

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 ¹	63 ¹	1,659	83	2,132	81
2020	472¹	71¹	1,354	86	1,826	82

Competitive procurement, KZT bln²

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
2020	168	15	252	23	420	38

¹ Excluding oil and gas.

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

Pre-qualification of potential suppliers

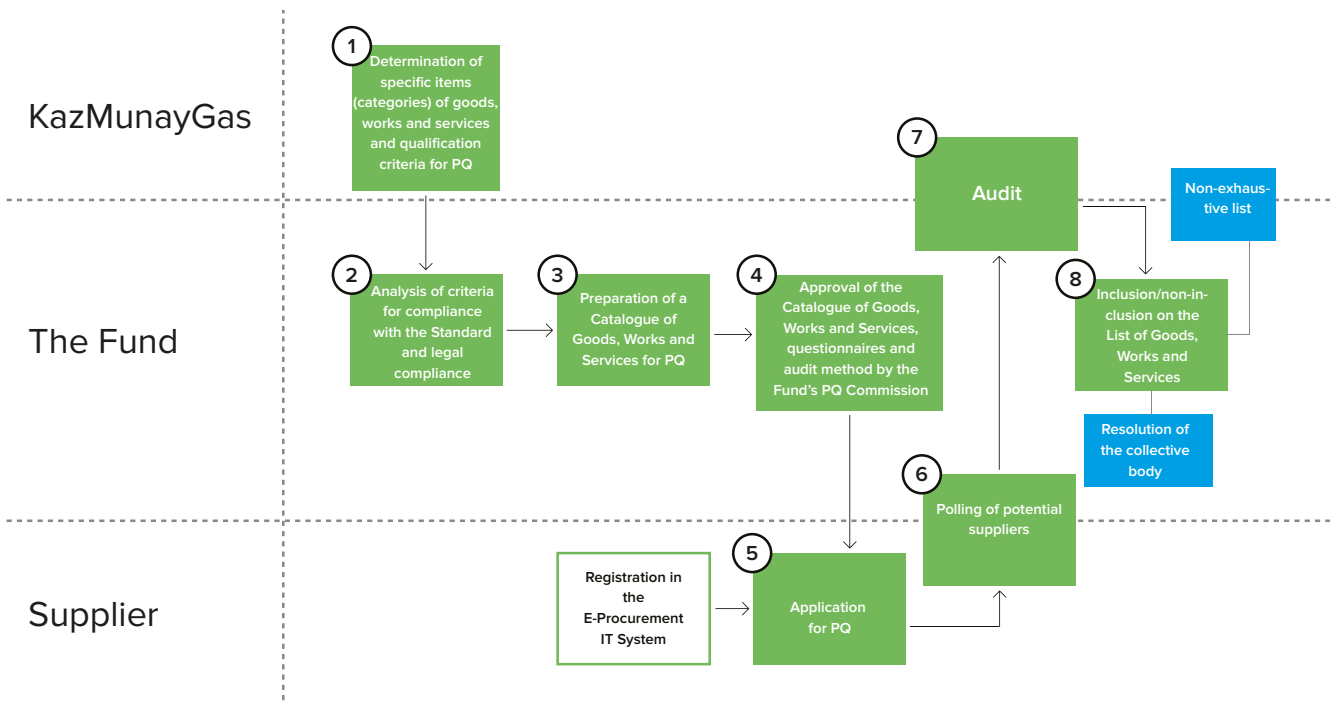
Global procurement practice demonstrates the extensive development of a mechanism for pre-qualification of potential suppliers. Continuous improvement in procurement, taking into account the requirements and standards applicable in Kazakhstani and international practices, is one of KMG's priorities.

Prequalification (PQ) is the process of evaluating potential suppliers for compliance with the qualification requirements defined in accordance with the Standard. PQ is carried out through questionnaires and audits.

The key objectives of PQ are to:

1. set up a simple, transparent and effective process for evaluating suppliers according to established qualification criteria
2. support local manufacturers
3. improve the quality of procured goods, works and services
4. speed up and simplify procurement procedures.

PQ procedure²



¹ 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, approved by Resolution of the Fund's Management Board No. 31/19 dated 9 September 2019.

² Formed list of PQ after collecting information from potential suppliers and passing all potential suppliers through the steps of the PQ procedure

Category-based procurement

Procurement category management is the process of developing a comprehensive approach to reducing costs associated with procurement and with the use of goods, works and services included in priority categories.

Categorisation implies combining goods, works and services into procurement categories on the basis of common characteristics of the object of procurement and/or a single market of potential suppliers. Categories may include one or more items of goods, works and services.

Categories characterised by high cost, high criticality, savings potential and manageability are identified as priorities.

Category-based management helps increase the potential for savings through more detailed analysis by developing and approving a category-based procurement strategy. This strategy determines the optimal approach to purchasing goods, works and services, based on maximisation of benefits in the long or short term. Category-based procurement should contain goals and objectives, internal and external environment analysis, approaches to procurement category-based management, requirements for supplier development, calculation of benefits, and an implementation plan.

Category-based management enables significant reduction of the cost of acquisition and use of goods, works and services through strategic planning, detailed analysis of purchased goods and services, and calculations of the total cost of ownership, as well as cross-functional interaction with various business units. This method of procurement is effective in that it provides both quality and a transparent price by engaging reliable manufacturers and suppliers.

Procurement category management includes:

- ◆ categorisation of goods, works and services to be purchased and identification of priority procurement categories
- ◆ development (update) and approval of category-based procurement strategies for priority categories
- ◆ implementation of category-based procurement strategies
- ◆ monitoring of the implementation of category-based procurement strategies
- ◆ supplier development.

In 2020, the volume of category-based procurement amounted to KZT 36,986.76 mln. At the same time, the application of this method allowed to achieve an economic effect in the procurement of goods included in priority categories in the amount of KZT 6,856.57 mln, up 67% year-on-year.

Category-based procurement volume and benefits by year, KZT mln

	2017	2018	2019	2020
Category-based procurement volume	231.88	13,948.38	41,531.68	36,986.76
Benefits from category-based procurement	85.07	1,565.01	4,101.81	6,856.57