

# SUSTAINABILITY MANAGEMENT



- Principle 1.** Businesses should support and respect the protection of the internationally proclaimed human rights
- Principle 2.** Businesses should not be complicit in human rights abuses
- Principle 4.** Businesses should uphold the elimination of all forms of forced and compulsory labour
- Principle 6.** Businesses should uphold the elimination of discrimination in respect of employment and occupation
- Principle 8.** Businesses should undertake initiatives to promote greater environmental responsibility
- Principle 10.** Businesses should work against corruption in all its forms, including extortion and bribery

## SUSTAINABILITY PRINCIPLES



Openness

Accountability

Transparency

Ethical conduct

Respect for stakeholders' interest

Lawfulness

Respect for human rights

Intolerance of corruption

No conflicts of interests

Personal example

## SUSTAINABILITY INTEGRATION

GRI 102-16

Pursuant to the Company's Corporate Governance Code, KMG grasps the importance of its influence on the economy, ecology and society, and, striving for growth of its long-term value, ensures its sustainable development taking into account the interests of the stakeholders. We are focused on achieving consistency of our economic, environmental and social goals to ensure long-term sustainable development.

Our approach to control of sustainability aspects is based on implementation of sustainability principles.

In its Development Strategy 2028, KMG defined sustainable development as one of the strategic objectives aimed at integrating the sustainability principles in the key business processes, operations, and decision-making practices.

Implementation of the strategic objective of sustainable development is expected to result in the creation of a governance system, which ensures better corporate social responsibility and HSE indicators, stronger economic impact in the operating regions, anti-corruption

activities, higher quality of stakeholder relations, better corporate governance, corporate culture, ethics and compliance ratings.

Engineering a sustainable development system is one of the key SD tasks in the implementation of the Development Strategy.

To develop and implement a sustainable development system, the Sustainability Management Guideline across the KMG Group was prepared in 2019.

In the context of raising the Company's SD efficiency, a new corporate KPI of improved ESG rating has been approved.

The activities to upgrade the Company's ESG rating were started in 2019, and a preliminary assessment was made in respect of the three components – environmental, social, and governance. An agreement was entered into with a rating agency. The assessment is made by reference to publicly available materials. The 2019 rating will be available in 2020.

The sustainability management system includes, but is not limited to, the following:

- ✓ Commitment to the sustainability principles at all the management levels
- ✓ Analysis of the external and internal situation in terms of the three sustainability aspects – economic, environmental, and social
- ✓ Definition of SD risks in economic, environmental, and social spheres
- ✓ Interaction with stakeholders and build-up of a stakeholder map
- ✓ Definition of goals and KPIs of sustainable development
- ✓ Realisation of priority areas (initiatives) of sustainable development
- ✓ Integration of sustainable development into the key business processes
- ✓ Professional development of the Company's employees in sustainable development
- ✓ Organisation of annual sustainability reporting process
- ✓ Sustainable development efficiency measuring
- ✓ Upgrading the sustainable development process.

You can find more detailed information about the sustainability principles in the Corporate Governance Code available on the corporate website [https://www.kmg.kz/rus/kompaniya/vnutrennie\\_dokumenty/](https://www.kmg.kz/rus/kompaniya/vnutrennie_dokumenty/)

The ESG ratings are used to assess the corporate governance efficiency and to forecast possible corporate, environmental and social risks.

The ESG rating may heighten the interest of investors and clients, who are focused on working with the companies committed to the sustainability principles.

Being guided by the international sustainable development initiatives, the Company is committed to the principles of

the UN Global Compact<sup>2</sup>, and is integrating the SDGs<sup>3</sup> into its operations.

KMG has supported the SDG implementation initiative. It is planned to develop initiatives for implementing SDGs relevant for the Company and for identifying target indicators. SDG integration with the reporting data will enable us to assess the SDG achievement process more effectively, and to make efforts for improvement of the Company's performance in the implementation of the SD principles.



<sup>2</sup>UN Global Compact: <https://www.unglobalcompact.org/what-is-gc>  
<sup>3</sup>More information on SDGs <https://www.un.org/sustainabledevelopment/ru/sustainable-development-goals>

## ETHICS AND INTEGRITY

GRI 102-16

### Values, Principles, Standards and Norms of Conduct

The **values, principles, standards and norms of conduct** represent a code of corporate ethics rules. They are reflected in the KMG Code of Business Ethics (hereinafter – the Code), and define the most important standards of business conduct and stakeholder relations.

KMG accepts and follows the provisions of the Code in its relations with its shareholders, employees, subsidiaries and associated companies, governmental authorities, partners, other stakeholders, when making business decisions and in every-day operations.

The Code is an open document and is freely available to KMG's business partners and to any other stakeholders. It is also available on the Company's website in the Corporate Documents section.

Pursuant to the approved Code, KMG's activities are based on the following principles:

- |                        |                                     |
|------------------------|-------------------------------------|
| <b>Openness</b>        | <b>Professionalism</b>              |
| <b>Responsibility</b>  | <b>Justice</b>                      |
| <b>Transparency</b>    | <b>Intolerance of corruption</b>    |
| <b>Ethical conduct</b> | <b>No conflict of interests</b>     |
| <b>Respect</b>         | <b>Environmental responsibility</b> |
| <b>Lawfulness</b>      | <b>Safety</b>                       |

## MECHANISMS FOR SEEKING ADVICE ON UNETHICAL CONDUCT

GRI 102-17

To prevent violation of employee rights, confidential and accessible means have been made available for online reporting of any wrongful actions on the part of employees or third parties.

Any employee of the Group, or any other person, who has any doubts regarding the legality of actions taken by other employees, counterparties, or any other persons interacting with KMG and its SACs, may inform their management, supervisor, or the Compliance Function.

Such information can be transmitted by the following confidential channels and means of communication:

- To the KMG trust system by e-mail [doverie@kmg.kz](mailto:doverie@kmg.kz), or by trust line **8 (7172) 78 65 65**;
- To the Ombudsman (for business ethics, discrimination, labour disputes and other labour matters, etc.) by e-mail [ombudsman@kmg.kz](mailto:ombudsman@kmg.kz), or by phone **8 (7172) 78 65 60, 8 (7172) 78 65 61**;
- To the Compliance Function (in case of any suspected or available information regarding corruption, fraud, or unethical conduct) through a single centralised hot line administered by an independent external provider:



**Turysbek Aliaskarov, Corporate Security Director says:** "Human resources are the main value of KMG. Protection of their employment and other rights is one of the major targets of the company. Our goal is not just to review and resolve all the requests and communications from the employees, but also to take all legal measures to restore their violated rights."

- Toll-free call to: **8 800 080 19 94**;
- E-mail to: [sk.hotline@deloitte.kz](mailto:sk.hotline@deloitte.kz);
- Through Internet portal: [www.sk.deloitte-hotline.com](http://www.sk.deloitte-hotline.com)

The contact details of the Hot Line are available on the KMG corporate website in the national, Russian and English languages. Similar information is available at the websites of the SACs.

All communications, including anonymous, will be received and processed by the operators of the external independent company and forwarded to the KMG Compliance Function, which is in charge of professional



**Hot Line**

You may report any violations of the Code of Conduct, including facts of corruption, fraud, unethical behaviour or discrimination.

**We guarantee**

Confidentiality and anonymity Review of **100%** of reports.

8 800 080 19 94

sk.hotline@deloitte.kz

www.sk.deloitte-hotline.com

All communications will be received and processed by Deloitte (an independent company).



and confidential review thereof. The Compliance Function will bring the information about the results of such review to the attention of the Board of Directors on a quarterly basis. 42 communications were received at the Hot Line in 2019 (vs 24 in 2018).

It should be noted that all communications received by different channels are subject to recording and statistical analysis.

In 2019, the Group's trust information system alone received 185 applications (67 in 2018, 60 in 2017), of which more than 10% dealt with the employee rights related to the remuneration level, occupational safety, etc.

48 communications were received by way of personal reception by the KMG management and by mail. 38 more communications from individuals and legal entities were received by mail or personally, of which 13% reported violation of the employee rights. All the received communications were reviewed in accordance with the established time frames and procedures, relevant measures were taken, and the submitters were duly informed.

KMG guarantees proper and timely review of all the received communications.

**Procedure for Applying to the Ombudsman:**

If any violations of the approved business ethics standards, legal rules or KMG internal regulations are discovered, the Ombudsman will prepare materials to be channelled for review and resolution to the KMG authorised bodies and business units responsible for the matters in question.

The Ombudsman guarantees confidential, unbiased and unprejudiced review of any information regarding violations of the Code of Business Ethics, the RoK laws, and the internal regulations. The rights of the applicant must not be prejudiced either during the review of their information or after the decision is made.

**Activities of the Ombudsman Function in 2019**

The KMG Ombudsman Function acts in accordance with the approved principles of sustainable development.

In the reporting period, meetings were organised in 22 subsidiaries and associated companies with the management, representatives of trade unions and conciliation commissions, business unit managers in charge of HR and social matters,



Anatoly Tegisbayev

employees of the legal functions, engineers and technicians of SACs in order to promote and explain the provisions of the Code of Business Ethics, the functions and tasks of the Ombudsman, and to analyse the communications received from the employees.

The Ombudsman reviewed 18 communications in 2019.

All necessary measures were taken in respect of all received communications in order to resolve the problems, including advisory measures and actions aimed at restoration of violated rights and legal interests.

Satisfaction with the Ombudsman's activities is measured on the basis of assessments and comments by the parties to disputes and conflicts. The positive results for the current period reflect the Ombudsman's role in

problem resolution. Payment of the year-end bonuses to the KMG employees was decided together with the KMG management.

Since the Ombudsman's principal task is to contribute to improvement of KMG's rating and image by early prevention and settlement of disputes, conflicts and problems, the Ombudsman Function promptly responds to the communications (warnings) received. In 2019, the Ombudsman Function submitted two performance reports to the KMG Board of Directors. The KMG Board of Directors pays due attention to the performance reports.

The KMG Ombudsman is actively involved in the sustainability management standing task group, which defines responsibilities for integration of SD and ESG rating matters in all spheres of business.

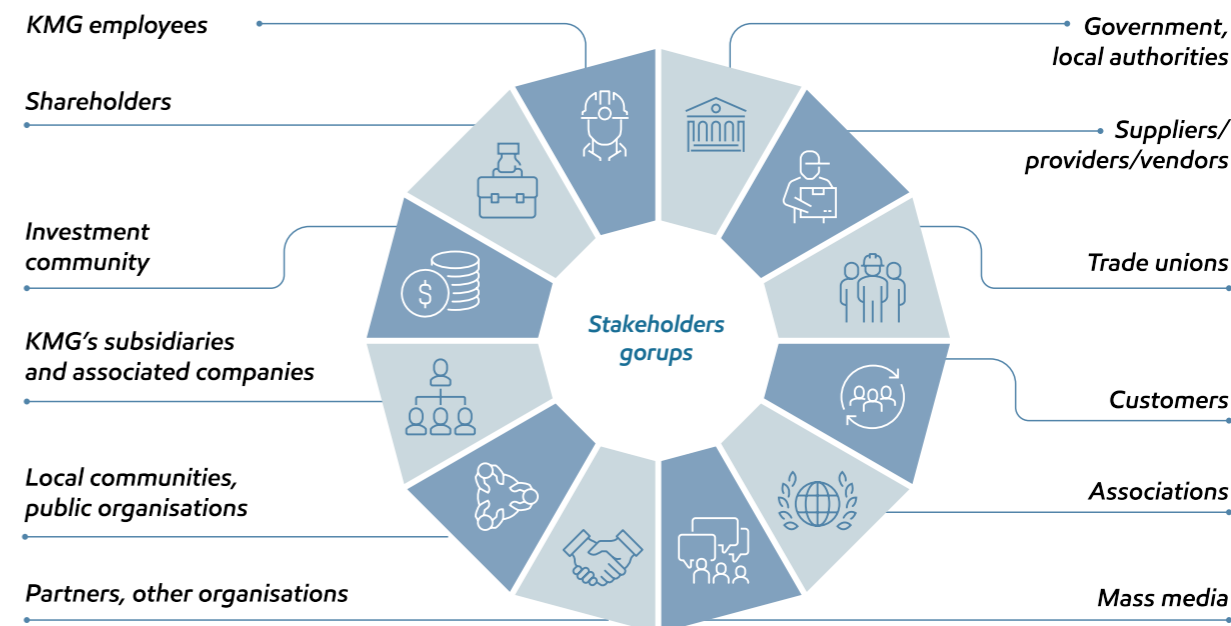
**STAKEHOLDER ENGAGEMENT**

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

KMG provides the full operating cycle from HC exploration and production through transportation and refining to distribution of crude oil and oil products both in Kazakhstan and abroad, and represents state interests in

the oil and gas sector. Having a complicated structure and various activities, KMG is interacting with a wide range of stakeholders.

*Our key stakeholder groups:*



## Definition of Stakeholders GRI 102-42, 102-43






KMG is constantly making efforts to build up a dialogue, long-term cooperation and relations management with its stakeholders.

KMG has an approved Stakeholder Map, which takes into account risks and rankings (based on direct or indirect dependence), obligations, the situation (with a special focus on higher-risk areas), influence, and different

prospects. To ensure effective achievement of the goals, Stakeholder Engagement Plans are developed.

When defining stakeholders and stakeholder engagement, KMG applies the best stakeholder engagement practices, including international standards, such as AA1000SES Stakeholder Engagement Standard.

Stakeholder engagement methods include:

Engagement level	Engagement methods
 <p><b>Consultations:</b></p> <ul style="list-style-type: none"> <li>✓ Bilateral interaction; Stakeholders answer questions of the Fund and organisations</li> </ul>	<ul style="list-style-type: none"> <li>• Questionnaires</li> <li>• Focus groups</li> <li>• Meetings with stakeholders</li> <li>• Public meetings</li> <li>• Workshops</li> <li>• Feedback by communication means</li> <li>• Advisory boards</li> </ul>
 <p><b>Negotiations</b></p>	<ul style="list-style-type: none"> <li>• Collective negotiations based on social partnership principles</li> </ul>
 <p><b>Involvement:</b></p> <ul style="list-style-type: none"> <li>✓ Bilateral or multilateral interaction; Build-up of expertise and knowledge on all sides; the stakeholders and organisations act independently</li> </ul>	<ul style="list-style-type: none"> <li>• Multilateral fora</li> <li>• Advisory panels</li> <li>• Consensus achievement procedure</li> <li>• Joint decision-making procedure</li> <li>• Focus groups</li> <li>• Feedback mechanisms</li> </ul>
 <p><b>Cooperation:</b></p> <ul style="list-style-type: none"> <li>✓ Bilateral or multilateral interaction; joint build-up of expertise and knowledge, making decisions and taking measures</li> </ul>	<ul style="list-style-type: none"> <li>• Joint projects</li> <li>• Joint ventures</li> <li>• Partnership</li> <li>• Joint stakeholders' initiatives</li> </ul>
 <p><b>Authorisation:</b></p> <ul style="list-style-type: none"> <li>✓ Stakeholders, if applicable, participate in management</li> </ul>	<ul style="list-style-type: none"> <li>• Integration of stakeholder engagement in management, strategy, and operations</li> </ul>

## IDENTIFICATION OF MATERIAL TOPICS OF THE REPORT GRI 102-46, 102-47

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

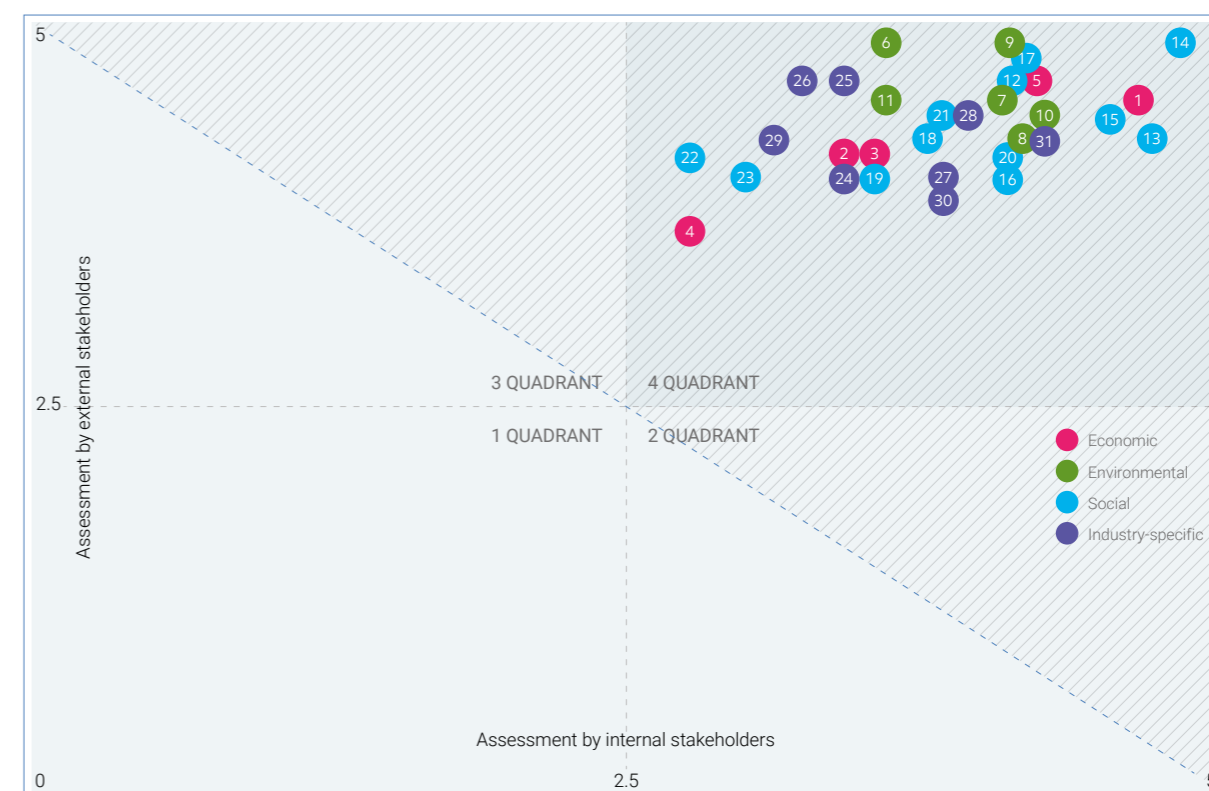
### Distribution of weights in the assessment structure of material topics

The results of internal and external indicators on the horizontal and vertical axes of the matrix, respectively,

were used to construct the matrix. The rating scale used in the matrix ranges from 1 to 5 points. Accordingly, the same range from 1 to 5 was used to determine the materiality value.

Online stakeholder survey was prepared on the basis of SurveyMonkey platform.

31 topics were identified as material topics.



This matrix is divided into 4 conditional zones (quadrants) according to the level of importance of the topics as presented below.

- **Quadrant 4:** most important topics (assessment by external and internal stakeholders > 2.5);
- **Quadrant 3:** topics important for external stakeholders, but less important for internal stakeholders (assessment by external stakeholders > 2.5, and assessment by internal stakeholders < 2.5);
- **Quadrant 2:** topics important for internal stakeholders, but less important for external stakeholders (assessment by external stakeholders < 2.5, and assessment by internal stakeholders > 2.5);
- **Quadrant 1:** least important topics (assessment by external and internal stakeholders < 2.5).

**List of Material Topics** GRI 102-47
**Economic**

- |   |         |  |
|---|---------|--|
| 1 | GRI-201 | Economic efficiency (e.g. revenue, profits)  |
| 2 | GRI-202 | Market presence (e.g. rate of remuneration in the regions, local content at the executive level) |
| 3 | GRI-203 | Indirect economic effects (e.g. investments in infrastructure)                                   |
| 4 | GRI-204 | Procurement practices (e.g. share of local suppliers in expenses)                                |
| 5 | GRI-205 | Counteracting corruption (e.g. corruption risk assessment)                                       |

**Environmental**

- |    |         |   |
|----|---------|---|
| 6  | GRI-302 | Energy (e.g. energy consumption, energy saving)               |
| 7  | GRI-303 | Water (e.g. water consumption, impact on water sources)       |
| 8  | GRI-304 | Biodiversity (e.g. conservation of Red Book animal species)   |
| 9  | GRI-305 | Emissions (e.g. greenhouse gas emissions, climate change)     |
| 10 | GRI-306 | Effluents and waste (e.g. sewage waters or waste management)  |
| 11 | GRI-307 | Environmental compliance (e.g. ecological fines or sanctions) |

**Social**

- |    |         |  |
|----|---------|--|
| 12 | GRI-401 | Employment (e.g. labour turnover or employee benefits)                                       |
| 13 | GRI-402 | Employee-management relations (e.g. employee incentives)                                     |
| 14 | GRI-403 | Occupational health and safety (e.g. occupational injuries or risk of occupational diseases) |
| 15 | GRI-404 | Training and education (e.g. employee training or career development)                        |

**List of Material Topics (continuation):** GRI 102-47

- |    |         |   |
|----|---------|---|
| 16 | GRI-405 | Diversity and equal opportunities (e.g. gender equality)                                      |
| 17 | GRI-406 | Non-discrimination (e.g. dealing with facts of discrimination)                                |
| 18 | GRI-407 | Freedom of association and collective bargaining (e.g. violation of such rights and freedoms) |
| 19 | GRI-408 | Child labour (e.g. use of forced child labour)  |
| 20 | GRI-409 | Forced or compulsory labour (e.g. risks and efforts to eradicate such labour)                 |
| 21 | GRI-410 | Security practices (e.g. training of security staff in human rights matters)                  |
| 22 | GRI-413 | Local communities (e.g. programmes for engagement with local communities)                     |
| 23 | GRI-417 | Marketing and product and service information (e.g. compliance with such requirements)        |

**Industry-specific**

- |    |      |  |
|----|------|--|
| 24 | OG1  | Volume and type of estimated proven reserves and production (oil and gas)  |
| 25 | OG3  | Investments in renewable energy sources (e.g. solar plants or wind farms, renewable energy utilisation capacity) |
| 26 | OG4  | Monitoring of biodiversity impact in operating regions   |
| 27 | OG5  | Volume and disposal of formation or produced water   |
| 28 | OG6  | Volume of flared and vented hydrocarbons   |
| 29 | OG7  | Amount of drill cuttings (drill mud and slurry)  |
| 30 | OG8  | Benzene, lead and sulphur content in fuels   |
| 31 | OG13 | Process integrity and safety (including spill prevention and emergency preparedness)                             |

## INITIATIVES AND MEMBERSHIPS

GRI 102-12, 102-13



### 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 organisations that are ready to cooperate to stop the practice of regular APG flaring by no later than 2030. Our goal is to increase the beneficial use and disposal level of APG, to minimise flaring. We submit annual progress reports to the World Bank.



### Global Methane Initiative

KMG supports the Global Methane Initiative (GMI) and regularly discloses its environmental activities to all stakeholders in the Sustainability Report. In 2017, as part of its methane emission reduction activities, KMG joined the GMI Project Network, which is a growing community of private sector businesses, financial institutions, and other governmental and non-governmental organisations interested in methane emission reduction projects, and in methane recovery and use. Working with the GMI partner countries, the members of the Project Network can intensify their activities, setting the stage for specific methane projects.



### CDP Climate Programme

In 2019, KMG published its first verified Greenhouse Gas Emission Report 2018 as part of the CDP Climate Programme (Carbon Disclosure Project), which includes information about direct and indirect greenhouse gas emissions for all KMG's assets, including its subsidiaries in Romania and Georgia.



### Environmental Responsibility Rating of Oil and Gas Companies in Kazakhstan

For three years running, KMG has been the most transparent oil company for environmental issues in the rating of

environmental responsibility of oil and gas companies of Kazakhstan, organised by the World Wildlife Fund of Russia and CREON Group with the support of the Ministry of Energy of the Republic of Kazakhstan. In 2019, the rating expanded its coverage and became Eurasian. It now includes companies from Kazakhstan, Russia, and Azerbaijan, with Uzbekistan and Turkmenistan to join at the next stage. It was also for the first time that, in addition to the upstream operations, the rating also included refining and transportation companies.



More details about the rating methods are available at: <https://wwf.ru/what-we-do/green-economy/ekologicheskij-rejting-neftegazovykh-kompaniy-rf-sovmestnyy-proekt-wwf-i-kreon>



### International Organization for Standardization (ISO)

Since 2006, the quality and HSE management systems have been maintained in accordance with ISO 9001, ISO 14001 and OHSAS 18001. Subsidiaries and associated companies with significant levels of energy consumption are certified to ISO 50001.



In 2019, all the Group companies successfully passed supervision audits, which confirmed conformity of the current integrated management systems to the international standards.



### 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 state revenue <http://eiti.geology.gov.kz/en/national-reports>

## Membership in Associations



### National Chamber of Entrepreneurs of the RoK "Atameken"

KMG and the National Chamber of Entrepreneurs of the Republic of Kazakhstan "Atameken" entered into an agreement for cooperation in legal matters.

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



### Kazakhstan Association of Oil, Gas and Energy Entities "KAZENERGY"

The KMG management is involved in the activities of several committees and working groups of the Association.

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

KMG and Kazakhstan Association of Oil, Gas and Energy Entities "KAZENERGY" entered into a Memorandum of Cooperation.

The Memorandum provides for joint activities in such key legal areas as improvement of the Kazakhstan legislation; development of joint programmes and projects aimed at raising legal culture; cooperation in holding round tables, seminars, conferences on topical issues in the legal field, etc.



### The UN Global Compact

Our membership in the UN Global Compact and the annual posting of the Sustainability Report on the UNGC website to show KMG's progress in promoting the principles of the Global Compact and 17 Global Sustainable Development Goals clearly demonstrate our commitment to the principles of sustainable development.



### International Association of Oil and Gas Producers (IOGP)

Since 2018, KMG has been 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 those of more than 75 oil and gas companies worldwide. Our strategic goal is to be among the Top 20 companies on this list.



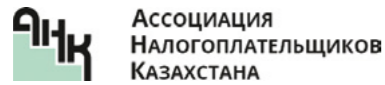
### International Association of Scientific, Technical and Business Cooperation in Geophysical Research and Well Work (ARW)



### International Association of Oil Transporters (IAOT)

Since 2015, KTO has been a member of the IAOT aimed at improving international oil transportation systems. The Association deals with the matters related to tariff formation, diagnostics and operation of pipelines, transportation and storage of oil.

Association of Taxpayers of Kazakhstan



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



Union of Oil Service Companies of Kazakhstan



Trans-Caspian International Transport Route



Oil Spill Response Limited (OSRL)



Kazakhstan Bar Association



**The KMG Sustainability Report 2018 became the best annual report in the Annual Report Competition in Best Annual Report, Best ESG Disclosure in Annual Reporting nominations.**

Case study

On 13 December 2019, the ceremony of awarding laureates and nominees of the Annual Report Competition organised by QRA was held. At the 2019 competition, 111 annual reports of the Kazakh companies were assessed including 35 financial, and 69 non-financial organisations.

The annual reports issued in Kazakhstan were analysed to form the long list in the Best Annual Report category. The main emphasis was made on the content, therefore, documents that provided the most complete qualitative disclosure were selected. The short-list of ten reports compiled based on the preliminary analysis was put to the vote of the Expert Commission, which included corporate governance and reporting professionals.

The KMG Sustainability Report was rated first among Kazakh companies as "Best Annual Report" (Annual Report + Sustainability Report), "Best ESG Disclosure in Annual Reporting" (Sustainability Report).

