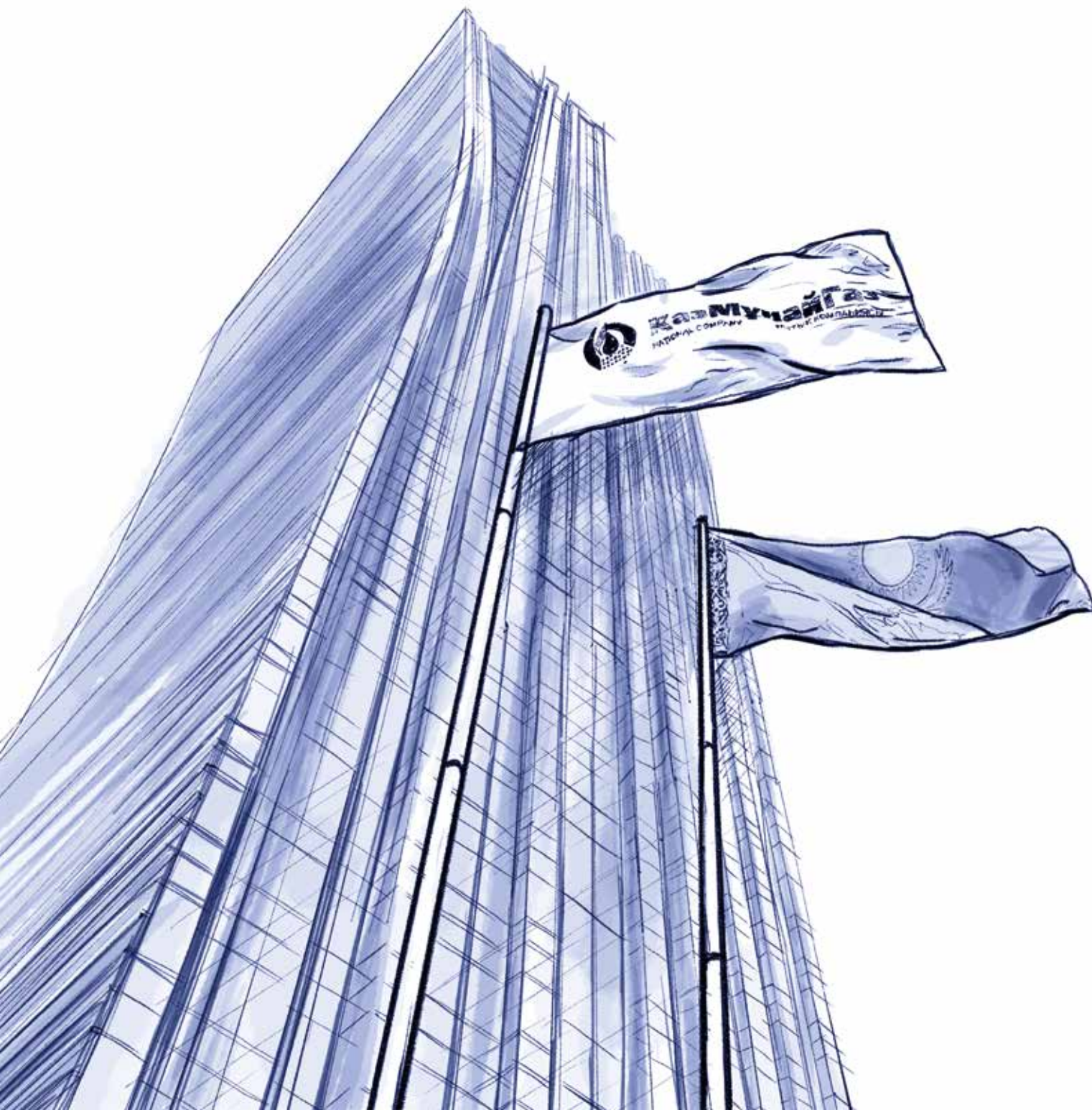


CONTRIBUTION TO ECONOMIC DEVELOPMENT



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



ECONOMIC PERFORMANCE

For KMG 2020 was the year of pressure test and the Company passed the test with flying colours. In 2020, the KMG financial results were greatly influenced by such factors as oil price reduction, production restrictions under OPEC+ agreement and the COVID-19 pandemic. However, the Company achieved better results than we had expected owing to the immediate actions taken in response to external challenges. Based on the results of 2020, the Company managed to provide positive free cash flow, maintain credit ratings and prevent violation of financial covenants and debt increase.

At the end of 2020, the KMG net profit amounted to KZT 172 billion (USD 416 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 2020, KZT 548 billion (USD 1,325 million) of taxes were paid and other compulsory payments were made to the state revenue.

In addition, the Company employs over 60 thousand people in the country, providing them with a steady paycheck along with social assistance for them and their families. In 2020, the Company paid KZT 53 billion worth of social charges and pension contributions for its employees.

Participation in domestic manufacturer support programmes and increased local content in procurement remain among the KMG priorities. In 2020, the KMG Group procured KZT 1,812.6 billion worth of goods, work and services from Kazakh companies, which makes **99%** of the total procurement. **The local content in procurement was 82%.**

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.

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

103-1, 103-2, 103-3

Planning and performance of the KMG Business Plan and Budget play an important part in the Company's value appreciation and reinforcing its financial stability for all stakeholders. Planning in KMG is aimed at ensuring medium-term (5-year) and current (for 1 year) planning of the KMG activities in accordance with priorities and goals defined in the Development Strategy.

Formation and approval of the consolidated and separate Development Plan and Budget of KMG are regulated by the Rules for Formation, Approval, Amendment and Monitoring of the KazMunayGas Development Plan. The Consolidated Business Plan includes the SDE plans for 5-year period and is regulated by the Plan for Development, Coordination, Approval and Monitoring of Business Plans and Budgets of KazMunayGas SDEs. The KMG Development Plan and Budget are formed in the automated planning system in accordance with the requirements of the approved corporate accounting policy of KMG and International Financial Reporting Standards (IFRS).

The KMG Management monitors the Business Plans performance on the basis of monthly, quarterly and annual management reports.

CREATED AND ALLOCATED ECONOMIC VALUE

201-1, 201-4, 415-1

Indicator	UoM	2018	2019	2020
Created direct economic value				
Total income	KZT billion	7,889	7,970	5,202
Allocated economic value				
Total expenditures	KZT billion	7,199	6,812	5,030
Unallocated economic value				
Profit	KZT billion	690	1,158	172

Total income is a total revenue and other income in the statement of comprehensive income.

Total expenditure is total expenses and costs in the statement of comprehensive income.

Indicator	UoM	2018	2019	2020
Other taxes and payments (excluding CIT)	KZT billion	1,258	1,360	1,068
Other taxes and payments (including CIT)	KZT billion	1,444	1,522	1,156
Income tax paid	KZT billion	186	162	88
Payments to capital providers	KZT billion	305	318	331

The data was received from the consolidated statement of cash flows (direct method) of KMG for 2020.

Payments to capital providers consist of Dividends paid to the shareholder, Dividends paid to the non-controlling interest, Interest paid and Distributions in favour of NWF Samruk-Kazyna JSC.

Indicator	UoM	2018	2019	2020
Capital investments (accrual method)	KZT billion	628	505	454

KMG did not receive any monetary assistance from the Government in the reporting period and does not make any donations for public/political use.

SOCIAL ASSISTANCE FOR EMPLOYEES

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.

For its part the Company, in accordance with the Collective Agreements of organisations, fulfils additional obligations on social assistance of the retirees, according to which the retiring employees due to achievement of retirement age as well as after retirement, receive financial assistance in the form of financial aid for the Kazakhstan national and state holidays, for anniversaries, in the form of health resort treatment vouchers with partial cost compensation and other.

Indicator	UoM	2018	2019	2020
Social charges and compulsory pension contributions	KZT billion	52	52	53

In 2020, financial assistance to the retirees of the Company was provided for a total amount of over KZT 2 billion.

Some of the KMG companies 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.

In total, in 2020 social assistance for the employees and retirees was provided for the amount of over KZT 21 billion.

KMG TAX STRATEGY

207-1

The KMG taxation approach (the KMG tax strategy) was established by the KMG Tax Accounting Policy (the TAP) developed in accordance with the requirements of the RoK Tax Code and on the basis of the KMG Group Corporate Tax Accounting Policy (the Corporate TAP).

The Corporate TAP was developed and implemented in order to unify tax accounting in the KMG Group. KMG and all the KMG subsidiaries use the Corporate TAP in development and approval of the Company's TAP which contains peculiarities of the tax accounting procedure by types of operations taking into account the activities performed by the Company (both core and non-core activities).

KMG and all its subsidiaries are governed by the **Corporate TAP**, except for the subsidiaries:

- Engaged in subsoil use operations under the production sharing agreement which provides for a special stable taxation regime;
- With less than 50% of the majority share holding (interest) held by KMG;
- Registered outside the RoK as well as the KMG branches and its subsidiaries' branches registered outside the RoK.

The Corporate TAP is **aimed** at achieving the tax accounting uniformity in order to present in its reporting **the most complete, objective and fair information** taking into account organisational and industry-specific peculiarities of KMG and its subsidiaries.

The Corporate TAP **objective** is to reflect the specifics of tax accounting of the KMG Group where the tax laws:

- Contain the provisions requiring or allowing to choose from several options or methods provided by the RoK Tax Code;

- Establish only general provisions and do not prescribe clear and specific ways of tax accounting, the procedure for defining taxable items and tax related items;
- Require to reflect separate conditions and provisions in the TAP.

The Corporate TAP is based on the following **principles** of the RoK Tax Code:

- Obligatory Taxation Principle – KMG and its subsidiaries are obliged to timely and correctly calculate, retain and pay taxes in full to the Kazakhstan national budget.
- Taxation Equity Principle – operations of KMG and its subsidiaries can not be subject to double taxation for one and the same type of tax and payment for one and the same taxable item for one and the same period.
- Good Faith Principle of KMG and its subsidiaries – it is prohibited to get benefit from their illegal actions in order to get tax saving and tax payments reduction.

The Corporate TAP provisions shall be a commercial and tax secret of the KMG Group.

Approval of the Corporate TAP and the KMG TAP as well as amendments and supplements to them are the competence of the KMG Management Board.

Amendments and supplements to the Corporate TAP and the KMG TAP are made in the following cases:

- Changes of the RoK Tax Code norms related to the tax accounting procedure established by the Corporate TAP provisions;
- Changes of the RoK Accounting and Financial Reporting Law or the IFRS related to the tax accounting procedure established by the Corporate TAP provisions;

- The Decisions made by KMG/subsidiary change the methods and principles of accounting of the KMG Group influencing the tax accounting procedure, defining the taxation items and/or the tax related items;
- The Decisions made by KMG/subsidiary lead to the change of procedure and principles of separate tax accounting of the KMG Group and other provisions, for which the RoK Tax Code has default rules.

In other cases the changes to the Corporate TAP and the KMG TAP are introduced as required but not more than two (2) times a year.

The Corporate TAP is developed in accordance with the requirements of the RoK tax laws in interconnection with International Financial Reporting Standards (IFRS), the RoK Accounting and Financial Reporting Law, other RoK legislative acts and international contracts ratified by the Republic of Kazakhstan as well as by the internal documents regulating activities of KMG/ subsidiary.

In the event of any conflicts between the provisions of the Corporate TAP and statutes of the RoK tax law or international contracts ratified by the RoK, the statutes of tax law or the corresponding international agreement rules are applied.

In its approach to taxation in tax planning KMG takes into account peculiarities of the KMG commercial activity and social influences of such approach which fully comply with the Development Strategy 2028 of JSC NC "KazMunayGas" which is a strategy of gradual organic growth of KMG for 2018–2028.

Thus, in a medium-term period KMG will improve measures on retaining and strengthening its financial stability. This strategy initiative will help KMG to manage the debt efficiently and reach optimum capital structure. As a part of the Initiative, one of the main objectives of KMG is to optimise the tax burden by restructuring unprofitable/profitable assets with redistribution of their tax obligations by maximum use of tax losses of the KMG Corporate Centre, optimum model of economic management taking into account potential changes of external environment and legislation.

207-2

Core tax risks of the Company can be:

1. Ambiguous interpretation of the tax and customs laws.
2. Incorrect tax reporting and customs goods declaration.
3. Untimely provision of financial statements.
4. Transfer pricing related risks.
5. Taxation of controlled foreign companies (inclusion of the CFC consolidated profit into the KMG taxable income).
6. Non-resident taxation (individuals under the contracts with non-residents).

The main risk factors (causes) in the Company can be:

1. Internal factors:

- Poor tax administration in KMG SDEs;
- Untimely provision of/failure to provide documents and information to the Accounting Office by programme administrators;
- Errors in tax statements and customs declarations of goods;
- Insufficient knowledge of the tax law;
- Inappropriate tax review of agreements/contracts;
- Untimely preparation/insufficient substantiation of tax preferences/changes to the tax law.

2. External factors:

- Ambiguous interpretation of the RoK tax law;
- Retrospective changes to the RoK tax law;
- Failures of the tax authority IT infrastructure;
- Ambiguous interpretation of the transfer pricing law.

The core preventive influence measures at the Company are:

1. Regularly monitor changes to the RoK tax law, and consider them in the work.
2. Employees are to participate in seminars, fora, self-educate in tax law and transfer pricing.
3. Follow up on tax record maintenance and tax reporting.
4. Regularly conduct reconciliation with tax authorities.
5. Provision of tax analysis reports on major deals (approval of contract projects).
6. Obtain explanations from state revenue authorities regarding tax, customs and transfer pricing laws.

7. Audit tax statements (as required).
8. Keep correspondence with authorised bodies to get explanations of regulatory legal acts.
9. Protect the company's interests in court.
10. Analyse risks of price deviation in major transactions (TP).
11. Monitor draft revisions to the transfer pricing law initiated by state authorities.

For more details on GRI 207-2 (Tax governance, control, and risk management), refer to Section "Corporate Governance" – Efficiency of Risk Management Processes.

207-3

KMG is included in the list of major taxpayers subject to tax monitoring in accordance with tax law.

On a regular basis, KMG analyses problem issues of tax law application in the KMG Group with further development of proposals to amend the Legislative Acts as well as initiates amendments to the RoK legislation in order to create favourable conditions for taxation of the KMG Group, ensure systemic improvement of tax law, customs law of the Customs Union and the RoK, the RoK transfer pricing law, and

increase of operating efficiency and the KMG value appreciation as a whole.

The relations and interaction with state authorities are built in accordance with the RoK Tax Code standards via business mailing in order to define a correct tax policy, participate in the meetings, discussions organised by both the state authorities and shareholders and industry associations.

Protection of the KMG Group interests by improving the legislation includes:

- development of proposals (including groundings, presentations and calculations) on improvement of tax legislation;
- consideration and provision of conclusions to the draft legal and regulatory acts developed by the corresponding state authorities as a part of execution of tax legislation and subsoil legislation;
- support of legislative initiatives of the KMG Group by direct participation in the activities of consultative bodies of the industry associations (Association of Taxpayers of Kazakhstan (the ATK), KAZENERGY, National Chamber of Entrepreneurs of the RoK "Atameken" (the NCE)), work groups with participation of authorised state bodies of the Republic of Kazakhstan and the RoK Parliament.

KMG is the member of the above mentioned industry associations.

IMPLEMENTATION OF INVESTMENT PROJECTS

203-1, 203-2

KMG is a national leader of oil and gas industry of Kazakhstan with full integration at all stages of the value-added chain. Being a leader of oil and gas industry and a vertically integrated company, KMG has a stable platform for its long-term sustainable development. KMG assets include the whole cycle of hydrocarbons value-added chain which consists of exploration, production, transportation, refining and marketing. The activities are performed in Kazakhstan and Romania.

As part of the above mentioned directions, KMG implements over 50 investment projects aimed at increasing hydrocarbon reserves, creating a new production, and expanding and renewing the existing production.

Implementation of the following investment projects contributes to sustainable development of Kazakhstan:

I. Projects for gasification of the RoK regions and modernisation of gas distribution networks

In 2020, among the successfully completed investment projects were:

• Upgrade of Bozoi UGS

On 20 December 2020, the project for increase of gas storage capacity of Bozoi underground gas storage facility was completed. The project is aimed at increasing reliable gas supplies to the south regions of the country, levelling of gas consumption load in cold months, levelling gas transport system load as a whole. Project volume

of gas storage is 4 billion m³ (Zhamankoyankulak section is 3 billion m³ and Zhaksykyoyankulak section is 1 billion m³). Daily gas withdrawal rate during the peak of heating season can reach 27 mln m³/day.

- **Construction of a supplying gas pipeline for 5 settlements in Kordai District of Zhambyl Region**
KazTransGas JSC finished the installation of gas supply pipelines to 5 settlements in Kordai District (Massanchi, Sortobe, Karakemer, Aukhatty, Bular Batyr) totalling up to 42 km and reconstruction of Kordai-Shu automated gas distribution station, pursuant to the instruction of the Kazakhstan President K. Tokayev received in the course of his working visit to Kordai District of Zhambyl Region.

Ten settlements with population of over 62 thousand people were provided with natural gas as a result of implementation of the project in cooperation with the Akimat of Zhambyl Region. 7,177 residential buildings, 29 social entities, 243 entities of small or medium business. There is a prospect of gasification of another 7 settlements. The works were performed from June till October 2020.

In 2021, the works are to be continued under the investment project **Construction of the Trunk Gas Pipeline "Beineu – Bozoy – Shymkent"** with the throughput capacity up to 15 bln m³/year. The gas transported via this gas pipeline is supplied to the population of the RoK regions and for export to China.

In February 2019, compressor stations Aral, Korkyt-Ata and Turkestan were commissioned in the Bozoi – Shymkent gas pipeline section.

On 29 April 2020, at the Beineu-Bozoy section of the trunk gas pipeline, the last forth 1A compressor station was commissioned and with its commissioning throughput capacity of the Beineu – Bozoy-Shymkent trunk gas pipeline reached 15 bln m³ per year.

Activities to expand Beineu GMS and Bozoy CS are scheduled to be completed in 2022.

Also at the end of 2019, pursuant to the instruction of the First President/the Head of the State dated 5 March 2018, AstanaGas KMG JSC, with 50% of shares under the trust management of KMG, commissioned the trunk gas pipeline on the Karaozek (Kyzylorda Region) – Zhezkazgan – Karaganda – Temirtau – Nur-Sultan route.

Also, in 2021 the activities under the following investment projects are to be completed:

- **Gasification of Almaty city, revamping of Almaty gas distribution networks**

The project contributes to better environmental situation in Almaty, will allow to connect 4,100 of new consumers who will ensure annual average consumption of 15.8 mln m³ of gas. At the beginning of 2021, 1,846 houses were connected, the other 2,254 houses also have a gas access and will be connected as soon as possible.

As at 1 January 2021, 265 km of new gas pipelines were constructed and 58 km of the existing gas pipelines were reconstructed, 30 gas control plants and 1 package-type gas control unit were installed. Till the end of 2021, 40 km of gas pipelines, 4 gas distribution plants are to be reconstructed.

- **Construction of gas distribution networks of start-up packages 1 and 2 of Phase 2 in Nur-Sultan**

Gas supply from AGDS-2 to the main gas distribution plant (MGDP) "Vostok" and the "Yugo-Vostok" MGDP is ensured within start-up package 1, and gas supply from "Vostok" MGDP to the residential districts Internationalnyi, Michurino, Kuigenzhar and to the boiler houses is ensured within start-up package 2.

It is preliminary planned to construct 83.7 km of gas pipelines, install 5 package-type gas distribution units and 5 gas distribution units. All the works are supposed to be completed by the end of 2021.

II. Oil transportation projects

"The first stage of reversing Kenkiyak – Atyrau oil pipeline section, up to 6 mln tonnes per year"

project is aimed at transportation of up to 6 mln tonnes per year of West-Kazakhstan oil to POOR, PKOP and increasing oil exports to China. In 2020, as a part of the project, start-up package 1 was commissioned, mechanical completion of the Aman PS facilities was performed. Heating furnaces production and the works on supervising installation of heating furnaces equipment was fully completed.

III. Oil and gas refining projects

- Proving its commitment to best health, safety and environment (HSE) practices, in 2020 Atyrau Refinery continued to design and construct new treatment facilities for the refinery as a part of the Tazalyq project.

The objective of the Tazalyq project is to upgrade wastewater treatment units and reconstruct the Tukhlaya Balka evaporation fields located on the left bank of Atyrau in order to execute environmental requirements of state governing authorities.

The environmental effect from the new MTUs is the removal of 8000 m³ of open petroleum product evaporation fields and recycling of 15% of treated wastewater in own production. The environmental effect from reclamation of the evaporation fields will be prevention of adverse impact on the atmosphere, groundwater, local flora and fauna.

The treatment facilities are being upgraded in 2 stages:

1. Reconstruction of mechanical treatment units at Atyrau Refinery, 2019–2022;
 2. Reconstruction of a closed channel for effluents treated to standard quality and reclamation of evaporation fields, 2019–2023.
- **Construction of a new Gas Processing Plant in Zhanaozen.** Taking into account the maximum wear level of the main process equipment, technical devices and engineering networks of the gas refinery

plant in Zhanaozen, significant risks associated with ensuring safe labour conditions, compliance with environmental protection requirements, man-caused emergency with environmental consequences, risks of gas disposal by subsoil users, risk of failure to provide the population of Mangistau Region with gas processing products, KMG plans to construct a new plant taking into account the following measures:

1. In 2018, the technical and economic studies on the project were completed.
2. In 2021, the FS and pre-feed are to be performed, as well as the start of works on the DED development under the project.
3. The construction of the plant is to be completed at the end of 2023.

IV. Water supply projects

- KMG assists CITIC ENVIROTECH LTD with implementation of the project on construction of the desalination plant at Karazhanbas field as well as utilities installation to the desalination plant. As per the approved project parameters the works on installation of utilities to the desalination plant were expected to be completed before 31 December 2020, however, due to untimely supply of process equipment and materials from the PRC caused by the COVID-19 pandemic, there were shifts in the work schedule for key facilities. As a result, total term of the plant construction completion (PWRI) was shifted to 31 March 2021.

Case Study

Sary-Arka trunk gas pipeline
(Sary-Arka TGP) connected Central Kazakhstan and the capital of our state to the unified gas transportation network of the country. This is the largest infrastructure project in the years of independence which was constructed in record time.

Its commissioning will allow transporting up to 2.2 bln m³ of gas annually to provide consistent supplies of local natural gas to Nur-Sultan, Karaganda, Temirtau, Zhezkazgan, and along the trunk gas pipeline route. About 2.7 million people from 171 settlements are expected to get connected to the gas supply network. Currently, the works on construction and commissioning of internal regional gasification facilities are carried out.

Gas consumption in the domestic market continues to grow. This is a world trend, as natural gas is the most beneficial and cleanest fuel, its use significantly decreases harmful atmospheric emissions. Population of Karaganda and Nur-Sultan is

being connected at full speed to the gas supply network owing to the constructed Sary-Arka trunk gas pipeline. In future, the 2nd and 3rd stages of the Sary-Arka gas pipeline construction will enable gasification

of the northern regions of the country. Active gasification work is carried out in the south, with almost full gasification of Turkestan city this year.



- Also KMG implements the project for increase of throughput capacity of the Astrakhan – Mangyshlak Main Conduit and upgrade of worn out equipment to satisfy the existing deficit and future increase of water consumption of Atyrau and Mangistau Regions of the Republic of Kazakhstan. As a part of Phase 1 of the project, it is planned to increase water feed capacity from 30,100 thous. m³/year to 68,388 thous. m³/year by the end of 2024. Currently, it is planned to develop DED on implementation of Phase 1 of the project.
- KMG implements the project for construction of the desalination plant with the main pipeline near the Kenderly recreation area with the capacity of

more than 50 thous. m³ per day, under the protocol assignment on fast track of the construction project No. 11-3/07-781 of the RoK Prime Minister A. Mamin dated 18 September 2019. Positive conclusion No. 01-0197/21 of RSI Gosexpertiza dated 8 April 2021 was received for the FS of Desalination Plant with capacity of 50 thous. m³/day with the Kendeli – Zhanaozen water main developed by the Designer KazNIPImunaigas LLP, the branch of KMG Engineering LLP.

PROCUREMENT PRACTICES

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.

The KMG procurement procedures in 2020 were regulated by the Procurement Procedure and the Procurement Management Standard of Samruk-Kazyna JSC posted at the procurement portal of Samruk-Kazyna Contract LLP <https://www.skz.kz/ru/regulations/>.

According to the current goods procurement system, open bidding or procurement is to be held through a 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;
- Inventory management.

Suppliers for KMG and its SDEs are selected in an open tender through a Request for Quotation process, in a tender through competitive negotiations within the intra-holding cooperation and through a single source procurement in accordance with the Samruk-Kazyna Goods, Work and Services procurement methodology.

All procurements are made using the E-Procurement Information System.

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 Samruk-Kazyna JSC, without any violation which might affect the results. This indicator is included in the KPI Card for the KMG and SDE managers.

The Samruk-Kazyna Procurement Management Standard provides 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.

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 billion

Year	Total	Goods	Work and services
2018	2,280.8	739.8	1,541.0
2019	2,004.7	462.1	1,542.6
2020	1,812.6	469.5	1,343.1

Therefore, in 2020, KZT 1,812.6 bln worth of goods, work and services was procured from the Kazakhstan residents, which makes 99% of the total procurement.

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 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.

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

Year	Total	LC, %	Goods		Work and services	
			Amount	LC, %	Amount	LC, %
2018	2,428	79	824	77	1,604	80
2019	2,132	81	473*	63*	1,659	83
2020	1,826	82	472*	71*	1,354	86

*excluding oil and gas

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

The issues of support of domestic manufacturers of such simple things like products of furniture, food, consumer goods and construction industries ("Economy of Simple Things" goods) are under special scrutiny by the RoK Government and the Samruk-

Kazyna Management. For the year 2020, Samruk-Kazyna JSC set the target indicator for KMG to reach the purchase rate of the "Economy of Simple Things" goods from domestic manufacturers at the level not below 90%. As a result of the works performed, our indicator reached 92%. The target indicator set for KMG for the year 2020, was exceeded by 2%.

82%

SHARE OF LOCAL CONTENT

It should also be mentioned that KMG successfully conducted work on import substitution as a part of implementation of the New Production Promotion Programme of Samruk-Kazyna JSC. The main goal of this Programme is to support the initiatives of private business willing to become familiar with a new type of products or upgrade the current production in order to satisfy the demand of Samruk-Kazyna companies by concluding off-take contracts. The mechanism for off-take contracts provides for implementation of import substitution projects with a condition of future purchase and supply of commodities to be produced as a result of such implementation.

Thus, in 2020, the KMG subsidiaries entered into 40 off-take contracts and 2 memoranda with local manufacturers implementing import-substituting projects, as a part of the above Programme, for a total amount of KZT 13.6 billion.

Category Management is an effective tool for increasing quality of the purchased goods and maximisation of benefits from the procurements.

Since 2019, the Category Management Introduction project was transferred to operational activities of JSC NC "KazMunayGas" having proven its efficiency for business directions of the Company.

Category Management of JSC NC "KazMunayGas" (the Category Management) during the 2017–2020 period developed, approved and performed 23 category-based procurement strategies (the CPS). Also, the Category Management participated in development and implementation of 12 CPS

developed by Samruk-Kazyna Contract LLP, being the Competence Centre for category-based procurement management of NWF Samruk-Kazyna JSC.

As a part of the developed CPS, in the 2017–2020 period, the KazMunayGas Group made procurements for the amount of KZT 92.7 billion that allowed to reach benefits for the indicated period in the amount of KZT 12.61 billion.

SUPPLIER SOCIAL ASSESSMENT

414-1

For the reporting period in order to ensure compliance of the established guarantees in labour relations for the contracting employees by the Decision of the KMG Management Board dated 2 June 2020 the Standard Regulations on activities of SDEs with contractors performing their activities at the KMG facilities were approved. And currently, the work on their implementation into the KMG SDEs is being carried out.

The Regulations are binding on SDEs in the course of execution and monitoring of contracts with the contracting companies that have their own personnel, and will form an integral part of the contracts between SDEs and the contracting companies.

The main objective of the Regulations is to ensure social and labour rights of the contracting company employees.

ANTI-CORRUPTION MANAGEMENT

102-25, 103-1, 103-2, 103-3, 205-1, 205-2, 205-3

JSC NC "KazMunayGas" (hereinafter – the Company) operates on the basis of the principles of legitimacy, good faith, and ethics. The Company strictly respects human rights and makes all possible efforts to prevent corruption, maintains the unblemished reputation, and strives for implementation of the highest international standards of ethics.

The Compliance Service (hereinafter – the Service) of the Company was established in 2019, which has become one of the progressive initiatives responsible for compliance with the corporate standards of goods faith at the Company. The responsibilities of the Service comprise exclusion of all existing risks related to the possibility of corruption offences

committed by the employees at work. Remaining independent, the Service is integrated with all business units of the Company.

Following the best global practices of corporate management, the Company continually strives to improve the existing corporate standards. Thus, as part of the Company's and its employees' compliance with the legal and ethical anti-corruption standards, the key anti-corruption regulations have been approved: Anti-Corruption Policy of JSC NC "KazMunayGas" and Its Subsidiaries, Confidential Informing Policy of JSC NC "KazMunayGas", Conflict of Interest Management Policy for Employees and Officers of JSC NC "KazMunayGas" and Its Subsidiaries and Affiliates, as well as the new version of the Code of Ethics

(corporate values of KMG updated, gift limits added, compliance contacts updated, the Code amended to comply with the Code of JSC Samruk-Kazyna and the recommendations of the international audit companies specialized in compliance).

In 2020, equivalent compliance policies were developed and approved at 35 subsidiaries and affiliates of the Company,

As for the work with the subsidiaries and affiliates, the Company strives to accelerate the processes of integrating the businesses into the corporate culture by introducing local functions and developing compliance programmes tailored to each enterprise. Thus, compliance risk assessment has been held at 8 enterprises (Embamunaigas, Pavlodar Oil Chemistry Refinery, Atyrau Refinery, KazTransOil, KazTransGas, Intergas Central Asia, Kazmortsflot (interview), and Zhambyl Petroleum (interview)). 4 subsidiaries and affiliates have established own compliance services / added compliance officers to the organizational structure: Pavlodar Oil Chemistry Refinery, Atyrau Refinery, KazTransOil, and KLPE.

Remote interaction caused by the pandemic facilitated the Service developing effective approaches to applying organisational and system measures to prevent corruption among employees of the Group. Ethics training of all employees of the Company's Corporate Centre was held remotely. Special attention was paid to enhancing corporate communication by newsletters including reminders for all employees about the Company's anti-corruption requirements, the changes in the regulatory documents (amendments to the RoK Law on Anti-Corruption), and functioning of the hotline, which facilitated higher commitment among the employees and other persons to using the hotline managed by the Social Engagement and Communications Centre of JSC NWF "Samruk-Kazyna", which is one of the most effective tools to monitor quality of the Company's and its employees' compliance with the legal and ethical standards. In addition, the Service has arranged some awareness-raising activities among the managers and the employees of the Company to teach about preventing and resolving conflict of interest within one's official powers.

For the purposes of establishing an effective system for managing conflict of interest and to specify the requirements to the employees' conduct that ensure minimisation of the risks of decision-making

under the influence of personal interest and relations within the Company, a range of measures has been employed. Thus, in 2020, the Company has approved the Conflict of Interest Management Policy regulating the procedure for review of a conflict of interest and specifying methods for management thereof. Compliance with the Policy is an obligation of each Company's employee regardless of his/her position.

At employment, all employees go through a process of familiarisation with the Policy and complete and sign an initial conflict of interest declaration. An equivalent procedure is established for transfer of an employee to another position.

The procedure of conflict of interest declaration was introduced in 2020 and resulted in receiving 434 declarations from the employees. Also, during 2020, 48 cases were verified and assessed to identify possible conflicts of interest, where 6 potential conflicts of interest were resolved and 42 cases showed no conflict of interest.

In accordance with the Anti-Corruption Policy, the Company is involved in no direct charity or sponsor support to authorities, commercial or non-commercial organisations, representatives thereof, or any other entities. 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.

Commitment to high ethical standards is the foundation of good corporate management and a guarantor in upholding and ensuring that the interests of the Company are prioritised over any personal ones. The Company actively highlights the personal liability of managers for corruption offences, including those committed by their subordinates. Considering the situation caused by the COVID-19 pandemic, the majority of the employees was transferred to working from home, which enhanced the importance of the corporate communication by regular newsletters including reminders to the employees about the Company's anti-corruption requirements, the changes in the regulatory documents, and the functioning of the hotline, which ensured 100% coverage and facilitate higher awareness of the employees and other persons regarding the possibilities of the hotline. Additionally, as part of the annual training, an online course on ethics was arranged for all employees of the Corporate Centre.

Following the assessment of the compliance risks and analysis of the internal documents in the field of compliance to determine conformity with the standards and requirements of the anti-corruption laws and the regulations, including the RoK Law on Anti-Corruption, the UK Bribery Act, and the OECD Convention on Combating Bribery of Foreign Public Officials, the new version of the Code of Ethics was approved in 2020. Thus, to minimise the legal and reputation risks that may arise due to breach of professional and ethical standards, as well as to instil the culture of zero tolerance to corruption among the Company's employees, an online training was conducted for all employees on the Code provisions.

The Company operates within the memorandum on cooperation between JSC NWF "Samruk-Kazyna" and the Anti-Corruption Agency for zero tolerance to any corruption and forming of anti-corruption culture. The Company is also engaged in communication with the public authorities regarding the current anti-corruption compliance issues. The Company employs the commonly-accepted and legally feasible methods of cooperation with the public authorities. In 2020, the Company participated in development of suggestions for the Action Plan for 2021–2025 to Implemented the RoK Anti-Corruption Strategy for 2021–2025.

205-1

In 2019, an external independent assessment of compliance risks in the operations of the Company and its major subsidiaries and affiliates was held to verify conformity with the UN Global Compact framework, which comprised interviews with more than 130 employees of the KMG business units and the business units of the subsidiaries and affiliates to identify the areas of major non-conformities. Assessment of the compliance risks of the Company and its major subsidiaries and affiliates exposed the risky areas in the field of procurement, human resources, and issues related to monitoring of business relations to identify conflict of interest.

205-2

Familiarization with the anti-corruption measures for the management personnel and coverage of the RoK legal provisions has been ensured within an online training on ethics in November 2020 and by corporate newsletters sent on a regular basis to cover amendments to the anti-corruption legislation, the introduction of general tax declaration, conflict of interest, and hotline operation.

Currently, during the employment procedure, all employees familiarise themselves with the Conflict of Interest Management Policy and the Code of

Ethics and fill in and sign an initial conflict of interest declaration which is further attached to the personal file of each employee. An equivalent procedure is established for transfer of an employee to another position. Additionally, a practice for familiarization with the Anti-Corruption policy has been introduced and in 2020 all employees of the Company undertook to comply with the provisions of the Anti-Corruption Policy. An equivalent procedure is being introduced at all subsidiaries and affiliates of the Company.

All standard contracts between the Company and its contractors include an anti-corruption clause specifying obligations of the contractors to comply with the anti-corruption laws of the Republic of Kazakhstan and report to the customer on any possible or actual breaches of the anti-corruption laws and the procurement regulations via the hotline.

In 2020, following the approval of the new version of the KMG Code of Ethics, an online training was held for all employees of the Corporate Centre.

No anti-corruption training is held for representatives of public authorities.

205-3

118 reports were received by the hotline in 2020. The Company demonstrate growth of the number of the reports compared to 2019 due to 100% coverage of the employees with the awareness-raising activities through a corporate newsletter about the operation of the hotline, as well as by posting the hotline contact details on the Company's website to the employees, contractors, and others. Thus, 41 out of 118 reports were confirmed. The major part of the reports related to staff issues and working conditions associated with the adverse economic impact of the COVID-19 pandemic. The results of the hotline operation, including the statistics on the received (processed) reports and the non-conformities identifies as the result, are regularly reviewed by the Board of Directors and the Audit Committee.

Analysis of the reviewed reports received via the hotline in 2020 resulted in disciplinary measures applied to 2 employees.

There were no cases of non-renewal or termination of contracts with business partners over the reporting period due to corruption-related issues.

There was no data on court proceedings related to corruption and initiated against the organisation or its employees over the reporting period.

ANTI-COMPETITIVE BEHAVIOUR

206-1

Over the reporting period, 7 organisations of the KMG Group were engaged in 31 court proceedings related to anti-competitive behaviour and breach of anti-trust and anti-monopoly laws. 9 out of those cases have been

solved in favour of the subsidiaries and affiliates and the KMG CC, 15 cases have been solved not in favour of the subsidiaries and affiliates, and 7 proceedings are currently ongoing.

SOCIAL AND ECONOMIC COMPLIANCE

419-1

Non-compliance with laws and regulations in the social and economic area

10 subsidiaries and affiliates of KMG were involved in court cases related to social regulation. During the reporting period, KMG and SDCs were involved in 28 court cases. 19 of them were resolved in favor of SDCs and KMG, 6 court cases were not satisfied in favor of SDCs.

During the reporting period, subsidiaries and affiliates were involved in 2 court cases in the area of inconsistency with legislative acts in the field of economic regulation. 1 court case with a total amount of 3,955.3 million tenge is related to the tax issue. 1 court case in the amount of 0.83 million tenge related to the provided data on shipments.

