

# CORPORATE GOVERNANCE DEVELOPMENT REPORT

At KMG, employees at all levels of the organisation recognise that good corporate governance and transparency are the key drivers of investment appeal and operational efficiency, boosting confidence among potential investors, counterparties, and other stakeholders, mitigating the risk of inefficient use of corporate resources, and increasing the national wealth and KMG's market value.

The KMG Corporate Governance Code<sup>1</sup> adopted in 2015 (the "Code") is the core document underpinning KMG's corporate governance framework and our efforts to improve it.

The Corporate Secretary annually reviews KMG's compliance with the Code's provisions and principles using the "comply or explain" approach. At present, most of the Code's provisions have been complied with. Isolated instances of non-compliance with certain provisions of the Code have been listed in the Corporate Governance Code (CGC) Compliance Report, along with the reasons for non-compliance. For KMG's 2019 CGC Compliance Report, see the Appendix to this Annual Report.

Following an independent review conducted by an independent consultant in 2018 using the review methodology for corporate governance in legal entities in which 50% or more of the voting shares are owned directly or indirectly by the Fund (KMG's major shareholder), KMG was assigned a "BB" corporate governance rating which shows that the Company's corporate governance system in all materials respects most of the identified metrics, however, there is insufficient evidence to demonstrate the system operates effectively.

Throughout 2019, KMG consistently and thoroughly implemented the recommendations presented by an independent consultant following the corporate governance review and included in the 2019–2020 Detailed Action Plan to Improve Corporate Governance at KMG (the "Corporate Governance Plan"), approved by KMG's Board of Directors. The Corporate Governance Plan comprises over 500 activities covering various aspects of corporate governance such as the performance of the Board of Directors and the executive body, risk management, internal control and audit, sustainability, shareholder rights, and transparency. The Corporate Secretary regularly prepares progress reports on the implementation of the Corporate Governance Plan and submits them for review by the Audit Committee and the Board of Directors. Following the review

of these reports, the Board of Directors provides feedback to the Chairman of KMG's Management Board and the heads of KMG's functional units involved in the improvement of corporate governance practices.

In order to ensure proper and timely implementation of activities within the Corporate Governance Plan, the Board of Directors approved in 2019 a corporate KPI on "The Progress of the Detailed Action Plan to Improve Corporate Governance at KMG". In addition, the Fund's and KMG's Development Strategies until 2028 outline the milestones for the ambitious targets established by the "Corporate Governance Rating" KPI. These efforts demonstrate the increased focus on corporate governance shown by KMG's major shareholder, Board of Directors, Audit Committee, and management.

Thus, in 2019, KMG successfully implemented a number of initiatives to further implement the Corporate Governance Plan, with the greatest progress made in areas such as the performance of the Board of Directors, risk management, and sustainability.

**"BB"**  
Corporate Governance Rating

<sup>1</sup> KMG Corporate Governance Code is available on the corporate website in section "Internal Documents" (<http://www.kmg.kz>).



## STRATEGIC SESSION 2019

On 4 September 2019, a strategy session was held to review the implementation of KMG’s Development Strategy, approved in 2018, until 2028. There was a positive discussion of the most pressing issues between members of KMG’s Board of Directors and the Management Board, in particular on the strategy update with respect to the gas initiatives.

## SUSTAINABILITY MEETING OF THE BOARD OF DIRECTORS

On 1 July 2019, the Board of Directors had a special sustainability meeting, to which members of the Management Board were invited. As part of the meeting, an external trainer hosted a workshop for executives and senior managers, followed by a discussion of some of the more important issues related to KMG Group’s long-term sustainability agenda.

The Board of Directors and the Management Board recognise the high-priority of ecology, environmental protection and the health and safety of KMG employees across the Group’s operations, as well as the great importance of building a talent pipeline and committing to universally recognised Sustainable Development Goals (SDGs).



## OFF-SITE MEETING OF THE BOARD OF DIRECTORS AT PRODUCTION FACILITIES OF KMG’S SUBSIDIARIES AND ASSOCIATES

On 30 June 2019, KMG’s Board of Directors held an off-site meeting at production facilities of JV Kazgermunai LLP (“KGM”) and PetroKazakhstan Oil Products LLP (“Shymkent Refinery”).

In the Kyzylorda Region, the Board of Directors visited an oil production and refining complex and heard KGM management’s progress report on the implementation of its Smart Field project. KGM is one of KMG Group’s most technologically advanced production assets.

In Shymkent, members of the Board of Directors visited a renovated refinery, where equipment upgrades were completed in 2018 as part of the State Programme of Accelerated Industrial and Innovative Development. The equipment upgrades have enabled Shymkent Refinery to produce motor fuels meeting K4 and K5 environmental standards as per the Customs Union’s Technical Regulations (Euro-4 and Euro-5 compliant fuels). The refinery’s throughput capacity is now up to 6.0 mln tonnes of crude oil per annum, with the refining depth increased to 88.7% and the light product yield up to 76%.



## DELEGATION OF CERTAIN ISSUES BY KMG'S BOARD OF DIRECTORS TO BOARD COMMITTEES

In 2018, the Board of Directors started to consider delegating issues to Board Committees to reduce the number of items on the Board of Directors' agenda allowing it to focus on the discussion of strategic and key issues while maintaining high quality and efficient decision making on the delegated issues.

The Board of Directors delegated the following issues to the Nomination and Remuneration Committee: the election of members of the Board of Directors and the executive body in subsidiaries and associates; performance assessments, remuneration, succession, and development plans for members of the executive body and the Corporate Secretary; KPIs for executives who are not members of the executive body.

The Board of Directors delegated to the Audit Committee the issues related to overseeing the risk management and internal control systems, as well as internal audit.

Given the delegation of issues, the Board of Directors is now regularly updated by the Committee chairs on matters reviewed by the respective Board Committees. The Committee chairs' reports have been included in the Board of Directors' 2020 activity plan.

## FOLLOW-UP ON KMG'S KEY ISSUES

To oversee the implementation of KMG's strategic initiatives and ensure timely corrective actions, KMG's Board of Directors requires the Chairman of KMG's Management Board to report regularly on key changes in the Group's operations and give other updates on HSE issues, interim financial and operating results, interested-party transactions approved by the Management Board, progress on implementation of the Group's strategy, KPIs achievement, investment projects implementation, as well as follow-up reports on KMG's consolidated Development Plan, risk reports, reports from the Board Committee chairs on delegated issues, follow-up reports on resolutions of the Board of Directors,

and performance reports submitted by functions reporting to the Board of Directors.

At every meeting, the Board of Directors' Strategy and Portfolio Management Committee considers and discusses progress reports on major oil and gas projects (Kashagan, Karachaganak, and Tengiz), as well as on transformation and privatisation programmes.

## QUALITY AND PROMPTNESS OF PRESENTING MATERIALS TO THE BOARD OF DIRECTORS

KMG has amended its Charter to adjust timings for the submission of materials for meetings of the Board of Directors. The Chairman of the Board of Directors draws up a meeting agenda at least ten calendar days prior to the meeting, and at least fifteen business days prior to the meeting considering issues relating to KMG's Development Strategy, KMG's consolidated Development Plan, motivational KPIs for the head and members of the executive body, KMG's annual report or involvement in establishing a legal entity.

Rules for the preparation of materials for meetings of KMG's Board of Directors and its Committees have been developed and approved. In accordance with the rules, regular feedback on the quality and promptness of materials prepared for the Board meetings is collected from each member of the Board of Directors.

New forms of the key documents used in preparations for the Board meetings have been introduced to facilitate the most concise and informative communication to the Board members of all information they would require to review the relevant issues. These documents must disclose the relevant risks and economic impact, as well as alignment with KMG's Development Strategy and Business Plan.