



**REPORT ON PERFORMANCE
OF THE STRATEGY AND INNOVATION COMMITTEE OF THE
BOARD OF DIRECTORS OF JSC NC “KAZMUNAYGAS” FOR THE
YEAR 2018**

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GENERAL INFORMATION

We present our annual report on the work of the Strategy and Innovation Committee of the Board of Directors of JSC NC “KazMunayGas” (hereinafter – the **Committee** and **KMG**, respectively). The Committee was renamed Strategy and Portfolio Management Committee of the Board of Directors of JSC NC “KazMunayGas” (hereinafter – the **SPMC**).

The Committee is an advisory body of the KMG Board of Directors and all of its resolutions are recommendations on items submitted to the KMG Board of Directors for consideration.

Composition of the Committee

The Committee must be formed out of members of the Board of Directors and experts that have required professional knowledge to be able to sit on the Committee and must comprise at least three members, most of those members being Independent Directors of the KMG Board of Directors.

Members of the Committee must be elected by the KMG Board of Directors, while the Chairman of the Committee must be elected from among Independent Directors. The composition of the Committee several time during 2018 because of changes in the composition of the Board of Directors of KMG. For more details, please see the table below titled Meetings attended by members of the Committee during 2018.

Committee Members

Stephen James Whyte – Chairman of the Committee;

Christopher John Walton – member of the Committee, Chairman of the KMG Board of Directors - Independent Director;

Uzakbay Suleimenovich Karabalin – member of the Committee, member of the KMG Board of Directors – representative of “Samruk-Kazyna” JSC;

Baljeet Kaur Grewal – member of the Committee, member of the KMG Board of Directors – representative of “Samruk-Kazyna” JSC;

Philip John Dayer – member of the Committee, member of the KMG Board of Directors – Independent Director.

Independence of the Committee Members

Chairman of the Committee Stephen James Whyte and members of the Committee Christopher John Walton and Philip John Dayer are Independent Directors of the KMG Board of Directors.

The Corporate Secretary of KMG performs the functions of the Secretary of the Committee.

Role of the Committee

The Committee makes recommendations on the following matters:

- KMG’s development strategy and investment policy, including the key priorities in KMG’s activities;
- enhancement of KMG’s investment appeal, including by means of KMG’s corporate governance improvement;
- a proper planning of financial and economic performance of KMG;
- innovations within KMG;
- implementation of sustainable development principles in strategic planning and social and economic development of KMG.

The SPMC assists to the KMG Board of Directors of KMG by making recommendations on following matters:

- KMG’s development strategy and investment policy, including the key priorities in KMG’s activities;
- enhancement of KMG’s investment appeal, including by means of KMG’s corporate governance improvement;
- a proper planning of financial and economic performance of KMG;
- innovations within KMG;
- implementation of sustainable development principles in strategic planning and social and economic development of KMG;
- monitoring of the transformation of KMG.

KEY ACTIVITIES OF THE COMMITTEE IN THE YEAR 2018

Meetings

The Committee holds at least four in-person meetings a year.

During 2018 the Committee held 6 meetings in which it reviewed about 100 items and made relevant recommendations to the KMG Board of Directors on those items.

The items that were reviewed at meetings of the Committee can conventionally be subdivided into the following topics:

- key priority areas of KMG’s activities;

- Corporate Governance;
- privatization;
- subsoil use.

Key priority areas of KMG activities: the Committee considered on a monthly basis, among other things, certain issues related to implementation of projects under the KMG Transformation Program; prospects for the development of the North Caspian project and the Karachaganak project. During the year, the Committee discussed the possibilities of gas flaring, trends and factors affecting the oil price, and how the optimum performance could be reached on active wells.

Corporate Governance: the Committee addressed a number of big and important issues and, based on the results of consideration, provided recommendations to the KMG BoD on approval of the KMG Development Strategy until 2028 (including the strategy of the upstream block), Consolidated Development Plan of KMG for 2019-2023, approval of the KMG's Annual Report and KMG Sustainability Report for the year 2017. The Committee discussed the outcome of the third party corporate governance diagnostics that was conducted in KMG in 2017, and the corporate governance score and the Plan to improve corporate governance within KMG. The Committee gave positive recommendations to the KMG BoD on the outcome of the review of matters to do with the amendments to the Charter of KMG. During the reporting period, the Committee reviewed such internal documents of KMG as Regulation on the Management Board, and Regulation on Operational Planning of KMG for 2018-2019. Also, every quarter at its meetings the Committee was updated on progress with the implementation of investment projects of the KMG Group and approval of the investment project KPC Gas Debottlenecking.

As part of the Privatization topic, the Committee was regularly updated on the Privatization Program for the KMG Group in light of an IPO. It was also updated on KMG International N.V.

As part of the Subsoil Use topic, during the year 2018 the Committee, among other things, considered approval of divestment of 100 percent subsoil use rights in Oil Construction Company LLP; acquisition of subsoil use rights for Beineu area; handing license area back to the state under contract for exploration and production of raw hydrocarbons from Satpayev area.

The Committee has achieved the following in the year:

1. Requiring Board approval of the appointment of head of Institute (governance);
2. Introducing experts on ranking and evaluation international corporate governance and Ethics and Compliance, and holding meetings with some directors and the IPO team;
3. Introducing a requirement for all contract counterparties in all group companies to require identification of ultimate beneficial owners and any conflict with KMG employees;
4. Drafting a brownfields strategy gap letter and opportunity for improvement.
5. Drafting an IPO Equity story strawman;
6. Engaging the KMG exec on applying best practice, including PWC input, into organisational design and introducing technical matrices organizational structure into EP;
7. Changing the weighting ratio on the operated brownfield corporate KPIs;
8. Gas strategy request. Still to be delivered;
9. Value chain/transfer pricing - commenced recently via IPO workgroup.
10. Requiring the ranking of exploration and Development opportunities; (including existing brown fields); and
11. Holding the Exploration manager accountable for the delivery (and improvement) of partner support or exit for exploration carry projects.

KMG's officers and employees were regularly involved in the work of the Committee without any right to vote.

Meetings attended by members of the Committee during 2018

Number and date of the meeting of the Committee	1/2018 24.01	2/2018 28.03	3/2018 30.05	4/2018 25.07	5/2018 2.10	6/2018 27.11	attendance, percentage-wise
Meeting time	- 10:00 13:30	- 10:00 14:00	- 10:00 14:07	- 13:00 16:00	- 09:00 13:45	- 10:00 15:00	
S.J. Whyte	+	+	+	+	+	+	100%
C.J. Walton	+	+	+	+	+	+	100%
U.S. Karabalin	+	+	+	+	+	+	100%
B.K. Grewal	-	+	-	+	+	+	67%
Ye.U. Baimuratov.	+	+	+	+	<i>Not a member of the Committee</i>		100%
A.O. Ilkevicius	-	-	-	<i>Not a member of the Committee</i>			0%
P.J. Dayer	<i>Not a member of the Committee</i>			-	+	+	67%

CONCLUSION

During 2018 the Committee:

- was actively involved in the performance of the Board of Directors of KMG, and adhered to the provisions of the Charter of KMG, while performing its work;
- rendered any possible assistance to the Board of Directors of KMG; and
- fully implemented its goals and objectives.

Chairman of the Committee

S.J. Whyte