

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 Programme to Promote the Modernisation of Existing and Creation of New Production Facilities.

Procurement management at KMG companies is based on three documents:



1. 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.

2. 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 processes¹ related to procurement category management, procurement planning, supplier selection and management, management of supply contracts and stocks of inventories.



3. 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's first level subsidiaries directly or indirectly hold fifty or more percent (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.

¹ Details set out in the Standard include timelines, as well as requirements for documents' contents and procedures carried out.

On 1 January 2020, we introduced 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 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 the advance establishment of requirements for participation in a 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

The total procurement volume in 2021 amounted to KZT 1,082,226 mln, net of VAT.

Reducing supplies from a single source and increasing the share of competitive procurement is an important element of KMG's procurement activities. The respective responsibility of executives of KMG and its subsidiaries and associates is defined, including through the establishment of a target indicator in the KPI Scorecard for executives.

Competitive procurement is carried out by open tender, request for quotations, and competitive negotiations. In 2021, the competitive procurement under signed contracts within KMG Group's annual procurement plan amounted to KZT 447 bln. At the same time, over the past three years the share of competitive procurement has reached 42%, which demonstrates KMG's commitment to fair competition and sustainable development goals.

Competitive procurement

Year	Goods		Works and services		Total	
	Total amount, KZT bln	Share of local content, %	Total amount, KZT bln	Share of local content, %	Total amount, KZT bln	Share of local content, %
2019	473	63	1,659	83	2,132	81
2020	472	71	1,354	86	1,826	82
2021	273	57	943	85	1,216	78

Competitive procurement¹

Год	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
2021	162	15	285	27	447	42

¹ Competitive procurement comprises procurement carried out by open tender, request for quotations, and competitive negotiations.

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 apparently prevails. In the reporting period, the total cost of goods, works and services supplied (including annual and long-term procurement) amounted to KZT 1,216 bln, with 78% accounted for by local content.

The share of local content in procurement of goods was down 14% year-on-year, due to the spin-off of JSC KazTransGas (purchase of natural gas) from KMG in early 2021.

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.

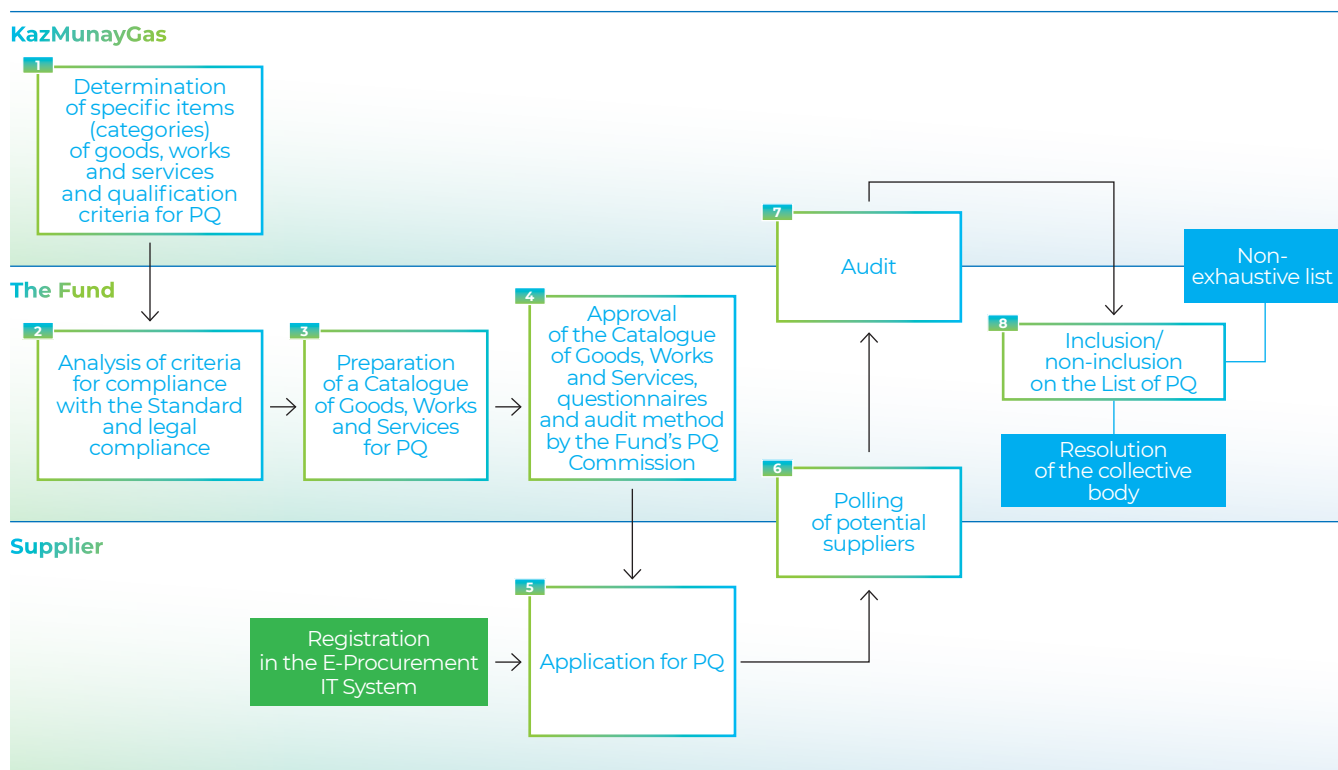
Pre-qualification (PQ) is the process of evaluating potential suppliers for compliance with the qualification requirements defined in accordance with the Standard. PQ is carried out through questionnaires and audits.

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.

At present, KMG's subsidiaries and associates procure fifteen (15) categories of goods, works and services through open tenders with bidders pre-qualified in line with the PQ procedure.

PQ procedure²



² Formed list of PQ after collecting information from potential suppliers and after the potential suppliers' passing 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 the 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 management, requirements for supplier

development, calculation of benefits, and an implementation plan.

Category-based management results in a significant reduction of the cost of purchase and use of goods, works and services through strategic planning, detailed analysis of goods and services to be purchased, 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.

Category-based procurement volume and benefits by year in 2017–2021, KZT mln

Indicator	2017	2018	2019	2020	2021
Category-based procurement volume, KZT mln	231.88	13,948.38	41,531.68	49,716.04	117,436.49
Category-based procurement benefits, KZT mln	85.07	1,565.01	4,101.81	7,011.23	6,494.76 (estimate)

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 2021, the volume of category-based procurement amounted to KZT 117,436.49 mln. This method is expected to generate an economic effect in the procurement of goods, works and services of priority categories in the amount of KZT 6,494.76 mln.

Commitment to sustainable procurement

KMG's sustainability principles are reflected in its interactions with counterparties based on legitimacy and transparency, compliance with contract terms, incorruptibility and intolerance of corruption in any form, and selection of counterparties based on a mix of factors: best price, quality and terms, as well as the counterparty's business reputation.

At the same time, KMG, in turn, imposes on its counterparties counter obligations to comply with applicable laws, treat employees fairly, not use child labour, ensure safe working conditions, protect the environment, and adhere to other principles of ethical conduct.

These conditions are included in contracts signed by KMG with its counterparties to guarantee respect of labour rights and create favourable working conditions for citizens of the Republic of Kazakhstan, protect children's rights and ensure environmental safety. KMG believes that these measures will help reduce the number of cases of illegal activities at companies cooperating with KMG.

When procuring goods, KMG also establishes requirements for potential suppliers to provide quality management system certificates.

Import substitution

As a company representing the interests of the government in the oil and gas industry, KMG is actively involved in import substitution efforts as part of the state programme to promote the modernisation of existing and creation of new production facilities through off-take agreements.

The programme's primary objective is to support private entrepreneurs who launch new production facilities and undertake technological upgrades to manufacture products in demand by JSC Samruk-Kazyna Group.

Off-take agreements imply the implementation of import-substitution projects with a condition precedent stipulating the purchase and delivery of goods that will be manufactured as a result of the project.

In 2021, KMG's subsidiaries entered into 49 off-take agreements with domestic manufacturers for a total amount of KZT 882 mln.

The share of the imported goods was up 7% year-on-year, due to the spin-off of JSC KazTransGas (purchase of natural gas) from KMG in early 2021.

Imported goods in procurement

Year	2018	2019	2020	2021
Total amount, KZT bln	173	104	94	73
Share of goods supplied without a CT-KZ certificate confirming Kazakhstani origin ¹ , %	21	22	20	27

¹ The share of goods supplied without a certificate confirming Kazakhstani origin is the share of imported goods supplied in the reporting period.