



ҚазТрансГаз

ҰЛТТЫҚ ОПЕРАТОР • НАЦИОНАЛЬНЫЙ ОПЕРАТОР

2017

ЖЫЛДЫҚ ЕСЕП
ГОДОВОЙ ОТЧЕТ
ANNUAL REPORT





ANNUAL REPORT 2017

“KazTransGas” JSC has become the most important and technologically most powerful operator of gas flows in the Central Asia”

— **Kairat Sharipbayev,**
Chairman of the Board of Directors



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ҰЛТТЫҚ ОПЕРАТОР • НАЦИОНАЛЬНЫЙ ОПЕРАТОР

Key indicators

₹662,4 bln
consolidated kipic

₹74,8 bln
net profit

₹60,3 bln
taxes

101 bln m³
transportation volume

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Glossary

Dear sole shareholder and partners of “KazTransGas” JSC!



“KazTransGas” Joint-Stock Company is a part of “KazMunayGas” National Company” JSC Group of Companies and controls main gas pipeline network of gas mains of 18 000 km long with an annual throughput of up to 160 billion m³, network of gas-distributing pipelines with of over 46 000 km long. The Company provides an undistributed operation of 56 compressor stations where 342 gas-compressor units are installed, operates 3 underground gas storages. The Company delivers traded gas to over 8 million consumers inside the country. Undistributed and trouble-free operation of the whole system is provided by more than 11 thousand people.

We present to your attention the annual report on activities of “KazTransGas” JSC for 2017. In the report there are summarized the main results and directions of production activities, set forth the principles of business, social and personnel policy, indicated progress in economic and social spheres for the past year.

In the annual President's Letter to the People of Kazakhstan as of January 10, 2018, Nursultan Nazarbayev announced the need to increase annual revenues from transit to 5 billion US dollars in 2020. It will make possible to return the government expired cost for infrastructure within the shortest possible period of time. In the terms of gas transportation, only for the last year a transit currency proceeds of “KazTransGas” JSC was over 1 billion US dollars.

In general, “KazTransGas” JSC closed the year with good results. So, following the results of 2017, the volume of gas transport through main gas pipelines compared with 2016 increased by 12.7 billion m³ and was 101 billion m³ of gas. Provided that gas transportation for export increased by 34% and was 17.7 billion m³, domestic transportation increased by 1 billion m³ of gas and was to 17.4 billion m³. Provided that international transit amounted to 65.8 billion m³ of gas, it is greater than 7.5 billion m³ as compared with the previous year.

National operator has increased natural gas extraction from 327 million m³ in 2016 to 344 million m³ in 2017. Gas condensate was extracted in the amount of 20.7 thousand tons.

Consolidated income of “KazTransGas” JSC for the last year amounted to 662.4 billion tenge, it is 77.5 billion tenge more than in 2016. At the same time net profit of the “KazTransGas” JSC Group of Companies for reporting period was 74.8 billion tenge, it is larger than the planned one by 23 billion tenge.

In 2017, the National operator of “KazTransGas” JSC and its subsidiaries paid taxes and other mandatory payments to the budget of the country for a total amount of 60.3 billion tenge.

In the last year, for the first time Kazakhstan gas has been exported to China within the framework of signed agreement between “KazTransGas” JSC and “PetroChina International Company Limited”. This is the most promising and large market in Asia. “KazTransGas” JSC has become the most important and technologically most powerful operator of gas flows in the Central Asia. The volume of transit in the Central Asian gas to Russia, Europe and China has increased. Upon the results of intergovernmental agreements there has begun gas transit through the territory of Uzbekistan.

In recordingly short time there was carried out a start of 4 powerful, high-tech compressor stations at “Kazakhstan-China” transnational gas pipeline and “Beineu-Bozoy-Shymkent” main. For the first time, the most powerful in Kazakhstan AGDS-300 was run in Aktobe. Gas-distributing station is capable of supplying a half of the region with gas.

In the past year, with participation of the Head of State the “Gas drying unit” was commissioned in “Bozoy” underground gas storage. Thereby, two important tasks have been solved, it is stable gas supplies to the south and increased export to the eastern market.

It may safely be said that on the part of gas there has been solved the issue of providing the country with energy security. Today, “KazTransGas” JSC apart from foreign sources can fully provide the country with its natural gas. The national operator performs the task to ensure hundred per cent undistributed transportation and stable gas supply.

K. Sharipbayev

Chairman of the Board of Directors
“KazTransGas” JSC

R. Suleimanov

Chairman of the Board
“KazTransGas” JSC

Export

Based on the principles of multi-vector supply of hydrocarbons to domestic and foreign markets, Kazakhstan strives to develop all economically viable routes for transit and export deliveries of natural gas.

17,2 bln m³

Import

To ensure stable gas demand in the southern regions of the Republic of Kazakhstan, reduce of dependence on imported gas and ensure energy security of the Republic of Kazakhstan implementation of the “Beineu-Bozoy-Shymkent” gas pipeline construction” project continues.

4,8 bln m³

Ішкі нарық тұтынушыларына газды жеткізу

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

13,8 bln m³

About Company

"KazTransGas" Company was established in accordance with the Decree of the Government of the Republic of Kazakhstan No. 173 as of February 5, 2000. On June 9, 2004, in accordance with the "Joint-Stock Companies Act" of the Republic of Kazakhstan as of May 13, 2003 with No. 415-II, "KazTransGas" Closed Joint-Stock Company was renamed into "KazTransGas" Joint-Stock Company. Certificate of state re-registration of legal entities No. 13898-1901-AO as of June 9, 2004, issued by the Department of Justice of Astana.

Gas industry of the Republic of Kazakhstan has a significant potential for further development which will allow Kazakhstan to become one of the leading natural gas producers in the future. "KazTransGas" JSC is the largest gas supply company of the Republic of Kazakhstan, which represents state interests on the gas market of the country and in the world.

The sole shareholder is "KazMunayGas" JSC National Company. "KazTransGas" JSC manages a centralized infrastructure for transportation of traded gas through main gas pipelines and gas-distributing networks, provides international transit and sells gas on domestic and foreign markets, develops, finances, builds and uses pipelines and gas storage units.

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

In the reporting period the KTG group of companies included 12 subsidiaries and affiliates which are represented in the following business areas:

§Growth of resource base: "Amangelgy Gas" LLC, "KMG Kansu Operating" LLC;

§Main transportation: "Intergas Central Asia" JSC, "Asian Pipeline (Aziatskiy Gasoprovod)" LLC, "Beineu-Shymkent Pipeline" LLC, "KazTransGas-Bishkek" OOO, "AstanaGas KMG" JSC;

§Transportation through gas-distributing system: "KazTransGas Aimak" JSC, "KazTransGas Tbilisi" OOO;

§Trade operations with gas: "KazTransGas Onemderi" LLC, "KazRosGas" LLC;

§Other SA: "Intergas Finance B.V."

Assessment of positions of "KazTransGas" JSC and prospects for its development following the results of 2017

The youngest power industry, the gas industry in Kazakhstan, started more recently developing, in the 70s of the last century. Development prospect of the gas industry in the country is great.

According to BP data Kazakhstan ranks 25th in the world (0.5% of the total world's reserves) for assured resources of natural gas (1 trillion m³).

The State Commission on Reserves of the Republic of Kazakhstan recoverable gas reserves are approved at the level of 3.9 trillion. m³, including dissolved – 2.6 trillion m³, and free – 1.3 trillion m³.

Most of gas resources in Kazakhstan are concentrated on large developed deposits or prepared for development deposits, including oil deposits - Tengiz, Kashagan, Korolevskoe (Atyrau Region), gas condensate - Karachaganak (West Kazakhstan Region), Zhanazhol, Urikhtau (Aktobe Region) and others.

Free gas reserves of industrial categories in the Republic of Kazakhstan have been explored on more than 70 gas, gas condensate and oil-gas deposits. In the development there are about 30 deposits with which 86% of initial gas reserves of industrial categories are associated. Despite this fact, a significant part of these deposits is not connected to the Unified Gas Supply System (hereinafter UGSS): only 15 of 215 (about 7%) are connected to the UGSS.

Currently, "Amangeldy Gas" LLC, on the basis of the Combined exploration and production contract of crude hydrocarbons as of December 12, 2000, continues development of the Amangeldy group of gas deposits in Zhambyl Region.

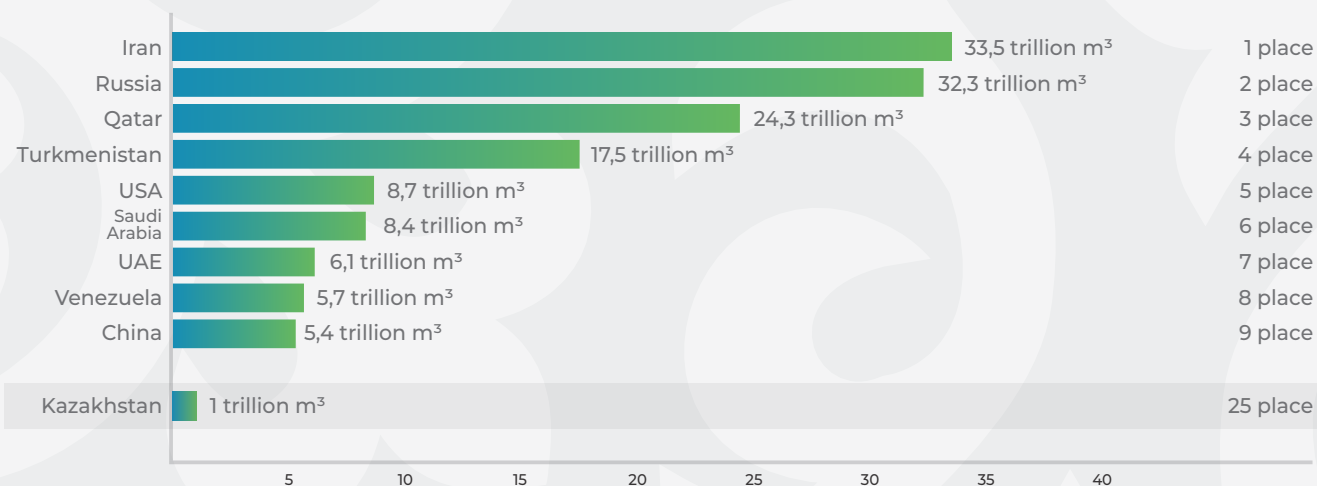
Recoverable natural gas reserves as of 01.01.2018 are the following: at the Amangeldy deposit it is 8 733.8 million m³, at the Zharkum deposit – 375.4 million m³, and at the Airakty deposit – 5 221.8 million m³.

However, in gas reserves and gas volumes positions of "KazTransGas" JSC on the market of the Republic of Kazakhstan are weak, and its share is about 1-2%.

Due to that, in order to ensure energy security of the Republic of Kazakhstan, "KazTransGas" JSC considers connection to the UGSS of subsoil users who produce associated petroleum gas as a critically important task.

The concept of gas sector development of the Republic of Kazakhstan until 2030 determines vision and main approaches to stage-by-stage reform and complex development of the gas sector of the Republic of Kazakhstan, provides Kazakhstan's existing significant potential in exploration and production of coalbed methane in addition to traditional gas resources. In fulfillment of the Action plan (Roadmap) of instruction implementation 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 organization of exploration and production of coalbed methane, "KazTransGas" JSC carries out geological exploration of coalbed methane in

Volume of proved reserves of natural gas countrywise, trillion m³



the framework of innovative investment project “Coalbed methane extraction in the Karaganda coal basin”.

One of the most promising transit routes for Kazakhstan is MGP “Kazakhstan-China” with a capacity of 30 billion m³ of natural gas per year and planned increase of MGP capacity is up to 55 billion m³ in 2018 (taking into account the input of compressor stations in the line C). Today it is the largest investment project in oil and gas industry of the country.

One more important project implemented by “KazTransGas” JSC is construction of “Beineu-Bozoy-Shymkent” main gas pipeline from the west to the south of Kazakhstan of almost 1 500 km long and throughput of 10 billion m³ per year. For the period of Kazakhstan's independence, it is one of the largest industrial projects in the field of energy independence of the country which provides the whole south with continuous gas delivery.

With completion of “Beineu-Bozoy-Shymkent” MGP integration of the main systems of the West and South of Kazakhstan has been completed and unified gas supply system of the Republic has been created.

Now the Company has opportunity to organize export, transit and domestic transportation of gas by diversifying transport routes in any direction depending on the market's needs.

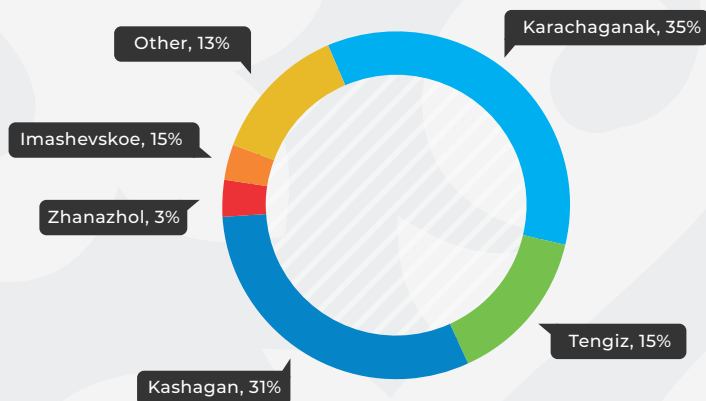
In order to provide stable gas supplies to the southern regions of the Republic of Kazakhstan and for export to PRC in 2018-2019 there is planned to increase throughput of “Beineu-Bozoy-Shymkent” MGP to 15 billion m³ per year.

Collectively, “KazTransGas” JSC Group of Companies uses gas pipelines with a total length of over 64 000 km. Including more than 18 thousand km of main and more than 46 thousand km of distributing gas pipelines.

Currently, 10 out of 14 Regions of the Republic of Kazakhstan, mainly regional centers, have been gasified. The level of gasification coverage of Kazakhstan's population in 2017 was 47.38%.

Distribution of recoverable reserves of gas by the field, %

Most of gas resources in Kazakhstan are concentrated on large developed deposits or prepared for development deposits, including oil deposits - Tengiz, Kashagan, Korolevskoe (Atyrau Region), gas condensate - Karachaganak (West Kazakhstan Region), Zhanazhol, Urikhtau (Aktobe Region) and others.

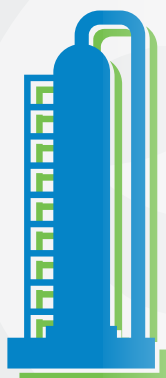




PRODUCTION OF TRADED GAS

0,3 bln m³

Share of KazTransGas 1,0 %
By Kazakhstan 31 bln m³



DELIVERY TO DOMESTIC MARKET

12,8 bln m³

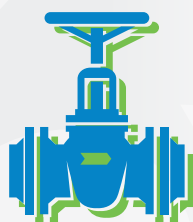
Share of KazTransGas 92,8 %
By Kazakhstan 13,8 bln m³



IMPORT

4,8 bln m³

Share of KazTransGas 100 %
By Kazakhstan 4,8 bln m³



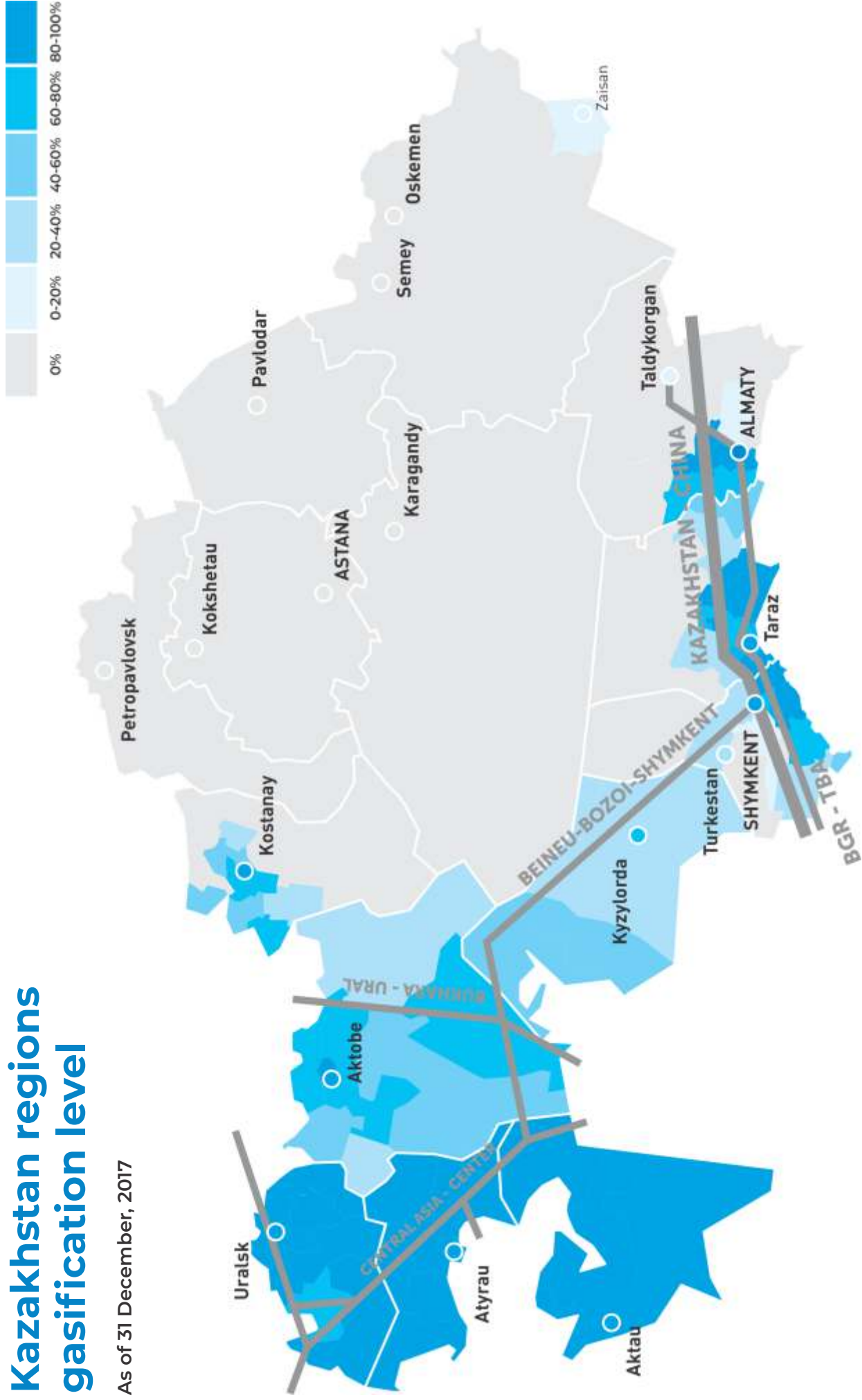
EXPORT

4,9 bln m³

Share of KazTransGas 28,5 %
By Kazakhstan 17,2 bln m³

Kazakhstan regions gasification level

As of 31 December, 2017



Main events of 2017

With the Order of the Department of Justice of Karaganda Region with No. 3-4/601-01 as of 16.03.2017 the activity of "Saryarka Gas Damu" LLC was terminated;

According to the Decision of the Directors Board of "KazTransGas" JSC as of 02.03.2017 (protocol No.5 p.1) representative office of "KazTransGas" JSC in Saint-Petersburg, Russian Federation, was created;

With the Order of the Government of the Republic of Kazakhstan with No.530 as of 31.08.2017 a strategical object of "Oktyabrsk-Alga" MGP was deprived by placing of common stocks of "Intergas Central Asia" JSC;

In fulfillment of the Government's Order of the Republic of Kazakhstan No. 1383 as of 26.12.2014 "KazTransGas" JSC transferred gas pipelines and its structures, as well as other property necessary for their operation and maintenance, located in the territory of Aktyubinsk, Almaty, Atyrau, West Kazakhstan, Kostanay Regions of the Republic of Kazakhstan to "KazTransGas Aimak" JSC;

"KazTransGas" JSC confirmed the assigned EFQM certificate "Commitment to Excellence";

"KazTransGas" JSC successfully placed Eurobonds maturing in 10 years with a total nominal value of \$ 750 million with a historically preferred return of 4.4% among corporate issuers in the CIS and listing on the Irish Stock Exchange (ISE) and Kazakhstan Stock Exchange ("KASE"). As a comparison, in March of this year, "Gasprom" PJSC placed 10 year Eurobonds denominated in US dollars with a total nominal value of \$ 750 million at the rate of profitability of 4.95%, which is 55 bps (basis points) higher than the placement rate of "KazTransGas";

"Intergas Central Asia" JSC successfully repaid Eurobonds for the remaining amount of \$ 128 million from the issued \$ 600 million in 2007;

"Intergas Central Asia" JSC successfully converted Kazakhstan tenge into long-term exchange obligations to the European Bank for Reconstruction and Development for a total amount of \$ 220 million, which reduced currency risks of "Intergas Central Asia" JSC;

Joint venture "KazTransGas" JSC and "Trans Asia Gas Pipeline Ltd" (Subsidiary of CNPC), "Beineu Shymkent Gas Pipeline" LLC made partial call of obligations in the amount of \$ 400 million before the syndicate of China Development Bank and China Bank Limited;

"KazTransGas" JSC made partial call of obligations in the amount of \$ 350 million before its associated company "KazMunayGas" NC JSC;

In 2017, "KazTransGas Aimak" JSC, within the framework of credit line from the European Bank for Reconstruction and Development, assimilated funds for the overall amount of 14.3 billion tenge which are aimed at implementing of investment programs in Mangistau, Aktobe and Kostanay Regions. As a result of modernization and gasification there will be provided continuous and accident free natural gas delivery of the region, improved quality of citizens' life of gasified cities, increased throughput of gas-distributing pipelines, reduced production costs;

President of the Republic of Kazakhstan, N.Nazarbayev, signed the Code of natural resources and minerals management of the Republic of Kazakhstan focused on improving of the regulatory system of minerals management, including effective state regulation of activities for exploration and production of coalbed methane.

In main gas pipelines:

Completion of compressor stations "Bozoy" and "Karaozek" at "Beineu-Bozoy-Shymkent" MGP, gas pipeline capacity is up to 10 billion m³ per year;

Commissioned compressor station No.1 (commissioning certificate as of November 30, 2017) and No.3 (commissioning certificate as of December 22, 2017) of "Kazakhstan-China" line C" MGP, throughput is up to 20 billion m³ per year;

Commissioned "Akyr-Tobe" boosting compressor station with gas supply capability in the volume of 2 billion m³ of gas per year from "BGR-TBA" MGP to "Kazakhstan-China" MGP;

On October 2, 2017, main gas pipeline from Kozhasay deposit to CS-12 "Bukhara-Ural" MGP was commissioned;

In December, 2017, completed construction and started Gas drying unit at "Bozoy" UGS.

There were carried out gasification works within the framework of investment projects for gas-distributing pipelines:

Modernization of gas-distributing networks of Taraz" – constructed 82.3 km of polyethylene gas pipeline, installed 2596 cabinet-type points, rerouted 3518 clients;

"Modernization, reconstruction and new construction of gas-distributing networks of Mangystau Region" – laid 737.4 km gas pipelines, including with high pressure – 384 km, average pressure – 41.2 km, low pressure – 312 km. Installed: cabinet-type gas control points – 23 units, block-type gas control units – 28 units, and automated gas distribution stations – 6 units.

"Settlements gasification and gas-distributing networks modernization of Aktyubinsk Region" – constructed 33 km of polyethylene gas pipelines, installed automated gas distribution stations – 2 units, block-type gas control units – 2 units.

"Gasification of Kostanay Region settlements" – constructed 178 788 km of pipeline, installed 7 block-type gas units, 2 gas-distributing cabinet-type units.

Strategical aims of “KazTransGas” JSC Group of Companies

On March 31, 2016, with the decision of the Board of Directors of “KaMunayGas” NC JSC approved updated long-term strategy of “KaMunayGas” NC JSC until 2025 establishing quantitative and qualitative indicators for the period until 2025.

Achievement of strategic goals of KTG and solving of related problems will ensure creation of the maximum benefits for the Republic of Kazakhstan from participation in development of gas field and gas supply of the country.

Aims and tasks of KMG long-term strategy until 2025:

In transportation sector and gas marketing:

- Increase of profitability of business direction of transportation and marketing of gas;
- Increase of gas sale up to 18 billion m³ to 2030;
- Providing of break-even and subsequent stable growth of wholesale and retail gas prices to achieve a fair level of profitability;
- Development of transit potential;
- Efficiency of realization of pilot projects for gas recovery from alternative sources;
- Use of LPG for gasification of small settlements.

Financial and operating indicators of activities of “KazTransGas” JSC Group of Companies

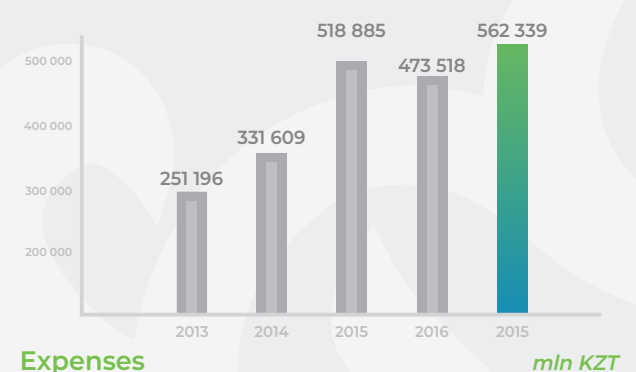
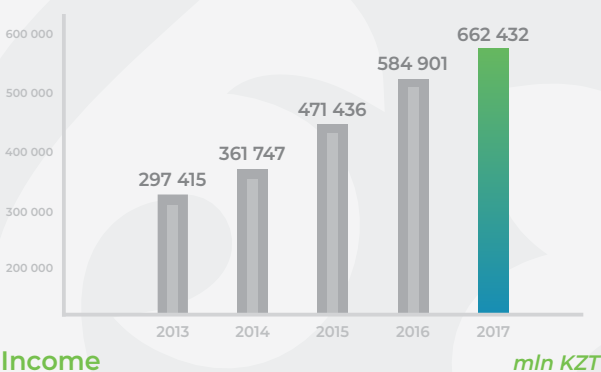
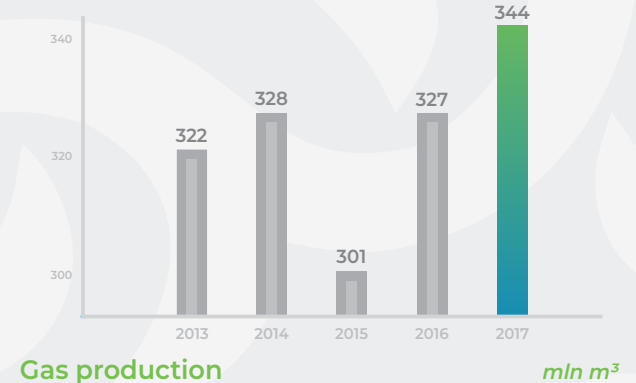
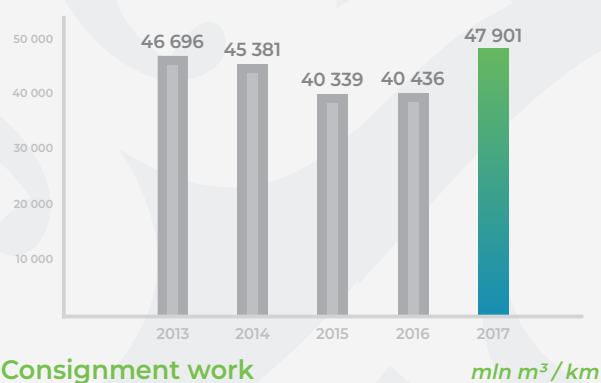
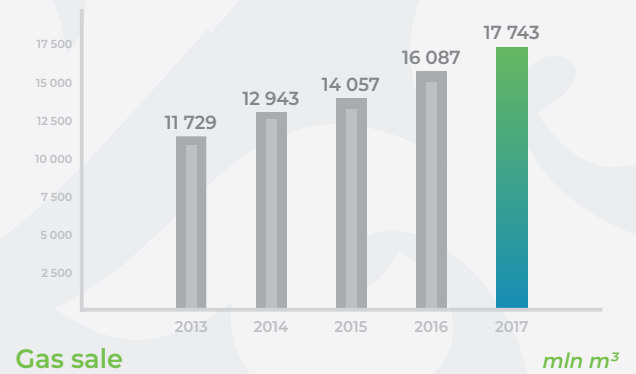
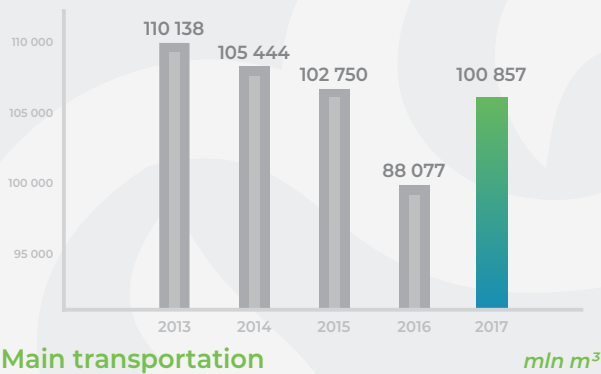
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Achievement of strategic goals of KTG and solving of related problems will ensure creation of the maximum benefits for the Republic of Kazakhstan from participation in development of gas field and gas supply of the country.

AIMS AND TASKS OF KMG LONG-TERM STRATEGY UNTIL 2025:

In transportation sector and gas marketing:

- Increase of profitability of business direction of transportation and marketing of gas;
- Increase of gas sale up to 18 billion m³ to 2030;
- Providing of break-even and subsequent stable growth of wholesale and retail gas prices to achieve a fair level of profitability;
- Development of transit potential;
- Efficiency of realization of pilot projects for gas recovery from alternative sources;
- Use of LPG for gasification of small settlements.



Main operating and financial indicators in the context of SA

The main activities of the Corporate Center of “KazTransGas” JSC is sale of gas on domestic and external markets, as well as coaching of subsidiaries and dependent organizations engaged in production and sale of gas, transportation and operation of main and gas distribution pipelines.

OPERATING INDICATORS

Before deduction of intercompany transactions	2015	2016	2017	% to 2016
Natural gas sale, million m ³	14 057	16 087	17 743	110%
Domestic market	11 469	11 763	12 793	109%
Export	2 588	4 323	4 949	115%

ҚАРЖЫЛЫҚ КӨРСЕТІШТЕР

mln KZT	2015	2016	2017	% to 2016
Sales proceeds of products and services rendering	374 319	501 958	581 757	116%
Gross profit	96 714	153 505	146 964	96%
Net profit	-109 485	81 395	74 781	92%

According to the central office of “KazTransGas” JSC in 2017 sale of natural gas without intercompany transactions exclusion amounted to 17 743 million m³, including export – 4 949 million m³.

According to the Government Order of the Republic of Kazakhstan No. 914 as of July 5, 2012, “KazTransGas” JSC was defined by the national operator in the field of gas and gas supply.

Gas supply for domestic market consumers is realized by means of realization through “KazTransGas Aimak” JSC and other gas-distributing organizations from resources of Kazakhstan subsoil users, as well as imported gas supplied within SWAP operations framework with “Gasprom” PJSC.

“Intergas Central Asia” JSC

The main activities of “Intergas Central Asia” JSC (hereinafter “ICA” JSC) are transportation of natural gas through the gas pipelines system, services for underground gas storage, operation and maintenance of main gas pipelines and distribution networks.

Transportation of natural gas is carried out through the territory of South Kazakhstan, Zhambyl, Kostanay, West Kazakhstan, Almaty, Mangistau, Atyrau, Aktyubinsk and Kyzylorda Regions.

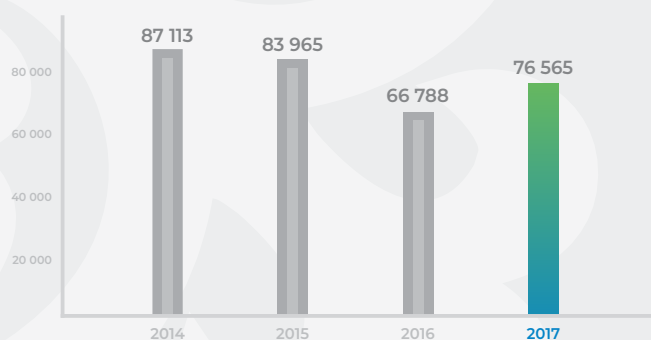
International transportation of natural gas is the main business profit element of “ICA” JSC.

PRODUCTION INDICATORS

	2015	2016	2017	% to 2016
Volume of gas transportation, million m ³	83 965	66 788	76 565	115%
Domestic market	11 482	12 297	12 916	105%
Export	12 745	13 251	16 710	126%
International through traffic	59 737	41 240	46 938	114%

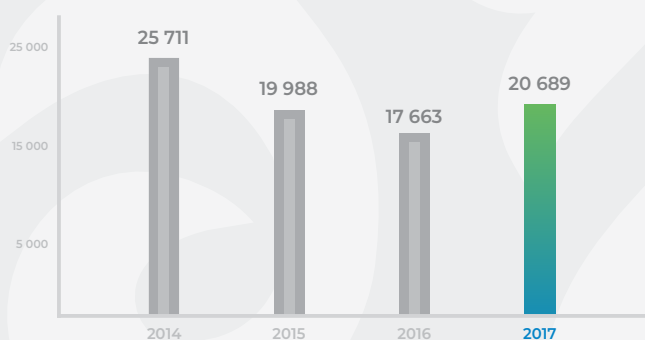
FINANCIAL INDICATORS

mln KZT	2015	2016	2017	% to 2016
Sales proceeds of products and services rendering	129 498	169 059	185 556	110%
Gross profit	68 849	96 577	106 993	111%
Net profit	8 570	57 196	64 586	113%



Volumes of natural gas transportation

mln m³



Volumes of consignment works

bln m³/km

Compared with 2016, there has been an increase in gas transportation volumes due to increase in transit of Russian, Central Asian gas and export.

“KazTransGas Aimak” JSC

The main activity of “KazTransGas Aimak” JSC is services rendering for gas transportation through distribution gas pipelines, marketing, purchase, sale of gas to consumers.

The priority task of “KazTransGas Aimak” JSC is to provide trouble-free, continuous and safe gas delivery to consumers of all categories (population, domestic enterprises, industrial enterprises) in the regions where “KazTransGas Aimak” JSC operates.

PRODUCTION INDICATORS

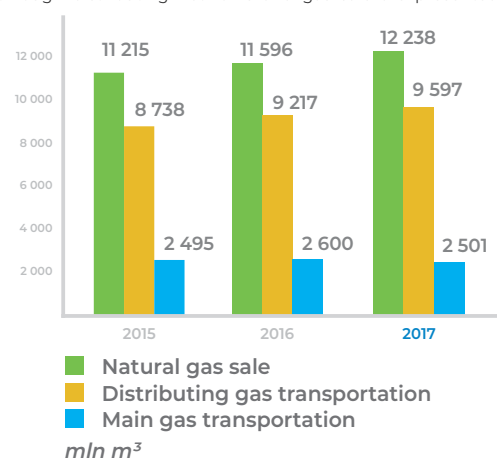
	*2015	2016	2017	% to 2016
Distributing gas transportation, million m ³	8 738	9 217	9 597	104%
Main gas transportation, million m ³	2 495	2 600	2 501	96%
Natural gas sale, million m ³	11 215	11 596	11 527	106%

* – in 2015 transportation volumes through distributing networks and gas sale are presented proceeding from Almaty.

FINANCIAL INDICATORS

<i>mln KZT</i>	2015	2016	2017	% to 2016
Sales proceeds of products and services rendering	162 245	195 324	227 415	116%
Gross profit	1 814	20 967	25 170	120%
Net profit	-12 104	10 350	14 278	134%

* – in 2015, financial indicators are presented proceeding from Almaty.



“Amangeldy Gas” LLC

The main type of activities of “Amangeldy Gas” LLC is gas and gas condensate recovery.

For 2017, implementation of production program in terms of planned volumes of gas and gas condensate recovery was 105% and 100%, respectively.

PRODUCTION INDICATORS

	2015	2016	2017	% to 2016
Gas recovery, million m ³	301	327	344	105%
Gas condensate recovery, tones	19	21	21	100%

FINANCIAL INDICATORS

<i>mln KZT</i>	2015	2016	2017	% to 2016
Sales proceeds of products and services rendering	4 977	7 244	12 767	176%
Gross profit	2 310	3 993	9 302	233%
Net profit	346	1 957	6 126	313%

Gas and gas condensate sales proceeds were 12 767 million tenge.

“KazTransGas Onimderi” LLC

The main type of activities of “KazTransGas Onimderi” LLC is providing of transportation services and gas sale (CNG, LNG, LPG).

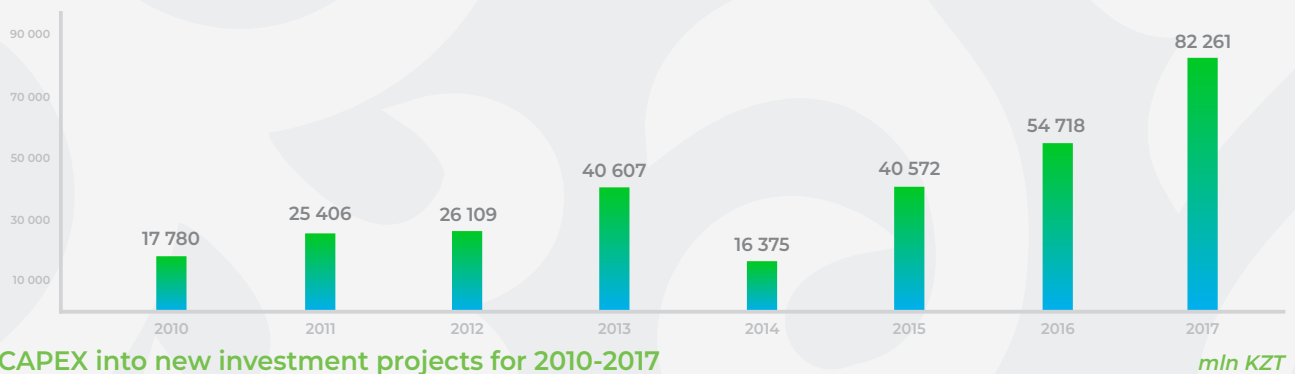
FINANCIAL INDICATORS

<i>mln KZT</i>	2015	2016	2017	% to 2016
Sales proceeds of products and services rendering	4 057	11 512	11 255	98%
Gross profit	1 204	1 889	1 711	91%
Net profit	558	231	271	117%

INVESTMENT ACTIVITY

In accordance with the main strategic priorities and business lines a long-term Investment Program of "KazTransGas" JSC is focused on the following problem solving:

1. Implementation of the program of additional exploration and commissioning of new gas deposits, project of inert gases commercialization.
2. Providing of balanced, safe and continuous services rendering for gas transportation to end consumers.
3. Modernization of mine gas pipeline system aimed to improve its trouble-free, safety and effective operating due to optimization of production and technological potential.
4. Expansion of domestic gas delivery market by force of RK settlements gasification.
5. Development of transit and export potential of the Republic of Kazakhstan.
6. Expansion of resource base.



In 2017, the total volume of assimilated investments for projects under development amounted to 82.3 billion tenge, which is 27.5 billion tenge more than the same indicator in 2016. Investments growth in reporting period is related to the beginning of construction and installation works within the framework of new investment projects implementation – construction of "Karaozek" compressor station at BBS MGP in Kyzylorda Region and "Reconstruction of Bozoy UGS" in the Aktyubinsk Region.

IN 2017, works in the following investment projects were successfully completed:

1. "Settlements gasification and gas-distributing networks modernization in Aktyubinsk Region";
2. Construction of "Karaozek" compressor station in Kyzylorda Region;
3. ACSGF construction in Aktobe;
4. Construction of main high-pressure gas pipeline "GPU Kozhasay" – CS12 "Shalkar" "Bukhara-Ural" MGP in Aktyubinsk Region.

There is planned works continuation within the framework of long-term investment projects for of gas-distributing networks modernization in Taraz, as well as gasification of Mangistau and Kostanay Regions.

At the same time, for purpose of gasification of the northern and central regions of the Republic of Kazakhstan in 2017 the Company stipulated development agreement of DED construction of "Saryarka" MGP.



PROJECTS AIMED TO RESOURCE BASE EXPANSION

Currently, in order to expand the resource base, the Company is working to implement the following investment projects:

“Development of Amangeldy group of gas deposits”
 (“Amangeldy Gas” LLC)

“Extraction of coalbed methane of Karaganda cola basin”
 (“exploration works”)

“Geology study and exploration of Imashevskoe deposit”
 (“KazRosGas” LLC)

“Kansu Project”
 (“KMG – Kansu Operating”)

“Development of Amangeldy group of gas deposits” Project

In accordance with the Gas Industry Development Program of the Republic of Kazakhstan for 2010-2014 in order to supply gas to consumers in the southern regions of the country and ensure energy security the “KazTransGas” JSC on the basis of the Combined exploration and production contract of crude hydrocarbons as of December 12, 2000, continues development of Amangeldy group of gas deposits in Zhambyl Region.

Validity period of the above Contract is until 2031.

Within the framework of the project there is carried out industrial operation of Amangeldy deposit and development of other deposits of Amangeldy Group, including complex of geological exploration and seismic works, reserves calculation, project development of pilot production, construction projects of development wells and field construction facilities. Approved recoverable reserves of natural gas in the deposits of Amangeldy Group are 14,331 million m³.

Since the beginning of 2008, the Amangeldy deposit has reached the stage of industrial development. Currently, 34 oil wells are operating.

On November 27, 2014, Zharkum deposit was brought into pilot production, the production is carried out at 6 wells.

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

On December 28, 2017, the Ministry of Energy of the Republic of Kazakhstan signed Supplement No. 12 to the Contract for commissioning of pilot production of Airakty deposit.

In 2014-2015, on Sultankuduk structure seismic studies of MOGT 2D in the volume of 257.1 linear km were carried out, as a result of which parameters and forecasted resources of the structure were confirmed. The project “Supplement No.2 to the project of prospecting works on the structure of Sultankuduk (section Barkhan-Sultankuduk)” was developed, in 2016-2017 there was carried out well drilling at a depth of 4 250 m and for purpose to clarify the structure prospects for identification of raw hydrocarbons industrial reserves.

Since the beginning of industrial development, Amangeldy deposit produced 4 354 billion m³ of natural gas and 323.53 thousand tons of gas condensate, including 319.78 million m³ of natural gas and 20.38 thousand tons of gas condensate in 2017.

Since the beginning of the pilot production, 50.69 million m³ of natural gas and 415.43 tons of gas condensate were extracted at Zharkum deposit, including 12.72 million m³ of natural gas and 66.93 thousand tons of gas condensate in 2017.

After introduction of pilot production in Airakty deposit in 2017, 11.53 million m³ of natural gas and 197.05 thousand tons of gas condensate were produced.

As of 01.01.2018 “Amangeldy Gas” LLC produced 343.73 million m³ of natural gas and 20.65 thousand tons of gas condensate.

“Extraction of coalbed methane of Karaganda coal basin (1 stage of exploration work within R&D framework)” Project

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

In September 2016, the Minister of Energy of the Republic of Kazakhstan approved an up-to-date Action Plan (Road Map) for implementation of assignment of the Head of State for of exploration and production organization of coalbed methane (CBM). According to the above Plan, “KazTransGas” JSC continues to conduct the 1st stage of the Project - exploration works within the R&D at contractual territory of the subsoil user of “SEC “Saryarka” NC JSC in the Sherubainurinsky coal-bearing area of Karaganda coal basin (in accordance with the Agreement as of 03.04.2015).

The Company holds regular meetings with leading domestic scientists and subsoil users engaged in exploration and production of CBM, foreign companies with modern world technologies and experience in exploration and production of coalbed methane.

The works for geological exploration of CBM are a complex scientific and technical task and carried out within the framework of R&D and aimed at studying gas content of the contract territory and development of the most optimal CBM extraction technologies. Within R&D framework, all possible options for applying of modern foreign technologies/methods of well construction, development and intensification of CBM flow rate, taking into account international experience and involving of qualified service contractors, are tested, etc.

At the moment, exploration and test and production wells were drilled at the first stage of the Project, the first gas was received. According to the core analysis data from the leading international laboratories (USA, PRC, Europe), coal characteristics of Sherubainurinsky plot are similar to the largest US deposits (Black Warrior Ave, CBM production up to 1.5 billion m³ per year).

In 2017, the reserves of CBM site with the area of 29.32 sq.m. were calculated (about C2 - 5.7 billion m³), and at the moment, there are carried out procedures of reserves entering on the state balance, “Baker Hughes Kazakhstan” LLC has developed a technical and economic assessment “Assessment of production and commercialization prospectively of Sherubainurinsky CBM of coal-bearing area of Karaganda Basin” (TEC). Currently, according to TEC recommendations, with participation of Schlumberger and KarSTU, construction of 3 wells with a complex of geophysical studies is being completed.

Also, for a full prospectively assessment of CBM, Baker Hughes and KSTU experts recommend to continue CBM exploration work in the context of which technologies of industrial methane extraction were established. In the existing wells, there is provided for work out high-tech construction designs of offshoots of horizontal wells with intensification of beds in the horizontal section to determine CBM production methods, taking into account geological conditions of Karaganda coal basin. Considering the need of these works, within R&D framework exploration works are going to be continued after solving the issue of their financing.

Based on the results of exploration works (1 stage 1 of EW Project in the framework of R&D), a final decision will be made on the further implementation of the Project.

In order to create favorable conditions for attraction of investments and formation of optimal cost of CBM traded gas for population of Kazakhstan's regions, KTG together with authorized state agencies and organizations in accordance with the Roadmap actively undertakes work to initiate state support for exploration and production activities of CBM:

- received Order of the Government of the Republic of Kazakhstan No.89 as of 04.04.2015 concerning non-competitive contract receipt (for KazMunayGas/KazTransGas) for mineral management, for exploration and CBM production;
- in April, 2016, the Law on Concerning Introduction of Amendments and Additions to some legislative acts of the Republic of Kazakhstan concerning transfer of the Republic of Kazakhstan to “Green Economy”, which approved state support for exploration and production of CBM to obtain current tax and investment preferences. There is implemented work on acceptance of sublegislative NLA;
- on December 27, 2017, the Code on Subsoil and Subsoil Use of the Republic of Kazakhstan was signed, including proposals for timely degasification of coal beds and issues of effective regulation of CBM activities, proposals for existing obligations mechanism review, interested subsoil users to finance R&D in the part of CBM;
- directed proposals for including CBM as an alternative energy source into the Action Plan for implementation of the Concept transfer of the Republic of Kazakhstan to the “Green Economy” for 2013-2020.

Also, for further develop of CBM projects there are negotiations under way on joint cooperation with investors companies.

“Geology study and exploration of Imashevskoe deposit” Project

On January 18, 2005, the Agreement between the Republic of Kazakhstan and Russian Federation concerning Kazakh-Russian state border was signed according to which the issues related to development of mineral deposits crossing the state border or passing through it are regulated by separate agreements.

On September 7, 2010, Agreement between the Government of the Republic of Kazakhstan and the Government of the Russian Federation on joint activities in exploration study and development of transboundary gas condensate field Imashevskoe was signed (hereinafter Agreement).

On April 27, 2011, authorized organizations under the Agreement – “KazMunayGas” NC JSC and “Gazprom” OJSC determined a single Operator – “KazRosGas” LLC (KRG).

On November 11, 2013, Protocol to the Agreement was signed with basic supplement on granting KRG the right to use subsoil at Imashevskoe deposit both on the territory of the Republic of Kazakhstan and Russian Federation. The Protocol entered into force on April 18, 2014.

Receipt of mineral right in the Republic of Kazakhstan and Russian Federation.

To obtain the mineral right for Kazakhstani section of Imashevskoe deposit the Kazakh side has implemented all necessary procedures in accordance with the legislation of the Republic of Kazakhstan and was at the final stage of obtaining such rights in the Republic of Kazakhstan, while the issue of obtaining the mineral right for the Russian part by the Russia was unreasonably protracted.

The KRG has passed all necessary procedures carried out by Federal Agency for Subsoil Use of the Ministry of Natural Resources of the Russian Federation (hereinafter Rosnedra) within the framework of mineral right obtaining in accordance with the regulations provided for by the legislation of the Russian Federation.

However, due to the lack of appropriate decision on the part of “Gazprom” PJSC (as a participant of KRG), KRG could not participate in auction held by Rosnedra on the mineral right to the Russian section of the Imashevskoe deposit.

It should be noted that in accordance with art. 3 of the Agreement geological study and exploration of Imashevskoe deposit are based on the principles of joint exploration works and equal distribution of costs between authorized organizations, which excludes unilateral implementation of the Agreement on either Kazakhstani or Russian part of the Imashevskoe deposit.

Current situation for Imashevskoe Project

On February 28, 2017, the minutes on suspension of “Geology study and exploration of Imashevskoe deposit” project of KRG Supervisory Board was signed.

The Ministry of Natural Resources and Ecology of the Russian Federation (MNRE of Russian Federation) with the letter as of 29.03.2017 considers it viable to postpone implementation of the Project to a later date.

The Ministry of Energy of the Republic of Kazakhstan (ME RK) with letter No. 10-03-2447/И as of 19.05.2017 to MNRE of RF proposes to hold a Coordinating Committee meeting during the period June 12 to June 13, 2017, with participation of all interested parties.

On 29.06.2017 the Investment Committee of “KazMunayGas” NC JSC decided to suspend the Project.

On 05.05.2017 ME of RK and MNRE of RF sent notification letters concerning suspension of the Project, as well as concerning readiness to provide all required documents, if accepted by authorized state agencies decision on call of the Coordinating Committee as an advisory agency for Agreement implementation.

MNRE of RF with letter No. 10-43/15677 as of 14.06.2017 to ME of RK considers that holding of Coordination Committee meeting at this stage is premature.

Participants of the KRG, at the initiative of “Gazprom” PJSC, decided to suspend Project financing.

Due to the fact, implementation of the Agreement is delayed indefinitely.

“Kansu” Project

On October 21, 2015, with the decision of the Board of Directors of “KazMunayGas” NC JSC (Minutes No.14/2015, cl.17) the issue of alienation of 100% of KazMunayGas's share in the authorized capital of “KMG-Kansu Operating” LLC in payment for shares of “KazTransGas” JSC was approved.

On January 19, 2016, “KMG-Kansu Operating” LLC was re-registered in the Department of Justice of Aktau in connection with the change of the Sole Participant from “KazMunayGas” NC JSC to “KazTransGas” JSC.

On May 30, 2016, Supplement No. 2 to the Contract on transfer of mineral right under Contract No. 3949-YBC as of 01.10.2013 for exploration of crude hydrocarbons in Kansu site located in Mangistau region was signed between the Ministry of Energy of the Republic of Kazakhstan, “KazMunayGas” NC JSC and “KMG-Kansu Operating” LLC.

On September 22, 2016, at the meeting of the Central Commission for exploration and resource development of ME of RK the project “Supplement No. 1 to the project for oil and gas reconnaissance in Kansu area” (hereinafter – Supplement to the Project) was reviewed, agreed and approved in the Ministry of Energy of RK.

According to the approved Supplement to the Project the Work Program of the Contract for 2016-2019 was amended.

On October 1, 2016, the work on construction of geological model of Kansu deposit was completed. Three-dimensional geological models were constructed and carried out an assessment of initial geological reserves in Cretaceous and Jurassic sediments.

On October 31, 2016, the work on the project “Audit of current environment condition at Kansu area” was completed. The total work area is equal to the area of contract territory of “Kansu” and is 4374.64 sq. km.

On December 2, 2016, the meeting of Working Group of ME of RK (Minutes No. 15 of the Working Group of ME of RK) 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, Supplement No. 3 to the Contract was signed.

In 2017, “Technical project for construction of exploratory well R1 with design depth of 3,800 m including EIA at Kansu deposit was developed and approved by the state authorities.

PROJECTS AIMED AT DEVELOPMENT OF TRANSIT AND EXPORT POTENTIAL OF THE REPUBLIC OF KAZAKHSTAN

In order to expand export potential there is carried out work for implementation of the following investment projects:

“Power expansion of Kazakhstan-China MGP (1 section)” (“Asian Pipeline” LLC)

“Beineu-Bozoy-Shymkent gas pipeline construction” (“Beineu-Bozoy-Shymkent” LLC)

“Increase of throughput of “BGR-TBA” MGP and BCS construction at TIP-02 bridging for gas supply to “Kazakhstan-China” MGP” (“ICA” JSC)

“Power expansion of Kazakhstan-China MGP (1 section)” Project

On July 27, 2011, the Protocol No. 2 “On Amendments and Additions to the Agreement between the Governments of the Republic of Kazakhstan and People's Republic of China for collaboration in the field of construction and operation of the Kazakhstan-China gas pipeline as of August 18, 2007” was signed and according to which the Parties agreed to increase capacity of the first section of “Kazakhstan-China” MGP for 25 billion m³ per year, among which 20 billion m³ per year are intended for use by the Chinese party for transit of Turkmen and Uzbek gas to PRC, and 5 billion m³ per year for the Kazakh party in order to meet gas demand of the domestic market of the Republic of Kazakhstan, as well as possible gas exports to PRC.

The project supposes construction of mine gas pipeline of 1 308 km long with throughput up to 25 billion m³ per year.

Project deadline: 2012-2018.

On September 26, 2011, KMG, KTG and TAPLine signed the Agreement on basic principles of design, financing, construction and operation management of the “C” line of the first section of the gas pipeline “Kazakhstan-China”.

As of the end of 2017, the following main works were carried out under the project:

- July 9, 2015, commissioned a line section of gas pipeline;
- July 16, 2015, commissioned compressor station No. 6;
- July 23, 2015, commissioned compressor station No. 2;
- August 3, 2016, commissioned compressor station No. 4;
- August 10, 2016, commissioned compressor station No. 8;
- November 30, 2017, commissioned compressor station No. 1;
- December 22, 2017, commissioned compressor station No. 3;
- December 31, 2015, with the decision of DCRNM&PC PK No. 278-HK, was approved services tariff for transportation of traded gas through mine gas pipeline for the period of 2016-2019 in the amount of 3 494 tenge per 1000 m³ without VAT.

Currently, the design capacity is reached in the amount of up to 20 billion m³ per year, in future, taking into account construction completion of compressor stations No. 5 and No. 7 in 2018, it is planned to bring the capacity of gas pipeline to the design one - 25 billion m³ per year.

Since the beginning of the gas pipeline's launch in the end of 2017, about 34 billion m³ of transit Central Asian and export gas from Kazakhstan have been transported.

“Beineu-Bozoy-Shymkent gas pipeline construction” Project

To ensure stable gas demand in the southern regions of the Republic of Kazakhstan, reduce of dependence on imported gas and ensure energy security of the Republic of Kazakhstan implementation of the “Beineu-Bozoy-Shymkent” gas pipeline construction” project continues.

The route of gas pipeline passes through the territory of Mangistau, Aktobe, Kyzylorda and South Kazakhstan oblasts and has the following main technical characteristics: 1 stage - 2012-2019, throughput up to 6 billion m³ per year; 2 stage - 2013-2019., low efficiency up to 10 billion m³ per year, actual length of 1 450 km (in single-line version).

To implement the Project during the period 2010-2017 has been carried out the following:

- signed the Agreement on collaboration in construction and operation of pipeline Kazakhstan-China between the Government of the Republic of Kazakhstan and People's Republic of China (MPS) as of August 18, 2007;
 - signed the Agreement on basic principles of construction and operation of “Kazakhstan-China” gas pipeline (ABP) within framework of official visit of Hu Jintao, PRC Chairman, to Kazakhstan as of June 12, 2010;
 - January 18, 2011, for implementation of the Projects aims there was created a joint Kazakh-Chinese project company – “Beineu-Shymkent Gas pipeline” on the territory of the Republic of Kazakhstan;
 - December 2, 2013, signed State Acceptance Commission Act on commission of a lineal part of “Bozoy-Shymkent” section (311-1453 km), “Bozoy” GMU with throughput up to 2.5 billion m³ per year;
 - December 31, 2015, with decision of the DCRNM&PC PK No. 278-ОД was approved tariff for transportation of traded gas through mine gas pipeline in the amount of 18 071 tenge per 1000 m³ without VAT with commissioning since March 1, 2016;
 - December 30, 2016, signed acceptance commission act on commissioning of a lineal part of “Beineu-Bozoy” section (0-311 km) with throughput up to 5 billion m³ of gas per year;
 - November 7, 2017, signed acceptance commission act on commissioning of main compressor station “Bozoy” and provided throughput up to 6 billion m³ of gas per year;
 - November 29, 2017, signed acceptance commission act on commissioning of lineal compressor station “Karaozek” and its throughput is brought to the project - 6 billion m³ of gas per year;
 - Since transportation until the end of 2017, 9.1 billion m³ was transported;
- Construction works of line service road of the 2 stage (section 0-311 km), MOA and VP “Shornak”, “Karaozek”, “Aksuat”, “Saksaulsk”, “Beineu” GMU, SCADA systems and telecommunications.

“Increase of throughput of “BGR-TBA” MGP and BCS construction at TIP-02 bridging for gas supply to “Kazakhstan-China” MGP”

To supply gas to the Kazakhstan-China main gas pipeline for export to PRC and continuous gas delivery to Almaty, realization of the “Increase of throughput of “BGR-TBA” MGP and BCS construction at TIP-02 bridging for gas supply to “Kazakhstan-China” MGP” project continues.

Project deadline – 2016-2018.

To implement the Project, in 2017 has been implemented the following:

- November 7, 2017, completed random major repair of lineal part (LP) of the 2 line "BGR-TBA" MGP.
- December 28, 2017, signed acceptance commission act on commissioning of boosting compressor station "Akyr-Tobe" and provided gas delivery in the volume up to 2 billion m³ per year from "BGR-TBA" MGP to "Kazakhstan-China" MGP;

Works on random major repair of lineal part (LP) of the 1 line "BGR-TBA" MGP continues, after completing repair works of LP MGP throughput will be brought to the project 10 billion m³ per year.

"Construction of main gas pipeline from Kozhasay deposit to CS-12 MGP "Bukhara-Ural" Project

To reduce associated gas flaring in Aktyubinsk region deposits and increase resource base for the "Beineu-Bozoy-Shymkent" gas pipeline the investment committee of "KazMunayGas" NC JSC No. 13-16 as of September 21, 2016, decided to implement the project "Construction of main gas pipeline from Kozhasay deposit to CS-12 MGP "Bukhara-Ural"

Project deadline – 2016-2017.

In 2017, completed construction of gas pipeline and on October 2, 2017, the object was commissioned.

GASIFICATION PROJECTS OF KAZAKHSTAN'S REGIONS

"KazTransGas" JSC continues gasification works and modernization of RK settlements.

In 2017, completed project works:

"Gasification of settlements and modernization of gas-distributing networks of Aktyubinsk Region"

Currently, there is continued projects realization

"Modernization of gas-distributing networks in Taraz"

"Modernization, reconstruction and new construction of gas-distributing networks of settlements in Mangistau Region"

"Gasification expansion of settlements in Kostanay Region"

"Gasification of settlements and modernization of gas-distributing networks of Aktyubinsk Region" Project

The project was initiated in 2015 and was formed as a complex one, where all components are correlated - socio-economic development of Aktyubinsk region, assessment of resource base, development of gas transportation system, technical and investment parameters of gasification facilities in the region.

In the framework of signed Memorandum of understanding and collaboration between Akimat of Aktyubinsk region, "KazMunayGas" NC JSC and "KazTransGas" JSC as of February 5, 2015, regarding long-term and mutually beneficial collaboration in implementing of construction projects of gasification facilities in Aktyubinsk Region.

Project deadline is 3 years - 2015-2017.

Ten settlements of the Aktyubinsk region were gasified in the framework of the project: Irgiz village of Irgiz district, Komsomol village of Aitekebi district, Bogoslovka village of Alginsky district, Akkuduk village of Khromtau district, Altyndy village of Mugalzarsky district, Enbek village and Taldysay village of Mugalzarsky district, Kosestek village of Kargalinsky district, Zhaisan village of Martuisky district, Uil village of Uilskiy district. The following works were performed:

- installation of gas pipeline of 660 km long, including main gas pipeline – 173 km, high pressure – 131 km, medium pressure – 66 km, low pressure – 290 km;

- Installed 6 automated gas-distributing stations, 13 block-type gas units, 158 gas-distributing cabinet-type units.

The number of gasified houses in 10 settlements amounted to 2 817 homes and 35 municipal utilities.

Economic effect of gasification in Aktyubinsk Region is increasing of the number of consumers of natural gas, ensuring of

energy security, safe and continuous gas delivery of growing needs of the settlements in Aktyubinsk Region, additional multiplier effect expressed in possibility of gasification continuation in the region, improving of population's comfort living, improving of working conditions and life.

“Modernization of gas-distributing networks in Taraz” Project

Project deadline – 2011-2019.

The project provides replacement of low-pressure steel gas pipelines to polyethylene medium pressure one in low-rise sectors, replacement of dilapidated underground gas pipelines, installation of individual cabinet-type gas controlled units with SMART-card for each consumer of low-rise building, installation of block-type gas control units.

In the result of modernization of gas-distributing system in Taraz, it is planned to increase throughput by 49 000 m³/h, from 101 500 m³/h to 150 500 m³/h, reduction of technical and technological losses of gas from leaks through gas pipelines, decrease in operating costs for major repairs to 70% for the next 40-50 years, extension of service length of gas-distributing system of the city for 50 years (guarantee service length of polyethylene gas pipelines), elimination of illegal tapping and gas extraction possibility.

To justify modernization of gas-distributing network the city is divided into 8 (eight) complexes, the complexes are divided into modernization objects. The objects inside the complexes are divided according to technological scheme of shutting down of the city's gas-distributing network for convenient implementation of construction and assembling operations and switching the existing network to a new one.

The project is implemented in two stages:

- 1 stage (5 launch complexes 2011-2016);
- 2 stage (3 launch complexes 2017-2019).

As of 01.01.2018 the use of innovative technologies has made it possible to replace 794 km of gas pipelines. Also, 17 288 modern individual cabinet-type units, 1 block-type gas unit, 27 gas-distributing cabinet-type units, including the results of 2017 for the first launch complex of the second stage there were constructed 82.3 km of gas pipelines and 2596 cabinet-type units were installed.

Replacement of old aboveground steel gas pipeline to more durable polyethylene in underground variant has increased not only the reliability and safety of networks, but also allowed to preserve the unique architectural appearance of Taraz.

“Modernization, reconstruction and new construction of gas-distributing networks of settlements in Mangistau Region”

The investment project was initiated in 2015 within the framework of concluded Memorandum of understanding and collaboration between Akimat of Aktyubinsk region, “KazMunayGas” NC JSC and “KazTransGas” JSC as of February 5, 2015, regarding long-term and mutually beneficial collaboration in implementing of construction projects, modernization and reconstruction of gasification facilities in Mangistau Region.

Memorandum of understanding and collaboration between Akimat of Mangistau oblast, JSC NC “KazMunayGas” and JSC “KazTransGas” regarding long-term and mutually beneficial cooperation in the implementation of projects for the construction, modernization and reconstruction of gasification facilities in Mangistau region.

The project is aimed at modernization and reconstruction, as well as construction of gas networks in Mangistau Region in order to improve reliability and improve quality of services, eliminate gas shortage for consumers due to insufficient performance and unsatisfactory technical condition of gas networks.

Within the framework of the Project, it is planned to build new gas networks, high-, medium- and low-pressure gas pipelines, supply high-pressure gas pipelines with installation of three AGDS in Zhanaozen, gas pipeline branch from Okarem-Beineu MGP to Shetpe village with AGDS installation, inter-settlement, supplying underground gas pipelines of high and medium pressure, as well as in-settlement low-pressure gas pipelines.

In 2017, there were executed placement operations of 737.44 km gas pipelines, including: high pressure - 383.65 km, medium pressure - 47.65 km, low pressure - 306.14 km; installed 6 automatic gas distributing stations, 23 cabinet-type gas control units, 28 block-type gas units; completed during specified terms and commissioned 11 facilities.

As of 01.01.2018, 1244 km of gas pipelines were constructed; installed 6 AGDS complexes, 41 gas-distributing cabinet-type units, 37 block-type gas stations. The works foreseen by the approved project are fulfilled. Within the existing conservation in investment program the project implementation will be continued in the next 3 years. The investment program is designed for 5 years from 2015 to 2020.

“Gasification expansion of settlements in Kostanay Region”

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

Project deadline – 2016-2018.

In 2016, 60 km of gas pipelines were constructed, and 4 block-type gas control units were installed.

In 2017, 178 788 km of gas pipelines were built, 7 block-type gas units and 2 gas-distributing units were installed.

Today, eight settlements have been gasified as part of the project:

- in 2016, Kachar village of Rudny and Oktyabrsky village of Lisakovsk,

- in 2017, (Toguzak village of Karabalskiy district, Alchanovka village, Antonovka village of Denisovsky District, Boskol village Karabalykskiy district, Karabalyk village, Voroshilovka village), completed planned under the project works on further gasification in Rudny.

Completion of construction works of “Tobol-Auliekol” MGP is planned in 2018.

“Construction of “Sary-Arka” main gas pipeline” Project

Gas pipeline is going to be built in 4 stages. At the first stage, it is planned to build main gas pipeline along the Kyzylorda-Zhezkazgan-Karaganda-Astana route with a length of 1,081 km. At the second stage, it is planned to reach gas main line from Astana to Kokshetau, on the third - to Petropavlovsk. The final, fourth stage foresees construction of compressor stations “Zhezkazgan” and “Temirtau”.

In 2017, Consortium of “KATEK” LLC and “AlatauGorProekt” LLC (hereinafter - the Consortium) developed TEO of the first construction stage of “Sary-Arka” MGP (to Astana) and received a positive conclusion of “GosEkspertiza” RSE.

Estimated cost is about 370 billion tenge, excluding the cost of local networks laying and construction of local gas storage facilities.

October 30, 2017, stipulated Agreement on DED development of the 1 stage for construction of “Sary-Arka” MGP (to Astana) between “KazTransGas” JSC and the Consortium until November 30, 2018.

Up to date, meetings of various levels are held to determine financing sources for construction of the 1 stage of the Project.

The construction of the main gas pipeline is scheduled for 2019.

INNOVATIONS

Within the framework of innovation development realization of “KazTransGas” JSC and in order to provide formation and implementation of a unified corporate and branch scientific, technical, innovation policy, improvement of scientific and technical support of activities of the KTG group of companies the Scientific and Technical Council (STC) operates.

STC considers proposals of innovative, scientific and technical character, programs of production and technical development of KTG structural subdivisions, as well as reports on developments which are of significant technical and economic importance for the KTG group of companies.

In 2017, seven (7) STC KTG meetings were held.

12 issues were considered and approved, including 6 issues with an innovative component:

I. Consideration of the issue on increase of utilization efficiency of disassembled pipes and quality of capital repairs of the linear part of the main gas pipelines.

Performance: Taken in consideration and further study a presentation material of StroyGroupManagement (SGM) group of companies and “KazTurboRemont” (KTR) JSC and need to study experience of complex works fulfillment for repeated use of pipes with participation of SGM at the objects of “Gasprom” PJSC in 2018.

II. Consideration of proposal of “Power Engineering Technologies” OOO (Russia) on development of technical solutions for introducing energy efficient projects of gas turbine equipment running.

Performance: Progressive innovative technical solutions and technologies in the field of gas turbine equipment are accepted for further study in the part of GPU filtration system to develop proposals for introducing of energy-efficient technologies.

III. Consideration of the project “Protection systems of structural metals from corrosion by cathodic protection stations with low-current mode (CPSLM) for gas pipelines protection operating in corrosive environments”.

Performance: There was taken decision to conduct pilot testing of CPSLM in the section of “Soyuz” main gas pipeline “Uralsk” LOS “Uralsk” MGPM of “Intergas Central Asia” JSC in 2018, according to the results the applicability conclusion of this electro-chemical protection technology on the main and distribution GTN gas pipelines will be made.

IV. Technology discussion of “KazTransGas Onimderi” LLC claim – “Synthetic hydrocarbons (HC) process from natural gas” (technology presented in the pavilion - DIRECTOR OF PAVILION, Russia).

Performance: Implementation of gas chemistry processes, production of synthetic hydrocarbons from natural or associated gases, is theoretically realizable, in practice, due to the large capital costs and the high cost of the final product, introduction of this technology is not realizable at the current level of technology development. Preliminary estimated capital costs for gasoline installation are up to 800 million US dollars. Based on the results of preliminary calculations and analysis of this technology effectiveness, it was determined “capital-intensive technology” and that their use in “KazTransGas” JSC group of companies is currently unadvisable.

V. Consideration “Dispatching of computer-assisted data acquisition system and gas metering of “KazTransGas” JSC” project.

Performance: Execution of complex works for dispatching of computer-assisted data acquisition system and gas metering was submitted to the State Expertise and at the control stage.

VI. Report “Assessment of mining and commercialization prospectivity of coalbed methane in Sherubainurinsky coal-bearing area of Karaganda basin”.

Performance: “Baker Hughes Kazakhstan” LLC together with “KING” JSC made a comprehensive analysis to determine CBM extraction expediency within the Sherubainurinsky section of Karaganda basin.

According to preliminary assessment, geological reserves of coalbed methane of the site are 6.98 billion m³ (according to the base variant P50). The geological and hydrodynamic model of the site was constructed, well production rates were determined, design decisions and effective mining technology was justified, the optimal variant of the field development was selected.

Together with KarSTU experts, recommendations are given: taking into account the specific geological conditions of methane distribution within the pilot program to continue further study of the site with testing the kickoff technology of horizontal sections in wells with GDP in 2018-2019 in order to minimize uncertainties arising in CBM development and determining of the optimal technology of gas production in the Sherubainurinsky section, and Karaganda basin as a whole.

VII. “Complex analysis and reinterpretation of existing geological and geophysical materials for the contractual and bordering areas of “Amangeldy Gas” LLC” report.

Performance: Conducting of feasibility study for prospective sections, which are going to be considered by “KazTransGas” JSC in 2018.

VIII. “Conducting of simultaneous closing of wells production operating well stock fund of the Amangeldy group of deposits with establishment of pressure-recovery curves” work results.

Performance: Simultaneous complex closure of wells for PRC is planned for 2018.

IX. Implementation of unified geo information system for solving management, operational (production) tasks of production divisions of “KazTransGas” LLC group of companies

Performance: In December, 2017, “Intergas Central Asia” JSC purchased the software “Analytical geo information system “Inspire analytical GIS”. At the moment, there is happening launching of experimental performance of this software.

X. Consideration of the “Kazakhstan center for energy saving and energy efficiency improvement” LLC offer on conducting of energy audit and introduction of energy management system at “KazTransGas” SA JSC facilities in accordance with ISO 50 001.

Performance: The proposal of “Kazakhstan center for energy saving and energy efficiency improvement” LLC on carrying out energy audit and introduction of energy management system at “KazTransGas” SA JSC in accordance with ISO 50 001 was taken into account.

There was offered to take part in tender procedures.

As part of the work of STC the issues of KTG's production activities are considered:

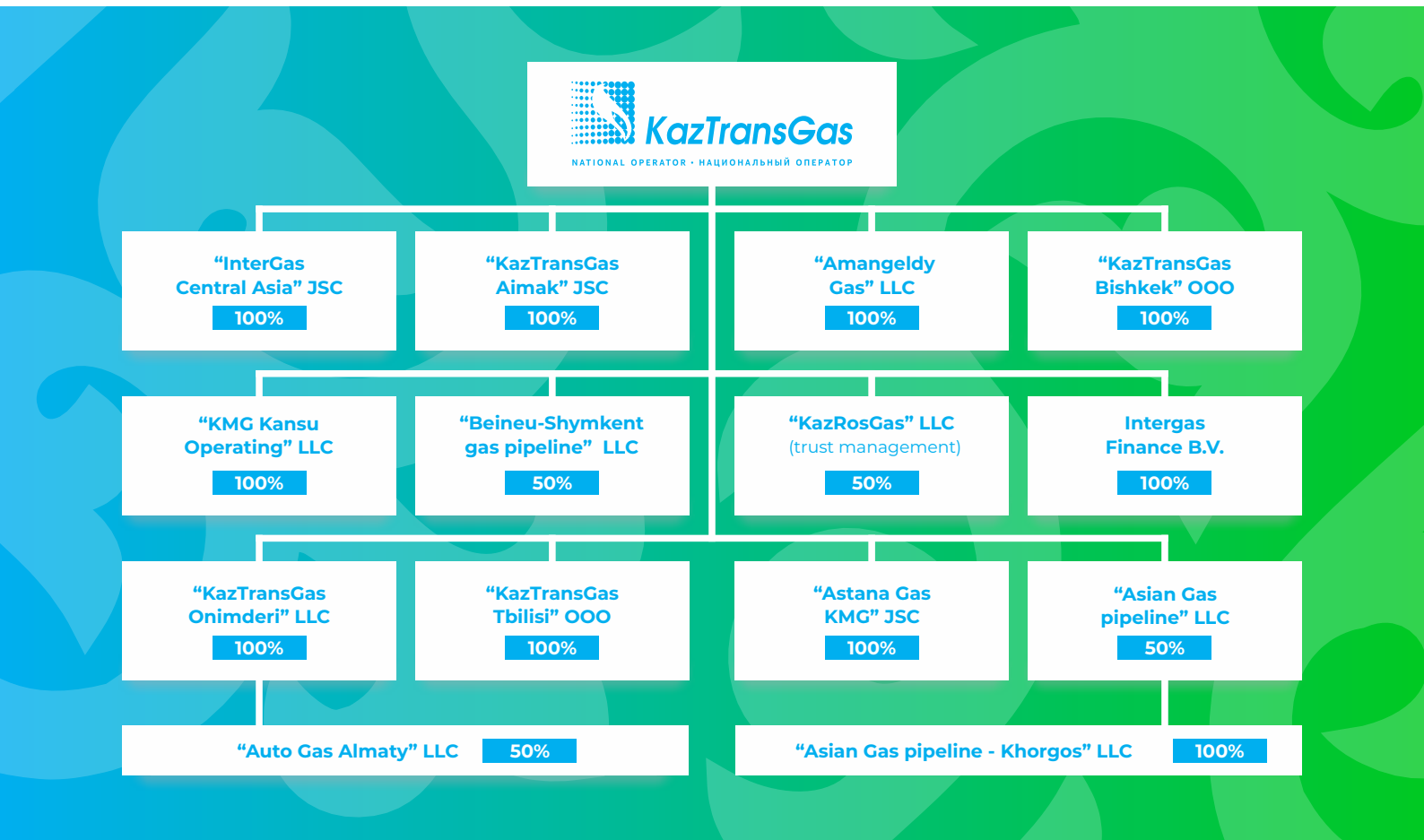
1. Consideration of the issue of increasing throughput of the Kazakhstan-China main gas pipeline (“A” and “B”) to 40 billion m³/year.

2. Consideration of expansion of the Bozoy compressor station to increase throughput of the Beineu-Bozoy-Shymkent main gas pipeline.

Dealings where “KazTransGas” JSC has its interest

In accordance with the Dealmaking Rules between organizations which are members of the group of “Samruk-Kazyna” JSC, in respect of which the Law of the Republic of Kazakhstan establishes special conditions, during the reporting period the Board accepted 26 decisions on deals of “KazTransGas” JSC, in which there is an interest.

ASSETS STRUCTURE



MAIN DEVELOPMENT DIRECTIONS

Company plans for 2018

- Liquidation of “KasTransGas Bishkek” OOO, after investments return
- Sale of 100% share ownership in “KazTransGas” JSC in the authorized capital of “KazTransGas-Tbilisi” LLC
- DED development of the 1 stage of “Sary-Arka” MGP construction and obtaining of state expert review assessment
- Continuation of exploration works within the framework of the R&D project of “Coalbed methane mining of Karaganda coal basin”, decision making by shareholder on further implementation of the project



RISKS MANAGEMENT

KTG activities and its subsidiaries and affiliates are subject to risk. KTG recognizes the importance of risks management as one of the key components of the corporate governance arrangement aimed at timely identification and measures taking to reduce the level of risks which may affect the cost and reputation of the Group.

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

Risks management program of “KazTransGas” JSC group of companies in 2017

As part of implementation of the vertical risk management process by “KazMunayGas” NC JSC, Decision of the Board of Directors of KTG No. 8 p.1 as of April 18, 2017, approved by the Policy on enterprise risks management system with amendments (hereinafter the Policy). Also, the KTG Board Protocol No. 08 as of March 2, 2017, approved the Rules for organization of management process of production and non-production risks of KTG and the Rules for identification and assessment of risks, selection of risk management methods for KTG (hereinafter the Rules).

Policy and Rules for KTG risk management and its SA are formed to achieve strategic goals of “KazTransGas” JSC, to formalize, to fix liability for risks.

During the period from July 15 to August 15, 2017, there were trained risk-managers and risk-coordinators of KTG SA in order to implement a vertical process of risk management, identification and new methodology for risk assessment.

In KTG and its SA the structural division and/or the risk management officer is subordinate to the first Manager of the Company.

During the period from February 8 to March 2, 2017, key employees of all structural divisions of KTG and its SA were interviewed on the issue of risk management:

- 1) identified risks which could affect the achievement of objectives of the KTG group of companies;
- 2) potential extent of damage is determined in case of risk realization.

Below there are key risks of KTG and its SA with the most significant impact on the Company's activities.

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

For the KTG group of companies 21 key risks were identified and displayed on the KTG Key Risk Map.

Risk of non-fulfillment of obligations in the part of gas supply under the gas purchase and sale agreement (export)

Risks occurrence is due to several factors:

1. Consumption increase in the domestic market;
2. Refusal to receive gas from the buyer;
3. Non-fulfillment of obligations on the part of the supplier.

Legislative requirements change for business carrying on.

The following factors influence the implementation of this risk:

Limitations in implementation of entrepreneurial (industrial and commercial) activities of KTGO. Transfer of more than 50% share of participation in business of a third-party organization. Absence of intercompany cooperation. Uncertainties related to dependence on the key partner – transfer to market relations with the KTG group of companies and “Samruk-Kazyna” NWF JSC (Fund), participation in tenders for vehicles rent and special equipment by the KTG group of companies and the Fund on common base. Strengthening of competition within the framework of the Fund Holding with participation in tenders of the group and the Fund is availability of the Fund's large service vehicle companies.

Uncertainties related to dependence on a key partner (“Gazprom” PJSC).

Realization of this risk is caused by the following factors:

Refusal of “Gazprom” PJSC to purchase Central Asian gas. Reduction of “Gazprom” PJSC's gas exports to Europe, including Ukraine. Economic situation in Russia, volume reduction of domestic gas consumption in Russia. Non-fulfillment of contractual obligations by “Gazprom” PJSC or gas suppliers. Availability of resource base for gas supplying countries to fulfill contractual obligations. State of the world economy. Climatic conditions. Political and economic situation in supplying/consuming countries of gas. Policy of “Gazprom” PJSC with gas consumers. Negative position of “Gazprom” PJSC in matters of tariffs raising for gas transit. Increase in volumes of Russian gas production.

Tenge floating against the US dollar

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

The risk of non-return of “KazTransGas-Tbilisi” LLC financial assistance and investments of “KazTransGas Bishkek” LLC

This risk is due to the unstable political situation in Georgia (“KazTransGas Tbilisi” LLC) and Kyrgyz Republic (“KazTransGas Bishkek” LLC). Shortage of imported gas within the framework of exchange operations to the South of Kazakhstan (gas

shortage during the OZP period).

Risk occurrence is caused by obligation default on the part of the supplier.

In order to systemize and unify risks management and internal control systems KTG has developed the risk register of the KTG group and key risks are mapped on the Risks Map:

Risks Map of “KazTransGas” JSC and its SA for 2017

		Risk level				
		MINOR LOSS	ЕЛЕУЛІ LOSS	SEVERE LOSS	CRITICAL LOSS	SHOCK LOSS
Probability	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; 232a
	LOW					3.9.6
	VERY LOW		1.2.7			

Risk code	Risk name	Loss amount
■ 3.3.1d	Risk of non-fulfillment of obligations in the part of gas supply within the framework of the gas purchase and sale agreement (export)	35 439
■ 3.5.9	Tenge floating against US Dollar	78 303
■ 3.8.3	Legislative change of requirements for business activity carrying on	
■ 3.3.1	Uncertainties related to dependence on a key partner (“Gazprom” PJSC).	
■ 2.3.2b	Risk of default/cross default for loan obligations	68 333
■ 3.3.1a	Risk of non-return of “KazTransGas-Tbilisi” LLC financial assistance	57 900
■ 3.3.1b	Shortage of imported gas in the framework of exchange operations to the South of Kazakhstan (gas deficit in the period of 03П)	39 100
■ 2.3.2a	Risk of default/cross default for warranty obligations	25 856
■ 1.2.3	Technogenic or industrial accident during gas transportation	
■ 4.1.2a	Rescheduling of the Beineu-Bozoy-Shymkent MGP (“Bozoy” CS “Karaozek” CS)	
■ 4.1.2b	Rescheduling of line C construction of “Kazakhstan-China” MGP	
■ 4.1.2d	Risk of non-implementation of the “Kansu deposit” project	11 000
■ 2.3.1	Risk of bank default for deposits	16 667
■ 3.9.6	Risk of non-confirmation of wholesale price limits	137 470
■ 4.1.2	Rescheduling of the investment project “DMUP Karaganda coal basin”	
■ 3.3.1f	Investments loss of “KazTransGas Bishkek” OOO	11 900
■ 3.3.1e	Risk of strategic partner absence for the “Kansu deposit” project	11 000

Risk code	Risk name	Loss amount
2.3.2c	Risk of cash deficiency	13 889
2.2.3	Risk of non-fulfillment of CAPEX investment plan	9 960
4.2.3	Risk of non-confirmation of geological data at "Amangeldy" deposit	5 851
1.2.7	Risk of excess pollution	

Improvement of risk-culture of "KazTransGas" JSC

1. Work of the Risk Committee was strengthened, all significant events which could adversely affect the achievement of KTG and its SA objectives are collectively discussed at the meetings of the Risk Committees of KTG and SA.

2. Work for risks insurance protection management of the KTG group of companies was carried out. Training course concerning risk insurance was carried out.

3. Monitoring of recommendations implementation provided on the basis of made audit of production, operational and financial processes was carried out, was 100% performed.

4. The event "Implementation of vertical risk management process", included into EC of the Senior Vice President for gas transportation and storage of "KazMunayGas" NC JSC was 100% performed.

5. Reporting package of financial risks reporting was made – carrying out of quarterly monitoring on:

- compliance with country risk limits;
- limits on liabilities for counterparty banks;
- currency risks;
- interest rate gap in the context of currencies

INTEGRATED MANAGEMENT SYSTEM

KTG Group of Companies defined the strategic priorities, directed to provision of strategic benefits for the Republic of Kazakhstan. Company management formulated its mission, vision and values and brought them to the attention of its personnel, consumers and other interested parties.

The scope 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.

Coordination of the activities of subdivisions in KTG Group of Companies, in terms of implementing and improving integrated management systems, is carried out by the Department of Corporate Development, Consolidation and coordination and IMS.

Information on implemented measures, certification authorities and years of issue of certificates in the sphere of IMS in "KazTransGas" JSC Group of Companies in 2017

«KazTransGas» JSC

AFNOR Certification 2016

1. Internal IMS audits were carried in «KazTransGas» JSC and its affiliations and jointly controlled entities.
2. Witness audit of IMS was passed, subject to meeting the requirements of international standards ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007.
3. External assessment (validation) of European Excellence model was carried «EFQM - 2013» in the level «Recognized for excellence» 3 stars.

«Intergas Central Asia» JSC

AFNOR Certification 2016

TOO «Asia CertLine» 2016

1. Central administration of the Company carried the internal audit of IMS in structural subdivisions of Central administration and its industrial branches.
2. Witness audit of integrated management system was passed, subject to meeting the requirements of international standards ICO 9001-2009 (ISO 9001:2008), CT PK ICO 14001-2006 (ISO 14001:2004), CT PK OHSAS 18001-2008 (OHSAS 18001:2007), CT PK ISO 50001:2012.
3. External assessment (assessment) of the level «Recognized for excellence» 4 stars was carried, in accordance with European Excellence model EFQM.

«Amangeldy Gas» LLC

AFNOR Certification 2016

1. Witness audit of IMS was passed, subject to meeting the requirements of international standards ISO 9001:2015, ISO 14001:2015, OHSAS18001:2007.
2. External assessment (validation) of European Excellence model was carried «EFQM - 2013» in the level «Recognized for excellence» 3 stars.

«KazTransGas Aimak» JSC

AFNOR Certification 2016

«InterCert» сертификаттау орталығы» ЖШС 2014

1. Work on adoption of Excellence model EFQM was carried, level «Recognized for excellence», 5 stars.
2. Consultative and methodological work was carried on preparation of materials for participation in international competition “Quality Innovation 2018”.
3. Witness audit was passed, subject to meeting the requirements of international standards ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007, as well as witness audit of IMS subject to meeting the requirements of state standard СТ РК ИСО 50001:2012.

«KazTransGas Onimderi» LLC

AFNOR Certification 2016

1. Witness audit of IMS was passed, subject to meeting the requirements of international standards ISO 9001:2015, ISO 14001:2015, OHSAS18001:2007.
2. External assessment (validation) of European Excellence model was carried «EFQM - 2013» in the level «Recognized for excellence» 3 stars.

«Asian gas pipeline» LLC

TUV NORD Certification. 2016, 2017

1. Recertification audit of IMS was passed, subject to meeting the requirements of international standards ISO 9001:2015, ISO 14001:2015, OHSAS18001:2007.
2. Works on documenting and adoption of energy management system were carried.
3. Witness audit of energy management system was passed, subject to meeting the requirements of international standard ISO 50001:2011.

«Beineu-Shymkent Gas pipeline» LLC

TÜV Thüringen e.V. 2016

Witness audit of IMS was passed, subject to meeting the requirements of international standards ISO 9001:2015, ISO 14001:2015, OHSAS18001:2007.

«KazRosGas» LLC

«Bureau Veritas Kazakhstan» LLC 2016

Witness audit of QMS was passed, subject to meeting the requirements of international standards ISO 9001:2008.

KTG Group of Companies aims 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, promoting the growth of business opportunities of partners and suppliers. At the same time, KTG Group of Companies aims to ensure safe working conditions for personnel, prevent negative impact on the environment.

Main principles of activity in improving the quality, preventing negative impact on the environment, ensuring the reduction of professional risks in KTG Group of Companies are the following:

- Continuous improvement of performance through the analysis of business processes, continuous monitoring, adoption of process automation, where possible, and their gradual reengineering. Continuous study and use of best practices in field of management technologies and the involvement of affiliations into 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 relations with business partners in the field of adoption of innovative technologies and mastering new types of service;
- Creating a favorable socio-psychological climate, increasing staff motivation;
- Following the priority of life and health of people in relation to productive activities;
- Prevention of problems, their causes by improving the internal control system 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

with 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 workers in these areas;
- Ensuring continuous improvement of the integrated management system, achieving its effectiveness.

Table of presence of certificates in the sphere of IMS/QMS in “KazTransGas” JSC Group of companies

COMPANY NAME	STANDARDS			
	“Quality management systems. Requirements” 9001	“Environmental management systems. Requirements and directions for use” 14001	“Occupational health and safety management system” 18001	“Energy management systems. Requirements and directions for use” 50001
“KazTransGas” JSC	+	+	+	-
“InterGas Central Asia” JSC	+	+	+	+
“KazTransGas Aimak” JSC	+	+	+	+
“Amangeldy gas” LLC	+	+	+	-
“KazTransGas products” JSC	+	+	+	-
“Asian Gas pipeline” LLC	+	+	+	+
“Gas pipeline Beineu-Shymkent” LLC	+	+	+	-
“KazRosGas” LLC	+	-	-	-

With the aim of continued development, KTG Group of Companies conducts processes aimed at obtaining significant results in the field of quality assurance and increasing the competitiveness of services provided, satisfying the needs of consumers, as a result of using highly effective management methods and principles of quality systems, health protection, environmental protection and ensuring labor safety.

ENVIRONMENT MANAGEMENT, HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION

Use of energy resources and energy saving

With the enactment of the Law “On Energy Saving and Improving Energy Efficiency” and the adoption of by-laws to it, a legislative framework was established in Kazakhstan with appropriate requirements for energy saving and energy efficiency. One of the issues of “KazTransGas” JSC is to monitor the compliance of SA activities with regard to compliance with the requirements of the legislation in terms of energy efficiency.

KTG pursues a policy of energy saving and increase of energy efficiency. The directions of development of activities in the field of energy efficiency of KTG Group of Companies for the transportation, distribution and underground storage of gas are defined in the Energy saving and Energy efficiency program of the KTG Group of Companies.

To implement the corporate goals in affiliations and related organization, KTG developed the plans of actions for energy saving and increase of energy efficiency for 2016-2019. “Intergas Central Asia” JSC, “Asian gas pipeline” LLC, “KazTransGas Aimak” JSC adopted the systems of energy management in accordance with international standard ISO 50001.

The following will be achieved at successful implementation of Program: decrease of gas consumption for own needs and process losses (APL) by more than 90,5 million m³ and electric energy consumption by more than 17,8 million kW*h, which allows achieving the saving up to 125 thousand tons of equivalent fuel (hereinafter – t.e.f.).

According to the program, main objectives of energy saving policy are the following:

- maximal implementation of energy saving potential and improvement of energy saving management;
- increase of energy efficiency of “KazTransGas” JSC Group of companies basing upon the application of innovative technologies and equipment;
- ensuring the decrease of man-induced impact on the environment.

According to the «Program of energy efficiency increase in «Samruk-Kazyna» NWF JSC group of companies organized the presentation of report on consumption of fuel and energy resources in KTG Group of Companies to “KazMunayGas” NC JSC.

Plans on energy saving for KTG Group of Companies were developed and main measures were directed for inclusion to Road map of energy efficiency of “KazMunayGas” NC JSC, in particular:

- Load optimization for electrically driven compressor stations. Equipping of EGPA (electrically driven gas pumping unit) with variable frequency drive (one VFD for three EGPA);
- Load optimization for compressor stations with gas turbine drive. Adoption of system for purification of axial flow machine of gas turbine plant in machines of MTC type – 10И in «Uralskaya» CS;
- Application of mobile compressor station during the repair of gas pipeline (elimination of gas emissions to the atmosphere);
- Installation (instead of old-fashioned) of cathodic protection stations of new breed;
- Installation of condenser units in substations of compressor stations (quality improvement of electric energy and increase of load coefficient).

In the framework of execution of measures on resources and energy saving of SA, monitoring of fuel and energy resources (FER) and execution of plan of actions on energy saving and increase of energy efficiency is carried.

Consumption of fuel and energy resources (FER) in KTG Group of Companies in 2017 amounted: 1 303 910,9 tons of equivalent



fuel (t.e.f) compared to 2016 (928745,1 t.e.f.), increased by 28,72%. Increase of energy resources consumption in 2017 is connected with the growth of gas transport extent along the "Kazakhstan-China" MGP, "Beineu-Bozoy-Shymkent" MGP.

Energy efficiency indicator for gas transportation for 2017 amounted 0,01061 t.e.f /thousand tenge, compared to 2016 (0,0061 t.e.f /thousand tenge), increased by 57,5%. Increase of energy efficiency level is connected with the growth of gas transport extent along the "Kazakhstan-China" MGP, "Beineu-Bozoy-Shymkent" MGP.

Energy saving potential in KTG Group of Companies in 2016-2019 amounts 67588,12 t.e.f. Saving of fuel and energy resources (FER) in KTG Group of Companies in 2017 amounted – 11114,209 t.e.f. (4986,9 thousand kWч, 7878,9 thousand cub m, 632,7 tons of FLM). At that, share of «Intergas Central Asia» JSC amounts 85 % of energy resources saving, i.e. in 2017 saving amounted 9550 t.e.f (7678 thousand m³, 4605 thousand kWh). Main energy saving measures are directed to decrease of natural gas and electric energy consumption.

In the frameworks of implementation of objectives in the sphere of energy saving and to ensure the rational use of electric energy and heating energy:

- in administrative buildings of SA, lighting with filament lamps is fully replaced with energy saving lamps;
- to support the normative values of power factor ($\cos \phi$) compensating gear is installed in electric networks "Intergas Central Asia" JSC, "Amangeldy Gas" LLC. Values of power factor meet the requirements of State standard ГОСТ 13109-97;
- geothermal heat pumps of "Waterkotte" type are adopted and successfully function in "Uralsk" MGPM - 3 pcs. and "Atyrau" MGPM – 6 pcs. "Intergas Central Asia" JSC;
- solar panels function effectively in main gas pipeline "Kazakhstan-China" (in 2017 – 464659 kW*h of electric energy were produced);
- combined systems of hot water supply function effectively (in summer time – water boilers ("ARISTON", Termex model H150-V) with nominal power 1,0 to 6,0 kW.

Complex automatic system of energy resources accounting (ACKYЭ) operates safely in Makat line operation section, "Atyrau" MGPM, "Intergas Central Asia" JSC, implemented in accordance with the Program "Energy saving – 2020" (approved by Decree of Government of the Republic of Kazakhstan dd. 29.08.2013 with No.904).

Geothermal heat pumps of "Waterkotte" type for heating and hot water supply operate successfully in "Intergas Central Asia" JSC ("Uralsk" MGPM - 3 pcs. and "Atyrau" MGPM – 6 pcs.). Production of geothermal (heating) energy by heat pumps in 2017 amounted – 678,54 Gcal.

To execute the Road Map for Business Transformation, "KazTransGas" JSC Group of companies in order to optimize the business processes performed in the provision of gas transportation and storage services, as well as cost optimization, all subsidiaries of "KazTransGas" JSC transferred vehicles and special equipment to the balance of "KazTransGas Onimderi" LLC (hereinafter – VandSE).

"KazTransGas – Products" LLC is carrying the work on reconstruction of VandSE for use of gas fuel. In 2017 72 pcs. of VandSE were reconstructed, in 2018 reconstruction of 67 pcs. of VandSE for use of gas fuel is planned.

In the framework of implementation of development program for gas engine fuel in the Republic of Kazakhstan, AGFCS network sold 17,5 million m³ of compressed natural gas (CNG), which is equivalent for replaced diesel fuel (DF) in amount of 15,0 thousand tons.

According to requirements of Ecological legislation of the Republic of Kazakhstan, and to meet the best available technologies, objects of "Beineu-Bozoy-Shymkent" MGP apply the gas pumping units (GPU) with capacity of 13,4 mW with burning system with low level of emissions.

"Bozoy" CS commissioned the gas pumping units (GPU) of new generation, which doesn't have analogues in CIS; it can receive natural gas from two main pipelines of different pressure.

To use reliable and safe energy sources instead of power lines, main pipeline "Beineu-Bozoy-Shymkent" MGP, as well as rotational camp of CS apply energy saving technologies: modular integrated electric power plants (MIEPP), of brand «Capstone C-30» based upon gas turbine electrical units. MIEPP produces electric energy by direct transformation of heat energy to electric one.

"Kazakhstan-China" main gas pipeline applies energy saving technologies: steam turbine generators with closed cycle of type CCVT - Closed cycle vapor turbogenerator, steam turbine generators (STG) and PV modules, operating autonomously (electric networks are not connected with energy system of Kazakhstan).

In the framework of examination of application opportunity for technologies, listed in official web-site of Ministry of power energy of the Republic of Kazakhstan: <http://energo.gov.kz/index.php?id=7> (hereinafter the List) affiliations of "KazTransGas" JSC examined the following technologies (among the total list of foreign technologies (105 pcs.), and national ones (28 pcs.) as potentially perspective:

1. "KazTransGas Aimak" JSC - «Turbo-expanders», position No.27 in the List;
 2. "KazTransGas – Products" LLC - «Preparation of synthetic (UV) products of natural or associated gas», position No.39 in the List.
- Implementation of gas-to-chemicals processes, preparation of synthetic (UV) products of natural or associated gas, are

theoretically possible, but practically, due to large-scale capital expenses and high cost of final product, adoption of this technology is not profitable in the current level of technologies development. Preliminary estimated capital expenses for gasoline recovery unit amounts up to USD 800 million. According to the results of executed preliminary calculations and efficiency analysis of application of «Preparation of synthetic (UV) products of natural or associated gas technology (capital-intensive technology) in "KazTransGas – Products" LLC is not profitable today.

"KazTransGas Aimak" JSC is ready to collaborate with stakeholders-companies, which have the license for electric energy sale. The offer is sent to SPC «Ergonomica» LLC about the collaboration in the issues of adoption of expanding-generating unit (Turbo-expanders) in the objects of gas-distribution networks.

Considering the forecasted increase of cost of energy resources (natural gas, electric energy), as well as growth of their consumption, general issue of all the SA of "KazTransGas" JSC is in decrease of expenses for FER, due to implementation of economically substantial measures on energy saving and increase of energy efficiency.

Development and improvement of normative and regulatory documentation in the sphere of application of renewable power sources (RPS) shall create the supporting mechanism, which allows to give the warranties to investors about the recoverability of investments, and, as a consequence, involvement of potential investors for implementation and development of projects in the sphere of RPS application in the territory of the Republic of Kazakhstan.

Environmental protection, industrial safety and labor protection

Work for implementation of the industrial, fire safety, labor and environmental protection at production facilities of the KTG group of companies is carried out in accordance with the current legislative, regulatory and technical acts of the Republic of Kazakhstan, the "Uniform Occupational Safety Management System of "KazMunayGas" OJSC and UOSMS of the affiliated and dependent organizations of KTG.

An expanded meeting was held on safety and environmental protection in the KTG group of companies in Astana city. The reports of heads of departments / services of labor protection, industrial safety and environmental protection of subsidiaries and associates of the company on the work carried out in the field of occupational safety, industrial, fire safety and environmental protection were heard. The reports were adopted positively, with the protocol decision indicating further tasks to improve the above work.

The following mobile applications are developed and implemented for the KTG group of companies:

- «8 Gold rules»;
- «ABC of Security»;
- «10 steps to recovery».

These applications are developed in the state / Russian languages and are available for installation of iOS and Android devices, also fully integrated into the activities of the Company.

The KTG group of companies implements the Code of Workers in the field of security and labor protection "Golden Rules".

With the participation of KTG, "KazTransGas-Onimderi" LLP has implemented the "Regulations for Safe Operation of Land Vehicles" approved by "KazMunayGas" NC JSC.

In order to improve relations and cooperation in the field of labor safety and labor protection on the Kazakh-Chinese gas pipelines – "Asian Gas Pipeline" LLP (hereinafter - AGP) and "Beineu-Bozoy-Shymkent Gas Pipeline" LLP (hereinafter - BSP), in September 2017 in China has held a bilateral meeting with Chinese partners to review and discuss the issues of the Cooperation Agreement with the possible use of TAPLine by occupational safety, safety engineering and environment at joint venture enterprises of AGP and BSP. The protocol of the meeting made a decision on the possible application of the agreement on Cooperation in the field of safety and labor protection in the AGP and BSP, after making adjustments taking into account the comments and proposals of KTG, AGP and BSP, in accordance with the normative documents in force on the territory of the Republic of Kazakhstan.

Worker safety and health

100% transparency of environmental and safety protection reporting was achieved, which is confirmed by the conclusions of "KazMunayGas" NC JSC based on the results of field visits (selective) inspections of production facilities of the KTG group of companies. Ensuring transparent reporting on the KTG group of companies is carried out by timely making 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 for multi-level control, training and testing of knowledge, attestation of facilities for working conditions, creation of sanitary and hygienic working conditions, provision of overalls, insurance against accidents, medical and pre-survey survey were organized and carried out.

On January 01, 2017 in "KazTransGas Onimderi" LLP, the motorist of the cementing unit-driver Gebel K.A. (1964 year of birth), when performing work, fell from the footboard of the cabin, car Ural. As a result of the fall, an open fracture of the lower part of the left leg was obtained;

May 25, 2017, a welder for the operation and repair of underground gas pipelines Alpysbaeva L.A. performed labor duties according to the Graph of bypasses of gas pipeline routes. At the end of the detour, be near the bus stop. At this point, an accident occurred with two cars. As a result, one of the vehicles flew to the roadside. As a result of the accident Alpysbaeva L.A. got a concussion and a fracture of the ischium on the right;

August 31, 2017 8 km from the Begymbet settlement, Shalkar district of the Aktobe region, the MI-8 helicopter MI-8 on-board MI-831 of Aktyubinsk department of the "Aviacompany Euro-Asia Air" OJSC, was forced to land. As a result of a hard landing, the employee of "Taraz" "Intergas Central Asia" OJSC Guzarov N.A. was injured - a numerous fracture of the zygomatic arch on the right with displacement.

For all of these accidents, in accordance with Chapter 20 (article 186-189) of the Labor Code of the Republic of Kazakhstan, investigations were carried out with the formulation of Acts and the development of measures to prevent accidents. All events are completed.

Currently, all the injured workers have undergone treatment.

Fire safety

During the reporting period, fire safety measures were carried out at the objects 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.

Industrial Safety

For the reported period, the following activities were carried out for the KTG group of companies: diagnostics of pipelines, replacement of defective pipeline sections, replacement of cranes, replacement of pipeline insulation, training and testing of personnel, declaring of production facilities, production control.

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

Environmental protection

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 road map for the transition to new standards for greenhouse gases emissions that are close to European ones, as part of the implementation of the Conception on the transition of the Republic of Kazakhstan to a "green economy".

According to the recommendation of the Ministry of Energy of the Republic of Kazakhstan, KazEnergy, KTG, a number of legislative and by-laws of the Republic of Kazakhstan concerning the environmental protection sphere were considered, 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 greenhouse gases Inventory for Subjects of Quota Distribution";

"State Cadastre of Production and Consumption Waste".



SOCIAL RESPONSIBILITY

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 well-being of the population of the regions, and the improvement of the well-being of its employees.

Care for each employee, the priority of solving social issues - this is the basis of the policy of KTG.

Personnel policy

In the light of today's changes, there is a need to timely introduce innovations that ensure the organization's compliance with environmental conditions. At the same time, the personnel policy is being 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 policies, wages), which must be predictable and stable.

Personnel policy is designed to combine existing approaches, the 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 to develop a corporate value system of KTG in the field of personnel management.

The following basic principles are laid down in the basis of the Personnel Policy being developed:

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 policy elements in the relationship
Reasonableness	use of modern scientific developments in the field of personnel management, which could provide the maximum economic and social effect
Efficiency	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. KTG 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, a package of social services.

KTG offers its employees a package of social services, including medical insurance, compensation and 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 2017, the following types of material assistance were paid to workers of the KTG group of companies:

- material assistance for the release for recovery - 2 788 522 thousand tenge;
- at the time of the birth of the child - 125,732 thousand tenge;
- in connection with the death of family members of the employee - 55,078 thousand tenge;

- a lump sum payment in connection with the death of an employee - 7399 thousand tenge;
- Social benefits for pregnancy and childbirth, adopted and adopted newborns - 54 471 thousand tenge;
- health trips to resort areas - 130,675 thousand tenge;
- other payments (at the time of marriage, retirement, jubilee dates, etc.) - 87 742 thousand tenge.

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, the Spartakiada was held among employees of the group of companies of "KazMunaiGas" NC JSC. Employees of the "KazTransGas" JSC participated in the Spartakiada.

For the conduct of children's events and the organization of rest for children of workers aged 7 to 14 years in 2017, KZT 36,615 thousand were disbursed.

The total amount of social payments for the KTG group of companies (including social payments by the employer) in 2017 amounted to 4,170,488 thousand tenge.

Working conditions quality, life of workers and their families

To ensure the quality of working conditions, the lives of workers 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, also provides for the maintenance of his family (parents of the employee, spouse and children) under the same conditions. In addition, the range of services provided by the insurance company provides for the patronage of physiological pregnancy.

So, in 2017, due to the funds of the KTG group of companies, medical insurance of employees for a total of KZT 884 254 million was implemented, including insurance of employees of the "KazTransGas" JSC 50 million tenge.

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 (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 additional leave is provided in the amount of 6 to 12 days.

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

KTG pays great 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 there 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 in connection with the death of loved ones and, 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.

Training, training and professional development of employees of the group of companies

Taking into account the fact that personnel movement should be maximally projected, 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 regularly fill the vacancies that have formed, as well as to form a group of young professionals with the ability to perform operational management that meet the requirements for a particular position, the Rules for the Training of Young Professionals have been developed and approved in some of the subsidiaries and associates of the company of the KTG. This internal document describes the procedure for determining the need for training of young professionals, recruitment of candidates, 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. In addition, in the group of "KazTransGas" JSC specialists are trained, according to the calendar plans for training and training of specialists, including foreign training. 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 on the basis of the "Corporate University" Samruk-Kazyna" Private Institution, Astana, and on the basis of other training centers of the Republic of Kazakhstan, countries of near and far abroad.

In KTG, the following programs aimed at the development of personnel, such as "Training and further training", as well as a program "Young Specialist".

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

"Training and professional development" 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. Annually in the budget of the KTG, funds are provided for training and staff development. In KTG, in accordance with the Rules for the technical operation of main gas pipelines, the technical facilities of the main gas pipelines should be operated by specially trained personnel. Personnel serving high-risk facilities must be trained (retrained) in courses specially created by enterprises under programs agreed with local inspectorates.

In 2017, the KTG group of companies trained 13,904 employees for a total of KZT 687,846 million, employees undergo training and improve their qualification level on the basis of training organizations and training centers of the Republic of Kazakhstan. Professional training and development of working personnel is one of the long-term and priority directions of the personnel policy of KTG, as 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.

Also in the KTG, the children of the Company's employees are trained in higher educational institutions of Kazakhstan and abroad by means of subsidiaries and associates of the company and KTG, which after the completion of training will return to work in the gas transportation industry.

In addition, in 2017, within the framework of the top management training program for the KTG group of companies, 15 executives are trained on the topic: "A unified development program for the top management of the subsidiaries and associates of the company of "KazMunaiGaz" NC JSC in the "Institute of Engineering and Information Technologies KBTU" LLP.

Sponsorship and charity

In 2017 in connection with the entry into force of the Policy of Sponsorship Assistance in "KazMunaiGas" NC JSC sponsorship was suspended.

CORPORATE GOVERNANCE

One of the strategic directions of the KTG is to increase the effectiveness of corporate governance.

KTG proceeds from the premise that effective corporate governance is a fundamental condition for a steady growth of the Company's capitalization, reducing the likelihood of corporate conflicts, increasing the Company's attractiveness to investors, and also positively influencing the image.

The goal of corporate governance is to ensure the effective operation of KTG, increase the value of its share capital, ensure the protection of investors' rights and realize the interests of the Sole Shareholder.

The society, understanding the importance of corporate governance, pays great attention to the implementation of corporate governance principles. In 2015, the new version of the Corporate Governance Code was approved. The Code of Corporate Governance of the Company was developed in accordance with the code of corporate governance of "NWF" Samruk-Kazyna" JSC, approved by the Government of the Republic of Kazakhstan dated April 15, 2015 No. 239.

The Company strives to establish a balance of interests of the Sole Shareholder, the Company's management and stakeholders, while the corporate management system of KTG, as a holding company, includes the interaction of several levels of the corporate ladder: the general meeting of shareholders, the board of directors, the executive body of KTG and the analogue controls of subsidiaries and associates of the company.

As part of the preparatory measures to create an effective corporate governance system, the organizational structure of the holding has been amended: KTG, as a national operator in the gas and gas supply sector, is a corporate center designed to limit the ability to dilute the ownership structure, minimize the costs of disclosure, solutions.

A reasonable distribution of functions between the general meeting of shareholders, the board of directors and executive bodies, both KTG and subsidiaries and associates of the company, is enshrined in the charters and does not interfere with the management of subsidiaries and associates of the company to exercise the current leadership.

In order to realize the goals and objectives of KTG's corporate governance in relation to subsidiaries and associates of the company, in the framework of business transformation, they redesign their organizational structures, which implies redistribution and regulation of authorities and responsibilities of officials within the framework of corporate governance, business process optimization effective interaction.

In CTG, unified standards of corporate governance are introduced, in addition to the principles typical for any joint-stock company (observance of shareholders' rights and interested parties, information openness, the existence of an effective board

of directors, a clear delineation of powers and responsibilities between the company's management bodies, , the existence of an effective system of internal control), in KTG can be identified the principle of compliance with unified standards of corporate governance, ensuring the implementation of strategic goals for KTG and its subsidiaries and associates of the company.

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The interests of KTG in the activities of subsidiaries and dependent companies are realized in the development and implementation of a corporate governance policy (or program) that includes several areas, such as:

- planning and monitoring of the financial performance of subsidiaries and affiliates, including determining the direction and control of the distribution of profits of subsidiaries and dependent companies;
- control of financial and economic activities of subsidiaries and dependent companies, including the completion of transactions with assets of subsidiaries and dependent companies;
- continuous improvement of efficiency of internal processes of subsidiaries and dependent companies in the sphere of business management;
- Ensuring investment attractiveness and growth in the capitalization of subsidiaries and dependent companies;
- formation and implementation of the personnel policy of subsidiaries and dependent companies.

The only shareholder is a corporate governance model that includes participants: an "active" shareholder, the Board of Directors, the Management Board and a centralized internal audit service.

Interaction with shareholder

The only 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 diagnosis of the level of corporate governance.

Interaction with subsidiaries and dependent organizations

Interaction with subsidiaries and dependent organizations is carried out within the framework of approved corporate procedures through the relevant authorities of KTG and subsidiaries and associates of the company.

The main goals of KTG's interaction with its subsidiaries and affiliates are:

- ensuring stable financial development, profitability, increasing the investment attractiveness of KTG and subsidiaries and associates of the company;
 - ensuring the protection of rights and legally protected interests of shareholders and shareholders of subsidiaries and dependent companies;
 - harmonization of relations between shareholders, officials and employees of KTG and subsidiaries and associates of the company, 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 subsidiaries and associates of the company.

Mechanisms of corporate governance in the group of companies KTG

- building a vertical management system for subsidiaries and dependent organizations;
- introduction of unified corporate standards in subsidiaries and associates of the company;
- nomination of their representatives to the management bodies of subsidiaries and dependent companies;
- 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 subsidiaries and associates of the company on the agenda issues;
- organization of control over the activities of subsidiaries and dependent companies through representatives in the management bodies, conducting audits of financial and economic activities, electing the auditor.

Corporate governance bodies

The bodies of corporate management of KTG are:

- 1) The sole shareholder is the supreme body;
- 2) The Board of Directors is a management body that exercises general management of the Company's activities 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 that manages the day-to-day operations of the Company in order to fulfill the objectives and implement the Company's strategy.

As of December 31, 2017, the Board of the KTG consisted of seven people.

Structure of the Board of Directors

As of January 1, 2017, the Board of Directors consisted of five members, which were:

FULL NAME OF THE DIRECTOR	POSITION in KTG
Sharipbaev Kairat Kamataevich	Chairman of the Board of Directors
Mukushov Ardak Zhumagulovich	Member of the Board of Directors
Suleimanov Rustam Eduardovich	Member of the Board of Directors
Nurgaziyev Ayrat Aittanovich	Independent Director
Zhamanbalin Serik Zhardemovich	Independent Director

By decision of the Sole Shareholder (Minutes of the Board of Directors of KMG No. 1/2017 of January 26, 2017), the Board of Directors of KTG was re-elected for 3 years from February 20, 2017.

The composition of the Board of Directors as of December 31, 2017:

FULL NAME OF THE DIRECTOR	POSITION in KTG
Sharipbaev Kairat Kamataevich	Chairman of the Board of Directors
Mukushov Ardak Zhumagulovich	Member of the Board of Directors
Suleimanov Rustam Eduardovich	Member of the Board of Directors
Nurgaziyev Ayrat Aittanovich	Independent Director
Zhamanbalin Serik Zhardemovich	Independent Director

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

- correspond to the independence criteria imposed 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 entire 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 that do not allow for relations or circumstances that could influence the recognition of a member of the Board of Directors by an independent.

Attendance by Board of Directors members of Board of Directors meetings

FULL NAME	POSITION	NUMBER OF VISITS	PERCENTAGE OF VISITS	NOTES
Sharipbaev K.K.	Chairman of the Board of Directors	25 из 25	100 %	Elected as the Chairman of the Board of Directors of KTG by the decision EA №1/2017 from January 26, 2017
Suleimanov R.E.	Member of the Board of Directors	25 из 25	100 %	Elected as the member of the Board of Directors of the KTG by decision №1/2017 from January 26, 2017
Mukushov A.J.	Member of the Board of Directors	25 из 25	100 %	Elected as the member of the Board of Directors of the KTG by decision EA №1/2017 from January 26, 2017
Nurgaziev A.A.	Independent Director	25 из 25	100 %	Elected as the Independent Director of the KTG by decision EA №1/2017 from January 26, 2017
Jamanbalin S.J.	Independent Director	25 из 25	100 %	Elected as the Independent Director of the KTG by decision EA №1/2017 from January 26, 2017

During the reporting period, the Board of Directors of the Company held 25 meetings (25 full-time). The total number of issues considered was 136.

Responsibility of the Board of Directors

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

Responsibility of the Board of Directors

In turn, the Board is responsible for developing a plan of measures to implement the decisions of the Board of Directors and on current issues of the Company's financial, business and production activities. The Management Board reports to the Board of Directors for the status of the work done to achieve the Company's business plan.

Thus, the understanding by all participants in 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 conflict of interest, and, consequently, creates a unified vision of the principles and structure of corporate governance.

Structure of the Management Board

As of December 31, 2017, the Management Board of the KTG consisted of senior managers, including the General Director, his deputies and advisers.

Members of the Board

FULL NAME	POSITION	DURATION
Сулейманов Рустам Эдуардович	General Director (Chairman of the Board)	from 11.12.2015
Kurmanaliev Kanat Rahimberdievich	First Deputy of the General Director	from 13.03.2017
Kuserov Dair Adilbekovich	Deputy General Director on Economics and Finances	from 10.01.2014
Temirhanov Erkanat Uakbaevich	Deputy General Director on transformation and development	from 06.04.2015
Nurlanov NurzhanNurlanovich	Deputy General Director on technical policy	from 31.03.2016
Abdygulova Nailya Umirzakovna	Head of Apparatus	from 12.06.2015
Abdrasulov Nurlan Kadyrovich	General Director's Council	from 23.04.2015

Decisions of the Board of Directors of the KTG, adopted in 2017, regarding the composition of the KTG's Board

By the decision of the Board of Directors of "KazTransGas" JSC dated March 27, 2017 (Minutes No. 7, item 5) on March 10, 2017, the authority of the member of the Management Board of "KazTransGas" JSC, Serdyev Ibulla Dzhumagulovich, First Deputy General Director of "KazTransGas" JSC, was terminated before the Board. March 13, 2017 was elected (appointed) First Deputy General Director of "KazTransGas" JSC Kurmanaliev Kanat Rakhimbergenovich for the term of office established for the Board of "KazTransGas" JSC in general.

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

For 12 months of 2017 the Management Board of the Company: meetings were held - 43; 220 issues were considered, including: issues related to the activities of the Company - 136; issues related to the activities of subsidiaries and affiliates - 84.

Out of the total number of issues submitted for consideration by the Company's Management Board:

Preliminarily approved issues relating to the exclusive competence of the Sole Shareholder and the Board of Directors of the Company are 135; Issues related to the competence of the Board - 85.

Information on transactions in respect of which special conditions are established:

Total number of transactions considered by the Management Board of the Company, in which there is an interest - 47. of them: Preliminary approved and submitted to the Board of Directors of the Company - 21. Approved within the Rules of conclusion of transactions between organizations belonging to the group of "Samruk-Kazyna" JSC, in respect of which the Law "On Joint-Stock Companies" establishes special conditions - 26.

During the reporting period, the key task of the Management Board, as an executive body - the management of current activities, was carried out in accordance with the principles enshrined in the Charter, the Corporate Governance Code and the Regulations on the Board of JC "KazTransGas" JSC.

SUSTAINABLE DEVELOPMENT

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

Sustainability of the company is the ability 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 (conservation and reproduction of resources used).

Since 2013, the KTG publishes the Sustainability Report (report), prepared in accordance with the GRI Guidelines. The Report addresses the most significant aspects of sustainable development activities: stakeholder engagement, environmental protection and labor protection and production safety, human capital development, investments in the development of the regions where the KTG group is present.

Significant attention in the Report is given to expanding the dialogue with stakeholders - these issues are of fundamental importance for increasing the transparency of the KTG group of companies and matching its activities to the best world practices.

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

A significant part of the Report is devoted to the actions of the KTG group of companies in the field 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 KTG to maintain the status of one of the best employers of Kazakhstan.

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

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

INDICATOR	TOTAL, bln tenge	SHARE of LC, bln tenge	AMOUNT of LC, %
Total volume of purchases for 2017	596,55	542,86	91%
Goods	344,12	340,68	99%
Works	120,15	72,09	60%
Services	132,28	128,31	97%

The total volume of purchases for the group of companies KTG for the year of 2017 amounted to KZT 596.55 billion, including purchased goods worth KZT 344.12 billion, works - KZT 120.15 billion and services - KZT 132.28 billion.

The share of local content in the total volume of purchases was 542.86 billion tenge, or 91%, of which 99% for purchased goods, 60% for work performed and 97% for services rendered.

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

- The conclusion of long-term contracts for the purchase of TRU from domestic producers of "Samruk-Kazyna" JSC (hereinafter referred to as the Holding);
- Prioritizing the acquisition of goods, works, services, from organizations belonging to the Holding, producers of the purchased goods, which are in the Register of Producers of the Holding;
- Stimulation of domestic producers in the implementation of procurement procedures by Subsurface users by applying conditional discounts to domestic producers;
- Conducting procurement procedures among commodity producers of the purchased goods, which are in the Register of Producers of the Holding;
- In forming the procurement plan (s), Subsoil users monitor the domestic goods market using the Holding's information databases, including the Register of Producers of the Holding, as well as relevant information databases of the authorized government agency that contain information on domestic producers and their products.
- In the case of procurement of works by Subsoil users, the tender documentation establishes a requirement to provide the potential supplier with the obligation to purchase domestic goods necessary for the performance of work, if such goods are produced in the territory of the Republic of Kazakhstan.

CORPORATE SECURITY

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

Within the framework of the Security Program of "KazMunaiGas" NC JSC for 2013-2017, a corporate security service was created by the decision of the Board of Directors of "KazTransGas" JSC dated 17.02.2016 (protocol No. 8 item 1). Earlier, a similar service was established in "Asian Gas Pipeline" LLP.

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

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

Kazakhstani and foreign experience, as well as legislation in the field of ensuring the safety of fuel and energy complex facilities for possible proposal development and timely updating of internal documents are studied on an ongoing basis.

In order to prevent corruption manifestations in the KTG, the Anti-Corruption Policy, the Economic Security Policy and others have been developed and approved.

In 2017, there were no cases of corruption among KTG workers, dismissal and punishment of workers for corruption offenses were not made. For these reasons, labor contracts with employees have not been terminated, no criminal cases have been initiated. Similar information on the subsidiaries and associates of the company line was not received and was not registered.

Functions for the formation and maintenance of an up-to-date electronic database of security incidents are assigned to the Gas Dispatch and Transportation Department. In 2017 there were no security incidents recorded.

For the purpose of antiterrorist protection of the Company's production and administrative facilities that are vulnerable to terrorism and in accordance with the Government Decree of 12.11.2013. No. 1217 "On the approval of the standard passport for the antiterrorist protection of objects vulnerable to terrorism" in 2014, the Passports for the antiterrorist protection of facilities have been developed in which there are plans (schemes) for interaction with law enforcement and local executive bodies, instructions on the actions of employees in the event of a threat of terrorist acts.

The KTG has developed and approved information security policies. To determine the degree of compliance with the protection of KTG in the part of information security, a survey was conducted of the security system of "INFORMZASHITA" CJSC, as part of the development of the concept of the information security system for the group of companies of "KazMunaiGas" NC JSC. In the course of the survey, the IT infrastructure tests of the group of companies of "KazTransGas" JSC were successfully passed for external and internal penetration, as well as a social and technical test for the personnel. As a result 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 2017 on information security is 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 activities, KazTransGas and subsidiaries and associates of the company, in order to ensure integrated security, carry out measures for the stage-by-stage security system reform in the organizations of the KazTransGaz group of companies, is guided by the legislation of the Republic of Kazakhstan, other normative legal and regulatory acts, the Charters of organizations, security.

In May 2017, "Intergas Central Asia" JSC successfully repaid Eurobonds for the remaining amount of \$128 million from the issued \$600 million in 2007.

In September 2017, "KazTransGas" JSC successfully floated Eurobonds with a maturity of 10 years denominated in US dollars, with a total nominal value of \$750 million with listing on the Irish Stock Exchange (ISE) and Kazakhstan Stock Exchange (KASE).

Credit ratings and debt portfolio management

In 2017, the Company's credit ratings were affirmed at: BBB- from Fitch Ratings; BB- from Standard & Poor's; Baa3 from Moody's Investors Services.

"KazTransGas" JSC attracts borrowed funds, guided by the policy of debt management approved by "NWF" Samruk-Kazyna" JSC, according to which the maximum permissible level of debt obligations is determined.

MOODY'S	FitchRatings	S&P Global Ratings
Baa3	BBB-	BB-
August 01, 2017	August 29, 2017	November 28, 2017

The deal was the long-awaited debut of "KazTransGas" JSC on the Kazakhstan and international debt capital market. Investors showed great interest in this placement, the global bid book exceeded the offer several times. At the peak of the placement, the volume of applications reached the level of \$ 3.4 billion. Also, the placement aroused great interest among investors in Kazakhstan who, within the framework of announced trades on KASE, applied for the purchase of Eurobonds for the amount of more than \$ 100 million. In the course of the transaction, the yield benchmark (YTM) was reduced from the initially announced level of 4.7% to a range of 4.5-4.6%, and then to a historically low level of 4.4%, which became the final placement rate. As a comparison, in March of this year, PJSC Gazprom placed 10-year Eurobonds denominated in US dollars with a total nominal value of \$ 750 million at a rate of 4.95%, which is 55 bps (basis points) higher than the debut placement rate "KazTransGas" JSC. In general, it can be noted that "KazTransGas" JSC placed its Eurobonds almost in the curve of the market yield of its parent company "KazMunayGas" NC JSC, which speaks of an ideally matched time for placement of debt obligations with favorable conditions on the international capital market.

Also in October 2017, "Intergas Central Asia" JSC successfully converted long-term foreign exchange liabilities to the European Bank for Reconstruction and Development for a total of \$ 220 million, which reduced the currency risks of "Intergas Central Asia" JSC.

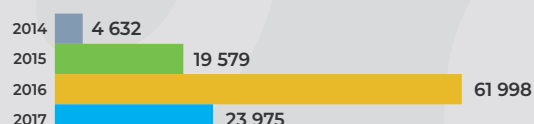
Consolidated loan portfolio of KazTransGas JSC as of December 31, 2017

BORROWER	CREDITOR	AMOUNT UNDER THE CONTRACT / PROSPECTUS	CURRENCY	CURRENT DEBT
«KazTransGas» JSC	"KazMunayGas" NC JSC	14 881 896 750	KZT	148 197 896 750
«KazTransGas» JSC	"KazMunayGas" NC JSC	25 321 800 000	KZT	25 321 800 000
«KazTransGas» JSC	"KazMunayGas" NC JSC	400 000 000	USD	50 000 000
«KazTransGas» JSC	Euroobligations	750 000 000	USD	750 000 000
«Intergas Central Asia" JSC	European Bank of Reconstruction and Development	65 371 307 735	KZT	65 371 307 735
«KazTransGas Aimak» JSC	European Bank of Reconstruction and Development	20 000 000 000	KZT	15 724 505 045
«KazTransGas Aimak» JSC	Eurasian Bank of Development	7 700 000 000	KZT	7 700 000 000
«KazTransGas Aimak» JSC	Kazakhstan Development Bank	62 576 075 951	KZT	43 290 868 960
«KazTransGas Aimak» JSC	Investors on KASE	12 409 636 000	KZT	8 629 170 000
«KazTransGas Aimak» JSC	International investors	30 500 000 000	KZT	5 000 000 000
«Astana Gas» LLP	"KazMunayGas" NC JSC	542 633 000	KZT	542 633 000

The total amount of the consolidated debt of JSC "KazTransGas" as of December 31, 2017 was \$ 1.386 billion.

COVENANTS	2015	2016	2017
Debt /EBITDA <=4.0	3,0	2,2	2,8
Free capacity, mln \$	767	676	585

The balance of cash and cash equivalents at the end of the period



«KazTransGas» JSC

Consolidated financial statement

CONSOLIDATED STATEMENT OF FINANCIAL SITUATION

December 31, 2017

<i>in thousands of tenge</i>	2017	2016
Assets		
Long-term assets		
Fixed assets	873.582.370	763.666.710
Exploration and appraisal assets	12.051.402	12.811.916
Intangible assets	4.747.183	3.018.539
Investments in joint ventures	5.185.395	1.065.363
Advances paid for long-term assets	2.928.599	26.248.798
Related party loans	135.190.963	-
Long-term financial assets	2.078.177	-
VAT recoverable	48.321.910	27.688.098
Deferred tax assets	3.527.073	869.416
Other long-term assets	265.735	623.852
Bank deposits	5.404.411	5.349.163
	1.093.283.218	841.341.855
Short-term assets		
Inventory and material reserves	17.539.716	26.153.969
Trade and other receivables	160.610.202	140.154.435
Related party loans	72.366.122	70.594.716
Advances issued	4.843.166	29.975.432
Prepayment of taxes, in addition to income tax	7,846.304	5.934.679
Prepayment of Corporate Income Tax	16.731.818	7.428.521
Bank deposits	148.116	32.060.777
Cash and cash equivalents	23.974.879	61.988.460
	304.060.323	374.290.989
Total assets	1.397.343.541	1.215.632.844

«KazTransGas» JSC

Consolidated financial statement

CONSOLIDATED STATEMENT OF FINANCIAL SITUATION

December 31, 2017

<i>in thousands of tenge</i>	2017	2016
Capital and liabilities		
Capital		
Authorized capital	192.623.055	179.655.175
Additional paid-up capital	243.148.277	241.030.926
Provision for translation of the reporting currency	546.149	546.149
Retained earnings	210.707.808	144.522.528
	647.025.289	565.784.778
Long term duties		
Debt securities issued	252.649.513	12.766.399
Interest-bearing loans	113.304.947	76.235.899
Loans from related parties	9.335.226	143.124.023
Employee Benefits Liabilities	1.110.423	633.295
Reserves	51.674.958	48.114.205
Other long-term financial liabilities	1.570.175	585.578
Other long-term liabilities	8.327.738	5.810.754
Deferred income tax liabilities	41.101.462	35.816.314
	479.074.442	323.096.467
Current responsibility		
Debt securities issued	11.871.439	43.346.717
Interest-bearing loans	19.321.945	64.516.504
Loans from related parties	43.386.615	25.183.205
Reserves	24.629.398	26.284.445
Trade and other payables Taxes payable, in addition to income tax	149.109.414	156.534.323
Advances received	1.642.303	1.558.959
Other short-term financial liabilities Other current liabilities	5.635.991	3.038.527
Current responsibility	2.634.602	1.608.678
Debt securities issued	13.012.103	4.680.241
	271.243.810	326.751.599
Total capital and liabilities	1.397.343.541	1.215.632.844
Book value of common shares, in thousands of tenge	1.827	1.607

«KazTransGas» JSC

Consolidated financial statement

CONSOLIDATED STATEMENT ON COMPREHENSIVE INCOME

December 31, 2017

<i>in thousands of tenge</i>	2017	2016
Revenues from the sale of products and services	581.756.771	501.958.495
Cost of sales and services provided	(434.793.202)	348.454.622
Gross profit	146.963.569	153.504.873
General and administrative expenses	(21.454.044)	34.085.402
Other operating income	5.064.173	7.319.895
Other operating expenses	(8.460.431)	3.568.376
Operating profit	122.113.267	123.170.990
Financial income	14.530.067	13.247.026
Financial expenses	(36.924.516)	27.210.248
Share in loss of joint ventures	(633.390)	3.456.173
Positive exchange rate difference, net	373.836	2.175.101
Profit before taxation	99.459.264	107.926.696
Income tax expense	(24.678.324)	26.531.702
Net profit for the year after taxation	74.780.940	81.394.994
Other comprehensive (loss) / income	257.920	110.650
Cumulative (loss) / income not subject to reclassification to profit and loss in subsequent periods		
Actuarial (loss) / gain on defined benefit plans	(322.400)	138.312
Effect of income tax benefits (expenses)	64.480	27.662
Net comprehensive (loss) / income not classifiable in profit or loss in subsequent periods	(257.920)	110.650
Total comprehensive income for the year, net of income tax	74.523.020	81.505.644
Earnings per share		
Basic and diluted earnings per share for the year attributable to the parent company	0.21	0.23

«KazTransGas» JSC

Consolidated financial statement

CONSOLIDATED STATEMENT OF CASH FLOWS

December 31, 2017

<i>in thousands of tenge</i>	2017	2016
Cash flows from operating activities:		
Receipts from customers	585.448.815	445.909.817
Return of advances to suppliers	32.579.501	-
Cash receipts from management fees	18.647.418	19.169.382
Interest received on bank deposits	4.554.396	5.193.946
Tax refund from the budget	4.112.650	1.614.493
Other supply	113.692	290.635
Payments to suppliers	(430.060.274)	(266.630.769)
Income tax paid	(28.897.423)	(10.275.992)
Other taxes and payments to the budget	(30.076.458)	(21.985.003)
Interest paid	(14.335.880)	(14.983.378)
Employee benefits	(32.927.904)	(30.875.144)
Other payments	(2.936.899)	(2.824.767)
Net cash flows from operating activities	106.221.634	124.603.220
Cash flows from investing activities:		
Return of bank deposits	131.093.454	137.031.415
Proceeds from sale of fixed and intangible assets	25.810	80.764
Loans repaid by related parties	222	2.231.151
Placement of bank deposits	(113.830.937)	(159.302.559)
Acquisition of fixed assets, intangible assets and exploration and appraisal assets	(107.235.401)	(97.998.194)
Loans issued to related parties	(136.183.151)	(11.440.207)
Net cash flows used in investing activities	(226.130.003)	(129.397.630)
Cash flows from financing activities:		
Acquisition of interest-bearing loans and issued debt securities	574.287.516	254.838.976
Loans receivable from related parties	25.321.800	-
Repayment of interest-bearing loans and issued debt securities	378.450.204	206.136.311
Repayment of loans from related parties	142.309.300	-
Commission for organization of a loan	1.218.014	1.086.218
Net cash flows from financing activities	77.631.798	47.616.447
Net exchange differences on cash and cash equivalents	4.262.990	412.159
Net change in cash and cash equivalents	38.013.581	42.409.878
Cash and cash equivalents, at the beginning of the year	61.988.460	19.578.582
Cash and cash equivalents, at the end of the year	23.974.879	61.988.460

«KazTransGas» JSC

Consolidated financial statement

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL

December 31, 2017

<i>in thousands of tenge</i>	Authorized capital	Additional paid-in capital	Foreign currency conversion reserve	Undistributed profits	Total
On January 1, 2016	179.655.175	237.758.875	546.149	69.003.602	486.963.84
Net profit for the year	-	-	-	81.394.994	81.394.994
Other comprehensive income for the year	-	-	-	110.650	110.650
Total comprehensive income for the year	-	-	-	81.505.644	81.505.644
The contribution by the Shareholder	-	3.272.051	-	-	3.272.05
Other transactions with the Shareholder	-	-	-	5.956.718	5.956.718
On 31 of December, 2016	179.655.175	241.030.926	546.149	144.552.528	565.784.72
Net profit for the year	-	-	-	74.780.940	74.780.940
Other comprehensive loss for the year	-	-	-	257.920	257.920
Total comprehensive income for the year	-	-	-	74.523.020	74.523.020
Issue of shares	12.967.880	12.967.880	-	-	-
Contribution from the Shareholder	-	15.085.231	-	-	15.085.231
Other transactions with the Shareholder	-	-	-	8.367.740	8.367.740
On December 31, 2017	192.623.055	243.148.277	546.149	210.707,808	647.025.28

Report on compliance with the principles of the Corporate Governance Code of KazTransGas JSC in 2017

Principles of the Code Governance Corporate.

In 2015, the new version of the Corporate Governance Code was approved. The corporate management code of "KazTransGas" JSC was developed in accordance with the code of corporate management of "FNB" Samruk-Kazyna" JSC, approved by the Government of the Republic of Kazakhstan from 15.04.2015 N° 239.

The main principles of the Code are:

- "KazMunayGas" NC JSC as the Sole Shareholder;
- Cooperation between "KazTransGas" JSC and its subsidiaries and jointly controlled entities. The role of "KazTransGas" JSC as a shareholder / participant;
- Sustainable development;
- Rights of the Sole Shareholder and fair treatment of the Sole Shareholder;
- Effectiveness of the Board of Directors and the executive body;
- Risk management, internal control and audit;
- Transparency.

1. "KazMunayGas" NC JSC as the Sole Shareholder.

The sole shareholder of "KazTransGas" JSC (hereinafter referred to as the Company) is "KazMunayGas" NC JSC.

The sole shareholder participates in the management of the Company solely through the exercise of the powers of the Sole Shareholder of the Company provided for by the legislation of the Republic of Kazakhstan, the Company's Charter, and representation in the Board of Directors of the Company.

The procedure for exercising the rights of the Sole Shareholder is determined by the Rules for the exercise of the rights of a shareholder (participant) by "KazMunayGas" NC JSC, approved by the decision of the Board of "KazMunayGas" NC JSC of 06.06.2014 (Minutes No. 60).

The functions of the Sole Shareholder of the Company are clearly defined by the Charter of the Company and its functions are performed by the following bodies of "KazMunayGas" NC JSC:

- Board of Directors of "KazMunayGas" NC JSC on issues stipulated by subparagraph 50) of paragraph 98 of Article 13 of the Charter of JSC NC "KazMunayGas";
- The Management Board of "KazMunayGas" NC JSC on matters related to the Company's activities that are within the exclusive competence of the Sole Shareholder of the Company, with the exception of issues referred by the Charter of "KazMunayGas" NC JSC to the competence of the Board of Directors of "KazMunayGas" NC JSC.

2. Interaction between "KazTransGas" JSC and its subsidiaries and jointly controlled entities. The role of "KazTransGas" JSC as a shareholder / participant.

The corporate governance system in the Company and its subsidiaries and jointly controlled entities ensures proper management and control over their activities and is aimed at the growth of long-term value and sustainable development.

The Company participates in the management of subsidiaries and jointly controlled entities through the exercise of the rights of the shareholder/participant, as well as through representation in the Boards of Directors and Supervisory Boards.

The powers of the shareholder / participant are defined in the Charters of the subsidiaries and jointly controlled entities and fully comply with the requirements and standards of corporate governance.

3. Sustainable development.

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

Sustainability of the company is the ability 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 (conservation and reproduction of resources used).

Starting in 2013, the KTG publishes the Sustainability Report (Report), prepared in accordance with the GRI Guidelines. The Report addresses the most significant aspects of sustainability: stakeholder engagement, environmental protection and labor protection and production safety, development of human capital, investment in the development of the regions of the Group's presence.

Significant attention is paid to broadening the dialogue with stakeholders in these reports. These issues are of fundamental importance for increasing the transparency of the Group of Companies and its conformity to the best world practices.

An important place in the document is occupied by information about the impact of the Group's production processes on the environmental situation. Reducing the negative impact of production on the environment is one of the strategic priorities of the Group of Companies.

A significant part of the Report is devoted to the actions of the Group of Companies in the field of ensuring labor safety and preserving the health of their employees.

The Report provides information on social support for employees, which reflects the desire of the Group of Companies to maintain the status of one of the best employers of Kazakhstan.

The report touches upon the relationship of the Group of Companies with local communities: it reflects the principles of social partnership, the main approaches to the activities of the Company in relation to the development of the areas of presence, social programs and projects implemented.

4. Rights of the Sole Shareholder and fair treatment of the Sole Shareholder.

The Company ensures the implementation of the rights of the Sole Shareholder and a fair treatment of it.

The rights, duties and competence of the Sole Shareholder of the Company are determined by the legislation of the Republic of Kazakhstan and are fixed in the Charter of the Company.

The sole shareholder participates in the management of the Company in the manner established by the legislation of the Republic of Kazakhstan, through the exercise of the rights of the Sole Shareholder, and representation in the Board of Directors of the Company.

The Company informs the Sole Shareholder about its activities through:

- an annual report of the Company;
- Internet resource of the Company;
- at the request of the Sole Shareholder, in accordance with the procedure established by the legislation of the Republic of Kazakhstan and the Company's Charter;
- internet resource of the depository of financial statements in accordance with the requirements of the legislation of the Republic of Kazakhstan;
- other methods, in accordance with the internal documents of the Company.

The list of information disclosed to the Sole Shareholder is provided in Article 79 of the Law of the Republic of Kazakhstan "On Joint Stock Companies".

The information requested by the Sole Shareholder is provided by the Company on time and in full.

5. The effectiveness of the Board of Directors and the executive body.

The activities of the Board of Directors of the Company are regulated by the Charter of the Company and the Regulations on the Board of Directors. The Board of Directors exercises general management of the Company's activities, except for resolving issues within the exclusive competence of the Sole Shareholder and the Executive Body.

In 2017, the Board of Directors of the Company held 25 meetings, 136 issues were considered.

The activity of the Board of Directors of the Company is based on the following principles: maximum compliance with the interests of the Sole Shareholder and realization of the interests of the Sole Shareholder and the Company; protection of rights of the Sole Shareholder and responsibility for the Company's activities.

The Board of Directors consists of five directors, three of whom are representatives of the Sole Shareholder and two are independent directors. Criteria of independence are determined by the legislation of the Republic of Kazakhstan, as well as by the best world practices in the field of corporate governance.

In order to facilitate the effective performance of the functions of the Board of Directors of the Company, three committees function for consideration of the most important issues and preparation of recommendations under the Board of Directors:

Audit Committee;

Nomination and Remuneration Committee;

Strategy Committee.

In 2017, were held 11 meetings of the Audit Committee, at which 23 issues were considered, 14 meetings of the Nomination and Remuneration Committee, which examined 31 issues, 14 meetings of the Strategy Committee, which examined 69 issues.

The current activities of the Company are managed by a collegiate body in the form of a Management Board headed by the Chairman of the Management Board. The work of the Company's Management Board (hereinafter referred to as the Board) is aimed at maximum compliance with the interests of the Sole Shareholder, as well as the fulfillment of the Company's tasks and the implementation of its strategy.

In 2017, the Board held 43 meetings, 220 issues were considered. The activities of the Management Board are regulated by the Charter of the Company and the Regulations on the Management Board approved by the resolution of the Board of Directors of the Company in 2014 in a new edition.

The main principles of the activities of the Board are: honesty; honesty; Reasonableness; circumspection; regularity. The Risk Committee created under the Management Board, which was called upon to assist the KTG Management Board in making decisions on corporate risk management of the Group, considered at the meeting and approved for further consideration on the KTG Management Board the Register of non-productive risks of the KTG for 2018, the KTG Risk Map for 2018 and Risk appetite of the KTG for 2018.

6. Risk management, internal control and audit

Internal control procedures to be observed by the bodies and employees of the Company are a documented system of measures and actions to ensure effective internal control over the fulfillment of the Company's goals, objectives and plans, identify and perform unusual operations, and prevent, limit and prevent risks and possible illegal actions on the part of officials and employees of the Company.

7. Transparency

The Company ensures timely disclosure of reliable information on all material facts relating to its activities, including its financial position, results of operations, ownership structure and management of the Company and other information, in accordance with best practice of corporate governance and in accordance with the Regulation on Information Policy approved The Board of Directors of the Company in 2013. This information is published on the official website of the Company.



GLOSSARY

AGFCS – auto gas-filling compressor station;
AGDS – automated gas distribution station;
AGP – “Asian Gas Pipeline” LLC;
UMAS – utility metering automatic system;
TACA – temporary available cash assets;
BSP – “Beineu-Shymkent Pipeline” LLC;
GDP – gas-distributing plant;
“KazTransGas” JSC Group of Companies – “KazTransGas” JSC and its SA;
SA – subsidiaries and affiliates;
BCS – boosting compressor station;
UGSS – unified gas supply system;
UOSMS – Uniform occupational safety management system;
IMS – integrated management system;
CS – compressor station;
KMG/ KazMunayGas – “KazMunayGas” NC JSC;
PRC – People's Republic of China;
KTG/ Company/KazTransGas – “KazTransGas” JSC;
KTGA – “KazTransGas Aimak” JSC;
KTGO – “KazTransGas Onimderi” LLC;
CNG – compressed natural gas;
CRNM&PC – Committee on Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan;
MGP – main gas pipeline;
STC – scientific and technical council;
UGS – underground gas storage;
BTGCU – block-type gas control unit;
DED – design and estimate documentation;
GFMU – gas flow metering unit;
QMS – quality management system;
APL – auxiliaries and processing loss;
CW – consignment work.

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