

CORPORATE CONTROL

In the event of corporate conflicts, the parties attempt to settle by negotiation to efficiently protect the interests of KMG and other stakeholders.

In order to be effectively prevented or addressed, corporate conflicts primarily need to be identified as soon and fully as possible, with all corporate governance bodies to act in a consorted manner.

Corporate conflicts are addressed by the Chairman of the Board of Directors assisted by the Corporate Secretary. If the Chairman of the Board of Directors is involved in a corporate conflict, such cases are addressed by the Nomination and Remuneration Committee.

INTERNAL AUDIT SERVICE

The Internal Audit Service (IAS) reports and is accountable to KMG's Board of Directors and supervised by the Audit Committee of KMG's Board of Directors. The activities of the IAS are governed by Kazakhstan's laws, KMG's internal documents and the International Standards for the Professional Practice of Internal Auditing.

The IAS focuses on providing the Board of Directors with independent and objective information to ensure the effective management of KMG and its subsidiaries and associates by employing a systematic approach towards improving risk management, internal control and corporate governance processes.

To perform its activities in accordance with the annual audit plan, the IAS:

- ◆ assesses the reliability and effectiveness of applicable internal controls and risk management;
- ◆ assesses the reliability, completeness and objectivity of the accounting policy as well as financial statements of KMG and its subsidiaries and associates based on such policies;
- ◆ assesses the efficiency of resource management at KMG and its subsidiaries and associates and the methods used to ensure asset integrity;
- ◆ monitors compliance with Kazakhstan's laws, corporate operational, investment and financial rules and regulations.

The IAS uses audit results to make recommendations on improving KMG's operations. The IAS consistently monitors and oversees the development and execution of measures to implement its recommendations.

INTERNAL AUDIT

Internal audits are carried out by KMG's Internal Audit Service.

The activities of the IAS are governed by: Kazakhstan's laws; KMG's Charter; decisions of KMG's governing bodies; internal documents regulating the IAS activities; Regulations on KMG's Internal Audit Service and Guidelines for KMG's Internal Audits.

The annual Internal Audit Plan is developed from a consideration of the principal risks confronting KMG, the audit testing cycle and management requests. The Internal Audit Plan also accommodates ad hoc requests from the Audit Committee and Management.

The Audit Committee not only monitors the IAS' performance but also facilitates professional development of the IAS employees and the management of its talent pool. These issues are covered by the IAS reports and reviewed by the Audit Committee on a quarterly basis. The quarterly reports detail the progress made by the IAS against a number of objectives including obtaining certificates, completing trainings/ seminars budgeted within the IAS training and upskilling programme.

The high professional level of the IAS employees is a key performance driver for KMG's internal audit function; therefore training and upskilling are prioritised.

Internal audit issues reviewed by the Audit Committee at its meetings include:

- ◆ IAS annual performance report;
- ◆ KMG Internal Audit Service's quarterly reports, including reviews of any material findings identified in audit reports and follow-up on the implementation of internal audit recommendations;
- ◆ Annual audit plan and amendments thereto;
- ◆ KPI scorecards of the IAS head and staff;
- ◆ IAS Strategic Plan;
- ◆ IAS budget;
- ◆ HR management within the IAS.

ASSESSMENTS OF THE EXTERNAL AND INTERNAL AUDIT PROCESS PERFORMANCE

The IAS conducts regular surveys among members of the Audit Committee and units of JSC NC KazMunayGas interacting with the external auditor to facilitate an assessment of the external auditor's performance.

The assessment is based on the results of a completed questionnaire and a specific discussion between members of the Audit Committee with input from the relevant senior management. The assessment results were reviewed at an Audit Committee meeting and communicated to the external auditor.

As required by the quality assurance and improvement programme for KMG's Internal Audit Service, following each audit, the audited entity is required to complete a form assessing the IAS' performance. Results of these assessments are consolidated into the IAS annual performance reports approved by the Audit Committee.

An independent external assessment of the Internal Audit Service was performed in 2020 in accordance with International Standards for the Professional Practice of Internal Auditing. KPMG Tax and Advisory LLP, one of the "big four" companies, won the public tender and was awarded a contract for conducting an external assessment of the IAS' performance.

In 2020 an independent external assessment of the IAS' compliance with the International Standards for the Professional Practice of Internal Auditing, international best practices, KMG's Regulations on the Internal Audit Service, the Company's code of ethics and other applicable external and internal regulations governing internal audit functions found 100% compliance with the Standards. Therefore, the activities of the IAS were found to be fully compliant with the requirements of the Standards.

COMPLIANCE SERVICE

Amid the economic crisis caused by the COVID-19 pandemic, ethical issues remain as relevant as ever, since ethics, being a pillar of the compliance programme, foster a compliance culture whereby employees' conduct and actions are aligned with the Company's standards and requirements.

2020 proved a kind of a stress test for the Company's compliance function, enabling the assessment of how nimble we are in exercising oversight and control over compliance risk management processes and how well the compliance function adapts to the extreme environment versus best practices.

Restrictions on social interactions enabled the Compliance Service to look into ways to better organise its activities in a new environment as part of upgrading the systemic organisational and practical measures to prevent corruption among the Group employees. This optionality highlighted a much greater value placed on the Company's digital capabilities and skills, including adaptation of the way our scheduled training programme is delivered. All KMG employees took training in ethics online.

The shift to remote interactions within the Company has facilitated the adaptation of corporate policies and procedures, their simplification to maximise responsiveness and reflect changes in the protocols driven by remote work. It also increased the role of corporate communications through a greater focus on newsletters containing reminders to employees about the Company's anti-corruption requirements, regulatory changes and hotline operation, which enabled us to cover 100% of employees, raising

their awareness and boosting the engagement of employees and other persons on the use of the hotline administered by Samruk-Kazyna's Social Partnership Centre. The hotline is a powerful tool to monitor how well the Company and its employees observe the statutory and ethical compliance standards. This is evidenced by a threefold increase in the number of hotline calls, with 118 calls received in 2020 versus 42 in 2019. All reports received were reviewed in a due and timely manner and followed up with relevant measures and a notification to the caller. Most of the calls to our hotline (52) related to HR issues, such as labour disputes, unethical behaviour, unequal working conditions, misuse of office etc. Based on its analysis of the calls received, the Compliance Service developed and submitted recommendations and preventive measures. With remote work arrangements for employees in place, one such recommendation, for instance, was to work out measures to ensure proper monitoring of employees' compliance with work discipline, Kazakhstan's labour laws and KMG's internal documents, as well as to give special focus to training in business ethics for middle management, with the HR team looking into employee morale in order to prevent employee dissatisfaction with working conditions from becoming a persistent issue. Making sure that the voice of every employee contacting the Compliance Service is heard remains our priority.

The new reality has required the Compliance Service to come up with new approaches at the intersection of regulation and ethics. This is how the updated Code of Business Ethics was approved to maintain the high level of our corporate governance and drive a mindset shift towards a zero-tolerance approach to any violations among employees in line with global best practice. The Code was enhanced with the addition of a Q&A section, improved and broader definitions section, updates to KMG's corporate values, and the introduction of limits on gifts and compliance communication channels, to bring it in line with the Samruk-Kazyna Code of Conduct and recommendations of international compliance audit firms. A procedure was also introduced for declaring conflict of interest by employees and officers.

The pandemic-driven adaptation effort also covered the Tone at the Top, a key compliance principle. In December 2020, as part of promoting high ethical standards of business conduct and zero tolerance for any form of corruption, an extended online meeting was held attended by the Chairman of the KMG Management Board and chief executives of KMG subsidiaries and associates. The meeting reviewed reports by the compliance teams of KMG and its subsidiaries and associates detailing their performance, and discussed the relevance of corporate intelligence