

## SUPPLIER RELATIONS

### EFFICIENT PROCUREMENT SYSTEM

Ensuring efficient procurement while striving to comply with sustainability principles is an integral part of KMG's activities, which contributes to the achievement of strategic and operational goals.

The key principles of KMG Group's procurement activities include legal compliance and compliance with internal requirements, transparency of procurement procedures, promotion of fair competition, and provision of equal opportunities for counterparties. At the same time, KMG implements a number of initiatives in procurement to support domestic manufacturers as part of the Program to Assist the New Production Sites Creation.

Procurement management at KMG companies is based on three documents.

- ◆ Procedure for carrying out procurements by joint-stock company sovereign wealth fund Samruk-Kazyna and companies where JSC Samruk-Kazyna directly or indirectly holds fifty or more percent of voting stock (equity stake) on the right of ownership or trust management, approved by Resolution of the Fund's Board of Directors No. 161 dated 3 July 2019 (the "Procedure"). The Procedure sets out the key principles of, and approaches to, procurement, the general procurement management procedure, procurement management competence of the Fund and the Fund's Operator for Procurement, main requirements for procurement processes, the definition of applicable procurement methods, grounds for the application of single source procurement, a tender by carrying out competitive negotiations, and intra-group cooperation.
- ◆ The standard of procurement management at joint-stock company sovereign wealth fund Samruk-Kazyna and companies where JSC Samruk-Kazyna directly or indirectly holds fifty or more percent of voting stock (equity stake) on the right of ownership or trust management (the "standard"), approved by resolution of the fund's management board no. 31/19 Dated 9 september 2019. The Standard of procurement management details procurement processes related to procurement category management, procurement planning, supplier selection and management, management of supply contracts and stocks of inventories .
- ◆ Procurement management rules in place at JSC NC KazMunayGas and companies where JSC NC KazMunayGas directly or indirectly holds fifty or more percent of voting stock (equity stake) on the right of ownership or trust management (the "Rules"), developed and approved in line

with Paragraph 4 of Article 4 of the Procedure applicable to the Fund's first level subsidiaries and companies where the Fund subsidiaries directly or indirectly hold 50% or more (resolution of KMG's Management Board No. 11 dated 26 March 2020). The Rules are aimed at detailing procurement activities and defining stakeholders' area of responsibility, integrating procurement and related processes to maximise the economic effect and cross-functional interaction, as well as defining timelines for business processes.

As from 1 January 2020, a new procurement model developed by Sovereign Wealth Fund Samruk-Kazyna Joint-Stock Company (the "Fund", "JSC Samruk-Kazyna") in accordance with Paragraph 2 of Article 19 of the Law of the Republic of Kazakhstan No. 550-IV On the Sovereign Wealth Fund dated 1 February 2012, and aimed at implementing a set of initiatives to improve procurement efficiency and transparency.

To maintain and enhance transparency and efficiency in line with the most advanced international procurement standards and technologies, KMG Group uses the E-Procurement IT System portal (the "E-Procurement IT System") providing unhindered access (with certain exceptions, primarily related to state secrets) to procurement information to all stakeholders and ensuring equal opportunities for all participants in the procurement process.

The E-Procurement IT System enables automation and standardisation of all procedures within the procurement cycle (from planning to contract management) to cut the time needed to perform relevant tasks and reduce human factor. E-procurement facilitates market access and thus contributes to improved efficiency, increased competition and reduced administrative burden and operating expenses.

In addition to the public dissemination of information on procurement procedures and procurement contracts, including details of invitations to bid and the terms and conditions of contracts, the E-Procurement IT System envisages advance establishment of requirements for participation in competitive procurement, including selection criteria, bidding rules and publication thereof while ensuring an efficient internal control system, including challenging the results of procurement in case of non-compliance with the rules or procedures established by regulations.

## TOTAL PROCUREMENT VOLUME

In the reporting period, the total cost of goods, works and services supplied under executed contracts (including annual and long-term procurement) amounted to KZT 1,826 bln, with 82% accounted for by local content.

The total amount of purchases decreased by 14% year-on-year due to the sharp fall in oil prices in early 2020, which further reduced the budgets of KMG production subsidiaries. At the same time, the current situation induced by the COVID-19 pandemic has extended many contracts to 2021.

The respective responsibility of managers of KMG and its subsidiaries and associates is defined, including through the establishment of a target indicator in the KPI Scorecard for managers.

Competitive procurement is carried out by open tender, request for quotations, and competitive negotiations.

In 2020, the share of competitive procurement under signed contracts within KMG Group's annual procurement plan was KZT 420 bln. At the same time, the share of competitive procurement has increased by more than 46% over the past three years, which demonstrates KMG's commitment to fair competition and sustainable development goals.

Despite our commitment to developing a competitive market, the share of non-competitive procurement carried out within the framework of intra-group cooperation and/or procurement from a single source prevails significantly.

### Supplied goods, works and services, KZT bln

Year	Goods		Works and services		Total	
	Total amount	Share of local content, %	Total amount	Share of local content, %	Total amount	Share of local content, %
2018	824	77	1,604	80	2,428	79
2019	473 <sup>1</sup>	63 <sup>1</sup>	1,659	83	2,132	81
<b>2020</b>	<b>472<sup>1</sup></b>	<b>71<sup>1</sup></b>	<b>1,354</b>	<b>86</b>	<b>1,826</b>	<b>82</b>

### Competitive procurement, KZT bln<sup>2</sup>

Year	Goods		Works and services		Total	
	Total amount	Share, %	Total amount	Share, %	Total amount	Share, %
2018	137	7	375	19	511	26
2019	169	12	326	23	495	36
<b>2020</b>	<b>168</b>	<b>15</b>	<b>252</b>	<b>23</b>	<b>420</b>	<b>38</b>

<sup>1</sup> Excluding oil and gas.

<sup>2</sup> Competitive procurement comprises procurement carried out by open tender, request for quotations, and competitive negotiations.