

APPENDICES

CORPORATE GOVERNANCE CODE COMPLIANCE REPORT FOR 2020

Report on compliance / non-compliance with the principles and provisions of the Corporate Governance Code (the “Code”) of JSC NC “KazMunayGas” (“KMG”) approved by resolution of the Sole Shareholder of KMG on 27 May 2015 (Minutes No. 22/15) and developed in furtherance of item 6 of the Code, and covers information on KMG’s compliance / non-compliance with the principles and provisions of the Code.

In general, at year-end 2020, KMG was in compliance of the provisions and principles of the Code, taking into account the following aspects:

In line with item 2 of Chapter 1 of Section 2 of the Code “It is recommended to provide the optimal asset structure for the Fund’s Organizations. The parent company can be established in the form of a joint stock company in the Holding company. Other organizations are recommended to be established in the form of limited liability partnerships. In the Organizations that have been already established in the form of a joint stock company, it is recommended to consider the possibility of reorganization in the form of a limited liability company with account of economic, legal and other aspects and interests of the Fund Group. When creating new Organizations, the preferred legal form is a limited liability partnership. Creation of new Organizations in the form of a joint stock company is allowed in exceptional cases, such as planned in the future transfer of the Organization’s shares to the Stock Exchange Market.”.

These requirements of the Code were generally complied with in KMG during the reporting period. On 30 December 2015, the Government of the Republic of Kazakhstan by its Decree No. 1141 approved a Comprehensive Privatisation Plan for 2016-2020 including 73 KMG Group companies. Under the privatisation and divestment programmes, the number of legal entities in the KMG Group is being reduced. On November 5, 2020 by the decision of the Board of Directors of KMG (Minutes N° 13/2020) a new Action Plan for the transition to the target asset structure of KMG group of companies was approved. The work on simplification of the KMG group assets structure is also carried out, including through liquidation / reorganization of sub-holdings. In 2020, measures on voluntary liquidation of the sub-holding KazMunayGas Exploration Production JSC were continued, pursuant thereto in 2020 KMG acquired 8 companies from KazMunayGas Exploration Production JSC. The number of sold / liquidated KMG’s assets in 2020: sold - 3 companies, liquidated - 2 companies, reorganized - 1 company. When creating new legal entities with fifty or more percent of their voting shares/stake directly or indirectly held by Samruk-Kazyna JSC on the right of ownership or trust management, KMG gives preference to their creation in the legal form of a limited liability partnership as recommended by the Code. In 2020, no legal entities in the form of a joint stock company were created. At the same time, the work on optimization of the structure of KMG group assets will continue in accordance with the approved plans / programs.

In line with item 14 of Chapter 1 of Section 2 of the Code “Boards of Directors of the Fund and Organizations ensure the implementation of these standards and their observation. All officials and employees of the Fund and the Organizations must sign a statement confirming their familiarization with the Code of Business Ethics and regularly reaffirm their knowledge of the Code.”.

These requirements of the Code were generally complied with at KMG as of 31 December 2020. As per recommendations made by the independent consultant PricewaterhouseCoopers LLP following the diagnostics of corporate governance of KMG, a revised Code of Business Ethics was developed and approved by the Board of Directors (Minutes No. 18/2018 dated 29 November 2018). In the reporting period, the Ombudsman Office of KMG developed and sent to the employees of KMG “Memo on ethical standards of the Code of Business Ethics” for study and practical application, as well as released a video clip with the Ombudsman’s appeal to the employees of KMG to explain the ethical standards. In order to assess the KMG employees’ knowledge of the Code of Business Ethics, the Human Resources Management Department jointly with the Ombudsman Office organized relevant training and testing of KMG employees’ knowledge on its results. During the reporting period, 524 employees of KMG were trained and tested, which is 85% of the total number of KMG employees. In 2021, it is planned to organize the training process for 15% of KMG employees who did not receive training in 2020, as well as for newly hired KMG employees.

In line with item 3 of Chapter 2 of Section 2 of the Code “The Boards of Directors of the Companies have full autonomy in decision-making within their competence, established by the Charter of Companies.”.

These requirements of the Code were generally complied with in KMG during the reporting period. Pursuant to item 4 of the KMG Charter, KMG’s financial and production activities are carried out based on economic independence; pursuant to item 13 of the KMG Charter, KMG’s objective is to generate net income from independent economic activity;

pursuant to item 24 of the KMG Charter, KMG resolves all issues related to the planning of production activities, salaries, materials and technical supply, social development, income distribution, recruitment, placement and staff retraining independently. At the same time, the Law of the Republic of Kazakhstan “On Sovereign Welfare Fund” and certain Samruk-Kazyna JSC documents (Corporate Standard on Investment activity of Samruk-Kazyna JSC and legal entities with fifty or more percent of their voting shares/stake directly or indirectly held by Samruk-Kazyna JSC as amended on 17 March 2020, minutes No. 09/20; Guidelines for approving the appointment and early termination of the authority of the heads of executive bodies of companies of Samruk-Kazyna JSC as approved by resolution of the Management Board of Samruk-Kazyna JSC on 26 December 2019, Minutes No. 42/19, List of organizations in the Samruk-Kazyna JSC group whose all voting shares/stake are directly or indirectly owned by the companies of Samruk-Kazyna JSC, in which the heads of executive bodies of those companies are appointed and removed by the boards of directors of the companies in agreement with the Management Board of Samruk-Kazyna JSC (approved by resolution of the Management Board of Samruk-Kazyna JSC on 12 December 2012, Minutes No. 56/12), stipulate procedures that restrict the KMG Board of Directors’ full independence in the decision-making process (including the conclusion of M&A transactions and the appointment of heads of executive bodies of KMG subsidiaries and affiliates).

In line with item 5 of Chapter 3 of Section 2 of the Code “Sustainable development should be integrated in:

1. management system;
2. development strategy;
3. key processes, including risk management, planning (long-term (strategy), medium-term (5-year development plan) and short-term (annual budget) periods), accountability, risk management, HR management, investments, operational activities and other as well as in the decision-making process at all levels - from bodies (General Meeting of shareholders (the Sole Shareholder), Board of Directors, Executive Body), to ordinary employees.”.

This requirement of the Code was generally complied with in KMG during the reporting period. By the resolution of KMG’s Board of Directors the Sustainability Management System Guidelines were approved in 2020, which includes a description of the organization of the stakeholder engagement process, integration of sustainability principles into key processes and monitoring, annual reporting on sustainable development, implementation of priority areas (initiatives) in the field of sustainable development, development and maintenance of a culture of sustainable development, risk identification and assessment, documentation management, measuring performance in the area of sustainable development. At the same time, the work on the integration of sustainable development into key processes will continue.

In line with item 6 of Chapter 5 of Section 2 of the Code “The Fund and Organization must have succession plans of appointments to the Board of Directors in order to maintain business continuity and progressive renewal of the Board of Directors.”.

This requirement of the Code was generally complied with in KMG during the reporting period. The issue on the Succession Policy for members of the Board of Directors of JSC NC “KazMunayGas” was brought to the meeting of the Nomination and Remuneration Committee of the Board of Directors of KMG in November 2019 (Minutes No. 6/2019 dated November 6-7, 2019). This was the first step in the development of the succession plan for members of the KMG Board of Directors. At the meetings of the KMG Board of Directors’ Nomination and Remuneration Committee No.3/2020 dated 12 February 2020 and No.5/2020 dated 31 March 2020, the issue «on the Succession Plan for the Board of Directors» was considered. At the same time, the relevant work is planned to be completed in 2021 based on the results of an external assessment of the Board of Directors and its Committees in order to take into account the results of an independent assessment of the Company’s Board of Directors in the formation of the succession plan for the members of the Board of Directors.

In line with item 12 of Chapter 5 of Section 2 of the Code “The recommended frequency of meetings of the Board of Directors is 8-12 meetings per year.”.

This requirement of the Code was generally complied with in KMG during the reporting period. 16 meetings were held in 2020. Of them:

- ◆ regular face-to-face meetings with personal presence of the members of the Board of Directors - 1;
- ◆ information session on KMG’s development strategy via videoconferencing - 1;
- ◆ regular meetings held via videoconferencing - 11;
- ◆ extraordinary meetings held via videoconferencing - 3.

The reduction in the number of meetings of the Board of Directors with the personal presence of members of the Board of Directors in the reporting year is associated with the pandemic of coronavirus infection. Compared with 2019, the total number of meetings of the Board of Directors decreased from 18 to 16, compared with 2018 - from 20 to 16, which indicates a positive trend.

In line with item 15 of Chapter 5 of Section 2 of the Code “With respect to the Corporate Secretary, the Organization develops a program of induction and succession planning.”.

This requirement of the Code was not complied with in KMG during the reporting period. In 2020 there was a significant reduction in the number of employees of KMG Corporate Secretary Service, which resulted in unscheduled outflow of employees, and in this regard, in the reporting period the Corporate Secretary Service was focused on the priority tasks of the Company

within the framework of improvement of corporate governance, and some direct activities of the unit were postponed due to insufficient resources. Activities on development of an induction and succession planning programme in relation to the Corporate Secretary are included in the Corporate Secretary Service's work plan for 2021.

In line with item 7 of Chapter 6 of Section 2 of the Code "The Board of Directors in cooperation with the Audit Committee are responsible for annual assessment of risk management and internal control system's efficiency."

This requirement of the Code was generally complied with in KMG during the reporting period. In accordance with Section 6.2.7 of the Policy on the Corporate Risk Management System of JSC NC "KazMunayGas" and its subsidiaries and affiliates approved by resolution of the Board of Directors of KMG dated 13 December 2016 (Minutes No. 17/2016), the Internal Audit Service of KMG assesses the effectiveness of the risk management process, notifies the Board of Directors of KMG of significant deficiencies in the corporate risk management system of KMG, and develops recommendations for improving the risk management process. As part of the ongoing monitoring of the implementation of KMG's Internal Audit Service recommendations, from December 21, 2020 to January 22, 2021 a post-audit was carried out on the results of the audit of the risk management process of KMG and its subsidiaries and affiliates conducted in 2016.

MAJOR AND INTERESTED-PARTY TRANSACTIONS

MAJOR TRANSACTIONS¹

In the reporting period, no transactions recognised as major transactions under the Law of the Republic of Kazakhstan On Joint Stock Companies and KMG's internal documents were made by the Board of Directors or the General Shareholders' Meeting.

INTERESTED PARTY TRANSACTIONS²

In the reporting period, no transactions recognised as interested party transactions under the Law of the Republic of Kazakhstan On Joint Stock Companies and KMG's internal documents were made by the Board of Directors or the General Shareholders' Meeting. In the second half of 2020, KMG made an interested party transaction whose terms remain a trade secret.

¹ In accordance with the Law On Joint-Stock Companies of the Republic of Kazakhstan, a major transaction is a transaction or a series of interrelated transactions resulting in the (potential) acquisition or disposal of property by a company, the value of which amounts to twenty-five percent or more of the total book value of such company's assets

² In accordance with the Law On Joint Stock Companies of the Republic of Kazakhstan, interested-party transactions are transactions resulting in the acquisition or disposal of property that values ten percent or more of the total book value of the company's assets