

# APPENDIX

## Report on Compliance / Non-Compliance With The Principles and Provisions of the Corporate Governance Code of JSC NC Kazmunaygas

This report is prepared 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 2023, KMG was in compliance with the provisions and principles of the Code, taking into account the following aspects:

**1. In line with item 6.1, Chapter 5, Section 1 of the KMG Code,** "the Chairman of the Board of Directors is elected by a decision of the sole shareholder; if the Chairman of the Board of Directors is elected from among the Fund's representatives, the Board of Directors elects a senior independent director from among the independent directors."

This requirement of the Code was not complied with in KMG during the reporting period. A Board of Directors member representing the majority shareholder (the Fund) was elected as the Chairman of the Board of Directors by the resolution of the General Meeting of Shareholders of KMG dated 14 August 2023 (Minutes No. 4/2023); however, the senior independent director was not elected from among the independent directors of the Board of Directors.

At the same time, in order to fulfil this requirement of the Code, the Company's Corporate Governance Improvement Plan for 2024–2025 (the "Plan") provides for the election of a senior independent director from among the independent directors of the Board of Directors.

**2. In line with item 2, Chapter 1, Section 2 of the Code,**

"It is recommended to provide an optimal asset structure for the Fund's Organisations. In a Holding company, the parent company can be established in the form of a joint stock company. Other organisations are recommended to be established in the form of limited liability partnerships. In Organisations already established in the form of a joint stock company, it is recommended to consider the possibility of reorganisation into the form of a limited liability partnership, taking into account economic, legal and other aspects and ensuring the interests of the Fund group. When establishing new Organisations, the preferred organisational and legal form is a limited liability partnership. The establishment of new Organisations in the form of a joint stock company is permitted in exceptional cases, such as the planned future sale of the Organisation's shares on the stock market."

These requirements of the Code were generally complied with in KMG during the reporting period. KMG takes a consistent effort to optimise its asset structure. KMG's preferred form for new legal entities is a limited liability partnership as recommended by the Code. In 2023, the Company neither created joint stock companies nor reorganised existing joint stock companies into limited liability partnerships. Still, the work on optimising the KMG Group asset structure will continue in accordance with the approved plans / programmes<sup>1</sup>.

**3. In line with item 14, Chapter 1, Section 2 of the Code**

"The Boards of Directors of the Fund and Organisations shall ensure the implementation of the standards of business ethics and their observation. All officials and employees of the Fund and Organisations shall sign a statement confirming their familiarisation with the Code of Business Ethics and regularly reaffirm their knowledge of the Code.

Training of officials and employees that is aimed at understanding of the Code of Business ethics, the role of the Ombudsman and the availability of the whistleblowing system shall be organised on a regular basis in the Fund and Organisations."

These requirements of the Code were generally complied with in KMG as of 31 December 2023. KMG conducts its business in a fair, honest and transparent manner while also paying special attention to the observance of these principles by our colleagues and partners. To this effect, KMG approved the Code of Business Ethics, Anti-Corruption Policy, Conflict of Interest Policy for Employees and Officials, and the Counterparty Due Diligence Policy.

Every year, the Company conducts training for new hires and existing employees as regards compliance with ethical standards, commitments and conduct of employees. On top of that, employees provide a written statement of their commitment to observe the Code of Business Ethics and the Anti-Corruption Policy. At the same time, the Company takes a consistent effort to collect written acknowledgements from all its employees that they have read and understood the Code of Business Ethics.

Furthermore, KMG's Compliance Service conducts annual anti-corruption training. On 28 September 2023, a workshop on effective corruption countering, with the participation of a representative of the Anti-Corruption Agency of the Republic of Kazakhstan, was held for the middle and top management, and on 6 November 2023, a conflict of interest training course was held for all employees. However, no assessment of knowledge of the Code of Business Ethics was conducted in 2023.

**4. In line with item 5, Chapter 3, Section 2 of the Code,**

"Sustainable development shall be integrated in:

1. management system;
2. development strategy;
3. key processes, including risk management, planning (long-term (strategy), medium-term (5-year development plan) and short-term (annual budget) periods), accountability, risk management, HR management, investments, operational activities and other as well as in the decision-making process at all levels – from bodies (General Meeting of Shareholders (the Sole Shareholder), Board of Directors, Executive Body), to ordinary employees."

This requirement of the Code was generally complied with in KMG during the reporting period. In 2020, KMG's Board of Directors adopted a resolution to approve the Sustainability Management System Guidelines, which include a description of the stakeholder engagement process, integration of sustainability principles into key

processes and monitoring, annual reporting on sustainable development, implementation of priority areas (initiatives) in the field of sustainable development, enhancement and maintenance of a sustainability culture, risk identification and assessment, documentation management, and measurements of performance in the area of sustainable development. At the same time, the work continues to integrate sustainable development into key processes.

**5. In line with item 3.6, Chapter 5, Section 2 of the Code**

"Members of the Board of Directors shall fulfil their responsibilities and adhere to the following principles in their activities:  
act with due diligence, skill and prudence – members of the Board of Directors are recommended to continuously improve their knowledge in areas relevant to the Board of Directors' competencies and the performance of their duties on the Board of Directors and its committees, including such areas as legislation, corporate governance, risk management, finance and audit, sustainable development, knowledge of the industry and the specifics of the organisation's activities; in order to understand the current issues related to the organisation's operations, members of the Board of Directors shall regularly visit the key facilities of the organisation and hold meetings with employees."

This requirement of the Code was generally complied with in KMG during the reporting period. The Chairman of KMG's Management Board regularly visited the Company's key facilities, however all members of the Board of Directors did not visit the Company's key facilities.

At the same time, in order to fulfil this requirement of the Code, the Plan provides for visits of the Board of Directors' members to KMG's key facilities and meetings with employees.

**6. In line with item 6, Chapter 5, Section 2 of the Code**

"The process of selecting members of the Board of Directors shall be transparent and carried out with the involvement of the Board of Directors of the Fund (in relation to Boards of Directors of the companies) and the organisation.", "In organisations with several shareholders, the process of electing members of the Board of Directors and the Chairman of the Board of Directors shall be carried out in accordance with the Law of the Republic of Kazakhstan On Joint Stock Companies and the organisation's charter. In these organisations, it is recommended that the Nomination and Remuneration Committee of the organisation's Board of Directors be involved in determining the composition and required skills and competencies of the Board of Directors and candidates for the Board of Directors."

This requirement of the Code was generally not complied with in KMG during the reporting period. When updating the composition of the Board of Directors in 2023, neither the Board of Directors nor the Nomination and Remuneration Committee were involved in this process; the Board of Directors of the Fund was represented by the Chairman of the Management Board of the Fund,

<sup>1</sup> KMG Group is reducing the number of its legal entities as part of the privatisation and divestment programmes. On 29 December 2020, the Government of the Republic of Kazakhstan approved the Comprehensive Privatisation Plan for 2021–2025 covering 51 KMG Group companies, including 22 within the IPO perimeter (Decree No. 908).

On 1 November 2023, the Board of Directors passed a resolution to approve the Non-Strategic Asset (NSA) List (Minutes No. 22/2023, item 7). The same Board of Directors' resolution declared void the NSA List approved by the Board of Directors' resolution dated 11 November 2022.

The Government of the Republic of Kazakhstan, by its Resolution No. 44 dated 2 February 2022 On Amending Resolution No. 908 of the Government of the Republic of Kazakhstan On Certain 2021–2025 Privatisation Matters dated 29 December 2020, amended the Comprehensive Privatisation Plan for 2021–2025 (Resolution No. 523 dated 2 August 2022) approved by Government Resolution No. 908 dated 29 December 2020 with due consideration of the Key Criteria (Principles) approved by Government Resolution No. 44. As a result, some of KMG Group's assets were included in Government Resolution No. 908.

who is a member of the Board of Directors of the Fund. However, based on the results of assessment of the Board of Directors' activities for 2023 through self-assessment, one of the measures to improve the Board of Director's performance is to have KMG's General Meeting of Shareholders approve a document regulating the process of searching, selecting and electing members of the Board of Directors, which, among other things, would ensure:

- active participation of the Chairman of the Board of Directors and the Chairman of the Nomination and Remuneration Committee in the process of searching and selecting candidates for members of the Board of Directors;
- transparency of the process of searching and selecting candidates for members of the Board of Directors;
- review of the resumes of all candidates for members of the Board of Directors by the Nomination and Remuneration Committee;
- submitting for consideration by KMG's General Meeting of Shareholders only those candidates for members of the Board of Directors who have been approved by the Nomination and Remuneration Committee.

**7. In line with item 6, Chapter 5, Section 2 of the Code**

"No person shall be involved in making decisions related to his/her own nomination, election and re-election."

This requirement of the Code was generally complied with in KMG during the reporting period. However, at the General Meeting of Shareholders of KMG dated 27 June 2023 (Minutes No. 3/2023) Yelzhas Otyntshiyev acted as an authorised representative of the major shareholder of KMG, the Fund, and, among other matters, voted on the matter of his own election to the Board of Directors. That said, the Fund's representative voted in accordance with the position determined by the Fund's Management Board.

**8. In line with item 10, Chapter 5, Section 2 of the Code**

"Remuneration for a member of the Board of Directors shall be set in accordance with the methodology developed by the Fund, taking into account the expected positive effect for the Organisation from the person's participation in the Board of Directors." In organisations with several shareholders, the relevant rules for remuneration of members of the Board of Directors shall be developed on the basis of the Fund's methodology and approved by the General Meeting of Shareholders."

This requirement of the Code was generally complied with in KMG during the reporting period, as the remuneration for members of the Board of Directors was set by the resolution of the General Meeting of Shareholders.

Also, in order to fulfil this requirement of the Code, the Plan provides for the development of relevant rules for remuneration of members of the Board of Directors based on the Fund's methodology.

**9. In line with item 11, Chapter 5, Section 2 of the Code,**

"Committees are established to conduct a detailed analysis and develop recommendations on a range of the most important matters prior to their consideration by the Board of Directors. The final decision on matters considered by the committees is made by the Board of Directors."

This requirement of the Code was partially complied with in KMG. To conduct a detailed analysis and develop recommendations on a range of the most important matters prior to their consideration by the Board of Directors, the following previously established Board of Directors' Committees operated during the reporting period:

1. the Audit Committee of the Board of Directors;
2. the Strategy and Portfolio Management Committee of the Board of Directors;
3. the Nomination and Remuneration Committee of the Board of Directors;
4. the Health, Safety, Environment and Sustainable Development Committee of the Board of Directors.

The final decision on matters considered by the Board of Directors' Committees is made directly by the Board of Directors, except for matters in the areas of risk management and internal control, where final decisions are made by the Audit Committee. According to the Plan, the matter of making the necessary amendments to the KMG Charter so that decisions on these matters are made by the Board of Directors is included in the agenda of the Annual General Meeting of Shareholders.

**10. In line with item 12, Chapter 5, Section 2 of the Code**

"The recommended frequency of meetings of the Board of Directors is 8–12 meetings per year."

This requirement of the Code was generally not complied with in KMG in 2023, with 14 ordinary and 10 extraordinary meetings held, which is twice the recommended frequency of meetings.

**11. In line with item 12, Chapter 5, Section 2 of the Code**

"Materials for the meetings of the Board of Directors shall be sent at least 7 calendar days in advance, and for more important matters as determined by the Charter of the organisation, at least 15 business days in advance, unless otherwise specified in the Charter. The list of important matters includes,

but is not limited to, the development strategy, development plan, motivational KPIs for the CEO and members of the executive body, annual report, and participation in the establishment of other legal entities.

Items for which materials are provided late shall not be included in the agenda of the Board of Directors meeting. In case of inclusion of such items in the agenda, the Chairman of the Board of Directors shall be provided with a compelling justification for their inclusion."

This requirement of the Code was generally complied with in KMG during the reporting period. Materials for the meetings of the Board of Directors are sent at least 7 calendar days in advance, and for more important matters as determined by KMG's Charter, at least 15 business days in advance, unless otherwise specified in the Charter. However, in 2023, there were cases where materials were provided and items included in the agenda with delays. In such cases, the responsible individuals submit a request, signed by the Chairman / Acting Chairman of KMG's Management Board, to include an additional item on the agenda of the Board of Directors meeting as well as a compelling justification for this inclusion.

**12. In line with item 12, Chapter 5, Section 2 of the Code,**

"The Board of Directors is recommended to conduct an audit of previously adopted resolutions. Both the resolution itself and the process of adopting it shall be analysed. It is recommended to audit previously adopted resolutions as part of the Board of Directors' self-assessment."

This requirement of the Code was generally complied with in KMG during the reporting period. The audit of previously adopted resolutions of the Board of Directors is part of the external assessment of the Board of Directors' performance conducted once every three years. However, during the self-assessment of the Board of Directors' performance for the reporting period, no audit of the Board of Directors' resolutions was conducted.

**13. In line with item 14, Chapter 5, Section 2 of the Code,**

"The process, timing and procedure for assessing the performance of the Board of Directors, its committees and members of the Board of Directors shall be clearly regulated by internal documents of the organisation. The Chairman and members of the Board of Directors shall undergo training on how to conduct the assessment."

This requirement of the Code was not complied with in KMG during the reporting period. The process, timing and procedure for assessing the performance of the Board of Directors, its committees and members

of the Board of Directors are governed by the Regulations on the Performance Assessment 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, approved by the Board of Directors' resolution dated 4 October 2018 (Minutes No. 14/2018, item 19). However, in 2023, the Chairman and members of the Board of Directors received no training on conducting the assessment.

**14. In line with item 3, Chapter 6, Section 2 of the Code,**

"The chief supervising the function of risk management and internal control is recommended not to be a risk owner, which provides for his independence and objectiveness. Combination of the functions on risk management and internal control with the functions associated with economic planning, corporate finance, treasury, taking investment decisions is prohibited. Combination with other functions is permissible, if there is no material conflict of interest."

This requirement of the Code was generally complied with in KMG during the reporting period. In line with KMG's current organisational structure, the Risk Management and Internal Control Service (the "RMICS") reports directly to the Deputy Chairman of the Management Board for Strategy, Investment and Business Development. The RMICS Head does not own any risk, which means there is no conflict of interest. Moreover, the RMICS Head is an independent participant of the Executive Body's Committees and has full voting right as a representative of the risk management unit.

**15. In line with item 4, Chapter 6 Section 2 of the Code,**

"The Board of Directors shall approve the overall level of risk appetite and tolerance levels in relation to key risks, which must be enshrined in the company's internal documents."

This requirement of the Code was not complied with in KMG during the reporting period. The risk appetite, consolidated risk register, risk map and risk management action plan, as well as risk tolerance levels and KMG's register of key risk indicators are approved by the Audit Committee.

In order to fulfil this requirement of the Code, the Plan provides for the amendments to the KMG Charter to add matters related to the approval of the above documents to the remit of the Board of Directors.