

**Approved  
by the resolution of the extraordinary  
general meeting  
KazMunaiGas Exploration Production  
Joint Stock Company  
Minutes dated “\_\_\_\_\_” \_\_\_\_\_ 2012**

**THE CODE ON CORPORATE GOVERNANCE  
KAZMUNAIGAS EP JSC**

## PREAMBLE

1. The Code on Corporate Governance (“the Code”) of KazMunaiGas Exploration Production Joint Stock Company (“the Company”) represents a set of rules which the Company shall follow in the course of its business in order to ensure high level of business ethics in relations within the Company and with other market participants.
2. The Code was drafted in accordance with the provisions of the current Legislation of the Republic of Kazakhstan and with due consideration of corporate conduct practice, ethic norms developing in Kazakhstan as well as with requirements and conditions of the Kazakhstan and London Stock Exchanges (taking into particular account the corporate governance practice of the companies listed on international stock exchanges).
3. The Code was elaborated along with the adoption by the Company of other controls and procedures in order to ensure the observance by the Company, to the reasonable extent, of the corporate governance international standards.
4. However, the Company recognizes that departure from the provisions of the Code may be justified in particular circumstances with due regard to the individual features of the Company, its size, character and development stage as well as the nature of the risks and challenges it faces. It is assumed that departure from the provisions of the Code is possible only after a thorough analysis of the respective circumstances and after examination of such supposed departures by the Independent Non-executive Directors of the Company. Information of any case of departure from the provisions of the Code should be included in the next annual report with the proper explanation of the reasons for such departure.
5. The Company acknowledges that the corporate governance practice is not of static nature. Accordingly, the Company will, from time to time in accordance with the established procedure, revise the provisions of the Code in the light of the current Legislation, regulations, recommendations and practice applicable to the corporate governance in relation to Kazakhstan and international listed companies.

6. The terms used in this Code are:

<b>CEO</b>	Chief Executive Officer (Chairman of the Management Board of the Company, member of the Board of Directors)
<b>Directors</b>	Members of the Board of Directors, including Independent Non-executive Directors
<b>Legislation</b>	Regulatory legal acts of the Republic of Kazakhstan (as amended and supplemented from time to time)
<b>Internal Audit Committee</b>	Internal Audit Committee of the Board of Directors
<b>Human Resources Committee</b>	human resources committee of the Board of Directors
<b>Remuneration Committee</b>	remuneration committee of the Board of Directors
<b>Corporate Secretary</b>	Corporate Secretary of the Company

<b>Listing Rules</b>	Listing Rules of the Stock Exchanges where the securities of the Company are listed, including the Listing Rules of the Kazakhstan and London Stock Exchanges
<b>Independent Non-Executive Directors/INEDs</b>	Directors determined as independent in accordance with paragraph 105 of Section 3 of this Code
<b>General Meeting</b>	General Meeting of shareholders of the Company
<b>Disclosure Rules</b>	Requirements for disclosure of information established by the Stock Exchange where securities of the Company are listed
<b>Management Board</b>	Management Board of the Company
<b>Chairman</b>	Chairman of the Board of Directors of the Company
<b>Board of Directors</b>	Board of Directors of the Company
<b>Charter</b>	Charter of the Company (as amended from time to time)

**SECTION 1**  
**PRINCIPLES OF CORPORATE GOVERNANCE**

7. The corporate governance of the Company shall be formed on the basis of justice, honesty, responsibility, professionalism and competence. An effective structure of the corporate governance involves respect of the rights and interests of all persons interested in the Company's business and promotes successful performance of the Company including the growth of its market-value and maintaining of its financial stability and profitability.
8. The corporate governance principles set out in this Section are aimed at creating of trust in the relations arising in connection with the governance of the Company and serve as a basis for all rules contained in the subsequent Sections of the Code.
9. The fundamental principles of this Code are the following:
  - 1) principle of safeguarding the rights and interests of shareholders;
  - 2) principle of effective governance of the Company by the Board of Directors and the Management Board;
  - 3) principle of independent activities of the Company;
  - 4) principle of transparency and objectivity of disclosure of information about the Company's business;
  - 5) principles of legality and ethics;
  - 6) principle of effective dividend policy;
  - 7) principle of effective human resources management;
  - 8) principle of environmental protection;
  - 9) corporate conflict and conflict of interest management policy;
  - 10) principle of responsibility
10. The structure of Company's corporate governance shall correspond to the Legislation and comply with the requirements of the Listing Rules and shall clearly define the division of responsibilities between the different bodies of the Company.
11. The adherence to the corporate governance principles stated in the Code shall promote the establishment of an effective approach for conducting an objective analysis of the Company's performance and obtaining of appropriate recommendations from analysts, financial consultants and rating agencies.
- 1.1. PRINCIPLE OF SAFEGUARDING THE RIGHTS AND INTERESTS OF SHAREHOLDERS**
12. The Company shall ensure realization of the fundamental rights of its shareholders:
  - (a) right to hold, use and dispose of shares owned by them;

- (b) right to address to the Company with written requests in respect of its activities and to receive reasoned replies within the periods established by the Charter of the Company;
  - (c) right to participate in and vote at the General Meetings of shareholders;
  - (d) right to participate in the election of Directors;
  - (e) right to equal treatment of all shareholders owning the shares of the same kind;
  - (f) right to receive a share of the Company's profit (dividends); and
  - (g) right to receive an interest in the Company's assets in case of its liquidation.
13. The Company shall ensure the effective participation of its shareholders in making key corporate governance decisions such as appointment and election of the Directors. The shareholders shall be given the opportunity to express their opinion about the remuneration policy for the Directors.
  14. The interested persons and the Company's employees shall have the right to freely inform the Board of Directors about any illegal and unethical actions and when doing so their rights shall be not infringed upon.
  15. The Company shall bring to the notice of its shareholders the information about its performance which affects the interests of the Company's shareholders in accordance with the procedure established by the Legislation, the Charter and requirements of the Listing Rules.
  16. The Company provides its shareholders and interested persons with the reliable information about its financial and economic activities and their results in accordance with the requirements of the Legislation, the Listing Rules and the Disclosure rules. In particular, it refers to the equity transactions (shares) which shall be to the maximum justified and transparent for shareholders.
  17. There shall be a dialogue with shareholders based on the mutual understanding of objectives. The Chairman should ensure that the views of shareholders are communicated to the Board of Directors as a whole. The Directors should be offered the opportunity to attend scheduled General meetings with shareholders and should expect to attend meetings if requested by principal shareholders. The Board of Directors as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place and for this purpose the Company shall establish a division for relations with shareholders. The Board of Directors shall aim in the most practical and efficient ways at keeping in touch with shareholder opinion and may give instructions to such division for relations with shareholders about the best way to achieve this goal.
  18. In the event of the planned reasonable change in the Company's activities the Management Board shall propose specific measures for reservation and safeguarding the rights of shareholders.
  19. The Company shall ensure the fair and equal treatment of all its shareholders.
  20. The Company shall protect the minority shareholders from abuse by majority shareholders acting directly or indirectly and shall observe the terms of the

Relationship Contract with NC “KazMunaiGas” JSC. The shareholders shall have the right to discuss with other shareholders and the Company’s representatives the matters of observing the fundamental rights of shareholders and the corporate governance policy of the Company.

## **1.2. PRINCIPLE OF EFFECTIVE GOVERNANCE OF THE COMPANY BY THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD**

### **Principles of the Board of Directors’ activities**

21. The activities of the Board of Directors shall be based upon the principle of maximum safeguarding the interests of its shareholders and aimed at increasing of the market value of the Company. The Board of Directors should ensure that obligations of the Company to its shareholders and others are understood and met.
22. The Board of Directors shall provide to shareholders a rigorous and clear evaluation of the achieved results and outlooks of the Company by objective monitoring of the current business conditions and ensure maintaining and functioning of a sound system of internal control and external audit to safeguard shareholders’ investment and the Company’s assets.
23. The Board of Directors shall set the Company’s strategic goals, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. As part of their role as members of the Board of Directors, the Directors should constructively challenge and help develop proposals on strategy. The directors should scrutinise the performance of the Management Board in meeting agreed goals and objectives and monitor its activities.
24. There shall be a clear division of responsibilities between the Chairman (responsible for supporting of the activities of the Board of Directors) and the CEO (responsible for supporting the Company's activities). Moreover, the roles of Chairman and CEO should not be exercised by the same individual. No one individual (or a group of individuals) shall have unfettered powers of decision.
25. The Chairman shall be responsible for leadership of the Board of Directors, ensuring its effectiveness on all aspects of its role and setting its agenda which is approved by the Board of Directors. The Chairman together with the Corporate Secretary shall be also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman shall ensure effective communication with shareholders. The Chairman shall also facilitate the effective contribution of the Directors to the activities of the Board of Directors and, in particular, ensure constructive relations between the INEDs and the Management Board. The Chairman is responsible for ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues.
26. The Board of Directors shall ensure effective functioning of the Company's risks management system, its regular monitoring as well as shall control and regulate corporate conflicts.
27. The Board of Directors shall ensure full transparency of its activities for the Company’ shareholders.
28. The Board of Directors shall be responsible for disclosure of information and media

coverage of the Company's activities in accordance with the requirements of the Legislation, the Listing Rules and Disclosure Rules and shall justify classification of information and ensure security and integrity of confidential and insider information.

29. The composition of the Board of Directors shall necessarily include the Independent Non-Executive Directors subject to the provisions of the Charter. The principles for establishing "the independence" of a director shall be determined by the Legislation, this Code as well as other internal documents of the Company.
30. The system of performance evaluation and fair remuneration of the members of the Board of Directors shall ensure the motivation of their work in the interests of the Company and all shareholders. The Remuneration Committee shall be responsible for developing recommendations as to levels of remuneration of the Directors and the members of the Management Board.
31. The Board of Directors shall develop a mechanism of evaluation of its own performance and that of individual Directors and shall establish and regularly revise the methods and criteria of evaluation of performance of the Board of Directors and the Management Board members.
32. The Chairman, with the assistance of the Corporate Secretary, should provide an explanation to the newly elected Directors the rules of operation of the Board of Directors and other bodies of the Company, its organization, inform about the officials of the Company, give induction into the Company's internal documents, decisions of the General Meeting and the Board of Directors, provides other information relevant to the appropriate discharge by the Directors of their duties. The Chairman, with the assistance of the Corporate Secretary, should ensure on a permanent basis a professional development of the Directors in that scope as it is required to fulfil their role both on the Board of Directors and its committees. The Chairman should regularly review and agree with each Director their training and development needs.
33. The procedure of both early and regular termination of powers of a member of the Board of Directors, the procedure of voluntary resignation, measures of responsibility for non-fulfilment of vested obligations, the procedure of convening and conducting of the meetings of the Board of Directors shall be determined by the Legislation, the Charter, the Code as well as by other internal documents of the Company.

#### **Principle of the Management Board's activities**

34. The Management Board shall carry out the governance of the day-to-day work of the Company and ensure its correspondence with the business-plan and strategic plan of the Company's development.
35. The activities of the Management Board shall be based on the principle of the highest possible observance of shareholders' interests and shall be fully accountable to the decisions of the General Meeting and the Board of Directors.
36. No person (group of persons) should have absolute rights to influence the decisions of the Management Board.

### **1.3. PRINCIPLE OF INDEPENDENT ACTIVITIES OF THE COMPANY**

37. The business of the Company shall be conducted to ensure the highest possible observance of interests of the Company's shareholders and subject to the provisions of

this Code and the Charter.

38. The Company shall conduct its business independently.

39. The Company shall handle all the transactions and maintain relations (whether under a contract or otherwise including any subsequent amendments thereto as well as implementation or compulsory execution thereof) between the Company and any major shareholder on a normal commercial basis.

#### **1.4. PRINCIPLES OF TRANSPARENCY AND OBJECTIVITY OF THE COMPANY'S ACTIVITIES DISCLOSURE**

##### **Information about the Company's activities**

40. Disclosure of the Company's business should promote the justified decisions on the part of the new shareholders in relation to the Company's shareholding or withdrawal thereof as well as encourage investors to take an informed decision to finance the activities of Company.

41. The informational openness shall ensure the maximum reasonableness and transparency of the Company's governance.

42. The informational openness of the Company shall be based upon the appropriate corporate provisions elaborated and approved by the Board of Directors as well as the requirements of the Legislation and other applicable rules. The Chairman shall attend the General Meetings to learn shareholders' views about the performance of the Company's management.

43. A shareholder or a potential investor shall be given the opportunity of free and easy access to the information about the Company which is essential to make appropriate decision with due regard to the applicable requirements of confidentiality and disclosure of the Company's information. The Board of Directors should use the annual General Meeting to communicate with shareholders and to encourage their participation.

44. The Company shall in a timely manner disclose the information about principal results, plans and outlooks of its activities which may have a material effect on the interests and other rights of its shareholders and investors and shall in a timely manner reply to requests of its shareholders in accordance with established procedure. The Board of Directors should include in the annual report a statement of the basis on which the Company generates or preserves shareholder value of the Company over the longer term (the business model) and the strategy for delivering the objectives of the Company. The Board of Directors should state in the annual report the steps they have taken to ensure that the Directors have an understanding of the views of principal shareholders, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholders' opinion.

45. The Company regularly and when it is reasonably required by the Legislation, the Listing Rules and the Disclosure Rules shall provide information about any significant corporate events in the Company's activities and at the same time shall implement tools of information disclosure and preservation of confidential and insider information.

##### **Financial reporting:**

46. The procedures and rules of financial reporting and audit shall be aimed at ensuring confidence of shareholders and investors in the Company's activities.
47. The financial reporting and audit of the Company shall be based on the following principles:
  - (a) integrity and credibility;
  - (b) objectivity and independency;
  - (c) professionalism and competence.
48. The Board of Directors shall establish a division of the competence of bodies and individuals within the Company's system of monitoring of financial performance subject to their relation to development, approval, application and evaluation of the internal controls.
49. The Board of Directors should present a balanced and understandable assessment of the Company's position and prospects. The Directors should explain in the annual report their responsibility for preparing the annual report and accounts, and there should be a statement by the external auditor about their reporting responsibilities. The Directors should report in annual financial statements that the business of the Company is a going concern, with supporting assumptions or qualifications as necessary.

#### **1.5. PRINCIPLES OF LEGALITY AND ETHICS**

50. The Company shall act in strict compliance with the Legislation, generally accepted principles (practices) of business ethics, the Charter, provisions of this Code, the Listing Rules, the Disclosure Rules and its contractual obligations.
51. The relations between shareholders, members of the Board of Directors and the Management Board shall be based on mutual confidence, respect, accountability and control.

#### **1.6. PRINCIPLE OF EFFECTIVE DIVIDEND POLICY**

52. The Company shall follow the developed regulations on dividend policy.
53. The regulations on dividend policy shall ensure the transparency of the mechanism for determination of dividends rate and procedure for payment thereof.
54. The regulations on dividend policy should regulate the calculation procedure for retained income and determination of a portion of income to be allocated for dividend payments, conditions of such payments, and procedures for calculating dividend rates and distribution including time periods, place and mode of payment thereof.
55. The dividend payment shall be based on the reliable information about presence of conditions for distribution and payment of dividends subject to the actual state of the Company's business.

#### **1.7. PRINCIPLE OF EFFECTIVE HUMAN RESOURCES AND SOCIAL POLICY**

56. The corporate governance in the Company shall be based on observance of rights of

the Company's employees stipulated by the Legislation and shall be aimed at developing of partnership relations between the Company and its employees in solving social issues and regulating labour conditions.

57. The key principles of the human resources management and social policy are preservation of jobs to the extent possible and subject to the Company's performance, improvement of working conditions and observance of the social safety of the Company's employees in accordance with provisions of collective agreement adopted by the Company and its employees.
58. The corporate governance shall encourage the creation of favourable and creative environment in a labour collective and facilitate the professional development of the Company's employees.
59. The corporate governance shall contribute to strict compliance with labour legislation;
60. Among the priorities of the Company is training organization and professional development of employees;
61. The Company aims at competition-based recruitment.

#### **1.8. PRINCIPLES OF ENVIRONMENT PROTECTION**

62. The modern development of business activity in the world is characterized by growing significance of environment protection matters.
63. The current state of affairs of environment protection becomes an actual criteria for evaluation of the Company's performance.
64. The Company shall ensure environmental friendliness and management in the course of its business subject to the requirements of the Legislation and positive practice in the oil and gas industry.
65. Apart from this Code, the Company's policy in terms of environment protection is determined by internal regulations in the field of environment protection.
66. The Company assumes responsibility for implementation of environment protection standards in accordance with the current Legislation and international standards.

#### **1.9. CORPORATE CONFLICT AND CONFLICT OF INTEREST MANAGEMENT POLICY**

67. The members of the Board of Directors and the Management Board as well as the Company's employees shall discharge their professional duties in good faith and rationally with due care and prudence in the interests of the Company and its shareholders avoiding conflict of interests. They shall ensure that their activities comply not only with the requirements of the Legislation and the principles of this Code but with ethic standards and common norms of business ethics.
68. The Company develops and follows corporate conflict regulation mechanisms, whereby their decision will meet the interests of the Company and the shareholders to the maximum, and be both legal and justified.
69. Should a corporate conflict arise, the participant shall find a way to solve it through

negotiations to ensure effective protection of both the shareholders' rights and the Company's business reputation.

70. In case when it is impossible to settle corporate conflicts by means of negotiations they shall be settled strictly in accordance with the Legislation and the best corporate practices.

#### **1.10. PRINCIPLE OF RESPONSIBILITY**

71. The Company recognizes and respects the rights of all interested persons and seeks cooperation with such persons for the development and ensuring good standing.
72. The interested persons shall have the opportunity to be compensated for violation of their rights in cases provided for by the Legislation;
73. In the event an interested person participates in the process of corporate management, he/she shall in the prescribed manner have access to material, sufficient and reliable information on timely and regular basis.
74. The interested persons shall the right to freely inform the Board of Directors of illegal and unethical acts of the Management Board without any derogation from their rights in the event of such information.

## **SECTION 2**

### **GENERAL MEETING**

#### **2.1. General provisions:**

75. The arrangement and procedure for holding a General Meeting shall comply with the following requirements:
- (a) fair and equal treatment of all shareholders;
  - (b) opportunity to participate in the General Meetings for all shareholders;
  - (c) provision of maximum organizational and reporting information;
  - (d) simplicity and transparency of conducting the General Meetings.

#### **2.2. ORGANIZATION OF THE GENERAL MEETING**

76. Information and materials submitted to shareholders before conducting the General Meeting as well as procedure for submitting such information shall ensure that shareholders are given the most complete idea about the essence of discussed issues, answers to their questions and opportunity to make reasonable decisions on the issues of the agenda.
77. Means of informing about the convocation of the General Meeting shall ensure opportune notification of all shareholders. When necessary a notification may be duplicated and at the same time various means of giving notification may be used, including corporate web-site of the Company. For the purpose of simultaneous delivery of information about the Company's performance to all shareholders thereby

ensuring the equal treatment thereof the General Meeting shall determine a mass medium.

78. Informational materials circulated in the course of preparation to the General Meeting shall be systematized in respect of agenda of the General Meeting. The simplest and easiest procedure for receiving or reviewing such materials shall be established.
79. The requirements of information disclosure shall not put any unnecessary administrative burden or unreasonable expenses on the Company.
80. The process of examination and acceptance of changes in the activities and governance of the Company at the General Meeting shall be supported by submitting of materials justifying such changes.
81. When agenda of the General Meeting includes election of the Directors the complete information about candidates to the positions shall be submitted as required by the Legislation, the Charter and internal documents of the Company.
82. The issues of agenda shall be as clear as possible and exclude the opportunity of their different interpretation. The issues with such wording as “miscellaneous”, “diverse”, “any other business” etc. shall be excluded from agenda. At any General Meeting, the company shall propose a separate resolution on each separate issue.
83. The voting procedure at the General Meeting shall be as much as possible easy and convenient for a shareholder with use of any practicable methods of voting.
84. The rights of shareholders to put proposals to agenda of the General Meeting in the prescribed manner and to demand calling of an extraordinary General Meeting shall be easily exercisable subject to clear justification thereof.

### **2.3. HOLDING OF GENERAL MEETING**

85. The procedure of conducting the General Meeting shall ensure equal opportunity to all shareholders to enjoy their rights to participate in the General Meeting. A shareholder may vote at a General Meeting held in presentia personally or without personal presence (by proxy issued by a shareholder personally to a third person or representative of a nominal holder), at that the votes cast personally and without personal presence shall have the equal force.
86. The rules of the General Meeting shall be based upon the reasonable adequacy and possibility to discuss the agenda issues broadly and to make reasonable decisions thereon.
87. A clear time-limit of speeches shall be allotted to each official or shareholder of the Company.
88. The significance of General Meeting in the Company’s operation implies compulsory participation (when invited) of all officials participating in the Company’s governance and control over its activities.
89. Time for registration shall be sufficient to allow all shareholders (their representatives) to be registered, provided that shareholders failed to be registered shall not be counted when determining the presence of quorum and shall not be entitled to participate in voting.

90. The Chairman of the General Meeting shall make efforts to let shareholders receive answers to any substantial questions directly at the General Meeting. When the complexity of questions impedes immediate answering thereof a person (persons) to whom such questions were directed shall submit written answers as soon as reasonably practicable after closing of the General Meeting.
91. The elections to the Board of Directors, as well as to the Management Board and other bodies shall be transparent and justified to the maximum.
92. A procedure for collecting and counting of votes shall be easy and transparent to the maximum; shareholders shall feel certain of excluding every opportunity of any falsification of the ballot. The Company shall ensure the votes be properly cast and registered.
93. Date and time of conducting the General Meeting shall be established in such a way as to allow the maximum number of persons eligible for participation in a General Meeting to participate therein. The General Meeting of shareholders shall be conducted in Astana, Republic of Kazakhstan.

### **SECTION 3**

#### **BOARD OF DIRECTORS**

##### **3.1. FUNCTIONS OF THE BOARD OF DIRECTORS**

94. The Board of Directors shall ensure realization of interests and protection of rights of shareholders. The Board of Directors shall set the principles and standards of the Company's activities and ensure that its obligations to shareholders and others are understood and met.
95. The Board of Directors shall determine strategic goals, priority directions of the Company's development and set the principal guiding lines of the Company's activities for long-term outlook, ensure that required financial and human resources are in place for reaching the goals set. The Board shall control the activities of the Management Board. The Chairman should discuss governance and strategy with the principal shareholders. The Board of Directors is responsible for determining the nature and extent of the significant risks it is willing to take in achieving strategic objectives of the Company.
96. The Board of Directors shall make objective evaluation of observance of the approved priority directions with due regard to the market situation, financial performance of the Company and other factors affecting the financial and economic activities of the Company.
97. The terms of reference of the Board of Directors shall include approval of documents regulating the Company's internal activities the list of which is approved by the Board of Directors including the internal document setting the conditions and procedure for placement of the Company' securities by means of holding of auctions and/or subscription.
98. All Directors must take decisions objectively in the interests of the Company. The Company should arrange appropriate insurance cover in respect of legal action against

its Directors.

99. To ensure that power and information are not concentrated in one or two individuals there shall be a clear division of powers between the Board of Directors and the Management Board.

### **3.2. FORMATION OF THE BOARD OF DIRECTORS**

100. The procedure for the election of new members of the Board of Directors shall be formal, transparent and clear for all shareholders. The Company will attempt to ensure the election/re-election of the Directors in accordance with the best international corporate practice. In this case, the re-election of the Directors shall be conducted on the basis of the evaluation of the effectiveness of their activities carried out on the annual basis in accordance with Section 3.5 of this Code. The Board of Directors shall establish the Human Resources Committee which, subject to its authorities, shall participate in the process for the Board of Directors and Management Board elections and develop recommendations to the Board of Directors in order to inform the General Meeting to make a decision in respect of election of new candidate Directors. The Human Resources Committee as well as Remuneration Committee shall consist of at least 2 (two) INEDs and be headed by the Chairman or an Independent Non-executive Director.
101. For the purpose of election of the Directors General Meeting may follow the recommendations of the Human Resources and Remuneration Committee acting in accordance with its terms of reference that ensure realization of the rights and protection of interests of all shareholders of the Company subject to the Charter. Any shareholder may review the documents regulating the powers of the Human Resources Committee. A separate section of the annual report should describe the work of the Human Resources Committee, including the process it has used in relation to the Board of Directors appointments. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of the Chairman or the Directors.
102. The election process of the members of the Board of Directors shall be realized with due regard to views and interests of all shareholders including those owning minority shares in the Company's charter capital.
103. The search for the Board of Directors candidates should be conducted, and appointments made, on basis of their positive experience, taking into account a reputation in the business and sectoral field as well as due regard for the benefits of diversity on the Board of Directors, including gender. The Directors shall have enough time available to devote to the job. The Board of Directors should satisfy itself that plans are in place for orderly succession for appointments to the Board of Directors and to the Management Board, so as to maintain an appropriate balance of skills and experience within the Company and to ensure progressive refreshing of the Board of Directors.
104. The members of the Board of Directors shall have appropriate professional experience and sufficient level of knowledge of executive job.
105. The Human Resources Committee shall evaluate the balance of skills, knowledge and experience of the members of the Board of Directors and the Management Board and,

in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. For the appointment of a Chairman, the Human Resources Committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A Chairman's other significant commitments should be disclosed to the Board of Directors before appointment and included in the annual report. Changes to such commitments should be reported to the Board of Directors as they arise, and their impact on fulfillment of commitments by the Chairman is explained in the next annual report.

106. All Directors shall be submitted for re-election at regular intervals, subject to continued satisfactory performance. Any term beyond six years for a Director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the Board of Directors. The information on the Directors submitted for election or re-election shall be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election. The Chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role.

### **3.3. INDEPENDENT NON-EXECUTIVE DIRECTORS (INEDS)**

107. The Board of Directors shall identify in the annual report each Director it considers to be independent. The Board of Directors shall determine whether the Director is independent in accordance with the criteria established by the Legislation in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board of Directors should state its reasons if it determines that a Director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the Director:

- (a) has been an employee of the Company or its subsidiary company within the last five years;
- (b) has, or has had within the last three years, a material business relationship with the Company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Company;
- (c) has received or receives additional remuneration from the Company apart from a Director's fee, participates in the company's share option or is a member of the Company's pension scheme;
- (d) has close family ties with any of the Company's advisers, the Directors or senior employees;
- (d) holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies;
- (e) represents a significant shareholder; or
- (f) has served on the Board of Directors for more than nine years from the date of their first election.

108. At least one third part of the members of the Board of Directors shall be INEDs.
109. The terms and conditions of appointment of the Directors (including INEDs) shall be made available for inspection by any shareholder of the Company. The terms and conditions of appointment of the Directors shall set out the expected time commitment. The Directors shall undertake that they will have sufficient time to fulfil the entrusted functions. Their other significant commitments shall be disclosed to the Board of Directors before appointment, with a broad indication of the time involved and the Board of Directors shall be informed of subsequent changes.

### **3.4. BOARD OF DIRECTORS PROCEEDINGS**

110. The activities of the Board of Directors shall be based upon the principles of reasonableness, effectiveness, activity, fairness, honesty, responsibility and accuracy.
111. Meetings of the Board of Directors shall be held based upon the principle of reasonableness, effectiveness and regularity and take place at least six times a year. Furthermore, the INEDs may meet without other Directors present sufficiently regularly to discharge their particular duties effectively.
112. The Chairman should hold meetings with the Independent Non-Executive Directors without other Directors present.
113. The Board of Directors shall follow the internal procedures for preparation for and holding of its meetings approved by the General Meeting. These procedures shall govern all necessary parameters of the Board of Directors meetings.
114. The meetings of the Board of Directors may be held in presentia and in absentia.
115. Meetings of the Board of Directors in presentia are the most efficient form of meeting. Meetings in presentia shall be normally conducted for consideration of issues and making decisions on specially important, key, strategic issues related to the Company's activities.
116. The Board of Directors shall be entitled to establish committees in respect of the following issues:
  - (a) internal audit;
  - (b) strategic planning;
  - (c) human resources;
  - (d) remunerations;
  - (d) social issues;
  - (e) business planning
  - (f) corporate governance
  - (h) any other committees within the competence of the Board of Directors, which authorities to be stipulated in regulations on such committees approved by the Board of Directors separately.

117. The Directors shall monitor the state of the Company and maintain continual contacts with other bodies and officials of the Company.
118. The annual report of the Company shall describe a statement of how the Board of Directors and the Management Board operate, including complete information on types of decisions are to be taken by the Board of Directors or the Management Board and which are to be delegated to the CEO. The annual report should identify the Chairman, the CEO, the chairmen and members of the Board of Directors committees. It should also contain information about number of meetings of the Board of Directors and individual attendance by the Directors.
119. Where a Director has concerns in respect of the Company's activities or a proposed action which have, in the Director's opinion, to be decided by the Board of Directors he shall ensure that such concerns are included in agenda of the next meeting of the Board of Directors. Where the Directors have concerns which cannot be resolved about the running of the Company or a proposed action, they should ensure that their concerns are recorded in the Board of Directors minutes. On resignation, a Director should provide a written statement to the Chairman, for circulation to the Board of Directors, if there are any such concerns.
120. The Board of Directors should ensure that the Directors have access in accordance with the established procedure to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors. Committees of the Board of Directors should be provided with sufficient resources to undertake their duties.

### **3.5. EVALUATION OF PERFORMANCE OF THE BOARD OF DIRECTORS**

121. The evaluation of the performance results of the Board of Directors shall be made by the General Meeting.
122. The Board of Directors shall undertake a formal and comprehensive annual evaluation of performance of its committees and individual Directors. The Directors should meet without the Chairman present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate.
123. Individual evaluation shall aim to show whether each Director continues to contribute effectively to the performance of the Board of Directors and to demonstrate commitment to the role (including commitment of time for the Board of Directors and committee meetings and any other duties). The Chairman and the Human Resources Committee shall review and act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of members of the Board of Directors and/or the Management Board and, where appropriate, proposing new members be elected to the Board of Directors or the Management Board or seeking the resignation of the Directors.
124. Evaluation of the Board of Directors should be externally facilitated once a year. A statement should be made available of whether an external facilitator has any other connection with the Company.

### **3.6. INFORMATION AND PROFESSIONAL DEVELOPMENT**

125. The Board of Directors and the Management Board shall be supplied in a timely

manner with information in a form and of a quality appropriate to enable them to discharge their duties. All Directors and members of the Management Board shall receive induction on joining the Board of Directors or the Management Board and shall regularly update and refresh their skills and knowledge.

126. The Corporate Secretary shall be responsible for ensuring that the Directors receive timely accurate and clear information but the CEO is responsible for providing it timely to the Directors. The CEO has an obligation to provide such information but the Directors shall have the right to demand clarifications or amplifications where necessary.
127. The Management Board shall give consultations to the Board of Directors where necessary.
128. The Company shall provide as far as possible the necessary resources for developing and updating its Directors' knowledge and capabilities.
129. The Corporate Secretary shall be responsible for advising the Board of Directors through the Chairman on all governance matters.

### **3.7. REMUNERATION**

130. Levels of remuneration shall be sufficient to attract, retain and motivate the Directors and the members of the Management Board of the quality required to run the Company successfully, but the Company shall avoid paying more than is necessary for this purpose. Levels of remuneration for the members of the Board of Directors shall reflect the time commitment and responsibilities of the role and shall be recommended by the Human Resources and Remuneration Committee. The Remuneration Committee shall be entitled to attract any consultants in respect of remuneration within the funds provided for in the budget for a corresponding year. Where remuneration consultants are appointed, a statement should be made available of whether they have any other connection with the Company.
131. There should be a formal and transparent procedure on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration. The Remuneration Committee should consult the Chairman and/or CEO about their proposals relating to the remuneration of other Directors. Where the Directors or members of the Management Board are involved in advising or supporting the Remuneration Committee, care should be taken to recognise and avoid conflicts of interest. The Chairman should ensure that the Company maintains contact as required with its principal shareholders about remuneration of the Directors and members of the Management Board.
132. The Remuneration Committee shall recommend the level of remuneration for the Directors and the members of the Management Board relative to levels of remuneration in other similar companies. But it shall use such comparisons with caution, in view of the risk of upward ratchet of remuneration levels with no corresponding improvement in performance. The Remuneration Committee should also give special attention to terms of payment and employment accepted in the Company, especially when determining annual remuneration increases. The Remuneration Committee should carefully consider what compensation commitments

their Directors' terms of appointment would entail in the event of early termination.

133. The performance-related elements of remuneration for the members of the Management Board which form a significant proportion of the total remuneration package shall be designed to align their interests with those of shareholders and to give these members of the Management Board keen incentives to perform at the highest levels. The performance-related elements of the Directors' remuneration should be stretching and designed accordingly as to promote the long-term success of the Company.
134. When the Company has accepted share options plans such share options shall not be offered to the members of the Board of Directors or the Management Board at the price below the market value of the Company's ordinary shares at the date of granting save as permitted by the relevant provisions of the Listing Rules and Option Plan.
135. Remuneration for the members of the Board of Directors (except for the CEO) shall not include share options. If options are granted to the Directors, shareholder approval should be sought in advance. Share options shall not be granted to the INEDs.

## **SECTION 4**

### **MANAGEMENT BOARD**

#### **4.1. PRINCIPLES OF THE MANAGEMENT BOARD'S ACTIVITIES**

136. The Management Board shall undertake to execute decisions of the General Meeting and the Board of Directors and shall follow the internal provisions approved by the Board of Directors in respect of operating and organization procedures for the members of the Management Board.
137. The actions of the Management Board shall be based on such fundamental principles as honesty, fairness, reasonableness, prudence, regularity.
138. The principal aim of the activities of the Management Board shall be governance of the day-to-day operations of the Company.
139. The Management Board shall take all necessary steps to ensure the integrity and protection of confidential and internal information of the Company.
140. All members of the Management Board shall take decisions objectively in the interests of the Company.

#### **4.2. FORMATION OF THE MANAGEMENT BOARD**

141. When electing the members of the Management Board the Board of Directors shall follow the internal regulations which establish qualifying requirements to nominee candidates for those positions.
142. The nominee members of the Management Board shall have positive reputation and satisfy majority of the members of the Board of Directors.
143. The positions of members of the Management Board shall be taken up by professionals possessing the experience of work in the Company or in the oil and gas sector as well as skills of executive job.

144. The elections to the Management Board shall be carried out on the basis of maximum transparent and clear procedures set out by the Board of Directors.

## **SECTION 5**

### **CORPORATE SECRETARY**

145. The strict observance by the Company's bodies and officials of procedures aimed at securing the rights and interests of shareholders as well as observance by the Company of provisions and regulations of the Legislation, provisions of the Charter, the Listing Rules and other internal documents of the Company shall be supported by introduction of a position of the Corporate Secretary. All Directors should have access to the advice and services of the Corporate Secretary.
146. A special role of the Corporate Secretary lies in observance of the procedure of preparation and conducting of General Meetings and meetings of the Board of Directors, disclosure and submission of information about the Company, since non-observance of those very procedures most often results in violation of the rights and interests of shareholders.
147. The Corporate Secretary shall be responsible for the Company's corporate policy and corporate procedures. The Corporate Secretary shall be also responsible for resolution of corporate conflicts in the Company within the shortest time periods and to the full extent.
148. The Corporate Secretary shall ensure proper review of shareholders' requests by the appropriate bodies of the Company. The control over timely review of such requests by the Company's bodies and subdivisions shall be attached to the Corporate Secretary of the Company.
149. The status, functions and responsibilities of the Corporate Secretary shall be governed by the appropriate internal regulations of the Company.
150. Both the appointment and early removal of the Corporate Secretary shall be matter for the Board of Directors.
151. Under the direction of the Chairman, the Corporate Secretary's responsibilities include ensuring appropriate information flows within the Board of Directors, its committees and the Management Board.

## **SECTION 6**

### **SIGNIFICANT CORPORATE EVENTS**

#### **6.1. GENERAL PROVISIONS**

152. Significant corporate events mean the events which may result in fundamental changes in the Company's activities. Significant corporate events shall include without limitation the following: re-organization of the Company, redemption or sale by the Company of five and more percent from the total number of outstanding ordinary or preference shares of the Company, conclusion of major transactions, introduction amendments to the Charter and the Code.

153. The Management Board shall work out and, after approval by the Board of Directors, follow the coordinated policy in the field of significant corporate events of the Company where special attention shall be given to the following issues:
- (a) determination of mechanisms and procedures for implementation of significant corporate events;
  - (b) prior approval and evaluation of implemented significant corporate events; and
  - (c) thorough analysis and discussion of significant corporate events.
154. The importance of significant corporate events predetermines the need to create an environment of openness and trust at realization of such events and to establish a simple and transparent procedure of accomplishing thereof.

## **6.2. RE-ORGANIZATION OF THE COMPANY**

155. In case of re-organization of the Company the Board of Directors and the Management Board shall produce to shareholders justification of the Company's re-organization.

## **6.3. LIQUIDATION OF THE COMPANY**

156. In case of liquidation of the Company the Board of Directors together with the Management Board shall produce to shareholders justification for the need to carry out liquidation of the Company.

# **SECTION 7**

## **DISCLOSURE**

### **7.1. GENERAL PROVISIONS**

157. The disclosure is to ensure favourable image of the Company thereby facilitating capital formation, supporting confidence of shareholders and investors and increase of operational and financial performance.
158. The disclosure system shall satisfy the principles of maximum availability of information about the Company and full protection of the Company's inside and confidential information and ensure that the Company fulfils its obligations in accordance with the Disclosure Rules as well as informational policy of the Company determined by the Board of Directors.

### **7.2. DISCLOSURE OF INFORMATION**

159. The informational openness of the Company shall ensure the opportunity of free and easy access to the public information about the Company.
160. The disclosure of public information shall be made at regular intervals on the basis of use of mass-media. The Company may use other means of submitting information as well.

### **7.3. PROTECTION OF INTERNAL INFORMATION**

161. Along with making information available to public the Company shall ensure the integrity and protection of confidential and inside information in accordance with the requirements of the Legislation, Listing Rules and/or Disclosure Rules as well as informational policy of the Company determined by the Board of Directors.
162. The Company shall work out and apply effective system of control over the use of inside and confidential information. At examination of the Company's obligations related to disclosure of information which is likely to affect the rate of securities the Board of Directors shall give due regard to the Company's responsibilities and obligations under the Legislation and in accordance with the Listing Rules and/or Disclosure Rules. The Company shall not disclose information which is likely to affect the rate of securities selectively to any persons unless otherwise permitted by the applicable law or by the Listing Rules and/or Disclosure rules.
163. The Company shall establish adequate procedures, systems and means of control for determination, control over and distribution of the inside and confidential information or information that is likely to affect the rate of securities in accordance with the requirements of the Legislation, Listing Rules and/or Disclosure Rules and shall take all necessary steps to ensure that the disclosed information is not false or misleading.
164. Under certain circumstances the Company may, within the limits of its responsibilities and in accordance with the provisions of the Disclosure Rules and the Company's informational policy, delay public disclosure of internal information that is likely to affect the rate of securities with the view of safeguarding its legal interests, provided that such delay is not misleading for the public and the Company is capable of ensuring confidentiality of such information.
165. The Company shall inform both the Company's employees and all other interested persons about introduction of control means in relation to the Company's ability to disclose the information about the Company. The Company shall ensure that its Directors and employees receive adequate training in respect of application of the disclosure policy.
166. The Company' employees shall undertake not to divulge the confidential and inside information during the time of their employment. The Company shall establish time limitation for non-disclosure of such information after termination of employment in the Company.
167. Members of the Board of Directors and the Management Board as well as employees of the Company must not use confidential information for personal advantage.

## **SECTION 8**

### **CONTROL OVER FINANCIAL PERFORMANCE**

#### **8.1. THE COMPANY'S FINANCIAL PERFORMANCE CONTROLS**

168. Operation of financial performance controls of the Company shall be formed up on the clearly regulated basis by the Board of Directors. The Board of Directors shall produce a weighted and comprehensible assessment of the Company's position and prospects. The Directors should satisfy themselves through active participation in the Internal Audit Committee on the integrity of financial information and that financial

controls and systems of risk management are robust and defensible. The Board of Directors should, at least annually, conduct a review of the effectiveness of the Company's risk management and internal control systems.

169. To facilitate observance by the Board of Directors of the appropriate requirements of the Legislation the Company shall ensure that the Directors regularly review the Company's obligations under the Legislation.
170. The Board of Directors and the Management Board shall be responsible for the reliability of annual reports and financial statements.
171. There shall be a clear distribution of powers of bodies responsible for monitoring of financial performance of the Company subject to their reference to the development, approval, application and assessment of internal control system.

## **8.2. INTERNAL AUDIT SERVICE**

172. For monitoring financial performance of the Company, assessment of internal control principles, management of risks, execution of corporate governance documents and consulting the Company in order to develop its activities an internal audit service shall be established in the Company.
173. The Internal Audit Service shall report directly to the Board of Directors and update the Board on its performance. The role and functions of the Internal Audit Service, its rights and responsibilities shall be governed by the regulations on the Internal Audit Service approved by the Board of Directors.

## **8.3. INTERNAL AUDIT COMMITTEE**

174. The Board of Directors shall establish the Internal Audit Committee composed of at least three INEDs. The Board of Directors shall satisfy itself that at least one member of the Internal Audit Committee has recent and relevant financial experience.
175. The main role and responsibilities of the Internal Audit Committee shall be set out in writing in the form of By-Laws. The By-Laws on the Internal Audit Committee shall be available for review. A separate section of the annual report should describe the work of the committee in discharging those responsibilities.
176. The Board of Directors jointly with the Internal Audit Committee, the Internal Audit Service and external auditors of the Company shall establish formal and transparent procedures for application of financial reporting and internal control principles and for maintaining appropriate relationship with the Company's external auditors.
177. The Board of Directors shall, at least annually, conduct a review (together with the Internal Audit Committee, unless expressly addressed by a separate board risk committee composed of the INEDs, or by the board itself, and the Internal Audit Service) of the effectiveness of the Company' internal controls and shall report to shareholders that they have done such review. The review shall cover entire material control, including financial, operational control and control compliance with the risk management system.
178. The Internal Audit Committee together with the Internal Audit Service shall examine arrangements whereby the employees of the Company may confidentially raise questions regarding possible variance of financial statements or other issues. The

purpose of the Internal Audit Committee is to establish arrangements for proper and independent examination of such issues and take appropriate follow-up actions.

179. The Internal Audit Committee shall annually evaluate the performance of the Internal Audit Service.

#### **8.4. EXTERNAL AUDIT**

180. The main objectives of an audit inspection by an external independent auditor is inspection of the Company's financial statements and obtaining of an independent opinion on consistency and objectivity of the Company's financial statements preparation.

181. The recommendations of the Internal Audit Committee shall be referred by the Board of Directors to a General Meeting to be taken into account in the process of decision-making in respect of appointment of an audit company. If the Board of Directors does not accept the committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the Internal Audit Committee explaining the recommendation and should set out reasons why the Board of Directors has taken a different position.

### **SECTION 9**

#### **DIVIDEND POLICY**

##### **9.1. GENERAL PROVISIONS**

182. The Board of Directors shall develop and give recommendations to the General Meeting in respect of dividend rates on ordinary and preference shares subject to the regulations on dividend policy.

##### **9.2. DIVIDEND PAYMENT**

183. The Company shall develop and approve the simple and understandable mechanisms of dividend payment. The collection of dividends shall not be difficult or burdensome for the Company' shareholders.

184. The regulations on dividend policy shall establish procedure for determining minimum portion of the Company's net profit to be allocated for dividend payment.

185. The determination of amount of the Company's net profit shall be based upon the rule that the amount of net profit for determining the amount of dividends shall not be different from the amount of net profit used for the purpose of business accounting, since otherwise the amount of dividends would be calculated on the basis of an understated or overstated amount which means significant infringement of shareholders' interests. Thus, the Company shall make calculation of net profit in accordance with the procedure established by the Legislation for the purpose of business accounting.

186. The information about making decision (about announcement) about dividend payment shall be sufficient for getting a clear insight about presence of conditions for dividend payment and procedure of payment thereof.

187. The priority form of dividend payment shall be payment in terms of money; however

the Company shall be entitled to pay dividends in the form of shares in accordance with the restrictions established by the Legislation.