 2016.
* The exit from the list of participants of the National Company Samruk-Kazyna was made in according to the plan of events to optimize and reduce the structure of companies in the group of JSC Samruk-Kazyna.
* The certificate EFQM "Aspiration to perfection" is appropriated KTG.
* A loan agreement was signed between ICA and the European Bank for Reconstruction and Development under the guarantee of KTG in the amount of $ 220 million and 19 billion KZT. Objective: refinancing on improved terms (saving on financial expenses of $ 2 million/year), financing of the investment project "Reconstruction of UGS "Bozoy".
* A loan agreement was signed between KTGA and the European Bank for Reconstruction and Development under the guarantee of KTG in the amount of 20 billion KZT. Objective: financing of gasification in the regions of the Republic of Kazakhstan.

At the same time, the European Bank for Reconstruction and Development (EBRD) and "KazTransGas" agreed to join efforts in support of the initiative to transfer the Republic to a green economy. In accordance with the Memorandum of Understanding, the partners agreed to jointly consider opportunities for improving energy efficiency in the gas transportation sector.

Effective and economical using energy and loss reduction will contribute to improving energy security and reducing greenhouse gas emissions.

* A loan agreement was signed between KTGA and the Eurasian Development Bank under the guarantee of KTG in the amount of $ 7.7 bln. KZT for financing the investment project "Modernization and construction of gas distribution networks of the Aktobe region". KTG provides the implementation of social projects for regions gasification of Kazakhstan, the modernization of existing and construction of new gas pipelines and distribution networks. For this the national operator in the gas and gas supply field uses several sources of financing, including its own finances, and also attracting investors.
* Intra-group placement of KTGA bonds is in favor of KTG. Objective: financing of investment projects for the amount of 7.6 bln. KZT without increasing the consolidated level of debt.
* Eurobonds of ICA were re-purchased for the amount of $ 142.2 million. Ensuring savings on the transaction of up to $ 7 million (excluding disclosure of deposits).
* The state support of the activities for the extraction of coal bed methane in terms of obtaining current tax and investment preferences was approved in the frame of the Law on Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on the Transition of the Republic of Kazakhstan to the Green Economy, signed in April 2016 by the Head of State".

**On the Main Gas Lines:**

* The construction of linear part of the Beyneu-Bozoi (0-311 km) section of the MGL Beineu-Bozoy-Shymkent was completed and the acreage was accepted for operation on December 30, 2016;
* The Compressor stations No. 4 (commissioning act dated August 3, 2016) and No. 8 (acceptance certificate dated August 10, 2016) of the Kazakhstan-China Group of thread "C" were put into operation, the through capacity was brought up to 20 bn cm. of gas per year;
* The construction of Akyr-Tobe booster compressor station has been completed with the possibility of supplying gas to the volume of up to 2 bn cm. of gas a year from MGL BGR-TBA to MGL Kazakhstan-China and further export to China.

**Gasification works were carried out within the frame of investment projects:**

* "Reconstruction and modernization of gas distribution networks of Shymkent city" for 2016 245.7 km of the gas pipeline was built, including medium pressure - 146.8 km, low pressure - 98.9 km. Were installed: Block-type gas control unit - 5 units (hereinafter referred to as "BTGCU"), gas distributing unit - 4 605 pcs. (hereinafter - GDU), 6 575 subscribers are connected and reconnected.
* "Gasification of localities of Kyzylorda region" 6.3 km of gas pipelines were built, completed general construction works (installation of supports and crossings for motorways for gas pipelines), installation of gas pipelines of medium and low pressure, anti-corrosion coating, about 9,100 subscribers were gasified in 2016.
* "Modernization of gas distribution networks of Taraz" 79.48 km of the gas pipeline were constructed, including polyethylene - 59.39 km, steel - 20.09 km. 526 gas distributing unit were installed, 589 subscribers were reconnected.
* "Modernization, reconstruction and new construction of gas distribution networks of Mangistau region" 304 km of the gas pipeline were built, including high pressure - 129.2 km, medium pressure - 8.7 km, low pressure - 166.1 km. Were installed: Gas distributing unit - 11 sets (hereinafter - GDU), BTGCU - 3 units, 588 subscribers were gasified.
* "Gasification of localities and modernization of gas distribution networks of Aktobe region" 335.9 km of gas pipelines were built, including high pressure - 67.5 km, medium pressure - 49.6 km, low pressure - 218.8 km. Were installed: Automated gas distribution station - 2 units, GDU - 101 pcs., BTGCU - 8 pcs., 1,131 subscribers were gasified.
* "Gasification of localities of Kostanay region" 60 km of gas pipelines were built, including high pressure - 6.8 km, low pressure - 53.2 km. Were installed: BTGCU - 4 pcs., 49 subscribers were gasified.

**Strategic goals of the group of companies of JSC "KazTransGas"**

The establishing quantitative and qualitative indicators for the period until 2025 updated long-term strategy of JSC NC "KazMunayGas" until 2025were approved on March 31, 2016 by the decision of the Board of Directors of JSC NC "KazMunayGas".

Achieving the strategic goals of KTG and solving related problems will guarantee to create maximum benefits for the Republic of Kazakhstan from the participating in the development of the gas and gas supply of the country.

**The goals and objectives of the long-term strategy of KMG until 2025:**



**In the field of gas transportation and marketing:**

*  Increased profitability of business direction in gas transportation

and marketing;

* Increase gas sales to 18 billion cubic meters by 2030;
* Supply break-even and subsequent stable growth of wholesale and retail

gas pricing to achieve an equitable level of profitability;

* Development of transit potential;
* Efficiency of implementation of pilot projects for gas production from alternative sources;
* Using liquefied hydrogen gas for gasification of small localities.

**Financial and operational indicators of the group of companies JSC "KazTransGas"**

|  |  |  |
| --- | --- | --- |
| *bcm* | *bcm* | |
| *mcm \* km* | *bcm* | |
| *Bln., KZT* | *Bln., KZT* |

**Main production and financial indicators in the context of SDEs**

The main activities of the Corporate Center of JSC "KazTransGas" are the gas sale on the external and internal markets, as well as the supervision of subsidiaries and dependent organizations which engaged in gas sales, transportation and operation of gas distributing pipelines.

**PRODUCTION INDICATORS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2014** | **2015** | **2016** | **in % by 2015** |
| **Sale of natural gas, bln. cm.** | **12 943** | **14 057** | **16 087** | **114%** |
| Domestic market | 11 141 | 11 469 | 11 763 | 103% |
| Export | 1 802 | 2 588 | 4 323 | 167% |

*(Without deduction of intra-group transactions)*

According to the central apparatus of JSC "KazTransGas" in 2016 sales of natural gas without intra-group operations exclusion amounted to 16,715 mln cm, including 4,323 mln cm for export.

The Joint-Stock Company "KazTransGas" was defined by the National Operator in the field of gas and gas supply in accordance with the Government Decree of the Republic of Kazakhstan No. 914 dated July 5, 2012.

Gas supply for domestic market consumers is realized through JSC "KazTransGas Aimak" and other gas distributing organizations from the resources of Kazakhstan subsoil users, as well as imported gas supplied within SWAP-operations with PJSC Gazprom.

**FINANCIAL INDICATORS, BLN, KZT**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2014** | **2015** | **2016** | **in % by 2015** |
| Revenue from sales of products and services | **136 725** | **240 788** | **316 201** | **131%** |
| Gross profit | **52 450** | **62 297** | **38 387** | **62%** |
| Net profit | **25 521** | **-26 683** | **29 093** | **192%** |

**JSC «INTERGAS CENTRAL ASIA»**

The main activities of JSC "Intergas Central Asia" (hereinafter - ICA JSC) are the natural gas transportation through the system of MGL, gas storage services in underground storage facilities, operation and technical support of main gas pipelines and distributing networks.

Natural gas is transported through the territory of South Kazakhstan, Zhambyl, Kostanay, West Kazakhstan, Almaty, Mangistau, Atyrau, Aktyubinsk and Kyzylorda regions.

International natural gas transportation is the main revenue component of the business of JSC "ICA".

**PRODUCTION INDICATORS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2014** | **2015** | **2016** | **in % by 2015** |
| Gas transportation volumes, mln cm. | **87 113** | **83 965** | **66 788** | **80%** |
| Domestic market | 11 939 | 11 483 | 12 297 | 107% |
| Export | 11 164 | 12 745 | 13 251 | 104% |
| International transit | 64 010 | 59 737 | 41 240 | 69% |

Compared with 2015, there is a decrease in the volume of gas transportation due to a reduction in the transit of Russian gas.

**Volume of natural gas transportation (mln cms)**

**Volume of commodity transport work (bln cms/km)**

The decrease in TTR in the reporting period is associated with a reduction in the volume of transit of Russian gas transit in 2016.

**FINANCIAL INDICATORS, MLN. KZT**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2014** | **2015** | **2016** | **in % by 2015** |
| Revenue from sales of products and services | **118 179** | **129 498** | **169 059** | **131%** |
| Gross profit | **53 450** | **68 849** | **96 577** | **140%** |
| Net profit | **19 753** | **8 570** | **57 196** | **667%** |

**JSC "KazTransGas Aimak"**

The main JSC "KazTransGas Aimak" activity is to provide gas transportation services for the transmission and distributing gas pipelines, marketing, purchase, sale of gas to consumers.

The priority of JSC "KazTransGas Aimak" is to ensure trouble-free, uninterrupted and safe gas delivery to all categories of consumers (population, public utility purposes, industrial enterprises) in the regions of JSC "KazTransGas Aimak".

**PRODUCTION INDICATORS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2014** | **2015\*** | **2016** | **in % by 2015** |
| Distributional transportation of gas, mln cms | **5 882** | **8 738** | **9 217** | **105%** |
| Trunk gas transportation, mln cms | **2 487** | **2 495** | **2 600** | **104%** |
| Realization of natural gas, mln cms | **10 272** | **11 215** | **11 596** | **103%** |

\* – in 2015 the volume of transportation through distributing networks and gas sales are reflected taking into account Almaty.

**Gas sales volumes (mln cms)**

**FINANCIAL INDICATORS, MLN. KZT**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2014** | **2015\*** | **2016** | **in % by 2015** |
| Revenue from sales of products and services | **140 042** | **162 245** | **195 324** | **120%** |
| Gross profit | **8 773** | **1 814** | **20 967** | **1156%** |
| Net profit | **1 786** | **-12 104** | **10 350** | **217%** |

\* – in 2015 the financial indicators are reflected taking into account Almaty.

**"Amangeldy Gas" LLP**

The main activities of "Amangeldy Gas" LLP are the production of gas and gas condensate.

**PRODUCTION INDICATORS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2014** | **2015** | **2016** | **in % by 2015** |
| Gas production, million cubic meters. | **328** | **301** | **327** | **109%** |
| Extraction of gas condensate, tons | **21** | **19** | **21** | **112%** |

In 2016 the implementation of the production program in terms of gas production and gas condensate amounted to 109% and 112% respectively.

**FINANCIAL INDICATORS, MLN. KZT**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2014** | **2015** | **2016** | **in % by 2015** |
| Revenue from sales of products and services | **4 921** | **4 977** | **7 244** | **146%** |
| Gross profit | **2 253** | **2 310** | **3 993** | **173%** |
| Net profit | **870** | **346** | **1 957** | **565%** |

Revenues from the sale of gas and gas condensate amounted to KZT 7,244 M.

**"KazTransGaz Onimderi" LLP**

The main activity of "KazTransGas Onimderi" LLP is the provision of transportation services.

**FINANCIAL INDICATORS, MLN KZT**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2014** | **2015** | **2016** | **in % by 2015** |
| Revenue from sales of products and services | 358 | 4 057 | 11 512 | 284% |
| Gross profit | **65** | **1 204** | **1 889** | **157%** |
| Net profit | **44** | **558** | **231** | **41%** |

**Investment activity**

In accordance with main strategic priorities and business directions the long-term investment program of JSC "KazTransGas" is focused on the following

1. Implementation of the exploration project and commissioning of new gas deposits, and the commercialization project of the inert gas.
2. Ensure balanced, reliable and uninterrupted provision of transporting gas to the final consumers.
3. Modernization of the gas pipeline system in order to improve their credibility, security and efficient operation by optimizing the industrial and technological capacities.
4. Internal market expansion of gas supply through gasification of RK localities.
5. Developing the transit and export potential of the Republic of Kazakhstan.
6. Expanding the resources base.

Capital investments in new investment projects for the period 2010-2017.  (mln KZT)  
without taking into account the projects of jointly controlled entities - "AGP" LLP, "BSHGP" LLP, "KazRosGaz" LLP.

In 2016 the total volume of utilized investments by the marketed projects amounted to KZT 54.7 B, which is KZT 14.1 B or 35% more than the similar indicator of 2015. The investment growth in the reporting period is connected with the start of new investment projects - exploration work on the structure of the Western Sultankuduk in the Zhambyl region, main gas pipeline construction from Kozhasai UPG to the KS-12 Shalkar of MGL Bukhara-Ural, the gasification project for of Kostanay region’s localities. It continues the work within the frame of long-term projects on the modernization of gas distributing networks in Shymkent and Taraz, as well as gasification of Kyzylorda, Aktobe and Mangistau regions.

At the same time aimed at the northern and central regions gasification of the Republic of Kazakhstan in 2016 the Company started work on defining the optimal route for gasification in Astana, the agreement was signed to develop a feasibility statement of MGL "Saryarka" construction.

**PROJECTS DIRECTED TO EXPANSION OF THE RESOURCE BASE**

At the present time in order to expand the resource base the Company is working to implement the following investment projects:

* "Development of Amangeldy gas deposits group" ("Amangeldy Gas" LLP);
* "Extraction of coalbed methane of Karaganda coal basin (geological exploration)";
* "Geological prospecting and exploration of Imashevskoye deposit" ("KazRosGaz" LLP);
* "Kansu Project" ("KMG LLP - Kansu Operating").

**Project "Development of Amangeldy gas deposits group"**

In accordance with the Development Program of Gas Industry of the Republic of Kazakhstan for 2010-2014 in order to provide gas to consumers of the Southern regions of the Republic and to ensure energy security on the basis of the Contract for combined exploration and production of hydrocarbon raw materials from December 12, 2000 JSC "KazTransGas" continues the development of "Amangeldy Gas" Deposits group in Zhambyl region.

The validity period of the above Contract is until 2031.

In the context of the project, commercial development of "Amangeldy" field and other deposits of Amangeldy Group are being conducted, including a set of geological exploration and seismic works, calculation of reserves, development of pilot projects, construction of producing wells and deposit facilities. Approved recoverable reserves of natural gas in the fields of the Amangeldy group amount to 15 520 mln cm.

Since the beginning of 2008 Amangeldy deposit has entered the industrial development stage. Currently 33 wells are in operation.

On November 27, 2014 Zharkum field was put into pilot operation, production is carried out at 6 wells.

On November 12, 2015 the exploration period was prolonged for 3 (three) years till December 12, 2018.

In 2014-2015 seismic research of the CDP 2D were carried out in the volume of 257.1 line km on the structure of Sultankuduk, as a result of which parameters and predicted resources of the structure, location and depth of prospecting wells were refined. Using new data the project document "Addition No. 2 to the project of prospecting works on the Sultankuduk structure (Barkhan-Sultankuduk section)" was created, providing drilling in 2016-2018 of the first independent well of 4 250 m depth and second dependent prospecting wells with depths of 5,000 m and 2,970 m, respectively, in order to clarify the structure's prospects for identifying industrial hydrocarbon reserves.

Since the beginning of the industrial development at Amangeldy deposit there has been produced 4.03 billion m3 of natural gas and 303.15 thousand tons of gas condensate, including in 2016 311.31 million m3 of natural gas and 20.67 thousand tons of gas condensate produced.

Since the start of the pilot operation at Zharkum deposit there has been produced 37.97 million m3 of natural gas and 348.5 tons of gas condensate have been mined, including in 2016 15.91 million m3 of natural gas and 80.90 thousand tons of gas condensate.

As of 01.01.2017 "Amangeldy Gas" LLP has been produced 4,072 billion cubic meters of natural gas and 303.5 tons of gas condensate.

**The project "Extraction of coalbed methane of Karaganda coal basin "(1st stage of geological exploration in the frame of R&D)**

By the decision of the Board of JSC NC "KazMunayGas" the project "Extraction of coalbed methane of Karaganda coal basin" is included in the list of innovative projects of the Action Plan for the implementation of the "Strategy of innovation and technological development of JSC NC "KazMunayGas" for 2014-2018."

In September 2016 the Minister of Energy of the Republic of Kazakhstan approved an updated Action Plan (Roadmap) for the implementation of the assignment of the Head of State for the organization of exploration and production of coalbed methane (CBM). According to the specified Plan of JSC "KazTransGas" continues to conduct the 1st stage of the Project - geological exploration works within the framework of R&D in the contract area of ​​the subsoil user of JSC NC "SBC "Saryarka" in the Sherubaynurinsky coal-bearing area of ​​the Karaganda coal basin (according to the Agreement of 03.04.2015). (according to the Agreement of 03.04.2015).

The Company holds regular meetings with leading domestic scientists and subsoil users involved in the exploration and production of CBMs, foreign companies that possess modern world technologies and experience in exploration and production of coal methane.

The geological exploration work of CBM is a complex scientific and technical task carried out within the frame of R&D and directed to study the gas content of the contract territory and the development of the most optimal CBM extraction technologies. In the context of R&D possible options of the application of modern foreign technologies / methods of well construction are being tested, development and debt intensification of the CBM, taking into account international experience and attracting qualified service contractors, etc.

At the moment, the first stage of the Project has drilled exploratory and experimental wells, the first gas was received. According to the obtained core analysis data from the leading international laboratory (USA, China, Europe), the charcoal characteristics of the Cherubainurinsky site are similar to the largest US deposits (Black Warrior extraction, CBM up to 1.5 bn cm/year).

In 2017 in accordance with the Road Map the geological exploration work continues: the reserves are counted with a statement on the state balance of the Republic of Kazakhstan, the technical economic calculation is being carried out to assess the prospects for the extraction and commercialization of CBMs of the contract territory (TEC). According to the first recommendations of TEC the tender procedures are carried out to the construction of 3 wells with a complex of geophysical researches in them. After receiving the results of geological exploration (Stage 1 of the GEW Project in the frame of R&D) a final decision will be taken on the further implementation of the Project.

In order to create favorable conditions for attracting investments and forming the optimal pricing of commercial gas of CBM for the region’s population of the Republic of Kazakhstan, KTG together with the authorized state bodies and organizations in accordance with the Road Map is actively working to initiate state support for the exploration and production activities of the CBM:

- A Decree of the Government of the Republic of Kazakhstan was received for non-competitive contracts (for KazMunayGas/KazTransGas) for the subsoil use for exploration and production of CBM;

- in April 2016 the Head of State signed the Law "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan Concerning the Transition of the Republic of Kazakhstan to the Green Economy", which approved the state support for the exploration and production activities of the Municipal Units to obtain current tax and investment preferences . Work is underway to sign the subordinate legislative acts;

- proposals for early decontamination of coalbeds and issues of the effective regulation of CBM activities, proposals for revising the existing mechanism of obligations, interested subsoil users to finance R&D in the field of CBM exploration are sent to the Concept to the Code of the Republic of Kazakhstan "On Subsoil and Subsoil Use". The work of article-by-item development of the Code is being carried out;

- proposals for CBM inclusion as an alternative source of energy are directed to the Action Plan for the implementation of the Concept on the transition of the Republic of Kazakhstan to the "green economy" for 2013-2020.

**The project "Geological studying and exploration of Imashevskoye deposit"**

* On January 18, 2005 an interstate contract was signed between the Republic of Kazakhstan and the Russian Federation about the Kazakh-Russian state border, as a result of which Imashevskoye field acquired the status of a transboundary deposit.
* On September 7, 2010, an Agreement was signed between the Governments of the Republic of Kazakhstan and the Russian Federation about the joint activities in geological exploration and exploration of the Imashevskoye Transboundary Gas Condensate Field.
* The authorized organizations under the Agreement are JSC NC "KazMunayGas" - 50% and JSC "Gazprom" - 50% with equal distribution of expenses during the geological study of Imashevskoye deposit.
* On November 11, 2013 Minutes of Amendments to the Agreement was signed with the purpose of granting to "KazRosGaz" LLP, the Operator of Agreement, of the rights to use subsoil for geological study (RF) and exploration (RK) at Imashevskoye deposit, both in Kazakhstan and Russia. The Minutes came into force on April 18, 2014.
* On June 22, 2011 control of 50% of shares of KMG in "KazRosGaz" LLP was transferred to JSC "KazTransGas".

The project implementation term is 2015-2021.

In 2015 the packages of the geological information on the project in the Republic of Kazakhstan was acquired partially, the Uniform project on geological studying and exploration was developed.

November 21, 2016 the Uniform project for geological studying and exploration of Imashevskoye field passed the state ecological expertise in the Committee for Environmental Regulation, Control and State Inspection in the Oil and Gas Complex of the Ministry of Energy of the Republic of Kazakhstan.

"**Kansu” Project**

On October 21, 2015 by the decision of the Board of Directors of JSC NC "KazMunayGas" (Minutes No. 14/2015, item 17), the issue of alienation of 100% share of JSC NC "KazMunayGaz" in favor of JSC "KazTransGas" was approved.

On January 19, 2016 the re-registration of "KMG-Kansu Operating" LLP was made in the Justice Department of Aktau city due to the change of the Sole member from JSC NC "KazMunayGas" to JSC "KazTransGas".

On May 30, 2016 the Addition No. 2 to the Contract No. 3949-UVS of 01.10.2013 was signed for the hydrocarbons exploration on Kansu area located in the Mangistau region between the Ministry of Energy of the Republic of Kazakhstan, JSC NC "KazMunayGas" and "KMG-Kansu Operating" LLP on the transfer of subsoil use rights under the Contract.

On September 22, 2016 the "Addition No. 1 to the Project project of search works" (hereinafter - APSW) for oil and gas on Kansu area reviewed and agreed at the meeting of the Central Commission for the Exploration and Mining of the Ministry of Energy of the Republic of Kazakhstan and approved in the Ministry of Energy of RK.

According to the approved APSW it modified the Working Program of the Contract for 2016-2019.

On October 1, 2016 the work on the construction of the geological model of Kansu field was completed. Three-dimensional geological models have been constructed and an initial geological inventory has been assessed on Cretaceous and Jurassic deposits.

On October 31, 2016 the work on the project "Audit of the current state of the environment at Kansu field" was completed. The total area of ​​work is equal to the area of ​​the contract territory of the site "Kansu" and is 4374.64 square of kms.

On December 2, 2016 the meeting of the Working Group of the Ministry of Energy of the Republic of Kazakhstan (Minutes No. 15 of the Working Group of the Ministry of Energy of the Republic of Kazakhstan) was held regarding amendments and additions to the Contract. Based on the results of this meeting the Competent Authority adopted a positive decision and on December 29, 2016 Addition No. 3 to the Contract was signed.

In December 2016, a tender was announced for the purchase of services for the development of a "Technical Project for the Construction of an Exploration Well R1 in the North Kansu Area".

**PROJECTS OF EXPORT GAS PIPELINES**

For the purpose of the export potential expansion the efforts are being made to implement the following investment projects:

* "Increase in power of MGL Kazakhstan-China (1st section)" ("Asia Gas Pipeline" LLP);
* "Construction of gas pipeline Beyneu-Bozoy-Shymkent " ("Gas Pipeline Beyneu-Shymkent" LLP);
* "Increasing the throughput capacity of MGL “BGR-TBA" and construction of a BCS at TIP-02 crossing point for gas supply to MGL "Kazakhstan-China" (JSC "ICA").

**The project "Increasing the capacity of MGL Kazakhstan-China (first section)"**

On July 27, 2011 Minutes No. 2 "On Amendments and Additions to the Agreement between the Governments of the RK and PRC on Cooperation in the Construction and Operation of the Kazakhstan-China Gas Pipeline of August 18, 2007" was signed, according to which the Parties agreed to increase the capacity of the first section of MGL "Kazakhstan-China" for 25 bln. cm. per year, of which 20 bln. cm. per year are intended for use by the Chinese side for the transit of Turkmen and Uzbek gas to China, and 5 bln. cm. per year for the Kazakh side in order to meet the gas demand of the domestic market of the Republic of Kazakhstan, as well as potential gas exports to China.

The project involves the construction of a 1,308 km long main gas line with a throughput capacity of up to 25 bln. cm. per year.

Implementation term of the project: 2012-2017.

On September 26, 2011 an Agreement was signed between KMG, KTG and TAPLine on the basic principles of organization of desing, financing, construction and operation of the thread "C" of the first section of gas pipeline "Kazakhstan-China".

As of December 31, 2016 the following major projects have been completed:

• On July 9, 2015 the linear part of the gas pipeline was commissioned ;

• On July 16, 2015 compressor station No.6 was commissioned;

• On July 23, 2015 the compressor station No.2 was commissioned;

• On August 3, 2016 the compressor station No.4 was commissioned;

• On August 10, 2016 the compressor station No.8 was commissioned.

• On December 31, 2015 by the order of the DCRNM and PC of the Republic of Kazakhstan No. 278-N the tariffs was approved for the service of commercial gas transportation through the main gas pipeline for the period 2016-20 in the amount of 3 494 KZT per 1000 cm. excluding VAT.

At present there has been reached the design capacity up to 20 bln. cm./year, further, taking into account the construction of compressor stations No. 1, No. 3, No. 5, No. 7 in 2017 it is planned to increase the capacity of the gas pipeline to 25 bln. cm./year.

Since the start of the gas pipeline's launch, as of February 5, 2017, 21 bln. cms. have been transported.

**The project "Construction of gas pipeline Beyneu-Bozoy-Shymkent "**

The project "Construction of the gas pipeline Beineu-Bozoy-Shymkent" (the construction of the compressor stations Bozoy and Karaozek) is continuing to ensure stable provision of gas in the southern regions of the Republic of Kazakhstan, reduce dependence on imported gas and ensure energy security of the Republic of Kazakhstan.

 The route of the gas pipeline passes through the territory of Mangistau, Aktyubinsk, Kyzylorda and South Kazakhstan regions and has the following main technical characteristics: 1-stage - 2012-2017, throughput capacity up to 6 bln. cm. per year; 2-stage - 2013-2017, capacity of up to 10 bln. cm. per year, actual length of 1 450 km (in single-line version).

In order to implement the Project in the period 2010-2016. The following is done:

• the Agreement on cooperation in the construction and operation of the Kazakhstan-China gas pipeline was signed between the Governments of the RK and PRC (IGA) of August 18, 2007;

• the Agreement on the Main Principles of Construction and Operation of the Kazakhstan-Chinese Gas Pipeline (AMP) was signed within the frame of the official visit of President Hu Jintao to Kazakhstan on June 12, 2010;

• a joint Kazakhstan-China project company - Gas Pipeline Beyneu-Shymkent LLP was established on January 18, 2011 in order to implement the Project in the territory of the Republic of Kazakhstan;

• the Act of the State Acceptance Commission was signed on December 2, 2013 on the commissioning of the linear part of the section "Bozoi-Shymkent" (311-1453 km), GIS "Bozoy" with a capacity of up to 2.5 bln. cm. of gas per year;

• on December 31, 2015 by order of the DCRNM&PC of the Republic of Kazakhstan No. 278-D was approved a tariff for commodity transportation of gas through the main gas pipelines in the amount of KZT18,071 per 1,000 cm. without VAT, with commissioning since March 01, 2016;

• on December 30, 2016 the Act of the Acceptance Commission was signed on the commissioning of the linear part of the Beineu-Bozoi (0-311 km) section with a throughput capacity of up to 5 bln. cm. of gas per year;

• As of February 5, 2017 5.4 bln. cm. were transported since the beginning of transportation;

Work on the construction of along-route roads, RMS and FC "Shornak", "Karaozek", "Aksuat" and "Saksaulsk", Bozoy FC and CS are continued.

**The project "Construction of the compressor station Karaozek"**

In order to ensure the capacity of the Beyneu-Bozoy-Shymkent gas pipeline to 10 billion m3 / year in short time, on the Investment Committee of KazMunayGas JSC NC No. 8-16 dated on May 25, 2016 decided whether or not to construct Karaozek CS using strength and capacities of Intergas Central Asia JSC.

In order to implement the Project in the period 2016-2017 the following is done:

• Transfer of gas pumping units from “Makat” compressor station was completed

• The development work of the DED Project has started;

• The commissioning of compressor station Karaozek is planned in the third quarter of 2017.

**The project "Increasing the throughput capacity of the MGL "BGR-TBA" and the construction of a BCS on the TIP-02 lintel for gas supply to MGL "Kazakhstan-China"**

The project "Increasing the throughput capacity of the MGL " BGR-TBA" and the construction of a BCS on the TIP-02 lintel for gas supply to MGL "Kazakhstan-China" in order to supply gas to Kazakhstan-China main gas pipeline for export to the PRC and uninterrupted gas supply to Almaty. On September 21, 2016 Investment Committee of JSC NC "KazMunayGas" № 13-16 adopted an adjustment of the project.

The project implementation term is 2016-2017.

For the purpose of Project implementation the following was executed in 2016:

• On July 28, 2016 a positive conclusion was received by RSE "Gosexpertiza" on the construction of a booster compressor station (BCS) on the TIP-02 jumper in Akyrtobe

• All necessary works on the construction of the production section of the booster compressor station (BCS), including start-up and adjustment works, have been completed;

• A booster compressor station (BCS) is planned to be commissioned in the first quarter of 2017.

**The project "Construction of the main gas pipeline from the Kozhasai deposit to the KS-12 of "Bukhara-Ural" MGL**

In order to reduce the incineration of associated gas in Aktobe region and increase the resource base for the gas pipeline Beineu-Bozoy-Shymkent, the investment committee of JSC NC "KazMunayGas" No. 13-16 of September 21, 2016 decided to implement the project "Construction of a main gas pipeline from the field Kozhasai to CS-12 of MGL Bukhara-Ural.

The project implementation term is 2016-2017.

For the purpose of the Project implementation the following was executed in 2016:

• Purchase and delivery of materials and equipment for the Project implementation;

• 30 km of a 168 km pipeline was built;

• The main gas pipeline is planned to be commissioned in the second quarter of 2017.

**GASIFICATION PROJECTS OF REGIONS OF THE REPUBLIC OF KAZAKHSTAN**

JSC "KazTransGas" continues works on gasification and modernization of localities of the Republic of Kazakhstan.

In 2016 the following projects were completed:

* "Modernization of GDS Shymkent ";
* "Gasification of localities of Kyzylorda region".

Currently the following projects are under the implementation:

* "Modernization of the gas distributing network of Taraz city";
* "Gasification of localities and modernization of gas distributing networks of the Aktobe region";
* "Modernization, reconstruction and new construction of gas distributing networks of localities of Mangistau region";
* "Expansion of gasification of localities of Kostanay region".

**The project "Modernization of the gas distributing system of the South Kazakhstan region" (Stage 1, Shymkent)**

The project implementation term is 2010-2016.

The South-Kazakhstan region became the object of a pilot program of modernization of the gas supply system of the Republic of Kazakhstan carried out by JSC "KTG Aimak". Within the framework of the modernization of the gas distributing network started in 2009 there are being updated and expanded technical gas supply base. Worn-out steel pipelines are currently being replaced to polyethylene analogues that have longer service life and require no means electrochemical protection minimizes costs to repair them.

The expected effect of the project implementation is increasing the throughput capacity from 85,000 сm./h to 258,000 cm./h with increased system of reliability due to the multiple loopback high-pressure gas pipelines.

Updating the gas supply technical base in the South Kazakhstan region allows creating not only a new gas infrastructure, but also an advanced system of relations between consumers and suppliers.

Within the framework of the project "Modernization of the GDS Shymkent" there were built 245.7 km of gas pipelines in 2016, of which medium pressure - 146.8 km, low pressure - 98.9 km, 4605 cabinet points were installed, 8 gas points. Work on the project is completed in full.

Total for the project as of 01.01.2017 there were constructed 2403 km of gas pipelines, 46 gas control points were installed, 8 gas-filling stations, 32,906 cabinet points, 129 gas control points for cabinet rooms, 48,882 subscribers were reconnected.

**Project "Modernization of gas distributing network in Taraz"**

The project implementation term is 2011-2019.

The modernization of the gas distributing network in Taraz is a necessary measure for implementation of comprehensive measures on the reconstruction of gas distributing networks to improve operational technical reliability and safety of operation, reduce the excessive technical losses as well as rehabilitation of design capacity of gas pipelines and transition to the low-rise sector in a two-stage system of gas supply, which will improve the accounting and control of gas consumption.

As a result of the modernization of the gas distributing system in Taraz it will be provided following effect on the project as: the increase in capacity 49 thousand cm./hour from 101.5 thousand cm. to 150.5 thousand cm./hour, reducing of technical and technological losses of gas from leakages via gas pipelines; reduce of operating costs for capital repairs to 70% the next 40-50 years, prolongation of service life of a gas-distribution system of the city for 50 years (a warranty period of service of polyethylene gas pipelines), elimination of a possibility of unauthorized inserts and gas offtake.

To justify the modernization of the gas distribution network the city is divided into 8 (eight) complexes, the complexes are divided into modernization objects. The complex are divided according to the technological scheme of shutting off the gas distributing network in Taraz for convenience of construction and installation work and shift the existing network to the new one.

The project is implemented in two stages:

- 1st stage (5 launching complexes in 2011-2016);

- 2nd stage (3 launching complexes 2017-2019).

As of 01.01.2017 the project is implemented in accordance with the approved schedule. At the reporting date all work on the first stage of the project was completed.

The following activities were carried out for the 5th launch complex in 2016:

- gas pipelines with the length of 79.45 km were constructed, including polyethylene - 59.39 km, steel pipelines - 20.09 km; installed individual closets - 526 pieces, technical and author's supervision was carried out;

- Developed the design and estimate documentation for the first start-up complex of the second stage, an agreement was concluded for obtaining state expertise dated on December 21, 2016. The planned work is 100% complete.

As of 01.01.2017 since the beginning of the Project implementation there have been built 712 km of gas pipelines, 14,632 storage units have been installed.

The second phase of the Project will be launched in 2017.

**Project "Gasification of localities of Kyzylorda region"**

The project implementation term is 2014-2016.

The project has gasified 5 localities - Aralsk, Aiteke-bi, Baikonur, Zhanakorgan and Shiely. The project also creates an infrastructure for gasification of nearby localities and improves the life quality of residents of gasified cities. In general the gasification of Kyzylorda region will allow creating a reliable power supply sources for sustainable economic growth in the region.

Within the framework of the Project implementation in the first half of 2016 there were built 6.4 km of the medium pressure gas pipeline. The project implementation is completed. In total the following works were completed under the Project: the construction of gas pipelines with a length of 1293.38 km, installation of 5 AGRS, installation of 13 hydraulic fracturing units, installation of 174 GRPSH, installation of 2 PURGs.

**Project "Gasification of localities and modernization of gas distributing networks of Aktobe region"**

The project implementation term is 2015-2020.

The project was initiated in 2015 and formed as an complex project, in which all the components are interconnected – social and economic development of Aktobe region, assessment of the resource base, development of the gas transmission system, technical and investment parameters of the gasification facilities in the region.

The Memorandum of Understanding and Cooperation between Akimat of Aktobe region, KazMunayGas JSC NC and KazTransGas JSC concerning long-term and mutually beneficial cooperation in the implementation of projects for the construction of gasification facilities in Aktobe region was signed on February 5, 2015.

Within the framework of the project it is planned gasification of 9 localities which of a part of agglomeration and regional centers of the region, as well as construction of 3 new AGRS with a total capacity of 360 thousand cubic meters/hour and modernization of the existing shabby gas pipelines.

The economic effect of gasification of Aktobe region will include an increase in the number of consumers of natural gas by 5.4 thousand subscribers, ensuring energy security and reliable and uninterrupted gas supply to the growing needs of the localities of Aktobe region, an additional multiplier effect, expressing in possibilities of continuation of gasification of the region's territory, an increase of comfort of accommodation for the population, improvement of working conditions and life.

The gas pipelines with a total length of 370.3 km were constructed in 2016 in the framework of the Project, 2 automated gas distributing stations, 100 gas distribution points for cabinet rooms, 9 gas regulating units for gas distribution were installed. The majority of the construction and installation work for the Project was implemented in 2016.

**Project "Modernization, Reconstruction and New Construction of Gas Distributing Networks of Localities of Mangistau region"**

The project implementation term is 2015-2017.

The investment project was initiated in 2015 and aimed at modernization and reconstruction, and also construction of gas networks in Mangistau region for the purpose of improvement reliability and improvement of quality of services, elimination of shortages of gas for consumers because of insufficient productivity and unsatisfactory technical condition of gas networks.

A Memorandum of Understanding and Cooperation between Mangistau region, Akimat, KazMunayGas JSC NC and KazTransGas JSC concerning long-term and mutually beneficial cooperation in implementation of the construction project, modernization and reconstruction of gasification facilities in the Mangistau region was signed on February 5, 2015..

The project includes planned construction of new gas networks, gas pipelines of high, average and low pressure gas pipelines, bringing gas pipelines of high pressure with installation of three AGDS in Zhanaozen, a gas pipeline branch from Okarem-Beineu MGL to Shetpe village with the installation of AGRS, inter-locality, bringing underground gas pipelines of high and average pressure, and also local low-pressure gas pipelines.

In total the project envisages the new construction, modernization and reconstruction of gas distributing networks with a total length of 1217 km, the construction of 4 automated gas distributing stations, 20 gas regulating block stations, 1 gas distributing point of the cabinet room, modernization of 2 AGRS, 15 PHB and 22 GRPSH.

304 km of the gas pipeline were constructed in 2016, including 129.2 km of the high-pressure gas pipeline, 8.6 km of medium pressure and 166.1 km of low pressure, 11 gas distributing points for cabinet rooms, 3 gas regulating units for gas pipelines were installed. The implementation of the Project is continuing. Thus, as of 01.01.2017. 506.2 km of gas pipelines were laid, 18 GRSP, 9 PHB were installed.

**Project "Expansion of gasification of localities of Kostanay region"**

The project implementation term is 2016-2017.

The investment project was initiated in accordance with the tripartite memorandum on mutual cooperation between Akimat of Kostanay region, KazMunayGas JSC NC and KazTransGas JSC concluded on November 17, 2015.

The project envisages gasification of Alchanovka village, Antonovka village of Denisovsky District, Toguzak village of Karabalik District, Auliekol village of Auliekol district, Kachar town, Rudnyi city, Oktyabrsk town, Lisakovsk city, further gasification of Rudnyi city.

The project includes the construction supply and intralocality gas pipelines with a total length of about 391.6 km, of which high pressure - 168.3 km, medium pressure - 9.3 km, low pressure - 214 km, automated gas distribution station - 1 unit, points Gas-block - 14 pcs., Gas control cabinet units - 5 pcs., Gas reduction unit - 1 unit.

In 2016 in framework of project implementation the facilities "Construction of gas distributing networks in Kachar town of Rudnyi city", "Gasification of Oktyabrsky town, Lisakovsk" were put into operation: 60 km of gas pipelines were built, 4 gas regulating block stations were installed.

**Innovations**

As part of the innovative development of "KazTransGas" JSC, the Scientific and Technical Council of "KazTransGas" JSC (hereinafter - STC) was formed and is functioning. STC was established in order to ensure the formation and implementation of the unified corporate and sectoral scientific and technical, innovation policies, improvement of scientific and technical support of activities for the group of companies of KTG.

The main task of the STC is to consideration of innovative offers, scientific and technical nature, programms for technological development of structural units of KTG, and also consideration of reports on developments having important technical economic value and offers on their application.

8 meetings of the SNC KTG were organized in 2016.

19 issues, including 8 issues with innovative content, were considered and approved:

**I.** Implementation of the project of geological exploration of coalbed methane in Karaganda coal basin.

**Execution:** At the moment exploratory (3 wells) and experimental wells (5 wells) were drilled in the first stage and the first gas was received and further development of wells is carried out. The next stage is to design and drill a horizontal well, to estimate CBM reserves and to enter reserves in the state balance, the develop TEA of CBM industrial extraction. At present the international oil and gas service company Baker Hughes, being have an experience in the implementation of the largest international projects of the methane production (Australia, India, the USA, China), is developing the technical and economical assessment to evaluate the prospects of the extraction and commercialization of methane extraction of Cherubainurinsky coal-bearing area of Karaganda coal basin.

**II.** Gasification of localities through the compressed natural gas (CNG).

**Execution**: Jointly with "KazTransGas Aimak" JSC a residential area has been defined 350 houses of Beregovoe town, in Kostanay region. The distance from the ACAGF is 20 km. Were calculated services of compression and delivery of CNG to Beregovoe town, data of calculation, technical and commercial offers were sent to "KazTransGas Aimak" JSC. This project is included in general investment program of gasification of the Kostanay region and sent to the investment committee of "KazTransGas" JSC. Work continues on the measures promotion of the State support for the development of gas engine fuel. In the framework of the development of green energy "KazTransGas Onimderi" LLP converted 136 units of its own vehicles for gas engine fuel, including 25 units for CNG.

**III.** Consideration and approval of the list of industrial programmable controllers authorized for use in all implemented and new projects for facilities automation of gas transmission network, on main and gas distributing pipelines and the installation of Supervisory Data Acquisition System.

**Execution:** Were accomplished.

**IV.** Consideration of methods and technical solutions of advanced production technologies of a Complete Anode Grounding Rod of graphite-plastic type AZKG (Manufacturer: "Co-Venture Kazakhstan EXZ Technology" LLP, Akkol city, Kazakhstan).

**Execution**: There are approved the advanced technical decisions adopted in the technology of the Complete Anode Grounding Rod of graphite-plastic type AZKG. It is recommended to use the ASGG for repair, modernization and new construction at electrochemical protection facilities of the gas transmission system.

**V.** Consideration of the introduction of advanced fiber-optic monitoring systems of the technical condition of pipelines.

**Execution:** It is in the works. It is recommended that SDE study the hardware-software complex of Electro Dynamics LLP (Kazakhstan) and also is invited to examine the possibility of creating a technological platform ("testing ground") for carrying out natural testing of automation and monitoring system of the technical condition of gas pipeline for the purpose of testing the efficiency of special hardware and software automation tools, control systems, and also control and monitoring systems (ADR, leakage, etc.) of the technical condition of the pipelines for further use in production.

**VI.** Consideration of the use of unmanned and / or pilot aircraft for monitoring the condition of main pipelines.

**Execution:** It is in the works. The following companies are considered: Pergam-Kazakhstan LLP, Zala Aero Group, Scat Global Systems LLP, West Kazakhstan Engineering Company JSC, Geoscan LLC, Elbit Systems, a comparative table of all demonstrated unmanned Aircraft were constituted. Having analyzed the provided information we consider that the most suitable companies which meet the requirements of the Project Statement are Geoscann LLC and Zala Aero Group to monitor the state on the 170-32 km section of Orenburg-Novopskov MGL and Soyuz MGL

.

**VII.** Consideration of the modernization of outdated GPU models of Intergas Central Asia JSC.

**Execution:** Jointly with JSC ZKMK the issue of modernization of GPA-Z-6,3 with the use of D-336 engines was developed. It is recognized that technically this modernization is the most acceptable option. Modernization of GPA-C-6.3 with the use of D-336 engines is included in the catalog of new technologies of Intergas Central Asia JSC.

**VIII.** Consideration of the proposal of JSC "Gidromashservise Group" - a scheme of multi-case compressor units and full-scale solutions based o compressors for gas industry.

**Execution:** The proposal of JSC "Gidromashservice Group" regarding the modernization and replacement of the changeable flow channel (CFC) of the CS (centrifugal supercharger) under the changing regime of gas transit is an acceptable option for "Intergas Central Asia" JSC. It is also possible to modernize the CS with the use of dry gas seals. JSC "Gidromashservis Group" is brought in the catalog of new technologies of JSC "Intergas Central Asia".

**Transactions in which JSC "KazTransGas" has an interest**

In accordance with the Rules for the conclusion of transactions between organizations belonging to the group of JSC Samruk-Kazyna, in respect of which the Law of the Republic of Kazakhstan establishes special conditions, during the reporting period the Board adopted 10 decisions on transactions (Marketing and Contracts Department) of KazTransGas JSC, in which there is an interest.

**Asset Structure**

"**KazTransGas**" **JSC**

"Amangeldy Gas" LLP

100%

"KazTrans Gas-Tbilisi" Ltd 100%

"Intergas Finance" B.V.  
100%

"Intergas Central Asia" JSC 100%

"KazTrans Gas-Bishkek" LLC 100%

"KazTransGas Aimak" JSC

100%

"Asian Gas Pipeline" LLP  
50%

"KazTransGaz Onimderi" LLP

100%

"Auto Gas Almaty" LLP

50%

LLP "Asian gas pipeline - Khorgos"

100 %

"Beyneu Gas Pipeline" LLP –

50%

"Saryarka Gaz Damu" LLP60%

"KMG-Kansu Operating" LLP  
100%

Astana Gas KMG JSC

100%

«KazRosGas» JSC  
50% (trust management)

**Main directions of development**

**Company plans for 2017**

 Alienation of the property complex of ITC ICA in KTGO;

 Transfer of buildings / structures (warehouses, garages, etc.) of the KTG Group to KTG;

 Liquidation of KazTransGas Bishkek, after the return of investments;

 Liquidation of Saryarka Gaz Damu LLP;

 Implementation of the procurement system in the group of companies KTG on a single platform and software;

 Continuation of exploration work within the framework of the R&D project "Extraction of coal bed methane in the Karaganda coal basin", decision of the shareholder on further implementation of the project.

**Risk Management**

The activities of CTG and its subsidiaries and affiliates are subject to risks. CTG recognizes the importance of risk management as one of the key components of the corporate governance system aimed at timely identification and taking measures to reduce the level of risks that may affect the value and reputation of the Group.

The goal of KTG's risk management is to provide reasonable confidence in the strategic and operational sustainability of the business.

**The risk management program for the group of companies of KazTransGas JSC in 2016**

By the decision of the Board of Directors of the KTG No.43 item 2 of 07.10.2016. Approved the Risk Management Program for 2016 KTG and its subsidiaries and affiliates.

The risk management program of KTG and its subsidia

ries and dependent companies is formed to achieve the strategic goals of KazTransGas JSC and to formalize and consolidate liability for risks.

The KTG identified 65 inherent risks, which assigned risk codes in accordance with the KTG Risk Classifier and its SDCs, identified the risk owners and developed risk mitigation plans.

According to the group of KTG companies, 21 key risks were identified and displayed on the KTG's key risk map.

KTG's own retention capacity or the ability to meet its obligations in the amount of KZT 7,342 million in the event of risks that in the aggregate will not have a significant impact on its operations.

During the period from February 8 to March 2, 2016, key employees of all structural divisions of the KTG and its SDCs were interviewed on the issue of risk management:

1) identified risks that could affect the achievement of the objectives of the group of companies KTG;

2) the potential size of the damage is determined in case of risk realization.

Below are the key risks of KTG and its SDCs with the most significant impact on the Company's operations.

**The risk of non-fulfillment of obligations in the part of gas supply within the framework of the gas purchase and sale contract (export)**

The emergence of risk is due to several factors:

1. Increase in consumption in the domestic market;

2. Refusal to accept gas from the buyer;

3. Default on the part of the supplier

**Legislative change of requirements for conducting business activity.**

The following factors influence the implementation of this risk:

Restrictions in the implementation of entrepreneurial (industrial and commercial) activities of KTG. Transfer of more than 50% of the share of participation in the business of a third-party organization. Absence of intercompany cooperation. The uncertainties related to the dependence on the key partner are the transition to market relations with the group of companies KTG and Samruk-Kazyna, participation in tenders for the rental of vehicles and special equipment, conducted by the group of companies KTG and the Fund on general grounds. Strengthening of competition within the framework of the Samruk-Kazyna NWF Holding, with participation in the tenders of the group and the Fund, is the existence of large service motor transportation companies from the Fund.

**Uncertainties related to dependence on a key partner (OJSC Gazprom).**

The realization of this risk is caused by the following factors:

Gazprom's refusal to purchase Central Asian gas. Reduction of gas exports from Gazprom to Europe, including Ukraine. The economic situation in Russia, the reduction of domestic gas consumption in Russia. Non-fulfillment of contractual obligations by PJSC Gazprom or gas suppliers. Availability of resource base of gas supplier countries for fulfillment of contractual obligations. The state of the world economy. Climatic conditions. Political and economic situation in the countries-suppliers / consumers of gas. Policy of PJSC Gazprom with gas consumers. Negative position of PJSC Gazprom in the issues of raising tariffs for gas transit. Increasing the volume of Russian gas production.

**KZT fluctuation versus the US dollar**

There is a probability of currency losses associated with the change in the US dollar against the tenge, interest rates, current trade balance, inflation, economic and political conditions.

**Risk of non-return of financial assistance to KazTransGaz-Tbilisi LLC and investments made by KazTransGas Bishkek**

This risk is caused by the unstable political situation in Georgia of KazTransGas Tbilisi and the Kyrgyz Republic of KazTransGas Bishkek.

**The shortage of imported gas in the framework of exchange operations to the South of the Republic of Kazakhstan (gas shortage during the period of the OZP)**

The occurrence of risk is caused by default on the part of the supplier.

In order to systemize and unify the risk management and internal control systems, the CTG developed a risk register of the CTG group and the key risks are on the Risk Map:

**Risk map of JSC KazTransGas and its SA in 2016**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Possibility** | | | | | |
| very high |  |  | **3.8.3;** |  |  |
| high |  | **4.1.2;** | **1.2.3; 4.1.2a;**  **4.1.2b; 4.1.2d** | **3.3.1;** | **3.3.1d;**  **3.5.9;** |
| average |  | **2.2.3;**  **4.2.3;** | **3.3.1f; 3.3.1e;**  **2.3.2c;** | **2.3.1;** | **2.3.2b; 3.3.1a**  **3.3.1b; 2.3.2a;** |
| low |  | **1.2.7;** |  |  | **3.9.6** |
| very low |  |  |  |  |  |
|  | Insignificant loss | Significant loss | Material loss | Critical loss | Catastrophic loss |

|  |  |  |
| --- | --- | --- |
| **Risk code** | **Name of risks** | **Amount of damage thousand $** |
| **3.3.1d** | Risk of default on gas supply under the gas purchase and sale contract (export) | 35 439 |
| **3.5.9** | Fluctuation of KZT against US dollar | 78 303 |
| **3.8.3** | Legislative change of requirements for conducting business activity |  |
| **3.3.1** | Uncertainties related to dependence on a key partner (OAO GazProm) |  |
| **2.3.2b** | Default / cross-default risk on credit obligations | 68 333 |
| **3.3.1a** | Risk of non-return of financial assistance KazTransGaы-Tbilisi LLC | 57 900 |
| **3.3.1b** | Shortage of imported gas in the framework of exchange operations to the South of the RK (gas deficit in the period of AWP) | 39 100 |
| **2.3.2a** | Default risk / cross default on guarantees | 25 856 |
| **1.2.3** | Technogenic or industrial accident during gas transportation |  |
| **4.1.2a** | Shift in the construction period of MGL Beineu-Bozoy-Shymkent (CS Bozoy CS Karaozek |  |
| **4.1.2b** | Shift in terms of construction of the thread С of MGL Kazakhstan-China |  |
| **4.1.2d** | The risk of non-realization of the project Kansu field | 11 000 |
| **2.3.1** | Bank default risk on deposits | 16 667 |
| **3.9.6** | Risk of a marginal non-confirmation of prices of wholesale | 137 470 |
| **4.1.2** | Shift of terms of the investment project DCBM of the Karaganda coal basin |  |
| **3.3.1f** | Loss of the enclosed investments of OsOO Kaztransgaz Bishkek | 11 900 |
| **3.3.1e** | Risk of lack of strategic partnership on the project Kansu field | 11 000 |
| **2.3.2c** | Gap risk of cash desk | 13 889 |
| **2.2.3** | Risk of non-execution of the investment plan | 9 960 |
| **4.2.3** | Risk of non-confirmation of geological data on field Amangeldy | 5 851 |
| **1.2.7** | Risk over standard pollution |  |

**Improvement of the risk culture of JSC "KazTransGas"**

1. The work of the Committee on Risks has been strengthened, all significant events that could adversely affect the achievements of the goals of KTG and its SDCs are discussed collectively at the meetings of the Risk Committee.

2. The Rules on Conditional Obligations, which regulate the implementation in practice of the process for creating reserves of KTG and its SDCs, have been approved.

3. Work was carried out to organize insurance coverage of the risks of the group of companies KTG. A training course on risk insurance was organized.

4. Monitoring of the implementation of recommendations issued on the basis of the audit of production, operational and financial processes, execution - 100%.

5. A package of financial risk reporting has been generated - a quarterly monitoring is conducted on:

• Compliance with limits on country risks;

• limits on liabilities to counterparty banks;

• currency risks;

• Percentage gap in the cross-section of currencies.

**Integrated Management System**

The CTG defines strategic priorities aimed at ensuring strategic benefits for the state. The management of the company formulated and brought to the attention of its personnel, consumers and other interested parties its mission, vision and values.

The scope of application of KTG's integrated management system (IMS) is corporate asset management in the exploration, production, transportation, distribution and sale of gas in the Republic of Kazakhstan.

The department of corporate development, consolidated coordination work and IMS conducts coordination of the activities of KTG and its subsidiaries and affiliates in terms of implementing and improving integrated management systems.

**Information on implemented activities, certification bodies and years of issuance**

**of certificates in the field of IMS for a group of companies**

**"KazTransGas" JSC in 2016**

|  |  |  |
| --- | --- | --- |
| **JSC«KazTransGas»** | | |
| **Activities Undertaken** | **Certification body** | **Year of issue of the certificate** |
| 1. Consulting was conducted on the implementation of international standards ISO 9001: 2008, ISО 14001: 2004, OHSAS 18001: 2007, integrated with the European model of business excellence (EFQM) at the level of "Striving for Excellence".  2. Certification audit of the IMS for compliance with the requirements of international standards ISO 9001: 2008, ISО 14001: 2004, OHSAS 18001: 2007 was passed.  3. The external assessment (validation) of the European model of business excellence "EFQM-2013" was carried out at the level "Striving for perfection".  4. Internal audits of the IMS in JSC "KazTransGas" and its subsidiaries and jointly controlled entities were conducted. | AFNOR Certification | 2016 |
| **JSC «Intergas Central Asia»** | | |
| 1. Certification audit of the integrated management system for compliance with the requirements of state and international standards ISO 9001-2009 (ISO 9001: 2008), ST RK ISO 14001-2006 (ISO 14001: 2004), ST RK OHSAS 18001-2008 (OHSAS 18001: 2007) .  2. The external assessment (validation) of the European model of business excellence "EFQM-2013" was carried out at the level "Striving for perfection".  3. Asian Award for Excellence and Best Practice in Quality Management of Asian Organization for Quality (AsiaNetworkforQuality, ANQ) was received.  4. An external assessment (assessment) of the "Recognized for Excellence" level was conducted, 3 stars, in accordance with the European Model of Excellence EFQM. | AFNOR Certification /  «Asia CertLine» JSC | 2016 |
| **JSC "KazTransGas Aimak"** | | |
| 1. Work was carried out to introduce the EFQM Business Excellence Model, the "Recognized Perfection" level, 5 stars.  2. Certification audit for compliance with the requirements of international standards ISO 9001: 2008, ISО 14001: 2004, OHSAS 18001: 2007 was passed, as well as an audit of the ISM for compliance with the requirements of the state standard ST RK ISO 50001: 2012. | AFNOR Certification | 2017 |
| **Amangeldy Gas LLP** | | |
| 1. Consulting on the implementation of international standards of the series ISO 9001: 2008, ISО 14001: 2004, OHSAS 18001: 2007.  2. Certification audit of the IMS for compliance with the requirements of international standards ISO 9001: 2008, ISО 14001: 2004, OHSAS 18001: 2007 was passed. | AFNOR Certification | 2016 |
| **LLP "Beyneu-Shymkent gas pipeline"** | | |
| Was passed the second supervisory audit of the IMS for compliance with the requirements of the international standards ISO 9001: 2008, ISO 14001: 2004, OHSAS 18001: 2007. | TÜV Thüringen e.V. | 2016 |
| **Asian Gas Pipeline LLP** | | |
| 1. The second surveillance audit of the IMS for compliance with the requirements of international standards ISO 9001: 2008, ISO 14001: 2004, OHSAS 18001: 2007 was passed.  2. Work was carried out to document and implement the energy management system.  3. Passed a certification audit of the energy management system for compliance with the requirements of the international standard ISO 50001: 2011. | Quality Austria Trainings, Certification and Evaluation Ltd | **2014**  (ISO 9001:2008, ISО 14001:2004, OHSAS 18001:2007) **2016**  (ISO 50001) |
| **KazTransGas Onimderi** | | |
| 1. Проведен консалтинг по внедрению международных стандартов серии ISO 9001:2008, ISО 14001:2004, OHSAS 18001:2007.  2. Пройден сертификационный аудит ИСМ на соответствие требованиям международных стандартов серии ISO 9001:2008, ISО 14001:2004, OHSAS 18001:2007. | AFNOR Certification | 2016 |
| **KazRosGaz LLP** | | |
| Passed a certification audit of QMS for compliance with the requirements of the international standard series ISO 9001: 2008. | «Bureau Veritas Kazakhstan» JSC | 2016 |

KTG strives to organize management in such a way that the qualitative level of activity meets the requirements and expectations of all stakeholders through increasing the company's revenues, raising the level of material well-being of staff, facilitating the growth of business opportunities of partners and suppliers. At the same time, CTG seeks to ensure safe working conditions for personnel, prevent negative impact on the environment.

The main principles of activity in improving the quality, preventing negative impact on the environment, ensuring the reduction of professional risks in CTG are:

* Continuous improvement of business performance through the analysis of business processes, ongoing monitoring, the introduction of process automation, where possible, and their gradual reengineering. Continuous study and use of best practices in the field of management technologies and involvement of subsidiaries in the procedures for their application;
* Supporting the desire for leadership and initiative at all levels, increasing the responsibility and professionalism of each member of the team;
* Building reliable relationships with business partners in the field of introducing innovative technologies and developing new types of services;
* Creating a favorable socio-psychological climate, increasing staff motivation;
* Respect for the priority of life and health of people in relation to productive activities;
* Prevention of problems, their causes by improving the system of internal control and risk-oriented approach in the integrated management system;
* Prevention of environmental pollution, through the priority of preventive actions to prevent negative impacts on the environment before actions to combat the consequences of such impacts;
* Ensuring the compliance of the quality management system, health and safety, environmental management system, legislative, regulatory requirements, as well as the requirements of stakeholders;
* Consecutive involvement of all employees in active participation in environmental protection activities, ensuring professional safety. Motivation of this participation, as well as training and professional development of employees in these areas;
* Ensuring continuous improvement of the integrated management system, achieving its effectiveness.

**Table of availability of IMS / QMS certificates**

**On the group of companies "KazTransGas" JSC**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Name of company** | **S T A N D A R T E S** | | | | | | | |
| **"Quality management systems. Requirements »9001** | | **"Environmental management systems. Requirements and guidance for use »**  **14001** | | **"Occupational Health and Safety Management Systems"**  **18001** | | **"Systems of energy management. Requirements and guidance for use »**  **50001** | |
| **SТ RK ISO** | **ISO** | **SТ RK**  **ISO** | **ISO** | **SТ RK**  **OHSAS** | **BS OHSAS** | **SТ RK**  **ISO** | **ISO** |
| "KazTransGas" JSC | **-** | **+** | **-** | **+** | **-** | **+** | **-** | **-** |
| Intergas Central Asia JSC | **+** | **+** | **+** | **+** | **+** | **+** | **+** | **+** |
| "KazTransGas Aimak" JSC | **-** | **+** | **-** | **+** | **-** | **+** | **+** | **-** |
| Amangeldy Gas LLP | **-** | **+** | **-** | **+** | **-** | **+** | **-** | **-** |
| "KazTransGas Onimderi" JSC | **-** | **+** | **-** | **+** | **-** | **+** | **-** | **-** |
| Asian Gas Pipeline LLP | **-** | **+** | **-** | **+** | **-** | **+** | **-** | **+** |
| "Beyneu-Shymkent gas pipeline" LLP | **-** | **+** | **-** | **+** | **-** | **+** | **-** | **-** |
| KazRosGaz LLP | **-** | **+** | **-** | **-** | **-** | **-** | **-** | **-** |

With the aim of its continuous development, the KTG group of companies conducts processes aimed at obtaining significant results in the field of quality assurance and improving the competitiveness of the services provided, satisfying customers' demands, as a result of using highly effective management methods and principles of quality systems, health protection, environmental protection and safety Labor.

**Environmental protection, industrial safety and labor protection**

**Energy saving and introduction of new technologies for environmental protection**

KTG pursues a policy of energy conservation and energy efficiency. The directions of development of activities in the field of energy efficiency improvement of the group of companies KTG for transportation, distribution and underground storage of gas are defined in the approved Energy Saving and Energy Efficiency Program for 2015-2020.

With successful implementation of the Program's activities, the following will be achieved: reduction of gas consumption for own needs and technological losses (SNIP) by more than 90.5 million m3 and electricity consumption by more than 17.8 million kWh, which will allow to achieve economy Up to 125 thousand tons of equivalent fuel (hereinafter - t.t.).

In accordance with the Program, the main objectives of energy saving policy are:

Maximum implementation of the energy saving potential in all types of activities on the basis of state support of energy saving policies and improvement of energy saving management;

Increase of energy efficiency of the group of companies KTG based on the application of innovative technologies and equipment;

Ensuring the reduction of the man-caused impact on the environment.

To realize corporate goals, energy audit has been carried out in the subsidiaries and dependent organizations and Energy Conservation Plans have been formed, but some of the activities require updating and additional activities. Measures on energy saving and energy efficiency improvement for the KTG group of companies to be included in the Road Map of JSC NC "KazMunayGas" are planned and implemented.

Based on the results of the energy audit, a plan of measures for energy saving and energy efficiency improvement for 2015-2019 was developed and approved. In JSC "Intergas Central Asia", LLP "Amangeldy Gas", at the development stage - in LLP "Asian gas pipeline". Also in JSC "Intergas Central Asia", JSC "KazTransGas Aimak" the system of energy management was implemented in accordance with the international standard ISО 50001.

As part of the Resource Conservation Program, the subsidiaries and dependent companies of the KTG are monitoring the consumption of fuel and energy resources (FER) and the implementation of action plans for energy conservation and energy efficiency. In accordance with the "Program for increasing energy efficiency in the group of companies JSC" NWF "Samruk-Kazyna" organized a presentation in JSC NC "KazMunaiGas" report on the consumption of fuel and energy resources CTG.

The volume of consumption of fuel and energy resources for the group of companies KTG in 2016 amounted to 928745 tons of equivalent fuel (tcm) as compared to 2015 (934750 tce).

Potential for energy saving (for approved energy audit activities) for the KTG group of companies for 2015-2019. Is 67588.12 t.t. .. The economy of fuel and energy resources (FER) for the group of companies KTG was in 2016 - 9368.26 tce. (4.993 million kWh, 7,478 thousand cubic meters). We also note that the share of Intergas Central Asia JSC accounts for 70% of energy resources savings, i.e. For the year 2016, the savings amounted to 9300 tce (7436.2 thousand m3, 4875 thousand kWh). This is due to the optimization of the operating modes of electric drive gas compressor units, power supply schemes for the operation mode of compressor stations, including the disconnecting of power transformers for backup power supply of turbo-compressor plants (4.509 million kWh of electric power or 554,607 tons of electric power) and optimizing the loading of compressor stations of the compressor station Gas turbine drive (4,404 million cubic meters of gas or 5,152.68 tons of fuel equivalent).

It should be noted that in connection with the decrease in the volumes of transit of Central Asian gas, there is a decrease in the volumes of energy consumption.

Decree of the Government of the Republic of Kazakhstan dated December 29, 2012 No. 1765 established the normative values ​​of the power factor for electrical networks with the voltage class 110 kV - cosφ ≥ 0.89, for networks 6-10 kV - cosφ ≥ 0.92, for 0.4 kV networks ≥0 , 93 (according to GOST 13109-97). According to the results of the measurements carried out in accordance with the energy audit program, the standard values ​​of the power factor (cosφ) in the electrical networks of the SDC meet the requirements of GOST.

As part of the implementation of energy conservation objectives and in order to ensure rational use of electricity in the administrative buildings of subsidiaries and dependent companies, lighting with incandescent lamps has been completely replaced with energy-saving lamps. In production buildings, replacement for energy-saving lamps is made according to the plan of measures for energy saving.

In accordance with the Rules of technical operation of main gas pipelines, the main sources of heat supply for compressor stations of SDCs are autonomous gas boiler houses that provide heat to all production facilities with maximum energy efficiency and high efficiency. At the same time, because of the remoteness of objects from central heating sources, geothermal heat pumps of the type "Waterkotte" are used for heat supply and hot water supply. These plants successfully operate in Intergas Central Asia JSC (UMGL Uralsk -3 units and UMGL Atyrau - 6 units).

At all SDC facilities, the main source of hot water supply (hereinafter - HWS) is electric water heaters ("ARISTON", TERMEX model H150-V) with rated power from 1.0 to 6.0 kW. Calculations of economic efficiency show the advisability of installing combined DHW systems with the use of solar collectors only with electric water heaters (electric scooters) with a single electric power exceeding 6 kW.

In pursuance of the Roadmap for Business Transformation of the KazTransGaz Group of Companies, all subsidiaries of KazTransGas JSC were transferred to the balance sheet of KazTransGaz-Onimderi LLP in order to optimize the business processes performed in providing gas transportation and storage services, as well as cost optimization, Motor transport and

**Occupational Safety and Health**

100% transparency of OSH and environmental reporting has been achieved, which is confirmed by the conclusions of "KazMunaiGas" JSC NC based on the results of field visits (selective) inspections of production facilities of the group of companies KTG. Ensuring transparent reporting on the KTG group of companies is carried out by timely input of reliable data on all types of incidents in the KISUD program.

In accordance with the requirements of the legislation in the field of labor protection, measures have been taken and carried out for multi-level control, training and testing of knowledge, attestation of facilities for working conditions, creation of sanitary and hygienic working conditions, overalls,

and accident insurance, medical and pre-survey.

In 2016 there were three accidents related to the production:

On February 17, 2016, at 11.20 hours, while performing work on drilling holes on the wall between the partitions, a mechanic repairman of the EMU service of the Zhanaozen health facility UMG Aktau JSC IntergasCentralAsia Tatyamgambetov K.T. When descending, stumbled, fell from a portable staircase - a ladder from a height of 1.5 meters, as a result of falling damaged the spine;

On May 31, 2016, as part of the pre-trip and daily inspection of a fixed car, the driver Karabashev BK Checked the condition of the wheels, including the spare wheel on the trailer. At the same time, slipping, lost balance, fell and hit his back on the angle of the side of the trailer. As a result of the fall, he received a contusion of the thoracic and lumbar spinal cord of a mild degree;

December 20, 2016 at approximately 16 hours 15 minutes after the completion of works on the highway, a team of drivers Nadirbai N., engineers Zulkashev N.U. On a Kamaz car was returning to the place of deployment in KS-13. On the way to the road, not reaching 36 km to KS-13, the car got into a pit covered with snow. With the failure of the machine Zulkashev N.U. Hit the seat, getting a trauma of the musculoskeletal system and a cut of the finger.

At present, all the injured workers have undergone treatment courses.

**Fire safety**

During the reporting period, fire safety measures were carried out at the sites of the KTG group of companies. Such as: fire retardant treatment, repair, examination and reloading of fire extinguishers, training and instruction of personnel to fire safety measures, installation of automatic fire extinguishing and alarm systems, maintenance of fire safety systems, installation and repair of fire water supply.

Agreements have been concluded for the protection of objects from fires.

During the reporting period, fires and fires on the objects of the group of companies KTG is not allowed.

**Industrial Safety**

During the reporting period, the KTG group of companies carried out such activities as: diagnostics of pipelines, replacement of defective sections of pipelines, replacement of cranes, replacement of pipeline insulation, training and testing of personnel, declaring of production facilities, production control.

Agreements were concluded to ensure anti-fouled security, to protect objects from illegal actions.

**Protection of the environment**

Work has continued on the annual inventory of sources of greenhouse gas emissions and submission of greenhouse gas passports to the authorized body for further registration in the state cadastre. Also, participation was made at meetings held by the Ministry of Energy of the Republic of Kazakhstan to develop principles and a roadmap for the transition to new standards for GHG emissions that are close to European ones, as part of the implementation of the Concept on the transition of the Republic of Kazakhstan to the "green economy".

According to the recommendation of the Ministry of Energy of the Republic of Kazakhstan, KazEnergy JSC, KTG, a number of legislative and by-laws of the Republic of Kazakhstan relating to the field of environmental protection, including:

Draft Law of the Republic of Kazakhstan "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Environmental Issues";

National plan for allocation of quotas for greenhouse gas emissions for 2016-2020;

Draft Order of the Minister of Energy of the Republic of Kazakhstan "On Approval of Report Forms on GHG Inventory for Subjects of Quota Distribution";

"State Cadastre of Production and Consumption Waste";

Technical report "Simulation of the distribution of the relevance of benchmarks for products" and "Methodology for the allocation of quotas."

Joint work was carried out with the Norwegian company Carbon Limits AS on the detection and quantitative measurement of methane leaks at the compressor station KS-14 UMG Aktobe Intergas Central Asia.

**Social responsibility**

**Personnel policy**

KTG, aware of the social responsibility of business, makes efforts to promote social progress and increase the well-being of society, the stable development and prosperity of the population of the regions, and increase the level of well-being of its employees. Care for each employee, the priority of solving social issues - this is the basis of the policy of CTG.

In the light of today's changes, there is a need to timely introduce innovations that ensure the organization's compliance with the external environment. At the same time, the personnel policy is finalized as it is implemented in response to new demands of the constantly changing external environment, except for that part of the personnel policy that affects the key interests of employees (for example, employment policy, labor payment), which must be predictable and stable.

Personnel policy is designed to combine existing approaches, developed methods and tools of personnel management, taking into account the best experience in the field of work with personnel, thus allowing to form a unified approach and develop a corporate value system for CTG in the field of personnel management.

The basis of the Personnel Policy being developed is the following basic principles:

 Transparency - openness at all stages of the process of human resource management;

 Complexity - coverage of all areas of human resources management;

 Systematic - consideration of all components of the policy elements in the relationship;

 Reasonableness is the use of modern scientific developments in the field of personnel management, which could provide the maximum economic and social effect;

 Efficiency - the cost of activities in the field of personnel management should be paid for by the results of production activities.

**Social protection of employees of the group of companies**

The KTG Group pays much attention to the growth of social benefits, which are aimed at creating a healthy working microclimate in the teams, which allows employees to successfully perform their basic functions. CTG defines a unified corporate policy in the field of providing social support to employees and pays much attention to payments of a social nature, a significant portion of which are material assistance, social benefits and compensation, social guarantees.

KTG offers its employees a package of social services, including medical insurance, material assistance, including for the treatment and rehabilitation of employees during labor holidays and much more. Based on collective agreements and the Rules for the provision of social support in 2016, the following types of material assistance were paid to workers of the KTG group of companies:

* + material assistance for vacation for health improvement - 3 185 561 thousand KZT;
  + at the birth of a child - 133 528 thousand KZT;
  + in connection with the death of family members of the employee - 62,280 thousand KZT;
  + Social benefits for pregnancy and childbirth, adopted and adopted newborns - 48 983 thousand KZT;
  + health-improving trips to resort areas - 91 862 thousand KZT;
  + Other payments (at the time of marriage, retirement, jubilee dates, etc.) - 88,170 thousand KZT.

In order to strengthen the corporate spirit, promote physical culture and sports as an important factor in the formation of a healthy lifestyle among workers of the KTG, the Spartakiada was held among workers of the KTG group of companies on 10-11 June 2016 in Astana. At the Spartakiada teams were formed from employees of SDCs located in the same region of the presence of KTG - the team "Astana", "Almaty", "Batys", "Оүтүстік".

For the organization of children's events and organization of rest for children aged 7 to 14 years, it was allocated in 2016 and 45 415 thousand tenge was disbursed.

The total amount of social payments for the group of companies KTG (including social payments by the employer) in 2016 amounted to 4,507,367 thousand tenge.

**Quality of working conditions, life of workers and their families**

To ensure the quality of working conditions, the lives of employees and their families, the budgets of the KTG Group of Companies annually allocate funds for voluntary medical insurance, which includes a wide range of medical services in the best clinics in Kazakhstan. At the same time, the service program for the employee, along with the provision of the full range of medical services, provides for maintenance of his family (parents of the employee, spouse and children) under the same conditions. In addition, in the range of services provided by the insurance company provides patronage of physiological pregnancy.

So, in 2016, due to the funds of the group of companies KTG, medical insurance of employees for a total of KZT851.5 million was implemented, including insurance of employees of JSC KazTransGas 50 million KZT.

As is known, the work of the majority of workers in the gas industry is connected with the main gas pipelines and is characterized, on the one hand, by harsh climatic conditions (the state of drinking water, dust storms, etc.), and on the other hand by the fact that transit pipelines often pass in ecologically unfavorable Regions of the country.

In accordance with the legislation of the Republic of Kazakhstan "On the social protection of citizens affected by the ecological disaster in the Aral Sea area", the residents of the Aral Sea region receive an environmental factor of 20% to 50% to the basic wage, and an additional leave of 6 to 12 days is granted.

Work is carried out to prevent diseases among workers, as well as their treatment and rehabilitation during the holidays.

KTG pays much attention to the growth of social payments, a significant portion of which are social payments and guarantees. First of all, they are aimed at creating a healthy working microclimate in teams based on social partnership, which allows employees to successfully perform their basic functions.

Also in the KTG are public associations of trade unions of workers, within the framework of work with which collective agreements between employees and employers are concluded, which provide for social guarantees, payments, compensations and benefits to employees significantly exceeding those established by labor law, for example:

* + payments in connection with the entry into the first marriage, the birth of a child, burial due to the death of loved ones, etc .;
  + additional paid holidays in connection with the above cases;
  + payment of 75% or more of the cost of sanatorium treatment for employees and the cost of trips to health camps for children of the company's employees;
  + and much more. Preparation, training and improvement of skills of employees of the group of companies.

Taking into account the fact that staff movement should be maximally predictable, planned and corresponding to the overall concept of the company's development, in order to strengthen its personnel potential, a general complex approach is needed for all interested parties: students, representatives of educational organizations and the Society. Therefore, in order to systematically fill the vacancies that arise, as well as to form a group of young professionals who are capable of operational management activities that meet the requirements for the position of a particular direction, the Rules for training young professionals were developed and approved by SDCs. This internal document describes the procedure for determining the need for training of young professionals, recruitment of candidates, the order of sending to study in educational institutions of the Republic of Kazakhstan, near and far abroad. At present, the composition of the commission for the development of external human resources has been approved, correspondence is being maintained with higher educational institutions on this issue. Training of specialists with higher education for organizations of the group of companies KTG is planned on the basis of the best technical universities.

KTG employees take part in advanced training courses, seminars, internships and trainings both at the Samruk-Kazyna Corporate University in Astana and in other training centers of the Republic of Kazakhstan, near and far abroad.

In the KTG, the following programs are aimed at the development of personnel, such as "Training and advanced training", and the "Young Specialist" program has been developed.

The staff reserve of the group of companies KTG was formed.

"Training and further training" is a permanent program for the development of the company's personnel.

The KTG has a staff development program aimed at training and further training. Every year, the KTG budget provides for training and staff development. In KTG in accordance with the Rules of technical operation of gas mains PR RK 51.3-002-2004 (paragraph 1.2. "Technical training of personnel"), the technical facilities of the main gas pipelines should be operated by specially trained personnel. Personnel serving high-risk facilities should be trained (retrained) in courses specially created by enterprises under programs agreed with local inspectorates.

In 2016, the KTG group of companies trained 4,442 employees for a total of KZT 288,823 million, the employees undergo training and improve their qualification level on the basis of training organizations and training centers of the Republic of Kazakhstan and Azerbaijan. Vocational training and development of working personnel is one of the long-term and priority areas of the personnel policy of KTG. The professional level of the workforce is the most important factor in improving the efficiency of safe production, increasing labor productivity and improving the quality of work.

A special role is assigned to the qualitative professional training of young specialists. The KTG provides support to the children of the Company's employees for training in higher educational institutions of Kazakhstan and Russia. For this purpose, the program "Young Specialist" has been developed. In higher educational institutions, young citizens of our Republic are trained at the expense of the Company's funds, which after the completion of training will return to work in the gas transportation industry.

In addition, in 2016, within the framework of the "Personnel reserve for the KTG Group of Companies" project, 8 employees entered the Master's Program for Management Personnel in the "University of KIMEP" JSC.

**SPONSORSHIP AND CHARITY**

In connection with the entry into force of the "Sponsorship Policy in KMG NC" sponsorship was suspended in 2016.

**Corporate management**

One of the strategic directions of activities of KTG is the efficiency improvement of corporate governance.

KTG proceeds on the basis that effective corporate governance is essential condition for steady growth of the Company's capitalization, reducing the likelihood of corporate conflicts, increasing the Company's attractiveness for investors, and also positively effect on the image.

The purpose of corporate governance is to ensure the efficient operation of KTG, increase the value of its stockholder’s equity, provision of protection of investors' rights and implementation of the interests of the Sole Shareholder.

The Company understanding the importance of corporate governance pays great attention to the introduction of corporate governance principles. In 2015 the Code of Corporate Governance in new edition was approved. The Corporate Governance Code of the Company has been developed in accordance with the Corporate Governance Code of JSC NWF "Samruk-Kazyna" approved by the Resolution of the Government of the RK No. 239 dated April 15, 2015.

The Company seeks for balancing the Sole Shareholder’s interest, the Company's management and stakeholders. The corporate management system of KTG as a holding company, includes the interaction of several levels of the corporate ladder: the Shareholders’ General Meeting, the Board of Directors, KTG Executive Body and the Analog management of SDE.

Within the preparatory activities on creation of an effective corporate management system changes are made to an organizational structure of holding: As a national operator in the gas and gas supply field KTG is a corporate center designed to limit the opportunities for diluting the structure of the property, minimize the costs of information disclosure, simplify the acceptance procedure of management decisions.

Reasonable allocation of functions between the general meeting of shareholders, the board of directors and executive authorities, both KTG and SDEs, is entrenched in the charters and does not interfere with the management of SDEs to implement the current management.

To achieve the goals and objectives of KTG's corporate governance in relation to SDEs within the business transformation redesign of their organizational structures is being performed which implies redistribution and regulation of authorities and responsibilities of officials within corporate governance, business process optimization of corporate interaction.

KTG has implemented unified standards of corporate governance, in addition to the principles specific to any joint-stock company (observation of shareholders' rights and interested parties, information openness, the availability of effective board of directors, a clear division of powers and responsibilities between management authorities of the company, transparent ownership structure, an effective system of internal controls). KTG can be identified the principle of the follow to unified standards of corporate governance, ensuring the implementation of common strategic purposes for KTG and its subsidiaries.

The interests of KTG in the activities of SDEs are implemented in the development and implementation of corporate governance policies (or programs) which includes several areas, such as:

- Planning and monitoring of financial result of SDEs, including the identification of trends and of the distribution profits of subsidiaries and dependent entities;

- Control of the financial and economic activities of subsidiaries and dependent entities, including transactions with subsidiary and dependent entities assets;

- Continuous improvement of the efficiency of internal processes of SDE in business management;

- Providing investment attractiveness and capitalization growth of SDE;

- Formation and implementation of personnel policies in SDE.

The Sole shareholder defines corporate governance model including participants: "Active" shareholder, the Board of Directors, the Management Board and a centralized internal audit service.

**Interaction with a Shareholder**

The Sole Shareholder of KTG is KMG. KMG plays an active role in the formation and establishment of corporate governance in KTG. KMG promotes the development of corporate governance in KTG by:

* Introduction of the Corporate Governance Code in 2007 and participation in the development of a new Corporate Governance Code approved by the Government of the Republic of Kazakhstan in April 2015;
* Providing methodological support in the implementation of corporate governance standards, including the performing the diagnosis of the level of corporate governance.

**Interaction with Subsidiaries and Dependent Organizations**

Interaction with subsidiaries and dependent entities is carried out within the approved corporate procedures through the competent authorities of KTG and SDE.

The main goals of interaction between KTG and its subsidiaries and dependent entities are:

* Ensuring stable financial development, profitability, increasing the investment attractiveness of KTG and SDEs;
* Ensuring the protection of rights and legally protected interests of shareholders and shareholders of subsidiaries and dependent entities;
* Harmonization of relations between shareholders, officials and employees of KTG and SDE, adoption of systematic measures to prevent conflicts between them and within these groups;
* Development and implementation of a coordinated and effective investment policy of KTG and SDCs.

**Mechanisms of corporate governance in the group of companies of KTG**

* Building a vertical management system for subsidiaries and affiliates;
* Introduction of unified corporate standards in SDCs;
* Nominating their representatives to the management bodies of subsidiaries and dependent entities;
* Ensuring a joint vote of representatives on the issues discussed on the basis of recommendations to the representatives of the Company on the boards of directors of the SDE on the agenda issues;
* Organization of control over the activities of SDCs through representatives in management authorities, conducting audits of financial and economic activities, election of an auditor,

**Corporate governance bodies**

Corporate management authorities of KTG are:

1) The Sole Shareholder is the supreme body;

2) The Board of Directors is a management body exercising general management of the Company and determines the priority areas of its activities. The Board of Directors consists of six members, two of whom are independent directors.

3) The Management Board is a collegial executive body managing the Company’s current activities in order to fulfill the objectives and implement the Company's strategy.

The Management of the Board of KTG consists of seven members as of December 31, 2016.

**The Structure of the Board of Directors.**

**As of January 1, 2016, the Board of Directors consisted of six members, which were:**

|  |  |
| --- | --- |
| **Name of director** | **Position in KTG** |
| Sharipbaev Kairat Kamataevich  Berlibayev Daniyar Amirbayebich | Chairman of the Board of Directors  Member of the Board of Directors |
| Kasymbek Ardak Mahmuduly  Suleimanov Rustam Eduardovich | Member of the Board of Directors  Member of the Board of Directors |
| Nurgaziyev Ayrat Aittanovich  Berdalina Zhanat Kolanovna | Independent Director  Independent Director |

By the decision of the Sole Shareholder (Protocol of the Board of Directors of KMG No. 1/2016 dated January 27, 2016) the quantitative composition of the Board of Directors of KTG in the number of five members was determined; Berlibaev D.A. early terminated his powers as a member of the Board of Directors of KTG

By decision of the Sole Shareholder (Protocol of the Board of Directors of KMG No. 5/2016 dated April 28, 2016) Kasymbek A.M. early terminated his powers as a member of the Board of Directors of KTG and Berdalina Zh. K. as an independent director of KTG, Mukushov A. Zh elected as a member of the Board of Directors and Zhamanbalin S.Zh. as an independent director

**The structure of the Board of Directors as of December 31, 2016:**

|  |  |
| --- | --- |
| **Name of director** | **Position in KTG** |
| Sharipbaev Kairat Kamataevich  Mukushov Ardak Zhumagulovich | Chairman of the Board of Directors  Member of the Board of Directors |
| Suleimanov Rustam Eduardovich | Member of the Board of Directors |
| Nurgaziyev Ayrat Aittanovich  Zhamanbalin Serik Zhardemovich | Independent Director  Independent Director |

According to the Code of Corporate Governance of the KTG, the Board of Directors established the fact of the independence of the directors Nurgaziyeva A.A. and Zhamanbalina S.Zh.:

- correspond to the independence criteria istipulated on them by the legislation of the Republic of Kazakhstan.

- have relevant work experience, knowledge, qualifications, positive achievements and impeccable reputation in the business environment and gas industry of Kazakhstan, necessary to fulfill their duties and organize effective work of the whole Board of Directors in the interests of the Sole Shareholder and KTG;

- comply with the requirements of the Regulations on the Board of Directors of "KazTransGas" JSC not allowing relations or circumstances which could have an impact on recognition of a member of the Board of Directors as independent member.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name** | **Position** | **Number of visits** | **Percentage of visits** | **Notes** |
| Sharipbaev K.K. | Chairman of the Board of Directors | 55 of 55 | 100 % | Elected as a Chairman of the Board of Directors of KTG following decision of the SS (Sole Shareholder) No.17/2015 dated December 11, 2015. |
| Suleimanov R.E. | Member of the Board of Directors | 55 of 55 | 100 % | Elected as a member of the Board of Directors of KTG following decision of the SS No.17/2015 dated December 11, 2015. |
| Berlibaev DA | Member of the Board of Directors | 3 of 3 | 100 % | Elected as a member of the Board of Directors of KTG following decision of the SS No.1/2014 dated February 20, 2014, terminated his powers following decision of the SS No.1/2016 dated January 27, 2016. |
| Kazymbek A.M. | Member of the Board of Directors | 6 of 6 | 100 % | Elected as a member of the Board of Directors of KTG following decision of the SS No.1 / 2014 dated February 20, 2014, terminated his powers following decision of the SS No. 5/2016 dated April 28, 2016. Since February 11, 2016. |
| Nurgaziev A.A. | Independent Director | 55 of 55 | 100 % | Elected as a member of the Board of Directors of KTG following decision of the SS No.1 / 2014 dated February 20, 2014. |
| Zhamanbalin S.Zh. | Independent Director | 20 of 20 | 100 % | Elected as a member of the Board of Directors of KTG following decision of the SS No.1 / 2014 dated February 20, 2014, terminated his powers following decision of the SS No. 5/2016 dated April 28, 2016. |
| Mukushov A.Zh. | Member of the Board of Directors | 35 of 35 | 100 % | Elected as a member of the Board of Directors of KTG following decision of the SS No.5 / 2016 dated April 28, 2016. |
| Berdalina Zh.K. | Independent Director | 34 of 34 | 100 % | Elected as a member of the Board of Directors of KTG following decision of the SS No.5 / 2016 dated April 28, 2016. |

* The Board of Directors of the Company held 55 meetings (55 full-time meetings) for the reporting period. In total, 161 issues were considered.

**Responsibility of the Board of Directors**

The Board of Directors is responsible to the Sole Shareholder for effective management and appropriate control over the Company's activity and acts according to the approved decision-making procedure. The most important functions of the Board of Directors are the determination of priority activities of the Company, making decisions on conclusion of major transactions and other significant issues.

**Responsibility of the Board**

In its turn, the Board is responsible for development of the plan of measures to implement the decisions of the Board of Directors and on current issues of the Company's financial, economic and production activities. The Management Board reports to the Board of Directors for the status of the carried-out work on implementation of the Company's business plan.

Thus, understanding by all participants of corporate relations of their powers, responsibilities, accountability, rights and obligations, the clear fixing of these aspects in the Company's Charter reduces the risk of conflicts of interest, and, consequently, creates a uniform vision of the principles and structure of corporate governance.

**Structure of the Management Board**

As of December 31, 2016, the Board of KTG consisted of top managers, including the Director General, his deputies and advisers.

**Members of the Board**

|  |  |  |
| --- | --- | --- |
| **FULL NAME** | **Position** | **Period** |
| Suleimanov Rustam Eduardovich | General Director (Chairman of the Management Board) | since 11.12.2015 |
| Serdiyev Ibulla Dzhumagulovich | First Deputy General Director | since 12.08.2015 |
| Kusherov Dair Adilbekovich | Deputy General Director for Economics and Finance | since 10.01.2014 |
| Temirkhanov Erkanat Uakbaevich | Deputy General Director for Transformation and Development | since 06.04.2015 |
| Nurlanov Nurzhan Nurlanovich | Deputy General Director for Technical Policy | since 31.03.2016 |
| Abdygulova Nailya Umirzakovna | Head of the apparatus | since 12.06.2015 |
| Abdrasulov Nurlan Kadyrovich | Adviser to the General Director | since 23.04.2015 |

**Decisions of the Board of Directors of KTG, adopted in 2016, regarding the composition of the Board of KTG**

Following the decision of the Board of Directors of JSC KazTransGas dated March 31, 2016 (Minutes No. 15, item 1), the composition of the Management Board was determined in the number of 7 (seven) persons with the term of office of the current Board of Directors for 3 years, in general, the Board elected Nurlan Nurzhan Nurlanovich as a Deputy General Director for Technical policy of JSC "KazTransGas" for the term of office, established for the Board of JSC "KazTransGas" in general.

According to the decision of the Board of Directors of JSC KazTransGas dated March 31, 2016 (Minutes No. 15, item 1), the powers of the following members of the Board of JSC KazTransGas were early terminated: Estay Serik as a Deputy Director General for Technical Policy, Kaseev Erken Zaripovich as an Adviser to the General Director, Kurmanaliev Kanat Rahimbergenovich as an Adviser to the General Director, Klimov Pavel Victorovich as an Adviser to the Director General.

According to the decision of the Board of Directors of JSC KazTransGas on March 31, 2016 (Minutes No. 15, item 1), the Board of Directors was determined in the number of 7 (seven) persons, with the term of office of the current Management Board for 3 years, in general, until April 1, 2019. The current members of the Board of JSC KazTransGas include Suleimanov Rustam Eduardovich as a General Director, Serdiyev Ibulla Dzhumagulovich as a First Deputy General Director, Kusherov Dair Adilbekovich as a Deputy General Director for Economics and Finance, Temirkhanov Erkanat Uakbaevich as a Deputy Director General for Transformation and Development, Nurlan Nurlan Nurlanovich as a Deputy Director General for Technical Policy, Abyligulova Nailya Umirzakovna as a Head of the Staff, Abdrasulov Nurlan Kadyrovich as an Adviser to the General Director.

**General information about the meetings and the made corporate decisions of the KTG Board**

During 12 months of 2016 the Board of the Company:

held **44** meetings;

considered **225** issues;

Among them:

**126** issues concerning activity of the Company,

**99** issues concerning activity of subsidiaries and dependent entities.

**Among the total number of issues concerning activity of KTG:**

**151** preliminarily approved issues being within the exclusive competence of the Sole Shareholder and the Board of Directors of the Company**.**

**74** issues being within the competence of the Management Board**.**

**Data on transaction made with special conditions**

The total number of transactions considered by the Company's Management Board, in which there is an interest (Of the total number of issues concerning the Company's activity) - **50**.

Among them:

Transactions which were preliminary approved and submitted to the Board of Directors of the Company - **23**.

Transactions approved within the Rules of conclusion of transactions between organizations belonging to the group of JSC Samruk-Kazyna, concerning commission of which the Law "On Joint-Stock Companies" establishes special conditions - **27**.

For the reporting period the key task of the Board as the executive body, management of the current activity was carried out in accordance with the principles stipulated in the Charter, the Corporate Governance Code and the Regulations on the Board of JSC KazTransGas.

**Sustainable development**

Sustainable business development is a unique development strategy of the enterprise, thanks to which a successful long-term existence of the company in a competitive market is ensured.

Stability of the company is the capability of the business to look most attractive to the market in such directions as: security (production and environmental); Responsibility (social attractiveness of the company to residents of regions and employees of the enterprise); environmental friendliness of production (preservation and reproduction of resources used).

The Report in the field of a sustainable development (Report) prepared in accordance with GRI Guidelines is published in KTG since 2013. In the report the most essential aspects of activities from the point of view of sustainable development are affected: interaction with interested parties, environmental protection, labor protection and production safety, development of human capital, investments into development of presence regions of Group of companies.

Considerable attention in the Report is paid to broadening the dialogue with interested parties - these issues are essentially important for increasing the transparency of KTG group of companies and compliance of its activities to the best world practices.

An important place in the document is data on influence of production processes of KTG group of companies on the environmental situation. Reducing the negative impact of production on the environment is one of the strategic priorities of KTG group of companies.

A significant part of the Report is devoted to the actions of KTG group of companies in the sphere of ensuring labor safety and preserving the health of their employees.

The Report provides information in the field of social support for workers, which reflects the desire of the group of companies of KTG to maintain the status of one of the best employers of Kazakhstan.

The report touches on the relationship between KTG group of companies and local communities: the principles of social partnership, the main approaches to the Company's activity concerning the development of the presence territories, the implemented social programs and projects.

**Local content (LC) in the purchases of the group of companies JSC "KazTransGas"**

|  |  |  |  |
| --- | --- | --- | --- |
| **Indicator** | **2016 year** | | |
| **Total** | **The share of local content** | |
| **(bln KZT)** | **Amount (bln KZT)** | **%** |
| **Total volume of purchases for 2016** | 910,90 | 682,5 | 74,92% |
| **Goods** | 506,73 | 420,58 | 83% |
| **Works** | 150,54 | 76,78 | 51% |
| **Services** | 253,63 | 185,14 | 73% |

* The total amount of procurement of KTG group of companies for 2016 made KZT 910.9 billion, including the purchased goods for the amount of KZT 506.73 billion, works for the amount of KZT 150.54 billion and services for the amount of KZT 253.63 billion.
* The share of local content in the total amount of procurement made KZT 682.5 billion, or 74.92%, among them, the purchased goods accounted for 83%, the performed works - 51% and the rendered services - 73%.

The program of measures aimed at increasing the local content in procurement of KTG group of companies includes the following directions:

* The conclusion of long-term contracts for the procurement of TRU from domestic manufacturers of JSC Samruk-Kazyna (hereinafter as a Holding);
* Provision of a priority of purchase of goods, works, services, from the organizations which are included into holding, the manufacturers of the purchased goods consisting in the register of manufacturers of holding;
* Stimulation of domestic manufacturers in case of implementation of procedures of purchases by application of conditional discounts concerning domestic manufacturers;
* Conducting procurement procedures among the manufacturers of the purchased goods which are in the Register of Manufacturers of Holding;
* Provision of a priority to the manufacturers of the purchased goods consisting in the Register of Manufacturers of Holding by provision of the smallest price offer;
* When forming procurement plans the subsoil users perform market monitoring of domestic goods with use of information databases of Holding including the Register of Manufacturers of Holding and also the corresponding information databases of authorized state body of containing data on domestic manufacturers and the made by them goods.
* When purchasing works by the subsoil users in the tender documentation the requirement about provision by the potential supplier of the liability for acquisition of domestic goods necessary for performance of works is established if such goods are made in the Republic of Kazakhstan.
* When carrying out purchases according to this order to be provided in the tender documentation the obligatory evaluation criteria and comparisons specified in subparagraphs 1), 3) and 4) paragraph of 39 Rules.

**Corporate Security**

Work to ensure corporate security at the sites of JSC "KazTransGas" the group of companies is conducted according to the current legislation of the Republic of Kazakhstan and internal regulatory documents of KMG and KTG.

Within the implementation of the Security Program of JSC NC "KazMunayGas" for 2013-2017, the Corporate Security Service was established following the decision of the Board of Directors of JSC KazTransGas dated 17.02.2016 (Minutes No. 8 item 1). Early a similar service was established in "Asian Gas Pipeline" LLP.

In other subsidiaries and jointly controlled organizations of KTG the work on integrated security is entrusted to the industrial safety service, labor protection, and the environment.

In order to execute the Action Plan for the implementation of the Security Program of JSC NC "KazMunayGas" for 2015-2017 approved by the order of the Chairman of the Board of JSC NC "KazMunayGas" No. 255 dated August 4, 2015, JSC "KazTransGas" group of companies conducts work on physical, informational, economic and internal security.

On a regular basis Kazakhstan and foreign experience are being studied and also legislation in the sphere of ensuring the safety of fuel and energy complex facilities for possible development of proposals and timely updating of internal documents.

To prevent corruption manifestations the Counter-Terrorism Policy, the Economic Security Policy, etc. have been developed and approved in KTG.

In 2016 there were no cases of corruption among KTG employees; dismissal and punishment of employees for committing corruption offenses were not made. For these reasons, labor contracts with employees have not been terminated; no criminal cases have been instituted. Similar information on SDE line was not received or registered.

Functions on forming and maintenance in an urgent condition of the electronic database of incidents of safety are assigned to department of scheduling and gas transportation. In 2016 incidents of safety aren't registered.

For the purpose of antiterrorist protection of the production and administrative facilities of the Company being vulnerable to terrorism and according to Government Decree No. 1217 "On the approval of a standard passport for the antiterrorist protection of objects vulnerable to terrorism" dated 12.11.2013 passports of antiterrorist protection of facilities have been developed in which there are plans (schemes) of interaction with law enforcement and local executive bodies, instructions on the actions of employees in the event of a threat of terrorist acts.

The information security policies have been developed and approved in KTG. To determine the degree of compliance with the protection of CTG in the part of information security, a survey was carried out on the security system of IS ZAO SRE “Informzaschita”, within the framework of the development of the concept of the information security system for the group of companies of JSC “NC KazMunayGas”. During the inspection the IT infrastructure tests of the “KazTransGas” group of companies were successfully passed for external and internal penetration, and also a social and technical test for the staff. According to the results of testing it was not possible to disrupt the operation of the infrastructure and gain control over the data of personnel and servers. Incidents in 2016 on information security are not fixed.

Various organizational and technical measures are being developed to improve security. Periodically officials conduct inspections of the security organization, and also plan joint training.

In its activity, JSC "KazTransGas" and its subsidiaries and affiliates in order to ensure integrated security carries out activities to stage-by-stage reform of the security system in the organizations of the group of companies of JSC "KazTransGas", is guided by the legislation of the Republic of Kazakhstan, other regulatory legal and regulatory acts, the Charters of organizations, Security.

**Credit ratings and debt portfolio management**

In 2016, the Company carried out work with international rating agencies to prevent the decrease in the level of credit rating against considerable decrease in the world prices for energy carriers. In 2016, the Company's credit ratings were confirmed at the former level: BB + - from Fitch Ratings; BB + from Standard & Poor's; Baa3 from Moody's Investors Services.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Rating agency** | **Company** | **Date of confirmation / rating change Rating** | **Rating** | **Forecast** |
| **Standard & Poor's** | KTG | 22/04/20 | BB+ | Negative |
| **FitchRatings** | KTG | 21/04/20 | BB+ | Negative |
| **Moody's** | KTG | 03/04/20 | Baa3 | Negative |

JSC "KazTransGas" carries out attraction of loan financing, being guided by the medium-term policy of debt management for 2013-2016 approved by JSC NWF Samruk-Kazyna, according to which the most admissible level of debt obligations is determined.

**Loan portfolio of the Company as of December 31, 2016**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Borrower** | **Creditor** | **Amount under contract / share issue** | **Currency** | **Current debt** |
| **JSC KazTransGas** | JSC NC KazMunayGas | 14 881 896 750 | KZT | 148 197 896 750 |
| **JSC KazTransGas** | JSC NC KazMunayGas | 400 000 000 | USD | 400 000 000 |
| **JSC KazTransGas** | DB JSC Citibank Kazakhstan / Citi bank, N.A. Jersey, Bahamian Branch | 200 000 000 | USD | 160 600 000 |
| **JSC Intergas Central Asia** | Eurobonds | 600 000 000 | USD | 127 801 000 |
| **JSC Intergas Central Asia** | Trinkaus&Burkhardt KGAA / CITI GROUP Global Markets Deutschland AG & CO. KGAA | 56 360 678 | USD | 2 886 940 |
| **JSC Intergas Central Asia** | European Bank for Reconstruction and Development | 220 000 000 | USD | 140 000 000 |
| **JSC KazTrans Gas Aymak** | European Bank for Reconstruction and Development | 20 000 000 000 | KZT | 1 400 218 973 |
| **JSC KazTransGas Aymak** | Eurasian Development Bank | 7 700 000 000 | KZT | 7 700 000 000 |
| **JSC KazTransGas Aymak»** | Development Bank of Kazakhstan | 3 668 071 631 | KZT | 1 473 897 867 |
| **JSC KazTransGas Aymak** | Development Bank of Kazakhstan | 21 485 004 320 | KZT | 13 696 794 511 |
| **JSC KazTransGas Aymak** | Development Bank of Kazakhstan | 16 400 000 000 | KZT | 7 643 346 967 |
| **JSC KazTransGas Aymak** | Development Bank of Kazakhstan | 8 000 000 000 | KZT | 8 000 000 000 |
| **JSC KazTransGas Aymak** | Investors on KASE (including KTG for the amount of 3 778 526 000 KZT) | 12 409 636 000 | KZT | 12 407 696 000 |
| **JSC KazTransGas Aymak** | Investors on KASE (including KTG for the amount of 10 654 281 000 KZT) | 17 054 125 000 |  | 0 |
| **JSC KazTransGas Aymak** | International Investors | 30 500 000 000 | KZT | 5 000 000 000 |

The total amount of the consolidated debt of JSC "KazTransGas" as of December 31, 2016 amounted to 1.04 bln. US dollars.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Covenants of KMG** | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| **Debt/EBITDA** | 1,18 | 1,68 | 1,57 | 2,45 | 3,29 | 2,4 |
| **Net debt/net capitalization** | 0,11 | 0,19 | 0,2 | 0,2 | 0,59 | 0,00 |
| **Free capacity, thousand $** | 1 297 675 | 803 000 | 982 238 | 502 103 | 60 784 | 495 000 |

**Conclusion of the Independent Auditor**

**Independent Auditor`s Audit Report**

To the Shareholder and the Management of JSC "KazTransGas"

**Conclusion**

We carried out audit of the consolidated financial reporting of JSC KazTransGas" and its subsidiaries (the "Group") consisting of the consolidated report on financial situation as at December 31, 2016, the consolidated report on entire income, the consolidated report of changes in equity and consolidated report of cash flows for the year then ended and notes to the consolidated financial reports including a summary of basic provisions for the accounting policies.

It is our view that the consolidated financial report fairly presents the financial situation of the Group as at December 31, 2016 in all material aspects, as well as its financial results and cash flows for the year then ended in accordance with International Financial Reporting Standards "IFRS").

**Reason to express views**

We carried out audit in accordance with International Audit Standards ("IAS"). Our responsibilities are described in accordance with these standards further in the section "Auditor's responsibility for the audit of the consolidated financial statements" of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the Council for International Ethical Standards for Accountants (the "Code of the CIESA"), and we have fulfilled other ethical duties in accordance with the Code of the CIESA. We suppose that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibility of the Management and the Board of Directors for consolidated financial reports**

Management is responsible for the preparation and fair presentation of these consolidated financial reports in accordance with International Financial Reporting Standards and for the internal control system that management considers necessary to prepare consolidated financial reports that are free from material misstatement, owning to unscrupulous actions or errors.

In preparing the consolidated financial statements, management is responsible for assessing the ability of the Group to continue its operations, for disclosure, as appropriate, of information relating to business continuity and for the preparation

Reporting on the basis of the assumption of business continuity, unless the management intends to liquidate the Group, terminates its activities or when it does not have a realistic alternative to such actions.

The Board of Directors is responsible for overseeing the preparation of the consolidated financial statements of the Group.



**Auditor's responsibility for the audit of consolidated financial statements**

Our goals are to obtain reasonable assurance that the consolidated financial statements as a whole do not contain material misstatements due to fraud or error, and in the issuance of the audit report that contains our opinion. Reasonable confidence is a high degree of certainty, but it is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always reveal a significant distortion if it exists. Distortions can be the result of unfair acts or mistakes and are considered significant if one can reasonably assume that individually or collectively they could affect the economic decisions of users made on the basis of this consolidated financial statement.

As part of an audit conducted in accordance with International Standards on Auditing, we apply professional judgment and maintain professional skepticism throughout the audit. In addition, we perform the following:

* Identify and assess the risks of material misstatement of the consolidated financial statements due to fraud or error; we develop and conduct audit procedures in response to these risks; We obtain audit evidence that is sufficient and appropriate, To serve as the basis for expressing our opinion. The risk of not detecting significant distortion as a result of mistakes, as unfair actions may include collusion, fraud, intentional omission, misrepresentation of information or actions bypassing the internal control system;
* We get an understanding of the internal control system that is relevant to the audit in order to express an opinion on the effectiveness of the Group's internal control system;
* We assess the proper nature of the accounting policies used and the reasonableness of accounting estimates made by management and the disclosure of relevant information;
* We conclude that the management has applied the assumption of continuity of business and, based on the audited evidence, there is a significant uncertainty about events or conditions that could cause significant doubt in the Group's ability to continue its business. If we conclude that there is significant uncertainty, we should draw attention to our disclosure in the consolidated financial statements in our audit report, or, if such disclosure is inappropriate, modify our opinion. Our conclusions are based on the audit evidence obtained before the date of our audit report. However, future events or conditions may lead to the Group losing the ability to continue its business;
* We assess the presentation of the consolidated financial statements in general, its structure and content, including disclosure of information, and whether the consolidated financial statements present the underlying operations and events in a manner that ensures their reliable representation.



We obtain sufficient appropriate audit evidence regarding the financial information of organizations and business within the Group in order to express an opinion on the consolidated financial statements. We are responsible for the overall management, control and conduct of the Group's audit. We are solely responsible for our audit opinion.

We carry out information interaction with the board of directors to their attention, among other things, information on the planned scope and timing of the audit, as well as on significant comments on the audit results, including significant.

Ernst&Young LLP

\_\_\_\_\_\_\_\_Signature\_\_\_\_\_\_\_\_\_\_

Paul Cohn

Audit Partner

\_\_\_\_\_\_\_\_ Signature\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_ Signature\_\_\_\_\_\_\_\_\_

Aygerim Nurkenova Gulmira Turmagambetova

Auditor Director General

Ernst & Young LLP

Qualification certificate of the auditor The state license for occupation by

No. 0000115 of September 21, 2012 auditor activities in the territory of the

Republic of Kazakhstan the series

MFYu-2 No. 0000003 issued by the

Ministry of Finance of the Republic of

Kazakhstan on July 15, 2005.

050060, Almaty, Kazakhstan

Pr-t Al-Farabi, 77/7

February 23, 2017

**Consolidated financial statements**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **JSC “KazTransGas”** | Consolidated financial statements | | | |
| **Consolidated statement of financial position** | | | | |
| **As of December 31, 2016** | | | | |
| In thousands of KZT | | note | 2016 year | 2015 year |
| **Assets** | | 4 | **763.666.710** | 715.649.861 |
| Long-term assets | |  | **12.811.916** | 4.208.567 |
| Fixed assets | |  | **3.018.539** | 1.637.009 |
| Exploration and appraisal assets | | 6 | **26.248.798** | 15.709.491 |
| Intangible assets | | 5 | **1.065.363** | 770.209 |
| Advances paid for long-term assets | | 9 | **27.688.098** | 26.048.891 |
| Investment in joint ventures | |  | **623.852** | 182.229 |
| VAT recoverable | | 28 | **869.416** | 3.272.127 |
| Other long-term assets | | 11 | **5.309.163** | 6.048.059 |
| Deferred income tax asset | | 11 | **40.000** | 40.000 |
| Restricted funds | |  | **841.341.855** | 773.566.443 |
| Bank deposits | |  |  |  |
|  | |  |  |  |
| **Current assets** | |  |  |  |
| Inventories | | 7 | **26.153.969** | 37.297.449 |
| Trade and other receivables | | 8 | **140.154.435** | 65.725.667 |
| Interest-free loans to related parties | | 10 | **70.594.716** | 61.098.669 |
| Advances given | | 6 | **29.975.432** | 3.160.857 |
| Taxes to reimbursement | | 9 | **5.934.679** | 11.258.563 |
| Prepayment of corporate income tax | |  | **7.428.521** | 11.166.221 |
| Bank deposits | | 11 | **32.060.777** | 12.549.557 |
| Cash and cash equivalents | | 12 | **61.988.460** | 19.578.582 |
|  | | | **374.290.989** | 221.835.565 |
| **Total assets** | | | **1.215.632.844** | 995.402.008 |
| **Capital and liabilities** | |  |  |  |
| Capital | |  |  |  |
| Share capital | | 13 | **179.665.175** | 179.665.175 |
| Additional paid-in capital | | 13 | **241.030.926** | 237.758.875 |
| Reserve of recalculation of reporting currency | |  | **546.149** | 546.149 |
| Undestributed profits | |  | **144.552.528** | 69.003.602 |
|  | |  | **565.784.778** | 486.963.801 |
| Long-term liabilities | |  |  |  |
| Issued debt securities | | 14 | **12.776.399** | 104.252.407 |
| Interest-bearing loans | | 15 | **76.235.899** | 28.311.935 |
| Loans from related parties | | 16 | **143.124.023** | 144.582.380 |
| Employee benefit obligations | | 17 | **633.295** | 653.967 |
| Long-term accounts payable | |  | **-** | 54.354 |
| Reserves | | 18 | **48.114.205** | 42.000.254 |
| Other long-term liabilities | | 19 | **6.396.332** | 6.695.219 |
| Deferred income tax liabilities | | 28 | **35.816.314** | 26.352.210 |
|  | |  | **323.096.467** | 352.902.726 |

**Consolidated financial statements**

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| --- | --- | --- | --- | --- |
| **JSC “KazTransGas”** | Consolidated financial statements | | | |
| **Consolidated statement of financial position (continue)** | | | | |
| In thousands of KZT | | note | 2016 year | 2015 year |
| **Current liabilities** | |  |  |  |
| Issued debt securities | | 14 | **43.346.717** | 840.870 |
| Interest-bearing loans | | 15 | **64.516.504** | 17.571.534 |
| Loans from related parties | | 16 | **25.183.205** | 25.245.635 |
| Reserves | | 18 | **26.284.445** | 26.250.765 |
| Trade and other receivables | | 20 | **156.534.323** | 73.433.815 |
| Taxes payable | |  | **1.558.959** | 941.636 |
| Advances received | | 21 | **3.038.527** | 3.420.837 |
| Other current liabilities | | 22 | **6.288.919** | 7.830.389 |
|  | |  | **326.751.599** | 155.535.481 |
| **Total capital and liabilities** | |  | **1.215.632.844** | 995.402.008 |

\* Some amounts shown in this column do not correspond to the consolidated financial statements for the year 2015, as they reflect reclassification, for details see Note 2.

Deputy General Director for Economics and Finance Kusherov D.A.

Chief Accountant Meldehanov B.N.

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| **JSC “KazTransGas”** | Consolidated financial statements | | |
| **Consolidated statement of comprehensive loss** | | | |
| **For the year ended December 31, 2016** | | | |
| In thousands of KZT | note | 2016 year | 2015 year |
| Income from sales of products and services | 23 | **501.958.495** | 374.319.323 |
| Cost of goods sold and services provided | 24 | **(348.453.622)** | (277.605.060) |
| **Gross profit** |  | **(153.504.873)** | 96.714.263 |
| General and administrative expenses | 25 | **(34.085.402)** | (27.339.503) |
| Other operating income | 26 | **7.440.302** | 11.365.124 |
| Other operating income | 26 | **(3.688.783)** | (8.840.880) |
| **Profit from operating activity** |  | **123.170.990** | 71.899.004 |
| Financial income | 27 | **13.247.026** | 7.991.115 |
| Financial expenses | 27 | **(27.210.248)** | (26.096.094) |
| Share in loss of joint ventures | 5 | **(3.456.173)** | (60.500.985) |
| Positive (negative) exchange rate difference, net |  | **2.175.101** | (101.242.892) |
| **Profit (loss) before taxation** |  | **107.926.696** | (107.949.852) |
| Income tax expense | 28 | **(26.531.702)** | (1.534.705) |
| **Net profit (loss) for the year** |  | **81.394.994** | (109.484.557) |
| **Other comprehensive income** |  | **110.650** | 461.606 |
| **Aggregate income to be reclassified to profit and loss in subsequent periods** | | | |
| Recalculation of the reporting currency |  | **-** | - |
| **Aggregate income to be reclassified to profit and loss in subsequent periods** | | | |
| Actuarial profit on plans with the stated payment | 17 | **138.312** | 577.007 |
| Income tax effect |  | **(27.662)** | (115.401) |
| **Net comprehensive income not subject to re-qualification in profit and loss in subsequent periods** |  | **110.650** | 461.606 |
| **Total comprehensive income (loss) for the year, net of income tax** |  | **81.505.644** | (109.022.951) |

Deputy General Director for Economics and Finance Kusherov D.A.

Chief Accountant Meldehanov B.N.

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| **JSC “KazTransGas”** | Consolidated financial statements | | | |
| **Consolidated statement of cash flows** | | | | |
| **For the year ended December 31, 2015** | | | | |
| In thousands of KZT | | note | 2016 year | 2015 year |
| **Cash flows from operating activities** | |  |  |  |
| Profit (loss) before taxation | |  | **107.926.696** | (107.949.852) |
| **Adjustments for** | |  |  |  |
| Depreciation and amortization | | 24,25,26 | **28.802.223** | 25.655.040 |
| Financial income/expenses, net | | 27 | **13.963.222** | 18.104.979 |
| Share in loss of joint ventures | | 5 | **3.456.173** | 60500.985 |
| Change in the reserve for gas transportation costs | | 18,24 | **(451.720)** | 11.484.510 |
| Change in the provision for unused vacations and bonuses to employees | | 22 | **(1.681.039)** | 1.147.493 |
| Change in the provision for doubtful debts, advances given, obsolete and illiquid inventories, net | | 25 | **3.106.119** | 177.357 |
| Depreciation of tax assets and accrual of provision for taxes | | 25 | **11.038.252** | 1.398.050 |
| Amortization of deferred income | | 26 | **(360.260)** | (378.194) |
| Depreciation of housing compensations issued to employees | | 25 | **-** | 1.144.159 |
| Loss /(gain) from disposal of property, plant and equipment and intangible assets | | 26 | **627.016** | (202.711) |
| (Reversal)/provision for impairment of property, plant and equipment | | 4 | **(1.902.866)** | 5.131.261 |
| Profit from reduction of liabilities | | 26 | **-** | (2.038.449) |
| **(Positive) / negative exchange rate difference** | | | **(437.842)** | 109.015.210 |
| **Operating profit before changes in working capital** | |  | **164.085.974** | 123.189.838 |
| Change in inventories | |  | **8.702.226** | (16.159.181) |
| Change in trade and other receivables | |  | **(76.410.895)** | (4.579.889) |
| Change in advances issued | |  | **(26.958.285)** | 900.022 |
| Change in taxes to refund | |  | **(6.803.388)** | (6.272.047) |
| Change in trade and other payables | |  | **82.390.062** | 7.887.287 |
| Change in liabilities for remuneration of employees | | | **65.331** | (67.458) |
| Change in taxes payable | |  | **409.358** | (366.544) |
| Change in advances received | | 21 | **(382.310)** | (226.197) |
| Change in other current liabilities | |  | **(390.433)** | (2.773.481) |
| Change in other long-term liabilities | |  | **(38.996)** | 43.801 |
| **Cash inflow from operating activities** | | | **144.168.644** | 101.576.151 |
| Interest paid | |  | **(14.983.378)** | (17.230.911) |
| Income tax paid | |  | **(10.275.992)** | (8.155.570) |
| Interest received on bank deposits | |  | **5.193.946** | 3.759.869 |
| Net cash flows from operating activities | |  | **124.603.220** | 79.940.869 |

|  |  |  |  |
| --- | --- | --- | --- |
| **JSC “KazTransGas”** | Consolidated financial statements | | |
| **Consolidated statement of cash flows (continue)** | | | |
| In thousands of KZT | **note** | **2016 year** | 2015 year |
| **Cash flows from investing activities** |  |  |  |
| (Placement) / refund of bank deposits |  | **(23.010.040)** | 88.792.390 |
| Return / (placement) of restricted funds | 11 | **738.896** | (1.869.913) |
| Interest-free loans granted to related parties |  | **(11.440.207)** | (36.839.415) |
| Interest-free loans repaid by related parties |  | **2.231.151** | 102.930 |
| Acquisition of fixed assets and intangible assets |  | **(87.458.887)** | (57.060.572) |
| Proceeds from the sale of property, plant and equipment and intangible assets | | **80.764** | 7.390.325 |
| Advances paid for long-term assets | 6 | **(10.539.307)** | (14.120.498) |
| **Net cash flows used in investing activities** |  | **(129.397.630)** | (13.604.753) |
| Cash flows from financing activities |  |  |  |
| Receipts on bank loans and debt securities |  | **253.752.758** | 89.811.140 |
| Loan proceeds from related parties |  | **-** | 148.969.800 |
| Contributions from owners |  | **-** | 11.427.285 |
| Repayment of bank loans and debt securities |  | **(206.136.311)** | (303.483.661) |
| **Net cash flows received from / (used in) financial activities** | | **47.616.447** | (53.275.436) |
| **Net change in cash and cash equivalents** |  | **42.822.037** | 13.069.350 |
| Net exchange difference |  | **(412.159)** | 1.877.460 |
| Cash and cash equivalents, at the beginning of the year |  | **19.578.582** | 4.631.772 |
| **Cash and cash equivalents, at the end of the year** |  | **61.988.460** | 19.578.582 |

Deputy General Director for Economics and Finance Kusherov D.A.

Chief Accountant Meldehanov B.N.

**The report on respect for the principles of the Code of corporate governance of JSC KazTransGas in 2016**

**Principles of the Code of corporate governance.**

In 2015 the Code of corporate governance in the new edition was approved. The code of corporate governance of JSC KazTransGas was developed according to the code of corporate governance of JSC NWF Samruk-Kazyna approved by the order of the Government RK of 15.04.2015 No. 239.

The basic principles of the Code are:

• JSC Oil Company KazMunayGas as Unique hareholder;

• Interaction of JSC Kaztransgaz and its affiliated and joint and controlled organizations. Role of JSC KazTransGas as Shareholder/Participant;

• Sustainable development;

• Rights of the Unique shareholder and fair attitude towards the Unique shareholder;

• Efficiency of the Board of directors and executive body;

• Risk management, internal control and audit;

• Transparency.

**1. JSC Oil Company KazMunaiGas as Unique shareholder.**

The Unique Shareholder of JSC KazTransGas (further – Society) is JSC Oil Company KazMunayGas.

The unique shareholder participates in management of Society only by means of implementation of powers of the Unique Shareholder of Society, stipulated by the legislation the Republic of Kazakhstan, the Charter of Society, and a board representation of Society.

The procedure of the rights of the Unique shareholder is determined by the Rules of implementation of JSC Oil Company KazMunayGas of Shareholder rights (participant) approved by board decision of JSC Oil Company KazMunayGas of 06.06.2014 (protocol No. 60).

Functions of the Unique Shareholder of Society are accurately determined by the Charter of Society and its functions are performed by the following bodies of JSC Oil Company KazMunayGas:

- The board of directors of JSC Oil Company KazMunayGas on the questions provided by the subparagraph 50) of point 98 of article 13 of the Charter of JSC Oil Company KazMunayGas;

- Board of JSC Oil Company KazMunayGas concerning activities of Society, being within the exclusive competence of the Unique shareholder of Society, except for the questions carried by the Charter of JSC Oil Company KazMunayGas to competence of the Board of directors of JSC Oil Company KazMunayGas.

**2. Interaction of JSC KazTransgGas and its subsidiary and joint-controlled entities. Role of JSC KazTransGas as Shareholder/participant.**

The corporate management system in Society and its subsidiary and joint-controlled entities provides proper management and control of their activities and is directed to growth of long-term cost and sustainable development.

Society participates in management of the subsidiary and joint-controlled entities by means of implementation of the rights of the Shareholder/participant, and also through representation in the Boards of directors and the Supervisory boards.

Powers of the shareholder/participant are determined in Charters of the subsidiary and joint-controlled entities and fully conform to requirements and standards of corporate management.

Society up to standard provides balance between control exercised of Society and provision of independence in adoption of operational decisions by the subsidiary and joint-controlled entities for implementation of the activities.

**3. Sustainable development**

Sustainable development of business is a unique development strategy of the entity thanks to which successful long existence of the company in the competitive market is provided.

Stability of the company is a capability of business to look most attractive to the market in such directions as: safety (production and ecological); responsibility (social appeal of the company before inhabitants of regions and employees of the entity); ecological compatibility of production (preserving and reproduction of the used resources).

Since 2013 the Report in the field of sustainable development (Report) prepared according to GRI Management is published in KTG. In the Report the most essential aspects of activities from the point of view of sustainable development are affected: interaction with concerned parties, environmental protection and labor protection and safety of production, development of a human capital, investment into development of regions of presence of Group of companies.

The considerable attention in the Report is paid to expansion of dialogue with concerned parties – these questions are essentially important for increase in transparency of Group of companies and compliance of its activities to the best world practices.

The important place in the document is taken by data on influence of production processes of Group of companies on an ecological situation. Decrease in negative impact of production on the environment – one of strategic priorities of Group of companies.

Essential part of the Report is devoted to actions of Group of companies in the sphere of safety of work and preserving health of the workers.

Information in the field of social support of workers which reflects the aspiration of Group of companies to support the status of one of the best employers of Kazakhstan is provided in the Report.

The report mentions relations of Group of companies with local communities: the principles of social partnership, the main approaches to activities of the Company concerning development of the territories of presence, the performed social programs and projects are reflected in it.

4. **Rights of the Unique Shareholder and fair attitude towards the Unique shareholder.**

Society provides implementation of the rights of the Unique Shareholder and the fair attitude towards him.

The rights, obligations and competence of the Unique Shareholder of Society are determined by the legislation of the Republic of Kazakhstan and enshrined in the Charter of Society.

The unique Shareholder participates in management of Society in the order established by the legislation of the Republic of Kazakhstan by means of implementation of the rights of the Unique Shareholder, and a board representation of Society.

Society informs the Unique shareholder information on the activities by means of:

- annual statement of Society;

- Internet resource of Society;

- on requests of the Unique Shareholder, in the order established by the legislation of the Republic of Kazakhstan and the Charter of Society;

- an Internet resource of depositary of the financial reporting according to requirements of the legislation of the Republic of Kazakhstan;

- different ways, according to internal documents of Society.

The list of information opened to the Unique Shareholder is provided in article 79 of the Law of the Republic of Kazakhstan "About joint-stock companies".

Information requested by the Unique shareholder is provided by Society at the scheduled time and in full.

**5. Efficiency of the Board of directors and executive body.**

Activities of the Board of directors of Society are regulated by the Charter of Society and Regulations on the Board of directors. The board of directors performs the common directorship of activities of Society, except for the solution of the questions carried to exclusive competence of the Unique shareholder and executive body.

In 2016 the Board of directors of Society held 55 meetings, 161 questions are considered.

Activities of the Board of directors of Society are based on the principles: maximum respect for interests of the Unique shareholder and implementation of interests of the Unique shareholder and Society; protection of the rights of the Unique shareholder and responsibility for activities of Society.

The board of directors of Society consists of five directors from whom three are representatives of the Unique shareholder and two – independent directors. Criteria of independence are determined by the legislation of the Republic of Kazakhstan, and also the advanced world practices in the field of corporate management.

For the purpose of assistance to effective implementation of functions of the Board of directors of Society, for consideration of the most important issues and preparation of recommendations in case of the Board of directors three committees function:

Committee on audit;

Committee on appointments and remunerations;

Committee on strategy.

In 2016 28 committee meetings on audit on which 65 questions, 15 committee meetings on appointments and remunerations on which 29 questions, 27 committee meetings on strategy on which 46 questions are considered are considered were considered are held.

Management of the current activities of Society is performed of collegial body in the form of government, headed by the chairman of the board. Work of Board of Society (further - Board) is directed to the maximum respect for interests of the Unique shareholder, and also accomplishment of tasks of Society and implementation of its strategy.

In 2016 the Board of Society held 44 meetings, 225 questions are considered. Activities of Board are regulated by the Charter of Society and Regulations on Board approved by the solution of the Board of directors of Society in 2014 in the new edition.

The basic principles of activities of Board are: honesty; conscientiousness; rationality; discretion; regularity. The Committee on risks created in case of Board designed to render assistance to Board of KTG in case of decision making in the field of corporate management by risks of Group considered execution of the Plan of corrective actions for post-audit of execution of the recommendations issued by results of audit of production, operational and financial processes of Society at two meetings.

**6. Risk management, internal control and audit**

The solution of the Board of directors of JSC KazTransGas (further – KTG) No. 43 of item 2 of 7.10.2016 approved the Management program by risks for 2016 of KTG and its affiliated and dependent organizations.

The program for risk management of KTG and its DZO is created for achievement of strategic objectives of JSC KazTransGas and formalization, fixing of responsibility on risks.

In JSC KTG the 65th is identified inherent risk which assigned codes of risks according to the Qualifier of risks of KTG and its SDE, owners of risks are determined and actions plans on risk minimization are developed.

On JSC KazTransGas group of companies it is identified 21 key risks and are displayed on the Card of key risks of JSC KazTransGas.

Interviewing of key employees of all structural divisions of KTG and its SDE concerning risk management is carried out from February 8 to March 2, 2016 to the period:

1) risks which can influence goal achievement of KTG group of companies are identified;

2) the potential extent of damage in case of implementation of risk is determined.

The procedures of internal control which are subject to observance by bodies and employees of Society are documentary fixed system of actions and actions for ensuring effective internal control behind execution of the purposes, tasks and plans of Society, to identification and making of non-standard transactions, and also the prevention, restriction and prevention of risks and possible wrongful acts from Officials and employees of Society.

**Enhancement risk culture of Society**

Work of Committee on risks, all essential events which can negatively affect goal achievements of KTG and its SDE jointly is strengthened are considered on committee meetings on risks.

Rules on contingent obligations which regulate implementation in practice process on creation of reserves of KTG and its SDE are approved.

Work on the organization of insurance protection of risks of KTG group of companies is carried out. A training course on risks insurance was organized.

Monitoring of execution of the recommendations issued by results of the booked audit of production, operational and financial processes, execution – 100% is performed.

The packet of the reporting under financial risks was created –quarterly monitoring it is conducted on:

- to observance of limits of country risks;

- limits of liabilities on banks partners;

- to currency risks;

- to percentage gaps by currencies.

**7. Transparency**

Society provides timely disclosure of reliable information about all essential facts concerning its activities including about its financial position, results of activities, structure of property and management of Society and other information, according to the advanced practice of corporate management and according to regulations on the information policy approved by the Board of directors of Society in 2013. This information is published on the official website of Society.

**Glossary**

**AGFCS** - auto gas filling compressor stations;

**AGRS** - automated gas distribution station;

**AGP** - Asian Gas Pipeline LLP;

**ASERA** - automatic system of energy resources accounting;

**TFC** - temporarily free cash;

**GPBS** - "Gas Pipeline Beyneu-Shymkent" LLP;

**GCP** - gas control point;

**The group of companies of JSC "KazTransGas"** - JSC "KazTransGas" and its subsidiaries and dependent entities;

**SDE -** Subsidiaries and dependent entities;

**BCS** - booster compressor station;

**UGSS** - unified gas supply system;

**UOSMS** - Unified Occupational Safety Management System;

**IMS** - integrated management system;

**CS** - compressor station;

**KMG / KazMunayGas** - JSC NC "KazMunayGas";

**PRC** - People's Republic of China;

**KTG / Society / KazTransGas** - JSC "KazTransGas";

**KTGA** - JSC "KazTransGas Aimak";

**KTGO** - "KazTransGas Onimderi" LLP;

**CNG** - compressed natural gas;

**CRNM&PC** - Committee for Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan;

**MGL** - the Main Gas Line;

**STC** - Scientific and Technical Council;

**UGSF** - underground gas storage facilities;

**GRU** - gas regulating unit;

**DED** - design and estimate documentation;

**GMS** - gas metering station;

**QMS** - quality management system;

**ONTL** - own needs and technological losses;

**CTW** - commodity and transport work.