

CORPORATE GOVERNANCE AND SUSTAINABILITY



One of the important strategic goals of the Company was to revise our management policy taking into account the components of sustainable development and to set performance targets for the new level of development. Sustainable development for us is a significant component of corporate governance.



Management system change

In 2018 we continued to actively implement the Transformation Program. According to the new management model, one of the major sub-holdings, KMG Exploration and Production, merged with us in 2018. Now production assets are managed directly by KMG.



Corporate culture development

In 2018, we approved a new Code of Business Conduct (hereinafter – the Code) which enshrines KMG’s corporate values, defines the most important principles and rules of business conduct and stakeholder relations, and is a set of corporate ethics requirements to be followed by all employees of the Company.



CORPORATE GOVERNANCE

GRI 102-18

Transparency of the corporate governance and organization structure is essential for ensuring accountability of these bodies and those involved. These reporting elements contain information about how the organization creates its supreme corporate governance body, forms its structure taking into account its goals, and how these goals relate to the economic, environmental and social impacts of the organization.

Corporate Governance Structure

In accordance with the KMG Charter, KMG corporate governance bodies are:

- 1) Supreme Body – General Shareholders Meeting,
- 2) Management Body – Board of Directors,
- 3) Executive Body – Management Board.

The Board of Directors performs general management of KMG activities, defines priority areas of activities, development strategy of the company, and is responsible to the General Meeting of Shareholders for implementation of its leadership functions. Management of current activities is carried out by the Management Board, which in turn reports to the Board of Directors.

The KMG corporate governance structure



Committees of the Board of Directors

To consider the most important issues and prepare recommendations to the Board of Directors, KMG establishes committees of the Board of Directors. In 2018, the following Committees operated under the Board of Directors:

1. **Nominating and Remuneration Committee** established for the tasks of succession planning of the Board of Directors and the Management Board, assessment of the activities of KMG authorities, ensuring effective personnel policy, remuneration

system, as well as social support, professional development and training of KMG officials and employees;

2. **Strategy and Portfolio Management Committee**, formerly known as the Strategy and Innovation Committee, established for such issues as the development strategy and investment policy, priority areas of KMG's activities, improving the investment attractiveness of KMG, planning financial and economic activities and monitoring the transformation of KMG;

3. **Finance Committee** established for the purpose of effective financial policy, by assessing a financial condition, monitoring a financial structure and strategy, as well as monitoring the implementation of investment projects;
4. **Audit Committee** which functions are aimed at effective control over financial and economic activities, the performance of systems of internal control, risk management and corporate governance, audit and financial reporting;
5. **Committee on Safety, Health and Environment and Sustainability** established in 2018 to consider a range of issues on safety, health and the environment, the implementation of the principles of sustainability and socio-economic development, social obligations and programs, ensuring business continuity and environmental efficiency. This Committee is responsible for initiating, in-depth consideration and decision-making on the economic, environmental and social aspects of the impact of the organization.

Delegation of Powers

GRI 102-19

Delegation of powers to solve economic, environmental and social problems from the Supreme body of corporate governance to top executives and other employees is carried out within the framework of corporate governance in accordance with the KMG Charter and the Corporate Governance Code. Corporate governance is the responsibility of the Board of Directors, with the Corporate Secretary monitoring and advising the Board of Directors, the Executive body and other bodies on proper implementation of the Corporate Governance Code, the development of medium-term plans to improve corporate governance and their implementation. A set of issues on sustainability, including the delegation of solutions of the economic, environmental and social problems, is detailed in the action plans for improving corporate governance.

GRI 102-20

In accordance with the Corporate Governance Code, the Board of Directors and the Management Board, within their competencies, ensure the development of an appropriate system for sustainability and its implementation, with all employees and officials at all levels contributing to sustainability.

SUSTAINABLE DEVELOPMENT GOALS



Principle 1

Business communities shall support and respect protection of internationally recognized human rights.



Principle 2

Business communities shall make sure that they are contributory infringer of human rights.

Principle 4

Business community should advocate liquidation of all forms of forced and compulsory labour.



Principle 6

Business community should advocate liquidation of discrimination in the area of labour and employment.

Principle 7

Businesses should support a precautionary approach to environmental challenges.



Principle 8

Undertake initiatives to promote greater environmental responsibility.

Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery.



Responsibility for Economic, Environmental and Social Issues

At the level of the Executive body, the responsibility for addressing sustainability issues is as follows:

- Managing Director for Strategy is responsible for creation and implementation of a sustainable development management system that allows to follow the principles and objectives of sustainable development, integration of the management system in the field of sustainable development into key processes, the Development Strategy and the decision-making processes of KMG;
- Managing Director on occupational health and environment is responsible for development and enforcement of the KMG's HSE strategy and policy, as well as for ensuring occupational safety, health, environment and environmental safety;
- Managing Director on human resources is responsible for implementation of the processes and management of human, personnel and social aspects of sustainability;

- Deputy Chairman of the Management Board – Financial Director is responsible for resolving a range of issues related to the economic component of sustainability, including the promotion of economic development of the presence regions and the share of local content in procurements.

The above persons are accountable to the Management Board and/or its Chairman. Accountability of responsible persons for economic, environmental and social issues is governed in detail by regulatory documents, procedures of internal control and continuity of the Company's activities. Thus, in accordance with the development plans, issues are regularly submitted to the Management Board, which in turn is accountable to the Board of Directors. Comprehensive control over performance of the appropriate functions and measures to improve corporate governance is carried out within the powers of the Audit Committee of the KMG Board of Directors.

Advising Stakeholders on Economic, Environmental and Social Issues


GRI 102-21

Consultations on economic, environmental and social issues between stakeholders and the Supreme corporate governance body of the Company are conducted in various ways on an ongoing basis. Thus, in 2018, the sustainability issues were considered 11 times within the framework of meetings of the Board of Directors, as well as 5 times at consultative and consultative meetings in the context of the competence of the Strategy and Innovation Committee. Current and operational issues are reviewed by the Management Board every week. Officials and responsible persons of various authorities and levels of management, including representatives of shareholders, external consultants, partners and other stakeholders, are involved in such meetings.

Advising an extensive list of stakeholders on economic, environmental and social issues

is carried out through the Company's website, the public relations service (press service), as well as through the release of the annual Sustainability Report, which is the KMG central communication channel with external and internal stakeholders on sustainability. At the same time, there are various ways of communication in KMG, which allow properly building a dialogue with stakeholders and the Company. For example, information for the investment community is placed in detail on a special portal <http://ir.kmg.kz>, employment issues are posted on <http://work.kmg.kz>, the system of confidential information is arranged through the belief system channel (doverie@kmg.kz), there is also a functional interaction on the activities of the Ombudsman ombudsman@kmg.kz, health and environmental protection hse@kmg.kz, and sustainability sustainability@kmg.kz.

Composition of the Board of Directors and its Committees

GRI 102-22, 102-23

As of the date of this Report, the Board of Directors includes:

1. **Walton Christopher John**, Chairman of the Board of Directors;
2. **Baljeet Kaur Grewal**, Representative of Interests of JSC “Samruk-Kazyna”;
3. **Uzakbay Karabalin**, Representative of Interests of JSC “Samruk-Kazyna”;
4. **Almasadam Satkaliyev**, Representative of Interests of JSC “Samruk-Kazyna”;
5. **Whyte Stephen James**, Independent Director;
6. **Dyer Philip John**, Independent Director;
7. **Viana Palha Da Silva Luis Maria**, Independent Director;
8. **Anthony Espina**, Representative of Interests of JSC “Samruk-Kazyna”;
9. **Alik Aidarbayev**, Chairman of the KMG Management Board.

As of the date of this Report, the composition of the Committees is as follows:

Strategy and Portfolio Management Committee

1. Whyte Stephen James, Chairman of the Committee
2. Walton Christopher John
3. Uzakbay Karabalin
4. Grewal Baljeet Kaur
5. Dyer Philip John
6. Viana Palha Da Silva Luis Maria
7. Anthony Espina

Nominating and Remuneration Committee

1. Viana Palha Da Silva Luis Maria, Chairman of the Committee
2. Dyer Philip John
3. Walton Christopher John
4. Whyte Steven James
5. Uzakbay Karabalin
6. Anthony Espina

Finance Committee

1. Walton Christopher John, Chairman of the Committee
2. Whyte Steven James
3. Grewal Baljeet Kaur
4. Dyer Philip John
5. Viana Palha Da Silva Luis Maria
6. Anthony Espina

Audit Committee

1. Dyer Philip John, Chairman of the Committee
2. Whyte Steven James
3. Viana Palha Da Silva Luis Maria

Committee on Safety, Health and Environment and Sustainability

1. Dyer Philip John, Chairman of the Committee
2. Walton Christopher John
3. Whyte Steven James
4. Uzakbay Karabalin
5. Viana Palha Da Silva Luis Maria

The Board of Directors consists of four independent directors, four – representatives of the shareholder, and the Chairman of the KMG Management Board. Members of the Management Board, except for the Chairman of the Management Board, may not be elected to the Board of Directors, and the Chairman of the Management Board may not be elected as a Chairman of the Board of Directors. Members of the Board of Directors are elected for a term of up to three years. KMG Board of Directors includes of one woman – Grewal Baljeet Kaur, three of the nine members of the Board of Directors are citizens of the Republic of Kazakhstan. The Board of Directors includes two people in the age group from 30 to 50 years and seven people older than 50 years. The Board of Directors and its Committees maintain a balance of skills,



experience and knowledge to ensure that independent, objective and effective decisions are made for the benefit of KMG and that

all shareholders are treated fairly and in accordance with the principles of sustainability.

Nominating and Selection of the Board of Directors

GRI 102-24

Procedure for Nominating and Selection of Candidates to the Board of Directors

The procedure for Nominating and selection of candidates to the members of the Board of Directors is determined by the Charter and other regulatory documents, by the General Shareholder Meeting together with the Chairman of the Board of Directors and Chairman of the Nominating and Remuneration Committee, and also due to the principles of transparency, fairness and professionalism in implementing the sourcing and recruitment of candidates. Members of the Board of Directors are elected from among those proposed for election as

representatives of shareholders and other persons. Candidates to the Board of Directors members should have the knowledge, skills and experience necessary to perform their functions and ensure long-term value growth and sustainability, as well as an impeccable business reputation. Chairman of the Board of Directors is elected by the General Shareholder Meeting. Independent Directors are selected in accordance with the approved Rules for Selection of Independent Directors of Companies belonging to the Samruk-Kazyna Group.

Conflict of Interests

GRI 102-25

Procedures to Prevent Conflicts of Interests

The inadmissibility of a conflict of interest is one of the fundamental principles of sustainable development and is enshrined in the Code of Corporate Governance.

The Company also approved the Policy for the settlement of conflicts of interest among employees and officials of KazMunaiGas NC JSC, which was developed for the purposes of creating a uniform system for managing real and potential conflicts of interest in KMG, as well as

determining the requirements for the behaviour of employees and/or officials the compliance with which will ensure honest and impartial performance of their official duties (or duties within any corporate elected bodies, such as committees, commissions, etc.) and impartial decision making.

Each employee and/or official, while performing his/her official duties, is obliged to put KMG's interests above his/her private interests.

Disclosure of Conflicts of Interest

In the case of a conflict of interest, an employee and/or official shall be obliged to immediately and fully disclose the information (to declare) about a real or potential conflict of interest, as well as to actively contribute to resolution thereof.

A possible source of disclosure of the information about a conflict of interest may be third parties (the so-called "whistle blowers" that are employees who report violations or abuses).

The information on a conflict of interest should be disclosed by an employee and/or an official of KMG only in writing and in the most understandable form.

At the same time, KMG undertakes to keep confidential the process of disclosing the information about a conflict of interest and the process of settlement thereof (at the request of an employee and/or official), to protect an employee and/or official from prosecution in connection with a conflict of interest that was disclosed and settled by him/her in a timely manner.

Role of the Board of Directors in Defining Goals, Values, Mission and Strategy

GRI 102-26

The Board of Directors shall determine the priority areas of activities, approve and monitor implementation of the development strategy, which includes goals, values, mission, as well as policies and tasks in relation to economic, environmental and social impacts, in consultation with shareholders on the basis of proposals developed by the Executive body.

Thus, in 2018, the Board of Directors approved a new KMG Development Strategy for 2018–2028, which defines corporate governance

and sustainability as one of the three strategic goals of the Company for the next ten years. Implementation of the strategic goal "Corporate Governance and Sustainability" should be resulted in establishment of a management system that ensures achievement of improved indicators of corporate social responsibility, health, safety and environment, improving the economic impact in the presence regions, combating corruption, improving the quality of relations with stakeholders, improving the rating of corporate governance and corporate culture of ethics.

Competence and Evaluation of the Board of Directors

Collective Knowledge of Members of the Board of Directors

 **GRI 102-27**

Members of the Board of Directors strive to regularly improve their skills and professionalism, including in the management of economic, environmental and social aspects. The Nominating and Remuneration Committee regularly reviews the current balance of skills and knowledge of the Board of Directors members and develops a training plan.

On an annual basis, the Company holds a Forum of Directors General devoted to safety and environmental protection, with the participation of members of the Board of Directors, the Management Board of KMG, the CEOs of KMG subsidiaries, with

the involvement of external consultants and industry experts. On a periodic basis, field sessions of the Board of Directors are held in the places of production activities. Also, since 2018, separate plans are being developed to train KMG management and employees on sustainability, ethics and compliance, along with other ongoing seminars and sessions in the context of corporate governance components. Information on improving the skills and knowledge of members of the Board of Directors is posted on the company's website http://www.kmg.kz/rus/kompaniya/korporativnoe_upravlenie/treningi_chlenov_soveta_direkt/.

Assessment of Performance of the Board of Directors

 **GRI 102-28**

In accordance with the Corporate Governance Code, the Board of Directors annually assesses its activities, performance of the Committees, Chairman and members of the Board of Directors. The assessment is carried out every three years by an independent consultant. In 2018, as required by the Code, an independent consultant of PricewaterhouseCoopers conducted an interim corporate governance diagnosis at KMG, which included an assessment of performance of the Board of Directors and the Executive body. The diagnostic results were reviewed in accordance with the established procedure by the KMG shareholder, at the meetings of the Nominating and Remuneration Committee and directly by the Board of Directors. In addition, an independent consultant developed a Plan to improve KMG's Corporate Governance for 2018–2020 based on the diagnostic

results, which identifies specific and clear steps to improve performance of the KMG's management bodies. A procedure for performance assessment of the Board of Directors is governed by the Regulations on Performance Assessment of the Board of Directors, Committees of the Board of Directors, Chairman, members of the Board of Directors and Corporate Secretary of KMG.

The corporate governance diagnostics and an accompanying plan includes the following components:

1. Performance of the Board of Directors and the Executive body,
2. Risk management, internal control and audit,
3. Sustainability,
4. Rights of shareholders and fair treatment of shareholders,
5. Transparency.

Management of Economic, Environmental and Social Impacts

GRI 102-29

KMG's Board of Directors plays a key role in managing economic, environmental and social impacts, risks and associated prospects. The Company regularly assesses risk on a quarterly basis and at the end of the year in accordance with the approved methodology for risk management, including economic, environmental and social risks. Based on the identified risks, the appropriate action plans for their prevention, monitoring and elimination are developed and implemented. In particular, the Board of Directors is responsible for determining the corporate risk management policy, approving the register and risk map, the action plan for critical risk management, the overall risk appetite, the levels of tolerance for each key risk, approving the risk report

and documents in the field of ensuring the continuity of KMG activities.

In particular, in 2018, independent consultants identified a number of system improvements based on the results of corporate governance diagnostics, which subsequently increased the corporate governance rating from "B" to "BB". Namely, the company has implemented key recommendations for development of a comprehensive system for determining risk appetite, critical evaluation of the risk management plan, discussion of risks at meetings of the Executive body Committee on risks and a number of other activities.

Role of the Board of Directors in Risk Management

Effectiveness of the Risk Management Process

GRI 102-30

The KMG Board of Directors annually approves the Risk Register, Risk Map, and Risk Management Plan of the Company. According to the Company's Risk Register and Map for 2018, 34 risks were identified and assessed in these areas. The measures have been developed for each risk to manage them, and the risk owners have been identified. Constant monitoring of the dynamics of key risks and the implementation of measures to reduce them, as well as informing

the Management Board and the Board of Directors of KMG by sending quarterly reporting on risks is performed. In 2019, we plan to update the risk register and supplement it with risks related to climate change and water scarcity. We have changed the approach to risk management in the field of health, safety and environmental protection and now all leaders of KMG business areas are the owners of these risks.

Consideration of Economic, Environmental and Social Issues

GRI 102-31

Until 2018, a frequency of consideration of economic and social impacts (except labor protection issues), as well as related risks and opportunities was formed based on an annual Action Plan of the Board of Directors. However, since 2018, such issues are considered regularly in the framework of the company's current activities.

Safety, health and environmental protection is our most important aspect in the field of sustainability, it is one of the main priorities of the KMG Strategy and HSE Policy. HSE questions are heard monthly at the meetings of the Management Board and BoD of KMG, increasing the responsibility of managers and specialists. A practice of personal accountability of Directors General of subsidiaries to the KMG BoD of KMG has been introduced for every fatal case in the workplace.

In December 2018, the Board of Directors established an independent Committee on Safety, Health and Environment and Sustainability. Prior to that, this function was performed by the Strategy and Innovation Committee.

Further, in accordance with the decision of the Board of Directors, in December 2018, the Board of Directors established the Committee on Safety, Health and Environment, and Sustainability to assist the Board of Directors on the following issues:

- Safety, health and environmental protection.
- Implementation of the principles of sustainability in strategic planning and socio-economic development of KMG.
- Social obligations and programs of KMG within the framework of concluded contracts for subsoil use.

- KMG business continuity management.
- KMG environmental efficiency.

Starting from 2019, the meetings of this Committee are scheduled on a quarterly basis, the Committee consists of five independent directors. Thus, the Board of Directors holds an expanded discussion and analyses of economic, environmental and social impacts, as well as related risks and opportunities, four times a year.

More information about GRI disclosures 102-15, 102-30, 102-31, 102-33, 102-34, 102-35, 102-36, 102-37, 102-38, 102-39 (risk management, BoD activity, BoD remuneration) is specified in the Annual Report http://ir.kmg.kz/storage/files/272ede75d8454f06/KMG_ANNUAL_REPORT_2018_ENG.pdf.



Offsite meeting of the Board of Directors

SUSTAINABILITY IS OUR STRATEGIC GOAL

GRI 102-16

In 2018, the Board of Directors approved a new KMG Development Strategy until 2028 (hereinafter – the Strategy), which defines corporate governance and sustainability as one of the three strategic goals of the Company for the next ten years. Implementation of the strategic goal “Corporate Governance and Sustainability” should be resulted in establishment of a management system that ensures achievement of improved indicators of corporate social responsibility, health, safety and environment, improving the economic impact in the presence regions, combating corruption, improving the quality of relations with stakeholders, improving the rating of corporate governance and corporate culture of ethics.

The Action Plan for implementation of the Strategy includes in the corporate key performance indicators (KPI) the indicators related to implementation of sustainability components in the Company and its business units. Next year sustainability KPIs are planned to be integrated in the system of strategic and medium-term planning and KPI tree of the Company.

In order to implement and introduce the sustainability system, a Guide on Sustainability Management System for the KMG Group of Companies will be developed in 2019.

When planning KPIs for 2019, KPIs for sustainability is reflected as follows:

Sustainability indicators	Description
Economic indicators	Financial and economic KPIs are included in the maps of Deputy Chairmen of the Management Board
Environmental responsibility	Relevant KPIs to achieve full utilization of historical oil wastes are provided for the HSE Managing Director and the HSE Co-Managing Director, as well as the General Director of “Embamunaygas” JSC, “Ozenmunaygas” JSC.
Social responsibility	Relevant KPIs on social stability, labor resources, etc. are included in KPI Map of the Managing Director for human resources. In 2019, an indicator of contractors’ safety management and contractors’ reporting transparency is planned to be introduce as KPI. Contractors make up more than 50% of our workforce, and improving their safety will ultimately affect KMG’s overall performance.

In 2018, the Company underwent an independent diagnostics of the corporate governance system assessment. Assessment of the “Sustainability” component includes such areas as the purpose and KPI of sustainability, corporate ethics, a system of confidential reporting, the process of combating the legalization of illegally obtained income, the involvement of suppliers and owners of contracts, social programs, environmental objectives, purpose of occupational health and safety system for sustainability and reporting.

In the overall assessment of the corporate governance system, the “Sustainability” component as one of the five components occupies 20%.

Our key performance indicator for sustainability is an achievement of the following main goals:

1. The Company ensures the consistency of its economic, environmental and social objectives for long-term sustainable development, which includes the growth of the Company’s long-term value.
2. The Company implements a system that allows consistent and continuous follow the principles of sustainable development.

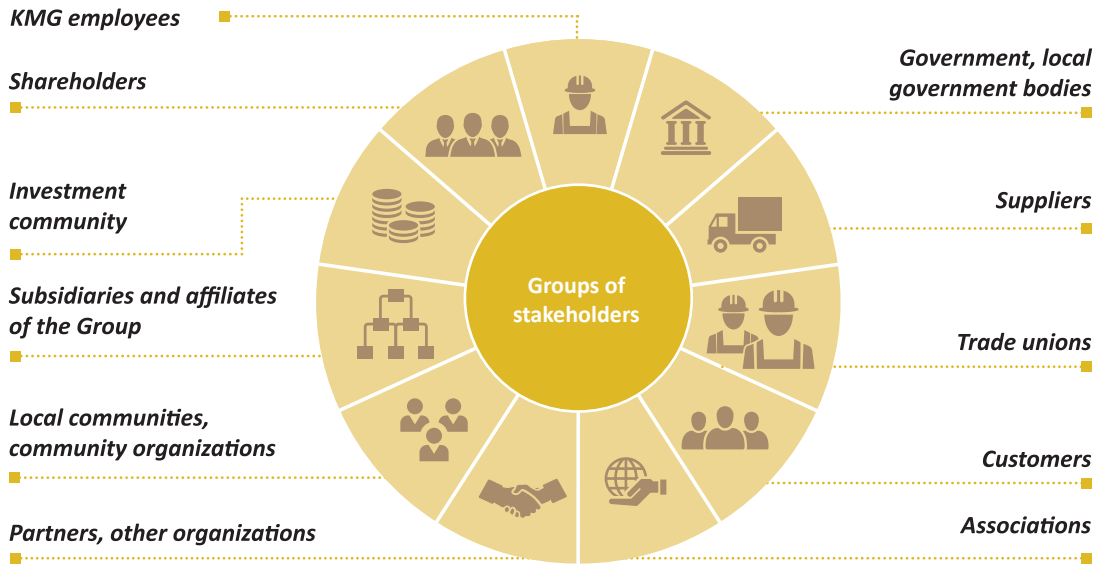
In 2018, a rating of B (average level) was achieved for the above goals.

STAKEHOLDER INTERACTION

GRI 102-40, 102-42, 102-43

KMG carries out a full production cycle from the exploration and production of hydrocarbons, their transportation and processing to the sale of oil and oil products both inside Kazakhstan

and abroad, and represents the interests of the state in the oil and gas sector. Due to its complex structure and activities, KMG interacts with a wide range of stakeholders.



Identification of stakeholders

KMG on an ongoing basis takes measures to establish a dialogue and long-term cooperation and management of relations with the Stakeholders.

In KMG, a Stakeholder Map has been prepared, taking into account risks and ranking, taking into account the dependence (direct or indirect), obligations, situation (paying special attention to high-risk areas), influence, various (diverse)

perspectives. Plans of stakeholder interaction for effective implementation of the tasks are drawn up.

In identifying and interacting with stakeholders, KMG applies best practices for stakeholder engagement, including international standards, such as the AA1000SES Stakeholder Engagement Standard.

Methods of stakeholder interaction include the following:

Interaction level	Interaction methods
<p>Consultations Bilateral interaction; Stakeholders answer the questions of the Fund and organizations</p>	<p>Questionnaires; focus groups; meetings with stakeholders; public meetings; seminars; providing feedback through means of communication; advisory councils</p>

Interaction level	Interaction methods
Negotiations	Collective negotiations based on the principles of social partnership
Involvement Bilateral or multilateral interaction; building expertise and knowledge from all sides; stakeholders and organizations operate independently	Multilateral forums; consulting panels; consensus-building process; the process of joint decision-making; focus groups; feedback schemes
Cooperation Bilateral or multilateral interaction; joint building of experience and knowledge, decision-making and measures	Joint projects; joint ventures; partnership; joint initiatives of stakeholders
Delegation of authority Stakeholders participate in the management	Integration of issues of interaction with stakeholders in management, strategy and operations

KEY AREAS OF INTERACTION

GRI 102-43

IR / Investor relations

Classification of stakeholders:

- Holders of bonds;
- Investment banks;
- Rating agencies;
- Potential investors of KMG;
- Kazakhstan Stock Exchange JSC;
- Depository of financial statements of the National Bank of the Republic of Kazakhstan;
- Other professional market participants.

Disclosure of information about the activities of KMG occurs in accordance with the applicable requirements of stock exchanges, which are addressed by KMG securities and the requirements of the legislation of the Republic of Kazakhstan regarding disclosure of information.

The list of KMG investors is replenished on a regular basis after meetings, conferences, road shows. The list consists of investment banks and KMG bond holders, as well as professional market participants who showed interest in KMG

activities. As for the internal structural units, depending on the specifics of the issue, the IR team interacts with the financial and production blocks (upstream, midstream and downstream), as well as directly with SDEs, if necessary.

Maintenance of communications with the investment community is provided through the following IR activities:

- Quarterly conference calls with investors on the results of the company's activities for the previous quarter;
- Road-shows, meetings with investors;
- Answers to inquiries about the activities of KMG from interested investors, investment banks / companies, financial analysts, etc. by e-mail ir@kmg.kz or by phone;
- Publication of periodic IR materials on financial and production results of KMG – press releases, presentation for investors, brochure on KMG, KMG factsheet, Annual report;
- Maintaining the “Investors” section of the KMG website <http://www.ir.kmg.kz>.

Investor interaction

Period	Event	Place
January, 2018	Road show with investors (non-deal road-show)	Frankfurt, London, Boston, New York
February, 2018	Meetings with investors in the framework of conferences	Miami
March, 2018	Conference call with investors on the results of financial and operational results for 2017	Nur-Sultan
June, 2018	Conference call with investors on the results of financial and operational results for Q1 2018	Nur-Sultan
September, 2018	Meetings with investors in the framework of conferences	London
September, 2018	Conference call with investors on the results of financial and operational results for Q2 2018	Nur-Sultan
October, 2018	Road show with investors (non-deal road-show)	Frankfurt, London, New York
December, 2018	Conference call with investors on the results of financial and operational results for Q3 2018	Nur-Sultan

PR / Public Relations:

Classification of stakeholders:

- Kazakhstani and foreign media;
- Foreign mass media;
- Local and regional communities;
- Board of Directors;
- Government bodies;
- General public.

In compliance with the principles of transparency and openness, the Company interacts with all the republican and regional media, including placing information on the official website of the Company for access to all interested parties, distributing information messages, providing answers to media inquiries, organizing press conferences with an invitation all interested media and so on.

Maintaining communications with the media and the general public is ensured through the following PR activities:

- Publication of press releases, information messages, articles on the Company's website and in the media;
- Providing answers to media inquiries;
- Conducting forums, production meetings, info-sessions, etc. with the invitation of the media;

- Organization of briefings and interviews with the Company's management.

Frequency of interaction depends on important events in the Company, planned PR activities, requests.

The Company improves a system of external communications aimed at developing a dialogue with external audiences and informing stakeholders about significant events in the KMG activities, building reputation and promoting the KMG brand.

The Company's key tool for information disclosure and feedback to external audiences is the official website <http://www.kmg.kz>. The Department of Public Relations promptly provides comprehensive and detailed information on corporate projects, comments on important topics of the industry-wide information agenda at the request of media representatives.

KMG regularly holds press conferences and briefings with the Company's top management and leading mass media, and organizes press tours to production facilities for journalists.

Basic principles of KMG information policy:

- frequency, consistency and timeliness of information;
- equal, unhindered and easy access for all stakeholders;
- objectivity, reliability, completeness and comparability of the disclosed data;

GR / Government Relations:

Classification of stakeholders:

- Authorized bodies of the RoK.
- International organizations / Partners.
- Foreign embassies, agencies.
- Profile structural subdivisions of KMG SDEs and “Samruk-Kazyna” JSC.

GR is the only structural unit of KMG, which performs centralized collection and preparation of consolidated information on the general activities of KMG and SDEs. GR subdivision provides execution of requests / requests of the Administration of the President of the Republic of Kazakhstan, the Government of the Republic of Kazakhstan, the Parliament of the Republic of Kazakhstan, “Samruk-Kazyna” JSC and the state bodies of the Republic of Kazakhstan by sending a meaningful letter of reply. There are no principles for the selection of interested parties for interaction with government bodies in GR-activities.

Interaction with state bodies is carried out by:

- sending a meaningful letter of reply to the request of government agencies;
- assisting KMG structural divisions on initiative issues (proposals concerning the activities of the KMG Group, on issuing permits, regulatory and licensing documents, for participation in joint working groups);
- preparation and compilation of information on the general activities of KMG for submission to the Administration of the President of the RoK, the Parliament of the Republic

- neutrality of information, i.e. exclusion of the possibility of priority satisfaction of the interests of one audience over another;
- reasonable balance between the Company’s openness and its commercial interests.

Interaction with mass media is governed by the KMG Regulations of Information Disclosure.

of Kazakhstan, the Government of the RoK, “Samruk-Kazyna” JSC and other state bodies;

- preparation of information materials for the meetings of the Oil and Gas Council under the President of the RoK, the Interdepartmental Commission for the Development of the Oil and Gas and Energy Industries under the chairmanship of the Prime Minister of the RoK;
- Coordination of participation of management and representatives of KMG in:
 - events of state significance, in official visits of the Head of State abroad;
 - in intergovernmental events, work of the Intergovernmental Commissions and committees for cooperation with foreign countries, major international events (conferences, forums) in RoK and abroad.

International organizations / Partners, foreign embassies, agencies:

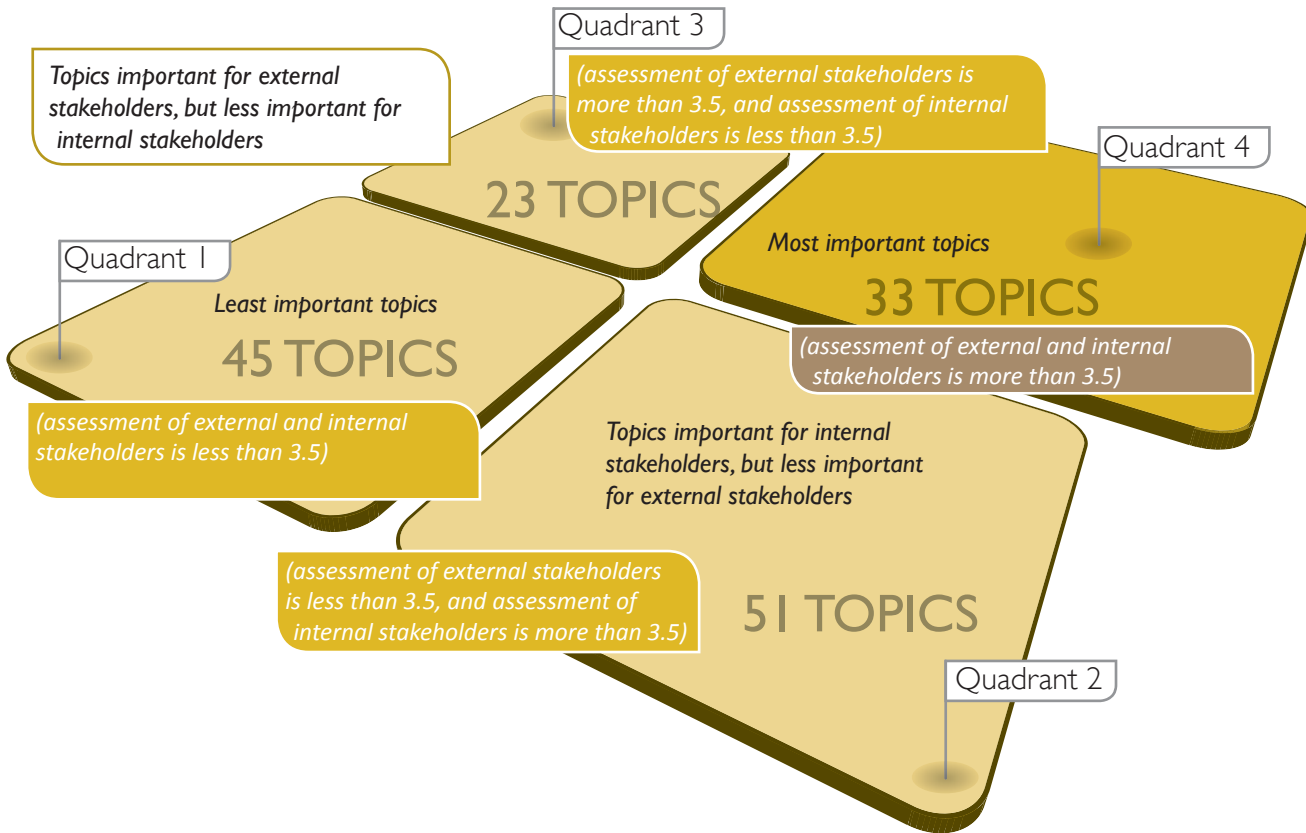
- Protocol-organizational and information support for meetings and negotiations of the Chairman of the Board of KMG with representatives of foreign states, international organizations and foreign companies.
- Profile structural subdivisions of KMG SDEs and “Samruk-Kazyna” JSC.
- A frequency of interaction depends on the questions posed, the type of GR activities and GR tasks. The interaction takes place promptly through calls, Electronic document management system (EDMS), e-mail.

IDENTIFICATION OF MATERIAL TOPICS OF THE REPORT

GRI 102-46, 102-47

To assess and disclose material topics, the Report analyzed information on both external and internal stakeholders. Based on the results of the procedures, a materiality matrix was

constructed of 152 potential topics. This matrix is divided into 4 conditional zones (quadrants) according to the level of importance of those or other topics as presented below.



To select the most significant topics from the general list of potential topics, certain procedures were carried out aimed at prioritizing and ranking topics. In other words, so-called “filters” were applied.

Internal filters are:

- Workshop or seminar for KMG employees;
- Online survey of KMG management.

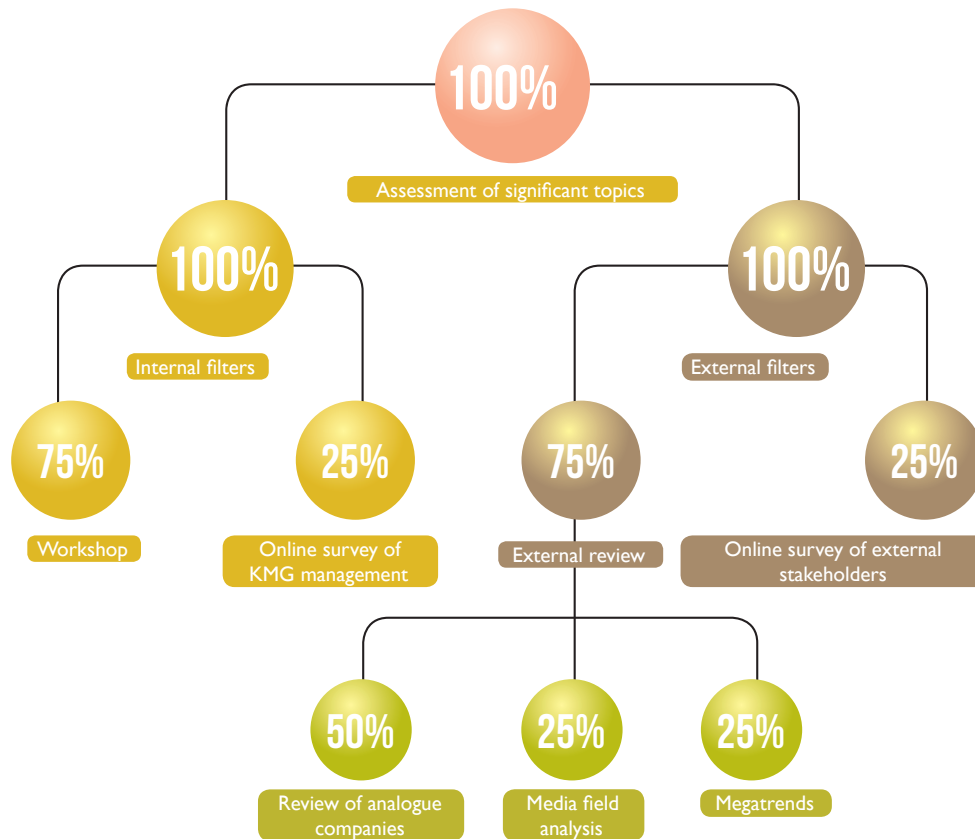
External filters are:

- Online survey of external stakeholders;
- Media field (mass media) analysis;
- Review of reports of analogue companies;
- Analysis of global trends, so-called “Megatrends”.

A certain correction factor (weights) was applied to each filter and only after that the values were used to build the matrix. Figure shows the distribution of weights for each source.

Distribution of weights in the assessment structure of significant topics

GRI 102-47



The results of internal and external filters on the horizontal and vertical axes of the matrix, respectively, were used to construct the materiality matrix. For some topics, the value was raised “manually”, which was assigned a maximal point 7. The rating scale used in the matrix ranges from 1 to 7 points. Accordingly, the same range from

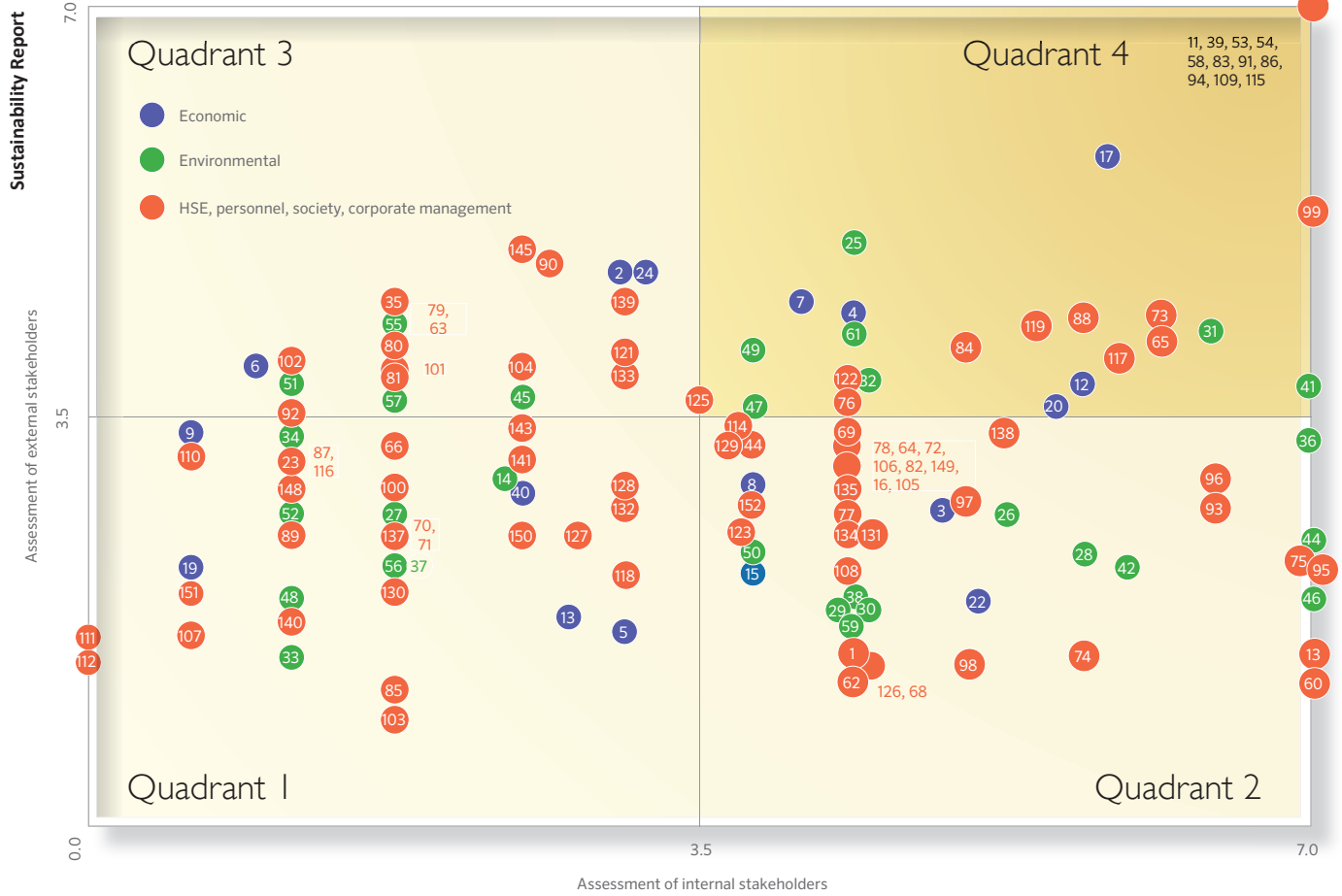
1 to 7 was used to determine the materiality value for each filter.

Online stakeholder survey was prepared in a similar way to the KMG management survey.

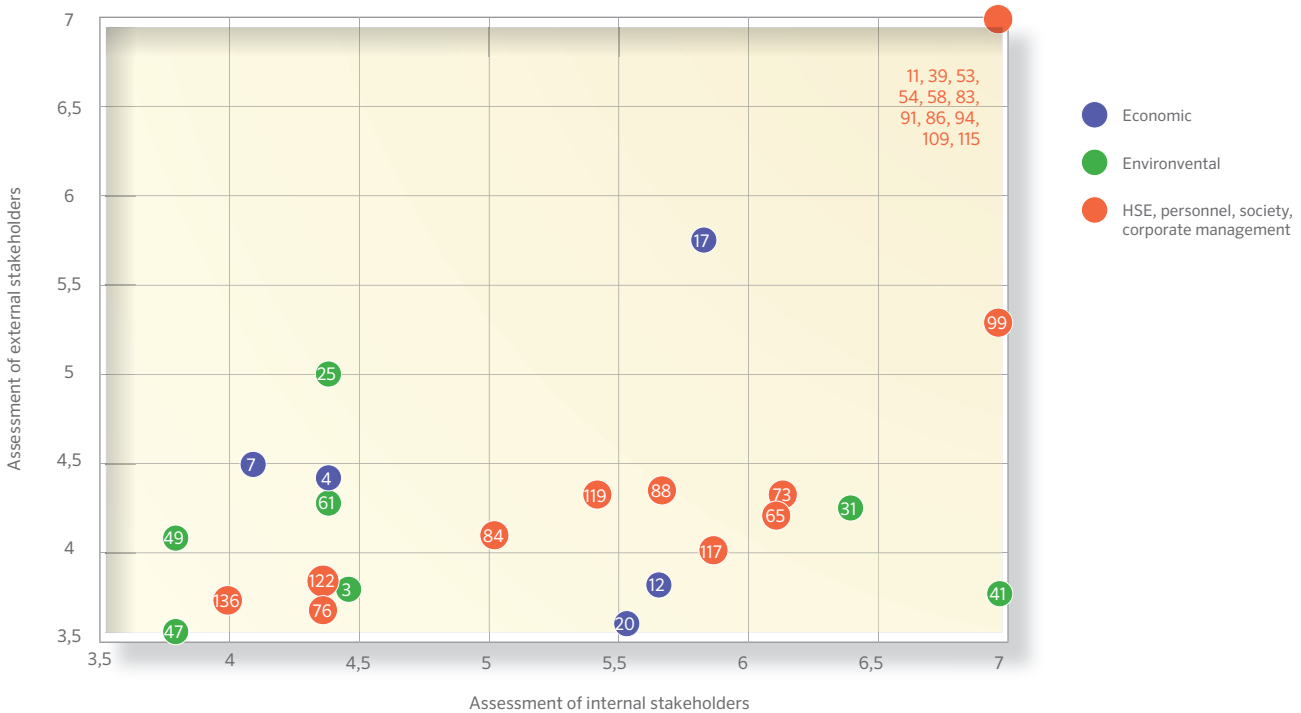
The materiality matrix of 152 topics is provided below.

The KMG materiality matrix for disclosure in the Report for 2018

GRI 102-47



Quadrant 4



List of significant topics

GRI 102-47

Economic topics	
4	Investments for production upgrading
7	Key financial indicators
11	Company's approaches to procurement and work with suppliers
12	Company's approaches to ensuring responsibility for its products: quality and compliance with requirements
17	Main objectives and directions of the strategy
20	Production results by types of products
Environment	
25	Water use
31	Air pollutant emissions
32	Measures to reduce flaring of associated petroleum gas
39	Information on protected areas in the presence regions
41	Impact on biodiversity
53	Compliance with the environmental protection requirements
54	Types and volumes of waste generation
58	Energy consumption
47	Climate change risks and adaptation
49	Participation in international/local environmental/climate change initiatives
61	Measures to improve energy efficiency and reduce energy intensity
Personnel, company, corporate governance	
65	Fatal accidents
73	Injury rate
76	Transport security
83	Salary and benefits package
84	Staff health and safety
86	Collective agreement
88	Staff training and education
91	Recruitment
94	Employee incentive program
99	Investments in infrastructure of the presence regions
109	Local content in procurement
115	Sponsorship and charity
117	Employment of local staff in the presence regions
119	Combating corruption
122	Business ethics / Corporate governance
136	Availability of the company's development strategy, its availability

ETHICS AND FAIR PRACTICES

GRI 102-16

Values, Principles, Standards and Code of Conduct

In 2018, Company approved a new Code of Business Conduct (hereinafter – the Code) which enshrines KMG's corporate values, defines the most important principles and rules of business conduct and stakeholder relations, and is a set of corporate ethics requirements to be followed by all employees of the Company.

The Code is an important part of KMG's corporate governance system; it contributes to the long-term economic growth of the Company. The provisions of the Code apply to KMG employees, regardless of their position. KMG employees are required to familiarize themselves with the principles and recommendations of the Code and comply with them.

In our daily work we are guided by the following corporate values and principles:

GRI 102-16

“SAQTYQ” / Safety

1. life and health of our employees is an absolute priority for KMG;
2. we are uncompromising in matters of safety and health;
3. we take care of the environment and treat KMG property as our own;
4. we follow ethical standards, rules and try to do the right thing;
5. we keep information confidential.

“BIRLIK” / Unity

1. a desire for KMG common success unites us into a single team;
2. people and interaction are more important to us than processes and tools;
3. we believe that everyone can and wants to make the maximum contribution to the common cause, which is capable of;
4. we efficiently solve tasks in the team, regardless of positions and functions. The overall result is above the individual one;
5. we use each other’s strengths and complement each other.

“SABYR” / Reasonableness

1. we treat each other with honesty and understanding;
2. we respect our colleagues, contractors and partners and treat them as we would like other people to treat us;
3. we are ready for difficulties and overcome obstacles;
4. making decisions, we comprehensively consider questions, we take into account all advantages and disadvantages, we hear and we consider all points of view;
5. we respect the results and achievements of the past and ensure continuity.

“SAPA” / Quality

1. we always try to achieve the highest results;
2. we always keep our promises with high quality and on time;
3. we work for the benefit of our internal and external customers;
4. we simplify, standardize and streamline our work;
5. we are constantly looking for new opportunities to do something better. We want to be the first and the best.

According to the approved Code, the KMG activities are based on the following principles:

- Openness**
- Responsibility**
- Transparency**
- Ethical conduct**
- Respect**
- Legality**

- Professionalism**
- Justice**
- Intolerance of corruption**
- No conflict of interest**
- Environmental responsibility**
- Safety**

KMG adopts and follows the provisions of this Code in its relations with KMG shareholders, employees, subsidiaries and affiliates, government agencies,

partners and other stakeholders, both in business decision-making and in everyday situations.

The Code is a public document and is freely distributed to KMG business partners and any other stakeholders. It is also posted on the Company's website in the "Corporate Documents" section.



MECHANISMS FOR SEEKING ADVICE ON UNETHICAL CONDUCT

GRI 102-17

We have developed various mechanisms through which employees, business partners and stakeholders can report any non-compliance with corporate ethics, human rights, labor practices, negative environmental or social impact:

- **Employees** – by informing their direct supervisor or superior; or by providing information to the Ombudsman (by phone 78-65-60, or via email: ombudsman@kmg.kz).
- **Employees and others** – by phone 78-65-60, or via email of trust: ombudsman@kmg.kz.
- "Hot line" calls by phone 8-800-080-1994, e-mail: sk.hotline@deloitte.kz, or at www.sk.deloitte-hotline.com.

For confidentiality purposes, all information is accepted and processed by an external independent company. This company draws up

report on received complaints and sends it to the Compliance Service on a daily basis.

Compliance Service employees decide on further actions to consider received complaints in accordance with internal policies.

In accordance with the best international practice, including the standards and principles of the International Association of Ombudsmen (IAO), the KMG Ombudsman is accountable to the Board of Directors of KMG and is an independent high-level manager who advises and contacts the employees, participants in labor disputes and conflicts assistance in the development of a mutually beneficial, constructive and realizable solution, taking into account the observance of the norms of the legislation of the Republic of Kazakhstan (including necessity), assistance in resolving the problematic social and labor issues of both employees and KMG and the organization, as well as in observing the principles of business ethics of KMG employees and organizations.

When resolving disputes within the Company, the Ombudsman seeks to help the parties to the conflict resolve it through peaceful settlement. For this purpose, the Ombudsman can act as a consultant, negotiator, mediator or a resolution lawyer, while adhering to the principles of objectivity, confidentiality and independence. In the process of conflict resolution, the Ombudsman relies on the principle of equality and fairness, which contributes to improving the moral and psychological climate in the workplace



Hotline

You can communicate any violations of the Code of Conduct, including but not limited to corruption, fraud, unethical behaviour or discrimination

We guarantee

confidentiality and anonymity
100% handling of reports

8 800 080 19 94
sk.hotline@deloitte.kz
www.sk.deloitte-hotline.com

All the received reports will be collected and handled by an independent Deloitte company

Deloitte.

and increasing the motivation and loyalty of employees.

The activities of the Ombudsman allow KMG to also comply with international standards for dealing with conflict resolution (ISO 10003), and work with complaints (ISO 10002) provided by the International Organization for Standardization.

We strive to prevent any kind of disputes and conflicts in the organizations of the Group. The right of any person to appeal should not be violated.

In addition, within the Unified System of Internal Communications there are such mechanisms as:

- meetings of managers with labor collectives and trade union;
- reception of employees by a CEO on personal issues;
- CEO blog;
- Boxes for proposals.

Applications for non-compliance with the Code of Business Conduct are considered with the obligatory participation of the Ombudsman on the terms of confidentiality.

The Group management is informed when any applications are received. All received complaints and proposals are recorded, a decision of the management on the results of consideration of an application is brought to an applicant.

INFORMATION BELIEF SYSTEM AND “HOT LINE”

GRI 102-17

Active preventive work on anti-corruption issues has led to a certain increase in involvement of employees and other persons to use the capabilities of the information belief system (hereinafter – IBS), by phone 78-65-65, or by e-mail of trust: doverie@kmg.kz, (confidentiality is guaranteed), as well as the Fund’s hot line by phone 8-800-080-1994, by e-mail: sk.hotline@deloitte.kz or to www.sk.deloitte-hotline.com and other channels in order to inform about all known or established violations in the KMG Group.

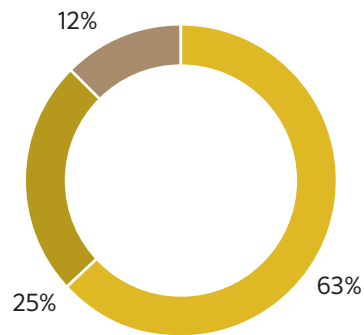
Thus, in 2018, 67 applications were received only through KMG IBS, another 57 applications were received through the same channels of subsidiaries (in 2016 – 65, in 2017 – 60, respectively). 24 applications were received through the Fund’s hotline. 48 applications were received as part of personal reception of KMG management and postal communication.

All applications of legal entities and individuals are considered in accordance with the established procedure and terms, with the adoption of appropriate measures and notification of their authors.

To avoid possible corruptogenic standards, more than 60 draft internal documents, more than 100 draft contracts on procurement of goods, works and services were examined. 413 employees and candidates for vacant administrative positions for involvement in corruption and other offenses were checked.

In total, over the past three years, more than 1,500 employees and candidates have been

Statements and appeals 2018, %



- ISD applications and appeals
- Postal communication and as part of personal reception of management
- Fund Hot line

checked for employment in the Company, while no information has been revealed that hinders the refusal to hire, for appointment in the order of transfer and nomination.

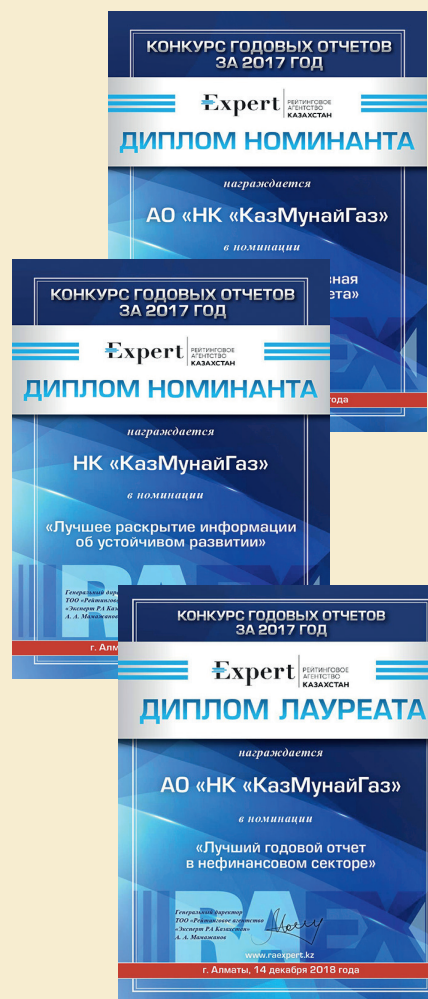
223 potential counterparties were checked for civil-legal solvency, and the related conclusions were provided to the initiators of the requests in a timely manner.

The 2017 KMG Sustainability Report and Annual Report were the best reports in the Annual Reports Competition

December 14, 2018, the ceremony of awarding laureates and nominees of the VIII Annual Report Competition, organized by the RAEX Rating Agency (Expert RA Kazakhstan), was held. In 2018, within the framework of the contest, 107 annual reports of Kazakhstan companies, including 44 financial organizations and 64 non-financial companies, were evaluated.

When determining a long list in the best annual report category, annual reports issued in Kazakhstan are analyzed, with the main emphasis on the content – the documents were selected which were featured by the most complete and qualitative disclosure of information. The short-list, consisting of ten reports, formed on the results of the preliminary analysis, was put to the vote of the Expert Commission which included professionals on corporate governance and reporting.

The KMG Sustainability Report and Annual Report took the first place among Kazakh companies as the Best Annual Report in Non-Financial sector and was nominated for two awards: the Best Interactive Version of a Report, the Best Disclosure of Information on Sustainability.



INITIATIVES AND MEMBERSHIPS

GRI 102-12, 102-13, 102-40

The World Bank initiative “Complete cessation of regular flaring of APG by 2030”



KMG supported this initiative in 2015. It unites governments, oil companies and development organizations that agree to cooperate to stop the practice of regular flaring of APG no later than 2030. Our goal is to increase the beneficial use and utilization of APG, minimizing flaring. We report annually on progress to the World Bank.

Global Methane Initiative



In 2017 KMG joined the Global Methane Initiative (GMI) Project Network, which is a growing community of private sector actors, financial institutions and other governmental and non-governmental organizations interested in methane emission reduction projects, as well as methane recovery and use. Working with countries that are partners of the GMI, the members of the Project Network can intensify their activities, setting the stage for specific methane projects. Supporting the initiative of KMG, the Ministry of Energy of the Republic of Kazakhstan entered the Subcommittee of Oil and Gas of the GMI.

CDP Climate Program



Since 2018, KMG has been participating in the submission of voluntary reporting on indirect greenhouse gas emissions under the CDP Climate Program.

Environmental responsibility rating for oil and gas companies in Kazakhstan



By the end of 2017 and 2018, KMG became the most transparent oil company in environmental issues in the rating of environmental responsibility for the oil and gas companies of Kazakhstan, organized by the Russia World Wildlife Fund and CREON Group of Companies with support of the Ministry of Energy of the Republic of Kazakhstan.

ISO International Organization for Standardization



Since 2006, the management system in the field of quality, environmental protection, health and safety at work has been maintained in accordance with the requirements of ISO 9001, ISO 14001 and OHSAS 18001.

Subsidiaries and affiliates with significant levels of energy consumption are certified according to ISO 50001.

In 2018 all companies of the Group successfully passed supervisory audits that confirmed the compliance of the existing integrated management systems with the requirements of international standards.

The Extractive Industries Transparency Initiative (EITI)



It is a global standard that promotes transparency of revenues from oil, gas and mining industries. We comply with the terms of the Memorandum of Understanding of the Initiative and provide reporting on taxes and other payments to the country's budget. <http://eiti.geology.gov.kz/en>

Membership in Associations

GRI 102-13

Kazakhstan Association of Oil and Gas and Energy Complex Organizations “KAZENERGY”



The management of KMG takes part in the work of several committees and working groups of the Association.

The chairmanship of the Coordination Council of KAZENERGY on issues of ecology, social responsibility and transparency is an opportunity for KMG to promote issues of sustainable development in the oil and gas industry in Kazakhstan.

KMG and the Association of Legal Entities “Kazakhstan Association of Organizations of Oil and Gas and Energy Complex “KAZENERGY” signed a Memorandum of Cooperation.

The Memorandum provides for joint activities in such important areas of legal activities as the improvement of the legislation of the Republic of Kazakhstan, the development of joint programs and projects aimed at enhancing the legal culture; cooperation in holding roundtables, seminars, conferences on topical issues in the field of jurisprudence.



National Chamber of Entrepreneurs of the RoK “Atameken”

KMG and the National Chamber of Entrepreneurs of the Republic of Kazakhstan “Atameken” signed an agreement on cooperation in legal matters.

The agreement provides for interaction of the parties in such important areas of legal activity as the improvement of legislation, the development of joint programs and projects aimed at raising the legal culture, expanding the resolution of commercial disputes in arbitration.



The UN Global Compact

Demonstration of our commitment to the principles of sustainable development is membership in the UN Global Compact, as well as the annual posting of the Sustainability Report on the UNGC website as a Report on KMG’s progress in promoting the principles of the Global Compact and 17 Global Sustainable Development Goals.

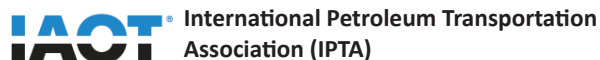


IOGP International Association of Oil and Gas Producers

Since 2018, KMG has become a full member of the International Association of Oil and Gas Producers. Our health and safety statistics will be publicly available and our performance indicators will be compared to that of more than 75 oil and gas companies worldwide. Our strategic goal is to enter the Top 20 companies in this list.

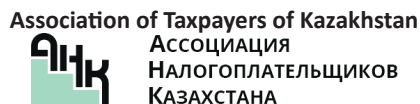


International Association of Scientific, Technical and Business Cooperation in Geophysical Research and Well Work (WRA)



Since 2015, KTO is a member of the IPTA to improve international oil transportation systems. The Association is considering issues related to the formation of tariffs,

diagnostics and operation of pipelines, transportation and storage of oil.



Union of Machine Builders of Kazakhstan



Kazakhstan Welding Association “KazWeld”



Union of Energy Engineers of the Republic of Kazakhstan



National Association of Business “IRIS”



Association of Marine Transport Entrepreneurs of the Republic of Kazakhstan



IOGP International Association of Oil and Gas Producers



Trans-Caspian International Transport Route Middle Corridor



In 2018, we resumed membership in the **Oil Spill Response Limited (OSRL)**.



A Memorandum between KMG and **Kazakhstan Bar Association** was updated. ■

