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## Corporate governance

## Board of Directors

**Christopher Hopkinson****Kurmangazy Iskaziyeu****Igor Goncharov****Yerzhan Zhangaulov****Asiya Syrgabekova****Philip Dayer****Edward Walshe****Alastair Ferguson****Christopher Hopkinson**

Chairman of the Board of Directors, First Deputy Chairman of the Management Board of JSC NC "KazMunayGas"

Christopher Hopkinson is a graduate of St Andrews University, Scotland. He has worked in the oil and gas industry since 1980. Before he joined NC KMG, he had been CEO at International Petroleum; General Director at Imperial Energy Corporation Plc and Senior Vice President North Africa at BG Group. Earlier in his career he held various posts at Shell and TNK BP Holding. He is a member of the Society of Petroleum Engineers.

Christopher Hopkinson was elected to the Board of Directors of the Company on January 13, 2015 and Chairman of the Board on January 20, 2015. He is a member of the Nominations Committee.

**Kurmangazy Iskaziyeu**

Chief Executive Officer and Chairman of the Management Board

Kurmangazy Iskaziyeu has held the position of CEO of KMG EP and Chairman of the Management Board since 23 September, 2015. Concurrently he is First deputy General Director of JSC Embamunaygas (EMG), which performs the functions of CEO of EMG in his absence. From December 2013 to January 2015 he worked as Managing Director for geology - Senior Geologist of JSC NC KazMunayGas (NC KMG). Between February 2012 and December 2013 he was deputy Chairman of the Management Board of NC KMG for geology and future projects of NC KMG. Between 2004 and 2008 he was deputy director, then director of the department of geology and development at KMG EP. He started his career at the Balykshin department of exploratory drilling (BURB) of Embaneft production Union. He graduated from the oil faculty of the Kazakhstan Lenin Polytechnical Institute as a mining engineer-geologist and Tomsk Polytechnical University, gaining the qualification of Candidate of Geological-Mineralogical sciences. Kurmangazy Iskaziyeu was elected member of the Board of Directors of the Company on 26 November, 2015.

**Igor Goncharov**

Managing Director for Operating Production Assets of JSC NC KazMunayGas

Igor Goncharov graduated from Tomsk Polytechnical Institute in 1989 as a mining engineer-geophysicist, from Tomsk University of Control Systems in 2000 as an engineer-programmer and from Heriot-Watt University in 2002 with a Master of Science in Petroleum Engineering.

He was Senior Engineer at OJSC TomskNIPIneft VNK and held senior management positions, such as General Director of OOO Nord Imperial IEC Group, Head of Department of Subsoil Usage and Development of Oil and Gas Complex and also Acting State Counsel for the Tomsk region 2nd Class at the Administration of the Tomsk Region of the Russian Federation.

He has been working at NC KMG since September 2015. Igor Goncharov was elected to the Board of the Company on November 26, 2015.

### Yerzhan Zhangaurov

Managing Director (Legal) of JSC NC KazMunaiGas

Yerzhan Zhangaurov previously worked as the Head of Legal Services, Executive Director for Legal Matters, and adviser to the Vice President of JSC NC KazMunaiGas. He led the Legal Department of JSC NC Oil and Gas Transportation, headed the legal and personnel sections within the General Services Department of Kazakhstan's Presidential Administration, served as a consultant to the Legislation, Defence and Law Enforcement Department at the Front Office of the Prime Minister of the Republic of Kazakhstan, and as assistant to Kazakhstan's Justice Minister. He graduated from the Karaganda State Institute's Faculty of Law in 1992.

### Asiya Syrgabekova

Managing Director (Investment and Risk Management) of JSC NC KazMunaiGas

Asiya Syrgabekova has been working as the Managing Director for Investment and Risk Management of JSC NC KazMunaiGas since November 2013. She was elected to the Board of Directors of KMG EP on March 26, 2010. Since 2003, she has been First Deputy Chairman of Halyk Bank, and between 2004 and 2006 she was Chairman of the Management Board of Halyk Bank. Between 1998 and 2003, she worked in the national oil and gas company, where she held various executive positions in KazakhOil, KaztransGas, and KazMunaiGas. She graduated from Kazakhstan State University's Faculty of Economics in 1982. In 1987, she graduated with a PhD in Economics from the Moscow Financial Institute.

### Philip Dayer

Independent Non-Executive Director of KMG EP

Philip Dayer LLB FCA qualified as a chartered accountant with KPMG and then pursued a 25-year career in investment banking, specialising in consulting for LSE listed companies. He gained extensive experience working for companies such as Barclays de Zoete Wedd and Citicorp. He retired from ABN AMRO Hoare Govett in 2005. He advised Rosneft on its successful placement in 2006. Philip was Chairman of Dana Petroleum's Audit Committee until it was purchased by KNOC.

Currently, Philip is an Independent non-executive Director and Chairman of the Audit Committee of the Parkmead Group and an independent non-executive director of VTB Capital and Severstal. He served as non-executive director of Navigators Underwriting Agency, IP Plus Plc and Arden Partners Plc. Philip joined the KMG EP Board of Directors in May 2010. He is chairman of the Audit Committee and a member of the Remuneration, Nominations and Strategic Planning Committees, and a member of the Independent Committee under the Board of Directors of the Company.

### Edward Walshe

Independent Non-Executive Director of KMG EP

Edward Walshe has over 37 years of experience in the oil and gas sector. He has worked in various roles with British Petroleum and British Gas, where he ran overseas exploration and production operations in Nigeria, Abu Dhabi, Central Asia, and South-East Asia. He has a PhD in Solid State Chemistry from the University of Dublin. Edward was elected to the Board of Directors on August 28, 2006. He chairs the Strategic Planning and Nominations Committees, is a member of the Audit and Remuneration Committees and also a member of the Independent Committee under the Board of Directors of the Company.

### Alastair Ferguson

Independent Non-Executive Director of KMG EP

Alastair Ferguson has 36 years' experience in the oil and gas sector, mainly in BP. Since 2003 he has been living in Moscow. Between 2003 and 2011 he was employed at TNK-BP as the Executive Vice-President for Gas Business Development. Later he developed his own consultancy to advise clients on the Russian and Ukrainian energy sectors. He is a Senior Advisor to XENON Capital Partners. On January 1, 2015 he was appointed Chairman of the Board of Directors of Zoltav Resources. He has been a member of the KMG EP Board of Directors since October 2013. He chairs the Remuneration Committee, is a member of the Audit and Strategic Planning Committees, and is also a member of the Independent Committee under the Board of Directors of the Company.

## Corporate governance

# Corporate governance report

KMG EP is a pioneer among Kazakh companies in applying corporate governance practices in line with international standards. Investor confidence in the Company and its management hinges on the Company's levels of corporate governance.

KMG EP has developed and put in place an effective system to manage relations between the Board of Directors, the Management Board and Shareholders. This system ensures that the Company continuously seeks the best investment opportunities while at the same time considering the interests of all Shareholders.

Regulation of its relationship with the principal Shareholder is a vital task of the Company's corporate governance system. An agreement is in place between KMG EP and its parent company NC KazMunaiGas (NC KMG) that provides for business independence while at the same time requiring KMG EP to act in the best interests of all its Shareholders.

The Company's Board includes three independent directors. They play a major role in ensuring that the Company complies with its corporate governance commitments. The independent directors at KMG EP use their experience to balance the influence of the principal Shareholder and to closely supervise Management decisions.

The influence of the independent directors is bolstered by a legal provision requiring the presence of no less than half of all independent directors for meetings of the Board of Directors to be quorate; their membership and chairmanship on all Board committees; and exclusive voting of the independent directors on issues related to the authorisation of interested-party transactions. This allocation of functions provides a more balanced and effective decision-making process in line with best practices.

### Board of Directors of KMG

The governing body of the Company is the Board of Directors and the executive body is the Management Board. The Chief Executive Officer chairs the Management Board and also sits on the Board of Directors and is the sole representative of the executive body on the Board of Directors. Four BoD members, including Board Chairman Christopher Hopkinson, are representatives of JSC NC KazMunaiGas. The Board of Directors also includes three independent directors, making a total of eight directors.

### Corporate Governance Code Compliance

This section of the Annual Report has been prepared in compliance with the requirements of the FCA's (Financial Conduct Authority) Disclosure and Transparency Rules (DTR 7.2) (Corporate Governance Statements).

As an overseas company with GDRs admitted to the Official List of the United Kingdom Listing Authority, the Company is not obliged to comply with the UK Corporate Governance Code. However, in accordance with DTR 7.2 the Company is required to disclose in its Annual Report whether or not it complies with the Corporate Governance Code of the Republic of Kazakhstan and to disclose the actual principles of corporate governance which are applied in addition to the practices observed in accordance with applicable laws of the Republic of Kazakhstan.

Following the adoption of the UK Corporate Governance Code in May 2010 by the Financial Reporting Council, the UK independent corporate governance improvement organisation, the Company updated its Corporate Governance Code in 2012 to comply with the UK Corporate Governance Code, except for separate provisions. Specific information on where the Company's current governance practices differ from those in the UK Code is set out in the present section of the Annual Report.

The directors recognise the importance of corporate governance and support the development of corporate governance standards in the Company. The Company intends to develop and implement corporate governance practices which impose additional obligations on the Company beyond those required under the legislation of Kazakhstan.

### Kazakhstan Corporate Governance Code and the Company's Corporate Governance Code

Corporate governance best practice in Kazakhstan is set out in the Kazakhstan Corporate Governance Code. This Code is based on best international practice in the area of corporate governance and Recommendations on the Application of Corporate Governance by Kazakhstan Joint Stock Companies, approved by the Securities Market Expert Council of the National Bank of the Republic of Kazakhstan in September 2002. The Code was approved by the Financial Institutions' Association of Kazakhstan in March 2005, and by the Board of Issuers in February 2005.

The Company has adopted the Kazakhstan Corporate Governance Code as its own code. In 2012 the Company's Corporate Governance Code was amended in order to also comply with the UK Corporate Governance Code adopted in 2010 (except for some provisions, the information on which is provided in the present section of the Annual Report). The amendments adopted by the Company impose additional obligations on KMG EP in respect of corporate governance to those provided by the Kazakhstan Corporate Governance Code. The Company believes that these additional amendments will significantly improve the corporate governance practices applied by the Company. KMG EP also takes into consideration other provisions of the UK Corporate Governance Code and will seek to improve its corporate governance standards in future.

Additional provisions of the Company's Corporate Governance Code in addition to the requirements of the legislation of the Republic of Kazakhstan (the Kazakhstan Corporate Governance Code):

- Additional principles of corporate governance were introduced:
  - The principle of independent activity of the Company
  - The principle of responsibility
- Some of the corporate governance principles were supplemented by various provisions, such as:
  - Social policy principles
  - Provisions regarding relationships with the Shareholders of the Company
  - Division of responsibilities between the Chairman of the Board of Directors and the General Director
  - Provisions describing the role of the Chairman of the Board of Directors
  - Requirement of a minimum number of independent directors

- Additional provisions governing the criteria for establishing the independence of independent directors
- Provisions on access to information and professional development for directors of the Company
- Provisions governing the principles of directors' remuneration
- Provisions concerning the treatment of insider information
- Provisions for the responsibility of the Board of Directors to ensure effective risk management systems
- Provisions for the evaluation of the performance of the Chairman and members of the Board of Directors
- Provisions for the appointment/re-appointment of members of the Board of Directors.

A current version of the Company's Corporate Governance Code is available on the KMG EP website.

During 2015 the Company complied with the provisions of Kazakhstan Corporate Governance Code in all significant aspects.

During 2015 the Company complied with the provisions of its own Corporate Governance Code in all significant aspects, save for the following:

- According to the Corporate Governance Code of the Company, directors should meet without the participation of the Chairman of the Board of the Directors at least once a year to evaluate the performance of the Chairman of the Board of the Directors, and in other cases, if so required.

The Board decided not to conduct an assessment of the activity of the Board in 2015, as such an assessment is planned for 2016. The assessment of the activity of the Board with the assistance of an external consultant is planned for 2017.

- The Corporate Governance Code of the Company provides an obligation for the Board of Directors (together with the internal Audit Committee) to carry out an evaluation of the effectiveness of risk management systems at least once a year.

The Board of Directors does not have a separate risk committee, and the role described above has been allocated to the Audit Committee of the Board of Directors according to the provisions of the committee. More detailed information about the Audit Committee is provided on page 74 of this report.

From the end of 2014 to Q1 2015, an external consultant LLP Ernst & Young – Consulting Services conducted work on the project "Consulting services for the development of risk control systems". On conclusion of the project, the following were delivered: a Handbook on risk management; statements on Risk Management Committee; policy for risk management and methodologies for the evaluation of investment projects and the consolidation of risks at KMP EP level

## Differences between the Company's Code on corporate governance and the provisions of the UK Corporate Governance Code

Below are the main differences between the Corporate Governance Code of the Company and the provisions of the UK Corporate Governance Code:

- According to the provisions of the UK Corporate Governance Code the Chairman should, on appointment, meet the independence criteria set out in the same UK Corporate Governance Code.

The Corporate Governance Code of the Company does not contain provisions on the independence of the Chairman of the Board of Directors, and, according to the opinion of the directors, the Chairman of the Board of Directors would not meet the criteria of independence stated in the respective provisions of the UK Corporate Governance Code or the respective provisions of the Company's Corporate Governance Code. The Chairman of the Board of Directors represents the major Shareholder.

- According to the UK Corporate Governance Code at least half of the members of the Board of Directors, excluding the Chairman, should be independent non-executive directors.

In contrast, the Corporate Governance Code and the Charter of the Company provide that at least one third of the Board of Directors' members shall be independent non-executive directors. According to the Charter of the Company a number of key issues including related-party transactions, major transactions, approval of social expenses, and conclusion of subsoil use contracts, require the approval of majority of the independent non-executive directors. The Charter of the Company can be found on the Company's website.

- The UK Corporate Governance Code also states that the Board of Directors shall appoint one of the independent non-executive directors to be a senior independent non-executive director.

The Company's Corporate Governance Code does not provide for the appointment of a senior independent director by the Board of Directors, taking the current Shareholder structure into account. The requirement for a senior independent director will be re-evaluated periodically.

- The UK Corporate Governance Code states that non-executive directors should thoroughly scrutinise the performance of management in meeting agreed goals and objectives, and monitor their performance. They should satisfy themselves with the complete integrity of financial information provided and that financial controls and systems of risk management are robust and reliable.

The Company's Corporate Governance Code imposes such requirements on all members of the Board of Directors.

- The UK Corporate Governance Code provides that the non-executive directors are responsible for determining the appropriate levels of remuneration of the executive directors and have a prime role in appointing and, where necessary removing, executive directors, and in succession planning.

The Company's Corporate Governance Code places the responsibility for determining the appropriate levels of remuneration of the executive directors on the Remuneration Committee of the Board of Directors. It also provides for the involvement of the Nominations Committee of the Board of Directors in the appointment and removal of executive directors. In practice, the determination of the level of remuneration of the Board of Directors' members and their appointment is influenced by the majority Shareholder.

## Corporate governance

## Corporate governance report continued

**Directors' responsibility statement**

In accordance with the Company's Corporate Governance Code, the Board of Directors and the Management Board shall be responsible for the accurate presentation of the Company's Annual Report and Financial Statements.

According to the UKLA's Disclosure and Transparency Rules, each member of the Board of Directors (see page 68), on the basis of the available information, confirms that:

- The financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) give a true and fair account of the assets, liabilities, financial position, and the results of the financial and economic activities of the Company, and the consolidated balance sheets of the Company and its subsidiaries;
- The Management Board Report includes a fair review of the results of the Company's financial and economic activities, the financial position of the Company, its joint obligations with its subsidiaries, and a description of the most important risks and uncertainties which the Company faces.

**Structure of the Board of Directors**

As of December 31, 2015 the Board of Directors consisted of the following eight members:

Name	Position
Christopher Hopkinson	Chairman of the Board
Kurmangazy Iskazyev	Member of the Board (CEO)
Yerzhan Zhanagulov	Member of the Board
Asiya Syrgabekova	Member of the Board
Igor Goncharov	Member of the Board
Philip Dayer	Independent Director
Edward Walshe	Independent Director
Alastair Ferguson	Independent Director

On April 13, 2015 the Extraordinary General Meeting of Shareholders fixed the size of the Board at eight members for a term of office running from April 13, 2015 to April 13, 2016, inclusive.

The composition of that Board was as follows:

1. Christopher Simon Hopkinson – representing NC KazMunaiGas;
2. Kurtwood Stone Hillman – representing NC KazMunaiGas;
3. Asiya Narymanovna Syrgabekova – representing NC KazMunaiGas;
4. Yerzhan Arystanbekovich Zhanagulov – representing NC KazMunaiGas;
5. Abat Akmukanovich Nurseitov – CEO (Chairman of the Management Board of the Company);
6. Philip Dayer – Independent Director;
7. Edward Walshe – Independent Director;
8. Alastair Ferguson – Independent Director.

Subsequently, the Board received written notices from two Board Members, Abat Nurseitov and Kurt Hillman, on the basis of which their terms of office were terminated early, on September 7, 2015 and on October 20, 2015 respectively.

In their place an Extraordinary General Meeting of Shareholders held on November 26, 2015 elected Kurmangazy Oryngazievich Iskazyev to the Board as CEO (Chairman of the Management Board) of the Company and Igor Valerievich Goncharov as a representative of the main Shareholder for the term set for the Board of Directors as a whole, to April 13, 2016.

In accordance with the Company's Corporate Governance Code, the Board has evaluated the independence of the other directors and believes that Philip Dayer, Edward Walshe, and Alastair Ferguson are independent in character and in their decision-making. The Board of Directors has found no relationships or circumstances which had, or could have, a significant impact on their independent decision-making.

**Structure of the Management Board**

As of January 12, 2015 the Board of Directors introduced the following changes to the Management Board:

1. A limit of seven people was set for membership of the Management Board;
2. Aziz Toshkalykovich Ileuov was appointed Managing Director for Business Development for the same term of office of the Management Board as a whole.

Dastan Abdulgafarov, previously Managing Director for Business Development was appointed deputy CEO for economics and finance.

On September 7, 2015 the Board relieved Abat Akmukanovich Nurseitov of his responsibilities as CEO (Chairman of the Management Board).

On September 23, 2015 the Board elected Kurmangazy Oryngazievich Iskazyev to replace Abat Nurseitov as CEO (Chairman of the Board) of the Company.

Additionally, on December 30, 2015, by mutual agreement Botagoz Ashirbekova, a member of the Management Board of the Company, left the Company.

**Members of the Management Board as of 31 December 2015**

Name	Position
Kurmangazy Iskazyev	General Director and Chairman of the Management Board
Kairbek Yeleusinov	Deputy General Director for Production
Dastan Abdulgafarov	Deputy General Director for Economics and Finance
Malik Saulebay	Managing Director for Legal Affairs
Aziz Ileuov	Managing Director for Corporate Management
Shane Drader	Financial Director – Financial Controller



## Responsibilities of the Board and Management Board

The division of responsibilities between the Board of Directors, the Management Board and the CEO of the Company are determined by the Charter of the Company as set out in Sections 12 and 13.

The powers and responsibilities of the Board of Directors and the Management Board are regulated by the Board of Directors' Regulations and the Management Board Regulations respectively.

The Board of Directors is responsible to Shareholders for the effective management and proper control of the activities of the Company, and acts in accordance with the approved decision-making system. The most important functions of the Board of Directors are to identify areas of strategic development and Company policy, and to take decisions on potential acquisitions of oil and gas assets, and other significant issues.

Accordingly, the Management Board is responsible for developing an action plan to implement these functions and for the daily operational activities of the Company. The Management Board reports to the Board of Directors on its progress towards achieving the objectives of the Company.

The Board of Directors meets on a regular basis and as necessary.

During 2015, the Board of Directors held 58 meetings, including 14 meetings in person and 44 meetings remotely.

During the year, the Board reviewed, inter alia, the following issues:

- Approval of the Company's budgets and business plans
- Issues related to exploration
- Environmental, health and safety issues
- Issues related to amendments to subsoil use contracts
- Approval of the Company's related-party transactions (transactions of JSC Ozenmunaigas and JSC Embamunaigas. More detailed information is given in the consolidated financial statements and in the analysis of the financial standing and results of financial and operating activities) on page 30
- Issues related to the operations of legal entities where the Company holds 10% or more of their shares (share holdings in their issued capital);
- The return of contract areas;
- Determining the salaries and conditions of remuneration and bonuses of the members of the Management Board;

- Preliminary approval of the Company's consolidated financial statements for 2014;
- Introducing proposals on the amount of dividends to be paid for 2014;
- Reviewing the plans and reports of the internal audit department, and the status of implementation of the internal audit department's recommendations;
- Consideration of the participation of the Sovereign Wealth Fund Samruk-Kazyna and NC KazMunaiGas in the process of cash management of the Company;
- The introduction of amendments and additions related to subsoil use contracts;
- Reviewing the structure of the Company's headquarters organisation and systems.
- Participation in the Programme of transformation and informing the public within the framework of the Charter of transformation of the Exploration and Production business of NC KazMunaiGas;
- Strategic initiatives of the Company for 2015-2016;
- Potential projects for the acquisition of oil and gas assets;
- Current trends in oil supply to the domestic market of the Republic of Kazakhstan;
- Risk management.

In 2015, the Board approved the following documents:

- Risk Management Policy of the Company in revised format.

The Independent Committee under the Board of Directors of the Company acted on issues related to the acquisition, redemption, and delisting of shares and other securities listed in Kazakhstan and on foreign stock exchanges whose underlying assets are the Company's shares.

The Independent Committee is made up exclusively of the three independent directors of the Company: Philip Dayer, Edward Walshe and Alastair Ferguson. In accordance with the terms of reference of the Independent Committee as defined by the Board, consultancy services were purchased from Brunswick, HSBC, Rothschild's, Linklaters and a Kazakhstan law firm, in connection with the acquisition, buy-back and/or delisting of shares and/or other securities listed on the Kazakhstan and/or foreign stock exchange whose underlying assets are the shares of the Company.

## Corporate governance

## Corporate governance report continued

## Board Committees

Audit Committee	Nominations Committee	Remuneration Committee	Strategic Planning Committee	Independent Committee
Philip Dayer	Edward Walshe	Alastair Ferguson	Edward Walshe	Philip Dayer
Edward Walshe	Philip Dayer	Philip Dayer	Timur Bimagambetov	Edward Walshe
Alastair Ferguson	Christopher Hopkinson	Edward Walshe	Abat Nurseitov	Alastair Ferguson
			Philip Dayer	
			Alastair Ferguson	

## Presence of members of the Board of Directors and members of the committees at meetings of the Board of Directors and committees in 2015

	BoD	Audit Committee	Nominations Committee	Remuneration Committee	Strategic Planning Committee
<b>Number of meetings held in 2015</b>	58	15	6	7	4
Daniyar Berlibaev	3	–	–	–	–
Christopher Hopkinson	55	–	5	–	–
Abat Nurseitov	40	–	–	–	3
Kurmangazy Iskaziyev	4	–	–	–	–
Kurtwood Hillman	32	–	–	–	3
Igor Goncharov	3	–	–	–	–
Timur Bimagambetov	14	–	–	–	–
Yerzhan Zhangaulov	57	–	–	–	–
Asiya Syrgabekova	56	–	–	–	–
Alastair Ferguson	58	15	1	7	4
Philip Dayer	58	15	6	7	4
Edward Walshe	58	15	6	7	4

The Management Board is the executive body and supervises the Company's current activities. In 2015, some 36 meetings of the Management Board were held on a regular basis and as necessary.

In 2015, the Management Board approved a number of issues connected to the introduction of changes to contracts for subsoil usage. It also considered changes to the organisational structure of the Company, which allowed the Company to make rapid decisions on questions of financial and operational activities.

The Management Board makes decisions on other issues affecting the Company's operations that are not within the sole competence of the General Meeting of Shareholders, the Board of Directors or other officers of the Company.

## Audit Committee

## Members of the Audit Committee

In 2015 this committee was composed entirely of independent directors, namely: Philip Dayer (Chairman of the Committee), Edward Walshe and Alastair Ferguson. Appointments to the Audit Committee are made for a period of up to three years, and can be extended by the Board of Directors for not more than two additional three-year periods, provided that the members of the Audit Committee remain independent.



### Responsibilities and duties of the Audit Committee

The Audit Committee is responsible, among other things, for any Company report containing financial information, monitoring risk management and internal control systems, and for the involvement of the auditors of the Company in such processes.

It also receives information from the Company's internal audit department, which monitors compliance with the Company's internal control procedures. In particular, the Committee deals with issues of compliance with legal requirements, accounting standards, the applicable rules of the UK Listing Authority (UKLA) and of the Kazakhstan Stock Exchange (KASE), and ensures an effective system of internal control. The Board of Directors is also responsible for preliminary approval of the annual financial report.

The Audit Committee periodically reviews major transactions on acquisitions and disposals, and considers any issues that the Board of Directors may refer to the Audit Committee for review.

Every year at the General Meeting of Shareholders, the Chairman of the Board of Directors reports the results of, and answer questions related to, the activities of the Audit Committee on behalf of the Chairman of the Audit Committee.

### Activities of the Audit Committee in 2015

In 2015 the Audit Committee held 15 meetings. The Chairman of the Audit Committee decides on the frequency and timing of meetings. The number of meetings is determined in accordance with the performance of duties by the Committee.

At least four meetings per year must be held to coincide with key dates in the preparation cycle of financial reporting and audit of the Company. These key dates mark the completion of preparation of the internal and external auditor's plans, and of interim financial statements, preliminary announcements and the Annual Report.

In 2015, the Audit Committee reviewed the following issues:

- Financial statements
- Review of issues arising from the preparation of financial statements in accordance with IFRS;
- Approval of quarterly and annual financial statements for presentation to the Kazakhstan Stock Exchange and the London Stock Exchange;
- Approval of press releases in relation to financial statements and operating and financial reviews;
- Internal audit;
- Review and approval of the internal audit department's operational plan;
- Internal audit team's staff issues;
- Assessment of the effectiveness of the internal audit;
- Recommendations on the appointment of an external auditor;
- Monitoring of risk management and internal audit systems;
- Forecasts of Company cash flows;
- Treasury Policy compliance;
- Compliance.

### Remuneration Committee

#### Members of the Remuneration Committee

In 2015 this committee was exclusively composed of independent directors: Alastair Ferguson (Chairman of the Committee), Philip Dayer and Edward Walsh. The terms of office of the members of the Committee coincide with their terms of office as members of the Board of Directors.

## Corporate governance

## Corporate governance report continued

**Responsibilities and duties of the Remuneration Committee**

The Remuneration Committee is responsible for monitoring the Company's current system of remuneration for the members of the Board of Directors, CEO, members of the Management Board and other Company employees, including analysis of the remuneration policy in comparison with other companies.

The Remuneration Committee is also responsible for developing and providing recommendations to the Board of Directors on the principles and criteria for determining the amounts and terms of remuneration and compensation of the members of the Board of Directors, CEO and members of the Management Board of the Company, and for approving the terms of the Company's share option plans and other long-term incentive programmes for Company managers and employees.

The Remuneration Committee oversees the coordination of the Company's remuneration policy and of the Company's current remuneration system with the Company's development strategy, its financial position and with the general state of the labour market.

In addition, the Remuneration Committee monitors the implementation of decisions of the General Meeting of Shareholders with respect to the amounts and the procedure for remunerating the Company's Board of Directors.

The Remuneration Committee reports regularly to the Board of Directors, and annually reviews compliance with its terms of reference and its obligations to provide such information to the Board of Directors.

**Activities of the Remuneration Committee in 2015**

In 2015 the Remuneration Committee held seven meetings. The Committee holds meetings as required, but not less than once every six months. Meetings may be convened by the Committee Chairman, any member of the Committee or by decision of the Board of Directors.

In 2015 the Remuneration Committee reviewed the following issues:

- Determining the level of salaries and the conditions of remuneration and bonuses of the members of the Management Board, employees of the internal audit department, and the Corporate Secretary.
- Issues related to the Option plan.

The total remuneration for the independent directors for the year to December 31, 2015 is listed in the table below:

Name	Annual remuneration US\$ 000s	Physical attendance US\$ 000s	Phone/video conference US\$ 000s	Meetings of independent directors US\$ 000s	Chairmanship of committee US\$ 000s	Total for 2015 (excluding taxes) US\$ 000s	Total for 2015 (including taxes) KZT 000s
Alastair Ferguson	150	80	30	20	15	295	81,264.24
Edward Walshe	150	80	30	20	15	295	80,665.31
Philip Dayer	150	80	30	20	25	305	82,893.69

Other members of the Board of Directors do not receive remuneration as members of the Board of Directors, but are entitled to reimbursement for costs associated with their appointment.

The total remuneration for members of the Management Board for 2015 was 803,521 thousand tenge.

## Nominations Committee

In 2015 the members of the Nominations Committee were Edward Walshe (Chairman of the Committee), Philip Dayer and Christopher Hopkinson. Alastair Ferguson, independent director, retired from the Committee following a decision by the Board of Directors dated January 20, 2015, protocol No.4.

The main purpose of the Committee is to increase the efficiency and quality of the Board's work when selecting candidates to fill positions in the Company. It also undertakes succession planning, and defines the selection criteria for candidates to the Board of Directors as well as for the CEO, the Management Board and Company Secretary positions.

The Nominations Committee considers matters related to changes in the membership of the Board of Directors and Management Board, the termination of office and appointment of the Company Secretary, and the retirement and appointment of additional and alternate directors.

## Activities of the Nominations Committee in 2015

During 2015 the Nominations Committee held five meetings where the following issues were discussed:

- Recommendations to the Board of Directors on candidates for membership of the Board of Directors;
- Recommendations to the Board of Directors on membership of the Board Committees;
- Recommendations on the early termination of office of the CEO (Chairman of the Management Board) of the Company and the election of a provisional executive;
- Recommendations on the appointment of the new CEO (Chairman of the Management Board) of the Company.

## Strategic Planning Committee

In 2015 the members of the Strategic Planning Committee were Edward Walshe (Chairman of the Committee), Timur Bimagambetov, Abat Nurseitov, Philip Dayer, and Alastair Ferguson. After the termination of the appointments of Timur Bimagambetov, Abat Nurseitov and Kurtwood Hillman as members of the Board of Directors on December 31, 2015, membership of the Committee was limited to the three independent directors of the Company. The main purpose of the Committee is to develop and provide recommendations to the Board on determining the Company's priorities and its development strategy.

## Activities of the Strategic Planning Committee in 2015

In 2015 the Strategic Planning Committee held four meetings where the following issues were discussed:

- The programme of strategic initiatives for 2015-2016 of KazMunaiGas EP (within the framework of the approved strategic development plan of the Company)
- Approval of the corrected corporate key performance indicators of KazMunaiGas EP with target results for 2015;
- Potential projects for the acquisition of oil and gas assets.

## Major Shareholders and/or GDR holders

In accordance with the laws of the Republic of Kazakhstan, listed below are the holders of Company securities who own shares as at December 31, 2015, the number of which must be reported. This requirement does not apply to GDR holders. The Company considers it necessary, however, to specify that, on September 30, 2009, the State Investment Fund of the People's Republic of China, China Investment Corporation (CIC), announced the acquisition of GDRs representing approximately 11% of the shares of the Company.

Shareholder	Number of ordinary shares	Number of preference shares	Total number of shares placed
Number of shares issued	70,220,935	4,136,107	74,357,042
Shares held by JSC NC KazMunayGas	43,087,006	–	43,087,006
Percentage of issued share capital	61.36%	0.00%	57.95%

## Contracts of directors, letters of appointment of directors and employment contracts of members of the Management Board

All members of the Management Board have signed employment contracts with the Company under which they are entitled to insurance covering accidents during travel and to reimbursement for costs incurred during business travel in accordance with the Company's internal regulations.

It is not expected that any other employment agreements will be entered into with members of the Company's Board of Directors or Management Board members.

## Corporate governance

# Corporate governance report continued

### Risk management

The Company operates a risk management system. The system is designed to identify, evaluate and manage significant risks to ensure that the Company can achieve its business goals while maintaining and increasing value for the Company's Shareholders.

The system is based on well established international practices as well as on the requirements of the Listing Rules of the London Stock Exchange and the UK Combined Code of Corporate Governance.

The existing chain of command and interaction between the elements of the internal control system provides for a level of independence necessary for the internal control function to operate effectively, and is in line with international best practice in this area.

In 2015 the Company's risk management system introduced changes to improve risk management practices. The policy determines overall strategy in the area of risk management and the distribution of roles and responsibilities within the risk management system. It determines the actions of management and all employees directed towards achieving the corporate-wide objectives of the Company.

The Company's internal audit team provides the Board of Directors with unbiased information about how comprehensive the structure of the internal audit team of the Company actually is and how effectively it operates. In its work, the internal audit team takes a risk-oriented approach which allows it to identify and focus on critically important areas for the Company, thereby helping to improve the Company's overall performance and the quality of its corporate governance.

The internal audit team also monitors the implementation of recommendations given by Management, and reports on its progress to the Audit Committee and the Board of Directors.

As regards risk management, the Management Board established a Risk Management Committee. For more details on its activities, please see below.

### Risk Management Committee

The Risk Management Committee is an advisory and consultative body set up under the Company's Management Board.

The Committee is made up of members of the Management Board and heads of the main functional departments of the Company.

The main objectives of the Committee are the prompt consideration of risk management issues within the Company, preparation of recommendations for the Management Board to follow on risk management issues, and monitoring the effectiveness of the risk management system.

General information about the Company's risk profile can be found in the Risk Factors section on pages 56. Information about financial risks can be found in the Notes to the Consolidated Financial Statements, starting on page 87.

### Information on taxation in the UK

The overview given below is based on UK law and HM Revenue & Customs practices in force as at the date of the present document, both of which are subject to change, possibly with retrospective effect. Except where otherwise stated, the overview discusses only certain UK tax consequences for absolute beneficial owners of shares or GDRs who are (1) considered to be UK residents for tax purposes; (2) considered to be residents for tax purposes in no other jurisdiction; and (3) not in possession of a permanent establishment in the Republic of Kazakhstan to which the holding of shares or GDRs is related ("the UK Holders").

In addition, this overview (1) addresses only the tax consequences for the UK Holders who own shares and GDRs as capital assets and it does not address the tax consequences that may apply to certain other categories of the UK Holders, e.g. dealers; (2) assumes that the UK Holders do not, directly or indirectly, control 10% or more of the voting shares of the Company; (3) assumes that a holder of the GDRs is beneficially entitled to the underlying shares and to the dividends on those shares; and (4) does not address the tax consequences for the UK Holders that are insurance companies, investment companies or pension funds.

The following is intended only as a general guide and is not intended to be, nor should be considered to be, legal or tax advice to any particular UK Holders. Accordingly, investors should satisfy themselves with their tax advisors as to the overall tax consequences, including, specifically, the consequences under UK law and HM Revenue & Customs practice, of the acquisition, ownership and disposal of shares or GDRs in their own particular circumstances.

### Withholding tax at source

On the assumption that income received from GDRs is from a non-UK source for tax purposes, it should not be subject to withholding tax at source in the UK. Dividend payments on shares will not be subject to UK withholding tax at source.

### Taxation of dividends

A UK Holder receiving a dividend on shares or GDRs may be subject to UK income tax or corporation tax, as the case may be, on the gross amount of any dividend paid out before the deduction of any Kazakhstan withholding taxes, subject to the availability of any credit for Kazakhstan tax withheld. A UK Holder who is an individual resident and domiciled in the UK will be subject to UK income tax on the dividend paid on shares or GDRs and is entitled to a non-refundable tax credit equal to one ninth of the amount of the dividend received. A UK Holder who is an individual resident but not domiciled in the UK and who is entitled and prefers to be taxed in the UK on a remittance basis will be subject to UK income tax on the dividend paid on shares or GDRs to the extent that the dividend is remitted or treated as remitted to the UK, and will also be entitled to a non-refundable tax credit equal to one ninth of the amount of dividend received.

A UK Holder which is a company residing in the UK for tax purposes is not subject to UK corporate tax on the dividend paid on shares or GDRs, unless certain anti-avoidance rules in the tax law apply.

### Taxation of disposals or deemed disposals

The disposal by a UK Holder of interests in shares or GDRs may result in a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK Holder's circumstances and subject to any available exemption or relief. A UK Holder who is an individual resident and domiciled in the UK will generally be liable to UK capital gains tax on chargeable gains made on the disposal of an interest in shares or GDRs. A UK Holder who is an individual resident but not domiciled in the UK and who is entitled and prefers to be taxed in the UK on a remittance basis will generally be liable to UK capital gains tax to the extent that the chargeable gains made on the disposal of an interest in the shares or GDRs are remitted or treated as remitted in the UK. In particular, dealings in GDRs on the London Stock Exchange may give rise to remitted profits that would, therefore, give rise to a UK capital gains tax liability.

An individual holder of shares or GDRs who ceases to be a resident or ordinarily resident in the UK for tax purposes for a period of less than five full tax years and who disposes of such shares or GDRs during that period may also be liable on returning to the UK to UK tax on capital gains, even though the individual may not be a resident or ordinarily resident in the UK at the time of the disposal.

A corporate UK Holder will generally be subject to UK corporation tax on any chargeable gains arising from a disposal of shares or GDRs.

### Effect of Kazakhstan withholding taxes at source

Dividend payments in respect of shares and GDRs are subject to Kazakhstan withholding tax at source. A UK Holder, who is an individual UK resident, should generally be entitled to a credit for Kazakhstan tax properly withheld from such payments against UK income tax liability on such amounts, subject to UK tax rules for the calculation of such a credit. A UK Holder which is a company is not generally subject to UK corporation tax on dividend payments and thus is usually not able to claim credit for any such Kazakhstan withholding taxes at source.

### Stamp duty and stamp duty reserve tax ("SDRT")

Assuming that any document effecting the transfer of, or containing an agreement to transfer, one or more shares or GDRs is neither executed in the UK nor relates to any property located in the UK, or to any matter or thing done or to be done in the UK (which may include the involvement of UK bank accounts in the payment mechanism), then no UK ad valorem stamp duty should be payable on such a document.

Even if the document effecting the transfer of, or containing an agreement to transfer, one or more shares or GDRs is executed in the UK and/or relates to any property located in the UK, or to any matter or thing done or to be done in the UK, in practice it should not be necessary to pay any UK ad valorem stamp duty on this document unless the document is required for any purpose in the UK. If it is necessary to pay UK ad valorem stamp duty, it may also be necessary to pay interest and penalties associated therewith.

As GDRs relate to the securities expressed in a currency other than sterling, no "bearer instrument" stamp duty should be payable on either the issue of the GDRs or any transfer of the securities transferable by means of the GDRs.

Assuming that the shares are neither registered in the UK register nor paired with shares issued by a company incorporated in the UK, no SDRT should be paid in respect of any agreement to transfer shares or GDRs.