

# APPENDIX 1

## REPORT ON COMPLIANCE OF THE CORPORATE GOVERNANCE CODE 2019

This Report on compliance / non-compliance with the principles and provisions of the Corporate Governance Code (the "Code") of KMG (approved by resolution of the Sole Shareholder of KMG on 27 May 2015) has been 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 2019, KMG was in compliance with most of the provisions and principles of the Code, except for the following aspects:

REFERENCE TO THE CODE	PROVISIONS OF THE CODE	EXTENT OF COMPLIANCE	COMMENTS
<b>GOVERNMENT</b>			
1	Item 2 of Chapter 1 of Section 2	complies partially	<p>In December 2015, the Kazakhstan Government approved a Comprehensive Privatisation Plan for 2016-2020 incorporating 73 KMG Group companies. Under the privatisation and divestment programmes, the number of legal entities in the KMG Group is being reduced.</p> <p>Also, work is underway to simplify the asset structure of the KMG Group, including through the liquidation/reorganization of subholdings. In 2019, measures were taken to merge a KMG's subholding KazMunaiGas Exploration Production into KMG. KMG assets sold/liquidated in 2019: one company was sold, four companies were liquidated.</p> <p>Assets of the KMG Group will be optimized further as per the approved plans/programs.</p> <p>When creating new Organisations, KMG would be giving preference to limited liability partnerships.</p> <p>In 2019, no legal entities in the form of stock company were created.</p>
	<p>It is recommended to make sure the optimal asset structure is in place for Organizations within the Fund. In a Holding Company, a parent company may be established in the form of a stock company. Other organizations are recommended to be established in the form of a limited liability partnership. Those organizations that have already been established in the form of a stock company, it is recommend to consider reorganizing them into limited liability partnerships with account for economic, legal and other aspects and in the best interests of the Fund's group.</p> <p>When creating a new organization the most preferable business structure would be a limited liability partnership. New organizations may only be established in the form of a stock company in exceptional cases when as Organization's shares are going to be traded on a stock exchange in the future.</p>		

REFERENCE TO THE CODE	PROVISIONS OF THE CODE	EXTENT OF COMPLIANCE	COMMENTS	
2	Item 14 of Chapter 1 of Section 2	Boards of Directors of the Fund and Organizations should make sure that business ethics standards are implemented and observed. All officers and employees of the Fund and the Organizations must acknowledge that they have read and understood the Code of Business Ethics by signing the acknowledgement form and by regularly reaffirming their knowledge of the Code.	complies partially	As per recommendations made by the independent consultant following the diagnostics of corporate governance of KMG, a revised Code of Business Ethics has been developed and approved (resolution of the Board of Directors adopted on 29 November 2018). A statement has been disseminated among all officers and employees of KMG for them to look through the Code of Business Ethics and sign off a statement to acknowledge that they have read and understood the Code. Training on the new Code of Business Ethics started in 4Q2019 to further clarify the provisions of the Code. Six internal trainers of KMG, including the KMG Ombudsman, were trained for further training of KMG employees. Further training by internal trainers of KMG is planned for 2020. To date, KMG has not implemented the practice of employees regularly confirming their knowledge of this Code.

#### THE FUND AND ITS ORGANISATIONS

3	Item 3 of Chapter 2 of Section 2	Boards of Directors of the Companies shall be fully independent in decision-making within their remit as established by the charters of the Companies.	complies partially	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, logistics, social development, income distribution, recruitment, placement and staff retraining independently. At the same time, the Kazakh Act on National Wealth Fund and certain Samruk-Kazyna JSC documents (Corporate Standard on Investment for Samruk-Kazyna JSC and legal entities with fifty or more per cent of their voting shares/stake directly or indirectly held by Samruk-Kazyna JSC dated 9 July 2018; 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 Fund's Management Board on 26 December 2019. The list of organizations in the Samruk-Kazyna JSC whose 100 per cent of voting shares/stake is 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), 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 KMG subsidiary executive bodies).
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REFERENCE TO THE CODE	PROVISIONS OF THE CODE	EXTENT OF COMPLIANCE	COMMENTS	
<b>SUSTAINABLE DEVELOPMENT</b>				
4	Item 5 of Chapter 3 of Section 2	The Fund and its Organizations should have a sustainability corporate governance system in place	complies partially	In December 2019, the KMG Management Board approved Guidelines for the Sustainable Development Management System in the KMG Group and the document is expected to be approved in early 2020 at a meeting of the KMG Board of Directors. This document has been developed in accordance with the Code and the Reference Model for Sustainable Development for the Fund's portfolio companies and includes a description of the organization of the stakeholder engagement process, integration of sustainable development principles into key processes and monitoring, development of annual sustainability reporting, implementation of priority areas (initiatives) in the field of sustainable development, development and maintenance of sustainable development culture, identification and assessment of risks, document management. Also in 2019, KMG established a Sustainable Development Project Office and issued an order on the establishment of the Sustainable Development Management Working Group. In addition, the position of Managing Director for Sustainable Development was introduced.
5	Item 5 of Chapter 3 of Section 2	Sustainable development should be integrated into: 1) management system; 2) development strategy; 3) key processes including risk management, planning (long-term (strategy), mid-term (5-year development plan) and short-term (annual budget) periods), reporting, risk management, human resource management, investments, operations, etc., and decision-making at all stages from bodies (general meeting of shareholders (sole shareholder), Board of Directors, executive body) to ordinary employees.	complies partially	In 2018 sustainable development was integrated the KMG Development Strategy until 2028. In order to integrate sustainable development into KMG's management system and key processes, a Sustainability Management System Manual was developed for the KMG Group in 2019. The requirements and provisions of this document will be put into practice in 2020 after its approval by the KMG Board of Directors.

REFERENCE TO THE CODE	PROVISIONS OF THE CODE	EXTENT OF COMPLIANCE	COMMENTS
6	Item 5 of Chapter 3 of Section 2	complies partially	<p>Board of Directors has a specific responsibility to promote the principles of sustainable development while:</p> <ul style="list-style-type: none"> <li>- keeping track of the implementation of the Company's Strategy based on analysis of short-term and long-term KPI;</li> <li>- defining the meaning of the sustainable development principles for the Company, and makes sure they are effectively communicated to all parties concerned;</li> </ul> <p>HSE&amp;SD Com is responsible for:</p> <ul style="list-style-type: none"> <li>- control over the implementation of sustainable development in the Company;</li> </ul> <p>Managing Director for Sustainable Development is responsible for:</p> <ul style="list-style-type: none"> <li>- developing and implementing a sustainable development management system</li> <li>- integrating the sustainable development management system into key processes, the Development Strategy and decision-making processes of KMG.</li> </ul> <p>Managing Director for Health, Safety and Environment is responsible for health, safety and environment and for:</p> <ul style="list-style-type: none"> <li>- taking part in establishing a sustainable development management system;</li> <li>- assisting in the integration of the sustainable development management system into key processes insofar as it pertains to his/her business line.</li> </ul> <p>Managing Director for Human Resources has social responsibility while:</p> <ul style="list-style-type: none"> <li>- taking part in establishing a sustainable development management system;</li> <li>- assisting in the integration of the sustainable development management system into key processes insofar as it pertains to his/her business line.</li> </ul> <p>Chief Financial Officer is responsible for business direction and for assisting in the integration of the sustainable development management system into key processes insofar as it pertains to his/her business line.</p> <p>Also in 2019, KMG established the Sustainable Development Project Office and the Sustainability Management Working Group. The roles, competencies, responsibilities of all employees of the Company have not been fully set.</p>

REFERENCE TO THE CODE	PROVISIONS OF THE CODE	EXTENT OF COMPLIANCE	COMMENTS	
<b>SHAREHOLDERS RIGHTS</b>				
7	Item 2 of Chapter 4 of Section 2	Each Organization must have a transparent procedure for electing and setting fees for its Board of Directors (Supervisory Board and/or Executive Body) approved by general meeting of shareholders (the Sole Shareholder)/ Member (the Sole Member). The election to the Board of Directors (Supervisory Board and/or Executive Body) should be conducted in the manner specified by Kazakh laws, the Charter and internal documents of the Organization and by this Code.	complies partially	<p>The election of members to the Board of Directors and their remunerations are regulated by the Guidelines for the composing Boards of Directors of Samruk-Kazyna JSC companies as approved by the resolution of the Fund's Management Board dated 26 September 2016.</p> <p>Setting up a Board of Directors or a Supervisory Board and setting fees to their members in legal entities where KMG holds shares/ stake are regulated by the Rules for Setting Up Boards of Directors / Supervisory Boards of Legal Entities whose shares / stake are owned by KMG approved by resolution of the KMG Management Board on 30 April 2013. The Rules are to be updated in 2020.</p> <p>In 2019, KMG developed model Regulations of the Supervisory Board for organizations with more than fifty per cent of shares in the charter capital owned directly or by KMG, which was sent to its subsidiaries by letter on 2 July 2019 as a recommendation document for updating the existing regulations, if necessary.</p>
<b>BOARD OF DIRECTORS AND EXECUTIVE BODY</b>				
8	Item 6 of Chapter 5 of Section 2	The Fund and its Organizations must have succession plans for members of the Board of Directors in order to maintain business continuity of operations and any changes in the composition of the Board of Directors that may be made in the future.	does not comply	<p>The item on the Succession Policy for members of the Board of Directors of KMG was brought to the meeting of the Nomination and Remuneration Committee of the Board of Directors of KMG in November 2019. This was the first step in the development of the succession plan for members of the KMG Board of Directors. At present, there is no formalized succession plan for members of the Board of Directors. The relevant work is planned to be completed in 2020 based on the results of the external evaluation of the Board of Directors and its Committees. At present, there is no formalized succession plan for members of the Board of Directors. The corresponding work is expected to be completed in 2020 based on the results of the external evaluation of the Board of Directors and its Committees.</p>
9	Item 12 of Chapter 5 of Section 2	It is recommended that meetings of the Board of Directors take place 8 to 12 times a year.	complies partially	<p>In 2019, the Board of Directors held 18 meetings, of which: seven regular physical meetings attended by all member of the Board of Directors including one strategy session of the Board of Directors and one sustainability session of the Board of Directors; seven meetings held by conference call; and four extraordinary meetings held by conference call.</p> <p>As compared to 2018, the total number of meetings has reduced from 20 to 18 which indicates a positive trend.</p>

REFERENCE TO THE CODE	PROVISIONS OF THE CODE	EXTENT OF COMPLIANCE	COMMENTS
10	Item 13 of Chapter 5 of Section 2	complies partially	<p>The Regulations on the Evaluation of the Performance of the Board of Directors, its Committees, Chairperson, members of the Board of Directors and Corporate Secretary of KMG that approved by a resolution of the KMG Board of Directors on 4 October 2018 provide for a structured evaluation process. This document was developed in accordance with the Methodological Recommendations of the Fund on the evaluation of performance of the Board of Directors, its Committees Chairman, members of the Board of Directors and Corporate Secretary that were approved by a resolution of the Management Board of the Fund on 26 September 2018.</p> <p>By resolution of the KMG Board of Directors of 23 December 2019, it was resolved was made to evaluate the performance of the KMG Board of Directors by way of self-evaluation as well as an external evaluation by engaging an independent consultant. As part of that process, the work has commenced on self-evaluation of the Chairman and of members of the Board of Directors through questionnaires and other procedures established by KMG's internal documents. The self-evaluation process is expected to be completed in the 1st quarter of 2020, based on 2019 year-end results.</p> <p>The independent performance evaluation of the BoD is also planned for 2020 in accordance with the Code requirements, which will be done after the independent organization has been selected in accordance with the established procedure to be providing the corresponding services.</p>
11	Item 14 of Chapter 5 of Section 2	complies partially	<p>By resolution of the Board of Directors of KMG of 23 December 2019, a decision was made to conduct an evaluation of the performance of the KMG Board of Directors through a self-evaluation as well as an external evaluation involving an independent consultant. Upon completion of the work, the results of the evaluation will be submitted to the Board of Directors of the Company in accordance with the requirements of the Regulations on the Evaluation of the Board of Directors, Committees of the Board of Directors, the Chairman, members of the Board of Directors and the Corporate Secretary of KMG, which provides for the management of the Chairman of the Board of Directors of the entire evaluation process of the Board of Directors. The development of development programs for members of the Board of Directors is provided for in the Detailed Plan on Improvement of Corporate Governance in KMG for 2020.</p>
12	Item 12 of Chapter 5 of Section 2	complies partially	<p>By resolution of the Board of Directors of KMG of 23 December 2019, a decision was made to conduct an evaluation of the performance of the KMG Board of Directors through a self-evaluation as well as an external evaluation involving an independent consultant. As part of these processes, in 2020, after 2019 year-end results, it is planned to conduct an audit of the resolutions that were adopted by the Board of Directors earlier.</p>

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13	Item 15 of Chapter 5 of Section 2	An induction and succession planning programme must be developed within an organization for the Corporate Secretary.	does not comply	A draft succession plan has been developed for the Corporate Secretary to ensure continuity of knowledge about the activities of the KMG Board of Directors. The approval is scheduled to be submitted to the Board of Directors and the Nomination and Remuneration Committee of the Board of Directors in the first half of 2020.
<b>RISK MANAGEMENT AND INTERNAL CONTROLS</b>				
14	Item 7 of Chapter 6 of Section 2	The Board of Directors together with the Audit Committee are responsible for annual assessments of the efficiency of risk management and internal controls.	complies partially	In accordance with clause 6.2.7 of Section 6 of the Policy on the Corporate Risk Management System of KMG and its subsidiaries and affiliates approved by resolution of the Board of Directors of KMG dated 13 December 2016, the KMG Board of Directors ensures an annual assessment of the effectiveness of the risk management system and 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. In 2018, the independent consultant tested the level of KMG's corporate governance through five components including Risk Management, Internal Control and Audit. Based on that diagnostics, the Board of Directors of KMG approved a detailed plan on improvement of corporate governance in KMG for 2019-2020 which contains a number of measures for further improvement of the corporate risk management system and internal control system of KMG including consideration by the Audit Committee of the KMG BoD of an assessment of the level of confidence in the risk management and internal control system on an annual basis starting from 2020. In 2019, KMG was focused on the implementation of measures provided for in the above Plan as part of preparation for an independent diagnostics of KMG's corporate governance which is scheduled to take place in 2020. The scope of that diagnostics, among other components, will include a risk management system. For that reason, the effectiveness of the risk management and internal control system was not assessed in 2019.