**KazMunayGas Group**

**Sustainability Management**

**Guidance**

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# SCOPE OF APPLICATION

## General

This KazMunayGas Group Sustainability Management Guidance (“Guidance”) has been developed in order to implement the sustainable development principles and introduce the sustainable development management system into the Company’s business processes, ensure efficient stakeholder engagement, confirm the Company’s commitment to the sustainable development principles and analyze and gradually improve the key sustainable development performance.

The Guidance has been developed in compliance with the laws of the Republic of Kazakhstan, the Samruk-Kazyna Corporate Governance Code, the KazMunayGas Sustainable Development Concept and the Sustainable Development Reference Model for Samruk-Kazyna Portfolio Companies, as well as the Company’s internal documents. This Guidance should be amended as required, with due respect to any changes in the strategic areas of the Company’s development.

## Scope of Application of KazMunayGas Group Sustainability Management Guidance

This Guidance applies to the KazMunayGas Group. This Guidance applies to KMG S&A in the established manner by developing and approving a similar Guidance or bringing internal documents of KMG S&A into line with this Guidance. The similar internal documents of KMG S&A should contain the same requirements as stipulated by this Guidance or higher.

This Guidance should be duly considered when developing internal regulations regarding risk identification, assessment and management; budgeting, planning, decision making; social and environmental issues; occupational health and safety; economic performance assurance; stakeholder engagement; development and implementation of corporate and functional KPIs and internal documents of business units in terms of human resource management.

# Regulatory references

## This Guidance has been developed in compliance with the laws of the Republic of Kazakhstan, Charter of JSC NC “KazMunayGas”, the Samruk-Kazyna Corporate Governance Code (“Fund’s CGC”)[[1]](#footnote-1), the KazMunayGas Sustainable Development Concept, KazMunayGas Corporate Social Responsibility Code, KazMunayGas Code of Business Conduct, and the UN Global Compact, Standards АА1000, such as AA 1000 Stakeholder Engagement Standard 2015, Guidance on Social Responsibility ISO 26000, ISO 14001 (Environmental Management System), ISO 10018 (Quality Management – Guidelines on People Involvement and Competence) and ISO 45001 (Occupational Health and Safety Management Systems), GRI (Global Reporting Initiative) Standards and is a fundamental document to regulate the activities of JSC NC “KazMunayGas” in sustainable development.

# Terms, DEFINITIONS AND ABBREVIATIONS

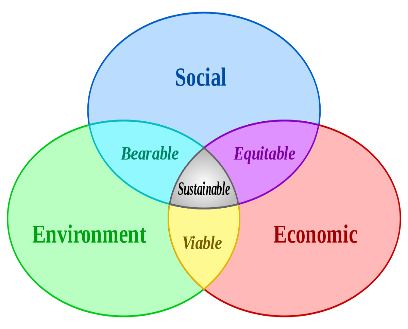
|  |  |
| --- | --- |
| “UN Global Compact” | means the largest international sustainability initiative aimed to introduce ten key human rights, employment relations, environment and anti-corruption principles into the activities of the business community |
| “S&A” | means Subsidiaries and Affiliates, including jointly controlled entities and joint ventures of JSC “NC “KazMunayGas” |
| “Stakeholders” | means individuals and legal entities that may influence the activities or decision-making process in the Company, or whose interests are affected by the Company’s activities |
| “KMG” | means JSC NC “KazMunayGas” |
| “Company” | means a joint reference to Joint-Stock Company “National Company |
| “HSESDC” | means HSE and Sustainable Development Committee of the Board of Directors |
| “Key Performance Indicators (KPI)” | means indicators designating the company’s performance level to evaluate the company’s activities in general and the performance of the Company’s employees |
| “Stakeholder Map” | means an image aimed to clarify the position of the Company’s stakeholders or a graphical representation of stakeholder groups; |
| “Materiality Matrix” | means a graphic diagram of significant topics determined in accordance with the principle of materiality based on assessment of the Company’s impact on the economy, environment, society and assessment of topics significance for stakeholders |
| Sustainability Report Assurance | Assurance of the quality and reliability of the company’s non-financial information for the reporting period, conducted by an independent party in accordance with the selected standard or applicable basis for the submission of non-financial reporting |
| “UN” | means the United Nations |
| “Environment” | means a combination of natural and man-made objects, including atmospheric air, the ozone layer of the Earth, surface and underground waters, lands, subsoil resources, flora and fauna, climate and their interaction |
| “Supplier/Partner” | means individuals, legal entities, groups of individuals or legal entities that supply goods/provide services (including contractors) |
| “Guidance” | means the Sustainability Management Guidance |
| “Strategy” | means KazMunayGas Strategy until 2028 |
| “BoD” | means the Board of Directors of JSC NC “KazMunayGas” |
| “Sustainable Development” | means the Company’s activities where the natural resource use, investment, scientific, technical and innovative development focus, personnel development and institutional changes are consistent and strengthen the present and future potential to meet human needs and aspirations. This is development process “that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland report commissioned by UN, 1987) |

# SUSTAINABILITY MANAGEMENT SYSTEM

## 4.1. General

In accordance with the Fund CGC, the Company agrees with the importance of its impact on the economy, environment and society and, striving to increase long-term value, ensures its sustainable development in compliance with the interests of stakeholders.

In modern interpretations, three aspects of sustainable development are emphasized (Figure 1) – economic, environmental and social.

*Figure 1. Triple bottom line*

Sustainability aspects and principles have been integrated into the Company’s business processes, in particular, in decision-making ones. In the process of making any business decisions, the Company shall ensure the coherence of its economic, environmental and social sustainable development goals in the long term, which includes, but not limited to the growth of long-term value for shareholders and investors. Sustainable development in the Company consists of three components – economic, environmental and social.

The economic component should lead the Company’s activities to a long-term value increase, ensure the interests of shareholders and investors, enhance the processes, increase investment in advanced technology, and improve performance.

The environmental component should ensure minimization of the impact on biological and physical natural systems, limited resources optimal use, environmentally friendly, energy- and material-saving technology use, environmentally acceptable products development, waste minimization, recycling and disposal.

The social component is focused on the principles of social responsibility, which include, but not limited to occupational health and safety, fair remuneration and respect for workers’ rights, individual human resources development, social programs for personnel, new jobs, sponsorship and charity, environmental and educational events.

The implementation and further improvement of the sustainability management system has certain benefits for the Company, such as:

1) Fund-raising – the world practice shows that investors assess investment attractiveness based on sustainability risks and opportunities (ESG);

2) Managerial effectiveness and risks mitigation – environmental and social aspects integrated into the managerial decision-making process helps to expand the planning horizons and consider a more diverse range of risks and opportunities, which creates the prerequisites for sustainable business development;

3) The Company’s business processes efficiency enhancement – introduction of high-performance and resource-saving technology helps to develop innovative products and services, while improving competitiveness and effectiveness;

4) Good reputation – a perfect corporate image is the most obvious result of sustainability activities, which increases the brand value and builds credibility, and also has a positive impact on the quality of interaction with business partners;

5) Improved credibility for internal and external stakeholders – creation of attractive labor conditions, opportunities for professional and career growth enables engagement and retaining of promising highly-qualified specialists; effective dialogue with stakeholders contributes to a positive environment around the Company’s activities, which helps to enhance its business based on understanding and support provided by stakeholders.

1. Occupational safety and safety of KMG employees, contractors and people in the operations areas;
2. Reduced adverse environmental impact in the operations areas.

**4.2. Sustainability Elements**

**4.2.1. Strategy, Policy and Goals**

KMG’s mission is to ensure maximum benefits for the Republic of Kazakhstan from participating in the development of the national oil and gas industry. The Company adheres to the principles of the UN Global Compact[[2]](#footnote-2) and integrates the UN Sustainable Development Goals (“SDGs”)[[3]](#footnote-3) into its activities, and also follows the Company’s Development Strategy until 2028.

The Company qualified sustainable development as one of its strategic goals in its Development Strategy 2028 focused to integrate the sustainable development principles into key business processes, operations and decision-making processes.

The Company identifies SDGs suitable for KMG and gives proper consideration to such SDGs when developing strategic documents, policies and standards in the area of sustainable development.

The Company is also guided by KazMunayGas Sustainability Concept, which as an integral component of the Company’s corporate governance provides a common basis for sustainable development and regulates the Company’s activities in the area of corporate social responsibility.

The Company’s activities in all areas, including in the area of sustainable development, shall comply with the best advanced international standards.

The Company encourages and promotes the application of the sustainable development principles by the Company’s partners.

The sustainable development management system includes, but is not limited to the following elements:

* the Company’s commitment to the sustainable development principles at all levels of management;
* analysis of the external and internal situation in three aspects of sustainable development – economic, environmental and social;
* identification of sustainable development risks in the social, economic and environmental areas;
* stakeholder engagement and stakeholder map building;
* definition of sustainable development goals and KPI;
* implementation of priority areas (initiatives) in sustainable development;
* integration of sustainable development into key business processes;
* improvement of the skills of the Company’s employees in sustainable development;
* arrangement of the annual sustainability reporting;
* assessment of sustainable development performance; and
* sustainability enhancement.

**4.2.2. Risks and Opportunities Identification and Assessment**

Sustainability risks are economic, social or environmental events or conditions, whose occurrence may lead to a negative impact on the Company’s activities, financial and production performance.

Following international practice, the Company also identifies sustainability opportunities that are positive outcomes of changes in social or environmental aspects of the internal or external environment.

Sustainability risks should be identified for all key aspects and areas of KMG’s business activities as follows, including corporate governance:

|  |  |
| --- | --- |
| **Aspects** | **Area** |
| Economic aspects | * Production (production, transportation, refining); * Economy and finance |
| Environmental aspects | * Power consumption; * Climate change; * Water resources; * Waste management; * Local environmental impact; * Biological diversity; * Compliance with environmental laws. |
| Social aspects | * Occupational health and safety; * Business process security; * Business conduct; * Transparency; * Labor practices; * Local community and local content development; * Human rights; * Product liability; * Supplier management. |

The sustainability risks and opportunities are classified as follows:

* ***Strategic risks and opportunities*** associated with market changes or increased investor interest in sustainability management in the Company;
* ***Operational risks and opportunities*** associated with rising prices for natural and energy resources consumed by the Company, production suspension due to political instability or changes in environmental conditions;
* ***Financial risks and opportunities*** associated with increased tax payments for environmental pollution; and
* ***Risks and opportunities*** associated with the enforcement of or changes in legislative requirements.

Risk management is an integral part of sustainable development. The risk-based approach to the sustainable development ensures managerial decision-making process taking into account identified risks, the internal controls and preventive actions to achieve better results within the Company’s business continuity system.

In the event of sustainable development risk occurrence, the Company includes this information in regular risk management reports.

The Company identifies risks arising from the potentially negative impact of its partners on the economic, environmental and social spheres and subsequently takes actions to terminate or prevent such impact.

When identifying and assessing sustainability risks and opportunities, the Company gives proper consideration to the results of the following analyses and measures:

1. Megatrend analysis to identify external negative or positive effects.
2. SWOT analysis including analysis of the Company’s external and internal factors.

Due to the fact that sustainability risks may be more unpredictable and new to the Companies, multiple ones or arising beyond the Company’s activities, when assessing sustainability risks and opportunities, in addition to identification of certain indicators, such as frequency, time of influence and impact, the Company should consider the following criteria:

|  |  |
| --- | --- |
| **Criteria** | **Description** |
| Adaptability | The Company’s ability to adapt and respond to a sustainability risk |
| Complexity | Risk scale and profile |
| Recovery | The Company’s ability to recover its activities/processes after a risk occurrence |

The Company identifies sustainability risks and opportunities and includes them in the general risk register and takes management actions (control activities). A business unit responsible for risk management conducts a comprehensive risk assessment on a regular basis using risk management tools and a systematic approach to sustainable development. Sustainability risk identification, assessment and management is a complex process with not only the risk owners and risk management responsible department engaged, but also the business unit responsible for sustainable development management.

**4.2.3. Document Management**

The sustainability document management is guided by the KazMunayGas Document Management Rules.

The sustainability management is based on and guided by the following internal and external documents:

|  |
| --- |
| KazMunayGas Corporate Governance Code |
| Samruk-Kazyna Portfolio Companies Sustainable Development Reference Model |
| KazMunayGas Development Strategy 2028 and Action Plan thereto |
| KazMunayGas Code of Business Conduct |
| KazMunayGas Corporate Social Responsibility Code |
| KazMunayGas Sustainable Development Concept |
| KazMunayGas Stakeholder Map |
| KazMunayGas Sustainability Reporting Guidelines |
| KazMunayGas Corporate Risk Management Policy |
| KazMunayGas Environmental Policy |
| KazMunayGas Occupational Health and Safety Policy |
| KazMunayGas HR Policy 2017-2021 |
| Economic Security Policy |
| Anti-Corruption Standards |
| KazMunayGas Quality Policy |
| UN Global Compact |
| UN Sustainable Development Goals |
| Rio Declaration on Environment and Development 1992 |
| Sustainable Development Guidance (GRI Guidelines) |
| ISO 26000 Social Responsibility Guidance |
| ISO 10018 Quality management — Guidelines on people involvement and competence |
| ISO 14001 Environmental Management Systems. Requirements and Recommendations. |
| AccountAbility’s AA1000 Series Standards |
| ISO 45001 Occupational Health and Safety Management Systems. Requirements and Recommendations |
| OECD Guidelines for Multinational Enterprises |
| UN Guiding Principles on Business and Human Rights |
| Sustainable Development Fundamentals of the International Finance Corporation |

**4.2.4. Stakeholder Engagement Process**

One of the key factors to achieve the Company’s goals is effective stakeholder engagement through the implementation of a system of scheduled and consistent activities.

The Company’s stakeholder engagement is based on the following principles:

* respect for and consideration of stakeholder interests, opinions and preferences;
* prompt and regular notifying of stakeholders; and
* responsible fulfillment of obligations.

Stakeholder engagement shall:

- identify accurately the scope of its application;

- have an agreed decision-making process;

- focus on the essential aspects of the arrangement for stakeholders;

- create an opportunity for building and conducting dialogue;

- be an integral part of organizational management;

- be transparent;

- have a process suitable for stakeholders;

- be relevant;

- be flexible and responsible; and

- create value both for the Company and for stakeholders.

The stakeholder engagement frequency, degree and methods are determined by each business unit of the Company on its own.

In accordance with the best international practices (AA1000 and GRI), the involvement principle is used in stakeholder engagement in order to build effective engagement. This principle takes into account and considers the interests of key stakeholders at all stages of the Company’s operation and implies involving key stakeholders in the discussion of significant topics and important issues, potential risks and responsibility scopes.

The stakeholder engagement consists of five major stages:

1. Identify stakeholders and essential issues and expectations.

The Company’s stakeholder engagement is regulated in accordance with the approved KazMunayGas Stakeholder Map. The Board of Directors approves the Stakeholder Map, which includes a list of stakeholders, methods and procedures for stakeholder engagement.

The Stakeholder Map is designed to systematize and visualize information on the Company’s environment in order to develop methods for each stakeholder engagement. The Stakeholder Map should be revised and updated on a regular basis (annually).

The Company makes an exhaustive list of potential stakeholders (stakeholder map) engaged in its activities, with a description of the stakeholder contributions and interests.

1. Classify and prioritize stakeholders and their expectations.

When assessing the significance of stakeholders, the stakeholders are ranked by their importance to the Company by two criteria: the extent of the stakeholder’s influence on the Company and the degree of stakeholder interest in the Company’s activities.

In order to identify the degree of stakeholder interest, the Company sends questionnaires to key stakeholders on an annual basis to identify significant aspects and important issues regarding the Company’s sustainable development activities

Each stakeholder group is assessed based on significance score indicators to identify the priority of stakeholders, which is an important parameter in building the materiality matrix.

1. Plan the events for stakeholder engagement.

When planning events, consider the following levels of stakeholder engagement: consultations, negotiations, engagement, cooperation, integration into the management and decision-making process.

1. Conduct the events.
2. Assess the performance of the stakeholder engagement events, learn lessons and use the lessons learned in future. This stage also includes reporting.

Stakeholder engagement is a continuous and cyclic process that implies continuous analysis, enhancement and development.

**4.2.5. Integration of Sustainable Development Principles into the Key Processes**

The sustainability management system should be integrated across the entire Company in such a way as to balance short-term and long-term interests, and take into account economic, environmental and social aspects in the decision-making process. In accordance with the Samruk-Kazyna Reference Model, sustainability implementation into the key processes should be ensured through their integration in three areas as follows:

* Strategic integration – sustainability included in the planning processes for the following periods:

- Long-term period – into the Company’s Development Strategy, mission, values and strategic goals;

- Mid-term period – into the 5-year development plan;

- Short-term period – into an annual budget.

* Operational integration – all corporate decisions are made by the KMG management based on compliance with the sustainable development principles and goals. KMG identifies the key processes to integrate the sustainability principles.
* Sustainability cultural integration by changing the mindset and introducing the relevant mechanisms described in detail in the training and culture recommendations section.

Thus, the sustainability principles should be integrated into the following key business processes of the Company (including, but not limited to):

* + Сorporate governance;
  + Budgeting and planning;
  + Investment decision-making; asset management;
  + Human resources and social aspects management;
  + Risk management;
  + IT management;
  + HSE management;
  + Production activity planning, performance monitoring;
  + Procurement management, in particular, contract management, procurement control and monitoring;
  + Supplier management;
  + Decision-making processes at all levels of management.

Effective integration of the sustainability principles can be achieved through the following mechanisms:

* Developing new or updating existing standards, rules and other corporate documents to include provisions that ensure the sustainability principles are properly considered when making decisions, purchasing goods, works and services, managing human resources, identifying, assessing and managing risks;
* Implementing initiatives and activities in the area of sustainable development;
* Training managers and employees to raise commitment to and awareness of business management practices with regard to the sustainability principles; and
* External and internal audit of corporate and operational activities for compliance with the sustainability principles; developing plans to improve the processes of integration of the sustainability principles.

The sustainability principles are integrated on an ongoing basis. Managers of business units and managers of business areas are responsible for integrating the sustainability principles in KMG and S&A. The business unit responsible for sustainable development management assesses the effectiveness of sustainability principle integration into business processes, provides recommendations on the integration practices for these principles, and develops an action plan to integrate the sustainability principles.

The Company identifies a list of KMG's business processes into which sustainable development matters are to be integrated. Based on the current Business Process Catalogue and Responsibility Matrix (“RACI”), the Company improves those business processes and describes them in the relevant system.

**4.2.6. Annual Sustainability Reporting Process**

Sustainability reporting (non-financial statements) is the assessment practice, disclosing information and accountability to internal and external stakeholders, focused on the Company’s performance in respect of sustainable development goals. The term “sustainability reporting” means reporting covering the economic, environmental and social aspects of the Company’s activities.

The Company’s Sustainability Report (“Report”) should provide a balanced and reasonable presentation of the Company’s performance in relation to sustainable development, including both positive and negative contributions. The Report describes the outcomes achieved and the consequences that occurred in the reporting period within the Company’s commitments, strategy and management approaches. The reports can be used, in particular, for the following purposes:

* Benchmarking of sustainability performance in relation to that provided by laws, regulations, codes, performance standards and voluntary initiatives;
* Demonstration of the Company’s impact on sustainable development expectations and the impact of these expectations on the Company; and
* Benchmarking of the Company’s performance against performance of various entities, as well as performance at various points in time.

The main principles for the content of the Report should be its compliance with the applicable version of GRI Standards[[4]](#footnote-4), recommendations of potential investors and shareholders, a materiality matrix based on the assessment of stakeholder expectations, and the requirements of stock exchanges (if applicable). In addition, other standards and guidelines may be used, such as the Integrated Reporting Standard <IR>, IPIECA Sustainability Reporting Guidance, etc.

The content and selection of the relevant specific topics to be disclosed in the Report are identified based on the results of assessing the materiality of a particular topic to stakeholders.

Quality of sustainability reporting should be based on the following principles:

**Reporting Principles for defining report content**

|  |  |
| --- | --- |
| Stakeholder Inclusiveness | The content of the report should meet the reasonable expectations and interests of the company’s stakeholders. |
| Sustainability Context | The report should reflect information about the company’s performance in the context of “sustainability” namely, how the company contributes or plans to improve or worsen economic, environmental and social conditions at the local, regional or global levels. |
| Materiality | The topics included in the Report should reflect the material impact provided by the Company on the economy, environment and society. |
| Completeness | The report should cover significant topics, reflecting significant economic, environmental and social impacts, as well as reflect information on the reporting boundaries. Information should be presented in an extent that allows interested parties to evaluate the results of the company’s performance in the field of sustainable development for the reporting period. |

**Reporting Principles for defining report quality**

|  |  |
| --- | --- |
| Balance | The Report should disclose both positive and negative aspects of KMG performance. In addition, the indicators should be presented in dynamics for at least two previous years. |
| Comparability | The Report prepared in accordance with GRI Standards should make it possible for stakeholders to compare the KMG performance with its peers. |
| Accuracy | The information provided in the Report should be sufficiently accurate and detailed for the assessment of the company’s performance by stakeholders. |
| Reliability | The company should collect, register, analyse and consolidate information so that this information can be verified. Information on indicators presented in the Report should be collected on the basis of reliable data. |
| Timeliness | The Report should be scheduled and published no later than in the third quarter of the year following the reporting year. |
| Clarity | The information presented in the Report should be comprehensible and available to a wide range of stakeholders. |

The Report can be prepared in accordance with the selected level of compliance with GRI Standards (Core or Comprehensive). KMG can determine the level of compliance based on the following key factors:

* Information need of stakeholders;
* The feasibility of disclosing additional information based on the assessment of reliability and accuracy of information, labor and financial costs; and
* Benchmarking results with best practices in reporting in the oil and gas industry.

The content of the Report should supplement, comply and/or be in line with the information disclosed in other public reports by KMG.

The Company’s sustainability reporting is governed by the KazMunayGas Sustainability Reporting Guidelines, which describe the detailed process, dates, roles and responsibilities.

Following the best international practices, the Company conducts an annual independent audit of the Report.

**4.2.7. Implementation of Sustainability Priorities (Initiatives)**

Sustainability initiatives are a set of activities aimed at achieving strategic goals in the area of sustainable development.

When developing sustainability initiatives, the Company takes into account the following factors:

* Initiatives comply with the laws of the Republic of Kazakhstan and other regions of operations of KMG;
* Initiatives should help to minimize compliance risks in the area of sustainable development.
* Initiatives are aimed at achieving strategic goals in the area of sustainable development.
* Initiatives meet the expectations of key stakeholders and are also based on the sustainability materiality matrix.

Initiatives contribute to sustainability risk mitigation. Initiatives are developed by interested responsible business units with the business unit responsible for sustainable development engaged.

The main stages of sustainability initiatives are as follows:

1. Identify significant topics considering the risks of the Company in the three aspects;
2. Prioritize significant topics considering the opinions and expectations of stakeholders;
3. Assess economic feasibility and analyze processing capabilities required to implement sustainability initiatives, as applicable;

Since sustainability initiatives can be designed for mid- and long-term planning horizons, after the sustainability initiatives have been identified, a sustainability initiative implementation plan should be formulated and implemented with the deadlines indicated for specific activities. The plan should include:

1. sustainable development initiatives and objectives of the plan;
2. relevance of the Plan to the Company’s strategic goals;
3. measurable and achievable goals in the mid- and long-term perspective and deadlines;
4. methods and mechanisms to assess the efficiency of the plan with strategic goals, key performance indicators;
5. assignment of responsibilities to implement the plan;
6. scope of actions;
7. actions schedule;
8. a preliminary cost estimate for activities and sources of financing (if applicable).

The Company shall plan sustainable development actions based on:

1. thorough, deep and thoughtful analysis of the current situation in three main areas – economic, environmental and social; information reliability, relevance and quality is important for such analysis;
2. identification of sustainable development risks; risks are classified by the three sustainable development areas; they can also affect related areas and cover other risks. To identify the risks, both internal and external factors that affect the Company are analyzed;
3. identification of stakeholders and their impact on activities;
4. identification of goals and potential targets, activities to enhance and improve the Company’s activities by its three components, designation of responsible persons, and necessary resources and deadlines;
5. regular monitoring and evaluation of the goal achievement, performance of activities to achieve targets; and
6. systematic and constructive stakeholder engagement, receiving feedback.

The Plan requires ongoing monitoring and regular reporting, as well as analysis and evaluation of the effectiveness of the plan, summarizing and taking corrective and improving actions.

**4.2.8. Sustainability Culture and Support**

The development of sustainability culture should be ensured comprehensively through the introduction of several “encouraging” and   
“supporting” mechanisms. In its sustainability activities, the Company gives proper consideration of the following approaches to the development and maintenance of sustainability culture:

Arrangement of training, workshops and seminars at the Company consists of the following stages:

- Identify training needs;

- Arrange and monitor the training process; and

- Analyze the training efficiency.

**Encouraging mechanisms**

* ***Continuous personal and professional development*** ***of KMG managers and employees*** through thematic or interdisciplinary training and seminars; experience exchange programs inside the Company and with other oil and gas companies;
* ***Raising awareness through information dissemination and close interaction within KMG;***

KMG disseminates information concerning ongoing sustainability programs and initiatives, achievements, as well as risks and areas to be improved across KMG and S&A business units.

* ***Providing assistance and expert support*** to implement best practices in the area of sustainable development and sustainability culture development; the business unit responsible for sustainable development provides methodological support to employees of KMG and S&A within their competence.
* ***Talent management and implementation of incentive programs;***

KMG encourages managers and employees to demonstrate their leadership skills and proactive behaviors aimed at improving sustainability indicators and implementing sustainability initiatives and programs.

**Supporting mechanisms**

* ***Identifying responsibilities of KMG managers and employees, as well as ensuring the integration of sustainability principles into key business processes;***

KMG develops and implements internal documents that establish responsibility for the development of relevant sustainability KPIs, implementation of sustainability initiatives and programs, and integration of the sustainability principles into the key business processes of the Company.

* ***Internal control and data check*** to ensure high-quality reporting and timely involvement of management in case of problematic issues or sustainability risk occurrence;

The business unit responsible for sustainable development and the responsible business units within their competence ensure sustainability control, monitoring and timely reporting;

Business units conduct internal data check to present high-quality and reliable information in the area of sustainable development.

The Company’s business unit managers should promote the involvement of employees based on understanding and commitment to the sustainable development principles.

To successfully integrate the sustainability principles into the Company’s business processes, employees of all departments of the KMG Corporate Center, as well as S&A shall have certain knowledge and competencies in the area of sustainable development. To identify the degree of employees’ competencies for all sustainability elements, the Company developed a competency matrix, which is presented in Appendix No. 1 to this Guidance.

This competency matrix is ​​a high-level document that defines the necessary knowledge and skills for various groups of employees, which has three levels of competencies:

1. Basic knowledge and understanding;
2. Advanced knowledge and application;
3. Expertise and regular use.

The main elements of the sustainable development system are used in KMG as competencies.

**4.2.9. Sustainability Performance Assessment**

The Company should regularly monitor and assess the efficiency of sustainable development initiatives, evaluate the achievement of goals and KPIs in sustainable development.

The Company takes corrective actions, if any negative changes in sustainable development KPI have been identified, and develops actions to improve such indicators.

Evaluation of the efficiency of sustainability initiatives is included in the annual Sustainability Report of the Company.

Based on the results of evaluating the efficiency of initiatives, the Company makes amendments to future action plans.

## Sustainability KPIs should be integrated into the strategic, mid-term planning system and the KPI Tree.

Sustainability KPIs are measurable indicators to assess the effectiveness of the goals, actions, initiatives and activities in the area of sustainable development. KPIs should be developed by cascading strategic goals in the area of sustainable development into specific measurable indicators. In accordance with the Sustainability Reference Model, KPIs should also be developed based on the approved Development Plan (Business Plan) of the Company.

Sustainability KPIs should:

* be available, i.e. comprehensible to all stakeholders;
* be relevant in view of the existing data collection systems and in line with other strategic indicators and targets;
* reflect stakeholder expectations; and
* be comparable for the purpose of benchmarking with other oil and gas companies.

Examples of KPIs in the field of sustainable development:

1) Economic component: economic performance indicators, local content of procurement;

2) Environmental component: reduction of electricity consumption and use in operations, reduction of greenhouse gas emissions,

3) Social component: zero fatal accident rate, reduction of occupational injuries, social stability rating, gender diversity, and staff turnover.

**4.2.10. Sustainability Enhancement**

The Company’s business unit managers contribute to the proper introduction and implementation of the sustainable development management system, this Guidance, principles, policies, standards and action plans in the area of sustainable development.

#### *Performance Monitoring and Analysis*

The sustainability effectiveness and the effective integration of the sustainable development management system depends largely on monitoring, evaluating and analyzing the actions taken, ongoing initiatives, achieving strategic goals, and analyzing the effectiveness of the resources used.

The Company should conduct annual monitoring and analysis of activities in the area of sustainable development in order to:

* Ensure compliance of activities with the sustainable development management system and the developed strategies, plans and policies;
* Identify sustainability achievements;
* Identify the areas to be improved or in need of change; and
* Assess the effectiveness of initiatives, action plans.

In this case, monitoring should include the following common methods:

* KPI achievement analysis;
* performance and programs benchmarking against the parameters and indicators of other oil and gas companies; and
* feedback from key stakeholders.

Performance monitoring and analysis should be conducted on an annual basis by the business unit responsible for sustainable development management with the interested business units of the Company involved. As a result of performance monitoring and evaluation, recommendations and a corrective action plan should be developed.

#### *Management review*

Heads of Company’s business units is involved in the review and evaluation of the sustainable development management system in order to ensure its relevance and effectiveness. Management reviews and evaluations can be made through consideration of:

* results of the assessment of changes in external and internal factors that may affect the effectiveness of the sustainable development management system;
* results of the assessment of achievement of strategic goals in the area of sustainable development;
* data on the Company’s performance in the areas of economic, environmental and social development;
* efficient use of labor resources;
* suggestions, findings and comments received from key stakeholders;
* opportunities for continuous improvement; and
* results of internal and external audits, including external audits of the Sustainability Report.

Suggestions, opinions and decisions made by the management following the results of the work done should be documented. Based on the review results, the necessary changes can be made in the Guidance in order to improve the sustainability management system, as required.

***Continuous Sustainability Enhancement***

KMG conducts an annual performance assessment in the area of sustainable development, identifies the areas to be improved and develops recommendations to enhance the management of activities in the region and best sustainability practices for further sustainability enhancement.

Opportunities for improvement can be identified and the effectiveness of the implementation of the sustainable development management system can be analyzed through regular (annual) ***maturity assessment*** for the sustainable development management system. Such an analysis involves benchmarking of the effectiveness by key parameters of the sustainable development management system against the results of earlier analyses. The maturity assessment makes it possible to evaluate hard-to-measure parameters, such as the level of corporate culture in the area of sustainable development, adherence to the principles of sustainable development, the availability and efficiency of the necessary sustainability processes and procedures, the integration of the sustainability principles in the procurement management, interaction on sustainable development issues between the business units of the Company, the level of competencies, etc.

Based on the results of the analysis, the Company should identify the changes and opportunities for improvement of the sustainable development management system. Such improvements may include changes in goals and objectives to reflect changing conditions, changes in organizational structure, development of new programs, rules and standards.

# 5. RESPONSIBILITIES

## 5.1.The Company makes a voluntary decision to implement the sustainable development principles and this Guidance is a fundamental document in this area.

## 5.2.The Board of Directors provides strategic guidance and control over the implementation of the sustainability principles; approves the consolidated Sustainability Report of the Company.

5.3. The SPMC reviews and organizes sustainable development matters, prepares recommendations on the approval of a sustainable development policy; annual KMG sustainability reports; action plans and other internal documents in the field of sustainable development that are reserved to the Board of Directors to approve; implementation of social, economic and environmental components of sustainable development; development of a sustainable development management system; setting goals and KPIs in the field of sustainable development.

5.4. The Management Board implements and introduces properly the sustainability principles, policies, standards and action plan at the Company; monitors the sustainable development activities, assesses the achievement of goals and KPIs in sustainable development.

5.5. The Managing Director in charge of sustainable development manages approaches to achieving the goals and KPIs of sustainable development initiatives and oversees the implementation of corporate standards in the field of sustainable development and the preparation of sustainability reports.

5.6. The business unit responsible for sustainable development management is responsible for initiating, coordinating and implementing the sustainable development management system, assisting in its integration into the Company's business activities, providing methodological support on sustainable development matters, preparing and approving annual sustainability reports, assisting the responsible business units in identifying and managing sustainable development risks, developing the stakeholder map and the ways of cooperation, and for other sustainability-related matters.

5.7. Business units concerned shall implement the system in the field of sustainable development, analyze the internal and external situation, identify risks in the field of sustainable development, develop a stakeholder map and mechanisms of cooperation, implement initiatives in the field of sustainable development, and prepare information for sustainability reports in accordance with international standards.

5.8. All employees, each at their own level, should implement the sustainability principles and actions through personal behavior and compliance with relevant policies and standards.

# 6. FINAL PROVISIONS

This Guidance and any amendments hereto shall be approved according to an established procedure.

1. <https://www.sk.kz/about-fund/corporate-governance/> [↑](#footnote-ref-1)
2. <https://www.unglobalcompact.org/what-is-gc/mission/principles> [↑](#footnote-ref-2)
3. <https://www.un.org/sustainabledevelopment/ru/sustainable-development-goals/> [↑](#footnote-ref-3)
4. The following standards become effective starting from 2021: GRI 303: Water and Effluents 2018 and GRI 403: Occupational Health and Safety 2018 Standards

   GRI Standards <https://www.globalreporting.org/standards/> [↑](#footnote-ref-4)