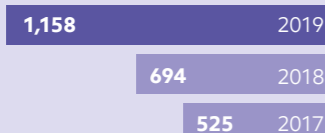


ECONOMIC PERFORMANCE

GRI 102-7, 103-1, 103-2, 103-3

OUR PROGRESS

Profit
1,158
KZT bln



Purchases from Kazakhstan companies

94%



Share of local content in procurement

81%



In the course of its operating activities, KMG makes annual substantial contributions to improve social and economic potential of the country and develop locations within the Company footprint.

In 2019, the Company's operational and financial performance demonstrated a sustainable growth. Thus, the net profit of KMG has grown by 67% as compared to the previous reporting period, and amounted to **KZT 1,158 billion** (USD 3,026 million).

Furthermore, as one of the largest taxpayers in the covered geography, KMG makes its contribution to the national budget in form of taxes and other payments. In 2019, the Company paid taxes and made other obligatory payments to the state revenue for the amount of **KZT 1,522 billion** (USD 4 billion).

In addition, the Company employs over **70 thousand people** in the country, providing them with a steady paycheck along with social assistance for them and their families. In 2019, the Company paid **KZT 52 billion** worth of social and pension contributions for its employees.

Participation in domestic manufacturer support programmes and increased local content in procurement remain among the KMG priorities. In 2019, KMG Group procured **KZT 2,004.7 billion** worth of goods, work and services from Kazakh companies, or **94%** of the total procurement. The local content in procurement was **81%**.

The below economic performance figures provide a picture of the Company's contribution to the national economy.



Principle 10
Businesses should work against corruption in all its forms, including extortion and bribery



ECONOMIC VALUE GENERATED AND DISTRIBUTED

GRI 201-1, 201-4

Figure	Unit	2017	2018	2019
Generated direct economic value				
Total income	KZT bln	5,451	7,904	7,970
Distributed economic value				
Total expenditures	KZT bln	4,926	7,211	6,586
Undistributed economic value				
Profit	KZT bln	526	694	1,158

Figure	Unit	2017	2018	2019
Other taxes and payments (other than CIT)	KZT bln	914	1,258	12
Income tax paid	KZT bln	113	186	55
Payments to capital providers	KZT bln	275	291	114

Data of the audited KMG financial statements for 2019 prepared in accordance with International Financial Reporting Standards (IFRS).

Capital expenditures include investment projects to maintain the current level of operations as well as other expenses. Upgrade of refineries was completed.

Figure	Unit	2017	2018	2019
CAPEX	KZT bln	669	628	505

KMG does not receive any financial assistance from the government.

Social Assistance for Employees

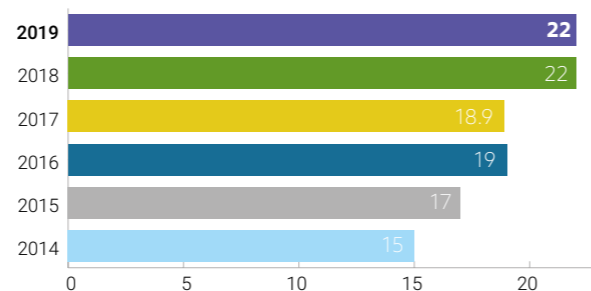
GRI 201-3

In accordance with the national law, retirement savings of citizens are kept by the Unified Pension Savings Fund. Pension savings include the state-guaranteed minimum pension rate, individual pension savings (monthly contribution – 10% of salary) and extra regional increments.

In addition to the social assistance and pension plan provided by the state, the KMG Group has its own pension plan for retirees, which offers a certain financial support for the retired employees.

Some of the oil service businesses within the KMG Group have the early retirement plan for employees approaching the retirement age, which makes it possible to compensate them for mutually agreed termination of employment; employees who have reached the retirement age can be compensated for termination of employment.

Social assistance for the KMG Group employees, KZT bln



In 2019, the KMG Group spent KZT 22 billion on social assistance for its employees, just as in the previous year, including social care for the retirees.

Description	Unit	2017	2018	2019
Social charges and compulsory pension contributions	KZT bln	52	52	52

IMPLEMENTATION OF INVESTMENT PROJECTS

GRI 203-1, 203-2

The most significant investments KMG makes in the national infrastructure are ran through a subsidiary, JSC “KazTransGas” (KTG). KTG is the major gas-energy and gas transportation company in the Republic of Kazakhstan, which promotes interests of the state both on the domestic and global gas markets.

Under the regional gasification programme, KTG continues to bring gas to and upgrade Kazakhstan settlements.

In 2019, among the successfully completed investment projects were:

1. Construction of the Saryarka trunk gas pipeline. Stage I. Kyzylorda – Astana section

The trunk gas pipeline starts in Kyzylorda Region and will allow transporting up to 2.2 billion m³ of gas annually to provide consistent supplies of local natural gas to Nur-Sultan, Karaganda, Temirtau, Zhezkazgan, and along the gas pipeline route. About 2.7 million people from 171 settlements are expected to get connected to the gas supply.

Transition from conventional sources of fuel to natural gas will have beneficial environmental effect on the settlements, reduce polluting air emissions and preserve land and water resources.

2. Upgrading, revamping and greenfield construction of gas distribution systems for settlements in Mangystau Region

The project is intended to upgrade, revamp and construct gas systems in Mangystau Region to provide better and more reliable services, address shortage of gas for consumers.

The project provided 5 settlements with gas: Batyr residential area of Munaily District, villages Zharma and Baskudyk of Mangystau District, Borankol village of Beineu District, 18 streets in Beineu village of Beineu District, 2 auls in Borankol village of Beineu District.

The work completed in 2019 included laying 24.863 km of gas pipelines, installation of 4 package type gas

distribution units, major repair of anti-corrosion coating for Aktau-Fort-Shevchenko HP pipeline between villages.

The project made it possible to construct and upgrade total of 1,347 km of gas pipelines (of which 647 km were new), install 6 automatic gas distribution stations, 34 gas control plants and 45 package type gas distribution units. The project implementation brought in 2.5 thousand of new consumers.

3. Upgrading gas distribution systems in Taraz. The project was aimed at upgrading gas distribution systems in Taraz to make operation of gas distribution systems more safe and reliable.

The project addressed the lack of gas pressure on the consumer side and increased throughput capacity of the gas supply system 1.5 times. In the detached house suburbs of the city 899 km of gas pipelines were constructed; 19,409 standalone gas distribution plants, 149 gas control plants, and 1 package type gas distribution unit were installed. 34.6 thousand consumers from the detached house suburbs and 50 thousand consumers from apartment blocks were connected to the new gas system. For more precise gas metering, detached houses were provided with meters with built-in smart-cards and temperature correction.

4. Construction of booster compressor station (BCS) at TIP-02 between BGR – TBA and Kazakhstan – China trunk gas pipelines

BCS throughput capacity grew from 2 to 3.5 billion m³/year. The project has a strategic impact, because once implemented, it will allow to supply gas to Kazakhstan – China trunk gas pipeline via BGR – TBA trunk gas pipeline to ensure export to China and make uninterrupted gas supplies to Almaty, bypassing Kyrgyz section of the BGR – TBA pipeline.

Along with upgrading gas distribution systems, in 2019, KMG finished the remaining upgrades of refineries. Upgrading the leading Kazakh oil refineries: Atyrau Refinery, Pavlodar Refinery and Shymkent Refinery, improved capacity and yield of raw oil refinery, ensured that quality of petroleum products now meets C-4 and C-5 (Euro-4, Euro-5) standards, made it possible to overcome the shortage domestically, and even export the products.

Investment projects progress in 2019 and new projects:

1. Feasibility study lead to a decision to join efforts with partners and expand capacity of the Beineu – Bozoi – Shymkent trunk gas pipeline to reach 15 billion m³/year.

2. Gasification of Almaty, upgrading, revamping of Almaty gas distribution systems. In 2019, the results of gasification included construction of 265 km of new gas pipelines, revamping 76 km of the existing gas pipelines, installing 21 gas control units.

The project targets to bring gas to residential areas/detached houses in Almaty (Medeu, Alatau, Zhetysu, Bostandyk, Almaly, Turksib, Nauryzbay Districts), which will improve urban environment, connect about 4.1 thousand of new consumers who will ensure annual average consumption of 15.8 million m³ of gas.

3. The first stage of reversing Kenkiyak – Atyrau oil pipeline section, up to 6 million tonnes per year. The project aims at transportation of up to 6 million tonnes per year of West-Kazakhstan oil to POOCR, PKOP and increasing oil exports to China. Year 2019 marked the end of construction and installation for Phase 1 of the project and start of construction of facilities for Phase 2.
4. A decision was made to develop FS for Yertys project at POOCR to produce winter diesel grades with the cloud point at –32°C or lower.
5. Proving its commitment to best health, safety and environment (HSE) practices, in 2019, Atyrau Refinery proceeded to design and construct new treatment facilities for the refinery as a part of the Tazalyk project. The treatment facilities will be upgraded in 2 stages: the first mechanical treatment line will be upgraded and revamped in 2019–2021; biotreatment facilities will be revamped and advanced treatment unit will be constructed in 2019–2023.

To build up the export potential, the following investment projects are expected to continue:

1. **Construction of the Beineu – Bozoi – Shymkent trunk gas pipeline, up to 15 billion m³/year**
To date, the trunk gas pipeline has reached the capacity of 13 billion m³/year. In 2020, activities to expand Beineu GMS, Akbulak GMS and Bozoi CS are scheduled to be completed, allowing to bring the gas pipeline capacity up to 15 billion m³/year.
2. **Construction of 4 compressor stations (CS)**
In February 2019, compressor stations Aral, Korkyt-Ata and Turkestan were commissioned in the Bozoi – Shymkent gas pipeline section. Capacity of the Beineu – Bozoi – Shymkent trunk gas pipeline reached 13 billion m³/year.

1A CS is scheduled to be constructed and commissioned in 2020.

PROCUREMENT PRACTICES

GRI 103-1, 103-2, 103-3, 204-1, 102-9, 102-10

One of the procurement principles is to offer equal opportunities to all potential suppliers participating in the procurement.

In 2019, the KMG procurement procedures were governed by the Samruk-Kazyna Rules for Procurement of Goods, Work and Services published at the Samruk-Kazyna website.

According to the current goods procurement system, open bidding or procurement is to be held by Request for Quotation process, only among manufacturers of the procured goods listed in the Holding Manufacturers Register, or only among disabled people employers producing the concerned goods and listed in the Holding Register of Disabled People Employers.

Moreover, the Samruk-Kazyna procurement method governing procurement processes in the KMG businesses, imposes special conditions for procurement of goods used by the Holding subsoil users, who have entered into subsoil use contracts before 1 January 2015, until the earlier of expiration date of such contracts or 1 January 2021. According to the referred special conditions, subsoil users shall (as required by Clause 3 Article 78 of the RoK Subsoil Use Act) purchase goods from Kazakh manufacturers provided that the latter comply with a design document or the RoK technical regulation law.

Procurement process includes:

- Development and approval of annual (long-term) procurement plan
- Selection of suppliers
- Entering into and execution of a procurement contract.

The general scope of goods, work and services procured from the Kazakhstan residents (regardless of nationality of their employees and whether or not they have ST-KZ goods origin certificates) was as follows (KZT bln)

Year	Total	Goods	Work and services
2017	2,257.9	775.1	1,482.8
2018	2,280.8	739.8	1,541.0
2019	2,004.7	462.1	1,542.6

Suppliers for KMG and its SACs are selected in an open tender by Request for Quotation process, and through single source in accordance with the Samruk-Kazyna Goods, Work and Services procurement method.

All procurements are made using the E-Procurement Information System as prescribed by the E-Procurement Instructions.

When selecting a supplier of goods, work, services, it is essential that the procurement procedure is held in strict compliance with the procurement method of the Fund, without any violation which might affect the results. This indicator is included in the KPI Card for the KMG and SAC managers.

The Samruk-Kazyna procurement rules provide that procurement procedure is to be held among qualified potential suppliers, and includes pre-qualification of potential suppliers and creating the database of pre-qualified potential suppliers.

Note, however, that according to the Samruk-Kazyna Procurement Method, one cannot establish requirements by social criteria for potential suppliers. Therefore, setting by KMG of social criteria to select suppliers may be perceived by Samruk-Kazyna as restriction on competition.

However, human rights and social criteria provisions are included in standard KMG contracts for procurement of goods, work and services, and in the approved Code of Business Ethics.

Therefore, in 2019, KZT 2,004.7 billion worth of goods, work and services was procured from the Kazakhstan residents, or 94% of the total procurement scope.

Concurrently, local content* in the procured goods, work and services is calculated under the Unified Local Content Calculation Method for Procurement of Goods, Work and Services by Companies approved by Order No. 260 of

Investment and Development Minister of the Republic of Kazakhstan on 20 April 2018.

The above values reflect consolidated data of all KMG subsidiaries where fifty or more percent of voting shares (participation shares) are directly or indirectly owned or held in trust by KMG, and which are subject to the Samruk-Kazyna Rules for Procurement of Goods, Work and Services.

Total amount of goods, work and services and local content (KZT bln)

Year	Total	LC, %	Goods		Work and services	
			Amount	LC, %	Amount	LC, %
2017	2,553	75	863	79	1,690	73
2018	2,428	79	824	77	1,604	80
2019	2,132	81	473*	63*	1,659	83

Note: excluding oil and gas

* The word "local" means domestic enterprises, which produce goods and have ST-KZ goods origin certificate specifying the local content percentage. Local content in a contract for work/service, except for work/service procured under a subsoil use contract, is calculated based on the share of Kazakh employees' salaries in the total payroll.



Case study

The Supplier Open Day came around Mangistaumunaygas JSC where the active and potential suppliers of the commodities, the providers of the works and services, the domestic commodity producers, and the representatives from the Akimat of Mangistau oblast and the regional businessmen chamber 'Atameken' had been invited to.

The priority has been given to the domestic commodity producers and the commodity producers of the Holding as the measures to provide support to the Kazakhstan commodity producer at the purchases and to the programs 'Supporting the new productions' and 'Res simplices economy' at concluding the contracts.

ANTI-CORRUPTION MANAGEMENT

GRI 102-25, 103-1, 103-2, 103-3, 205-1, 205-2, 205-3, 406-1, 410-1

The anti-corruption policy is established and implemented by the Company on the basis of corruption risks assessment. In order to reduce corruption risks efficiently and successfully, anti-corruption procedures should be adjusted to specific needs of the Company, as they directly depend on such distinctive features as size, structure and geography of operations.

The Republic of Kazakhstan scored 34 points out of 100 according to the Transparency International Corruption Perceptions Index. KMG's line of business suggests having active interactions with certain Ministries and Departments of the Republic of Kazakhstan and foreign officials, since KMG have a presence in other countries (Russia, Romania, Georgia, UAE, Netherlands, Bulgaria, etc.), implying acceptance of operational risk including such activities as sponsorship, political contributions, obtaining licenses, permits, other approvals from state authorities, and fines for violation of environmental law, etc.

Among the KMG SACs, there are certain jointly controlled and joint companies with foreign partners doing business as required by their local regulatory bodies, and SACs registered and located in other countries. In some SACs operating outside Kazakhstan, a foreign state owns SAC jointly with KMG or may influence the SAC business in the region, which involves a risk of corrupted relationships with partners.

In 2019, KMG and certain SACs passed external independent compliance risk audit under the UN Global Compact methods, which included interviews with more than 130 employees of KMG units to identify areas of major violations, and with business units of SACs within the project perimeter (JSC Embamunaygas, JSC KazTransGas, JSC KazTransOil, JSC Intergas Central Asia, LLP Atyrau Refinery, LLP Pavlodar Oil Chemistry Refinery), representatives/sponsors of LLP Kazmortransflot, LLP Zhambyl Petroleum, KMG International N.V.

According to Principle 3 of the Bribery Act Guidance of the UK Ministry of Justice, external corruption risks

for KMG were classified into 5 categories, and an external company assessed them as high.

Thus, the assessment was followed by generation of a Compliance Risk Map (primary risks were associated with the company's liaison with state authorities, procurement activities, selection of counterparties with conflicting interests and HR risks), and a KMG Corruption Risk Minimisation Plan, which included certain measures, in particular:

- Regular anti-corruption training for all employees of CC and SACs, including the Board of Directors, top management, middle management and other employees.
- Introduction of the basic compliance procedures and policies, such as Anti-Corruption Policy, Proactive Reporting Policy, Conflicting Interests Policy and Code of Conduct.
- Introduction of a centralised hot-line administered by a third party company.
- Implementing a formalised, documented and risk-based approach to due diligence of counterparties.
- Implementing the Conflicting Interests Declaration Procedure for employees and officials.

As part of the Compliance Risk Minimisation Plan, a regular anti-corruption training programme is being developed and held for all employees of CC and SACs, including the Board of Directors, top management, middle management and other employees.

Consequently, in Q4 2019, 180 middle management staff members were trained in Code of Business Ethics and Conflict of Interests.

It should be noted that today, each newly hired employee is required to read the Code of Business Ethics, and this practice is expected to be used for the Anti-Corruption Policy as well. This is applicable to the Company's business partners as well, since all standard contracts with counterparties entered into by the Company

include an anti-corruption clause, according to which counterparties undertake to follow Kazakhstan anti-corruption law and report any suspected or actual violations of the anti-corruption law and procurement rules to the customer's hot line.

One of the efficient tools KMG has in place to control how well the Company and its employees follow legal and ethical anti-corruption, anti-bribery and money laundering standards as a part of the Control Action Plan in accordance with the Proactive Reporting Policy, is the centralised hot-line administered by an independent company which ensures that all received reports are handled by responsible units within KMG, including Compliance Function (hot-line contact details are available on the KMG website in the national, Russian and English languages. The same is published on relevant SAC websites.) Thereupon, in 2019, the hot-line received 42 reports (*concerning bribery, corruption or ineffective use of money including procurement and supplies, theft or stealing, improper acceptance of gifts or other benefits by employees*), of which 6 were confirmed (*procurement and supplies*). Disciplinary measures were imposed on those at fault, and corrective action plans were developed.

According to the 2019 hot line reports, in 3 cases the employees at fault were held accountable, one criminal case was initiated and closed against two employees of LLP KMG EP-Catering. No contracts with business partners were terminated for corruption-related violations.

With regard to conflicts of interests, the Company pays special attention as violations associated with conflicting interests may lead to reputational damage or financial losses for the KMG Group. Currently, the Policy for Settlement of Conflicts of Interest of the KMG and SAC Employees and Officials has been developed and approved in accordance with the Kazakhstan laws and best global anti-corruption practices. This Policy is a core item of any anti-corruption plan regardless of jurisdiction; it provides general concepts for conflict of interest management, schemes for settlement and prevention of conflicts of

interests, examples of conflicts of interests, conflicts of interest declaration, etc.

The Policy is expected to be applicable to subsidiaries and associated companies as well.

In addition, as part of implementation of the Compliance Risk Minimisation Plan the procedure for declaration of conflicts of interests by employees and officials is introduced and the Rules are approved for selecting and hiring employees, according to which the Fund group officials are to be checked for affiliation to job candidates and managers of the Fund group, in accordance with the Anti-Corruption Act, Joint Stock Companies Act, and Limited and Additional Liability Partnership Act.

When addressing the anti-corruption policy of the Company, one cannot forget about safeguarding sponsored and donated funds. Thus, in accordance with the Anti-Corruption Policy, KMG does not provide charity and sponsor support to the state authorities, commercial and non-commercial organisations, their representatives or other entities. KMG may provide a charity and sponsor support where it is approved by the Compliance Function and only by:

- Transferring the funds to Samruk-Kazyna Trust, the Social Projects Development Fund
- Giving obsolete assets for charity
- Providing assistance to low-income families when addressed to by local executive authorities.

An exception can be made when instructed by Samruk-Kazyna, which is the majority shareholder, to provide assistance for specific needs followed by a detailed report on intended expenditure.

In conclusion, it is worth mentioning the Memorandum entered into by JSC Samruk-Kazyna and Anti-Corruption Agency for cooperation to foster zero tolerance to corruption in any form and creating anti-corruption culture to guarantee that all anti-corruption activities in the Company are completed properly and efficiently.