

## Ombudsman Office

One of the key roles of the Ombudsman Office is to make sure that KMG's practices are fair and that the interests of all the Company employees are observed, through early prevention, dispute settlement and conflict resolution, and escalating systemic issues requiring action to relevant bodies and officers, as well as initiating proposals to stabilise conflict situations. KMG's Code of Business Ethics clearly states the principles stipulating that KMG employees and officers shall not tolerate discrimination against anyone on the basis of race, religion, nationality, gender, political or other affiliation, social origin, material position, job, language or other circumstances, as well as the granting of any privileges to individual employees based on the above characteristics.

KMG Ombudsman's activities are guided by Kazakhstan's laws and KMG's internal documents.

After their appointment in July 2023, KMG's new Ombudsman met with the management, heads of departments and representatives of trade unions of KMG subsidiaries and associates – Caspi Bitum, KazTransOil, Kazakhoil Aktobe, Embamunaigas, KazMunayGas-Aero, and KMG Security.

The Ombudsman Office organised work on reviewing and registering reports, including via the Hotline. The Ombudsman reviewed 12 reports addressed specifically to the Ombudsman.

The Ombudsman / Ombudsman Office provided consultations and recommendations on oral reports (by phone, at personal meetings). Action was taken by the Office in response to the reports received to settle the issues, including to restore the violated rights and lawful interests.

In 2023, KMG received 112 reports via the Hotline of the Nysana call centre. KMG's Ombudsman Office monitors their timely review by relevant units.

## External audit

In order to independently assess the reliability of KMG Group's accounting (financial) statements, each year the Company engages an external auditor to conduct an audit of financial statements prepared in accordance with the IFRS. The external auditor is approved by the General Meeting of Shareholders following the approval by KMG's Board of Directors.

### Appointment of the auditor and its independence

The auditor is selected in line with the procurement procedure for Samruk-Kazyna Sovereign Wealth Fund and organisations with at least fifty percent of voting shares (equity interest) directly or indirectly owned or held in trust management by Samruk-Kazyna.

Selection of the auditor is based on the principles of:

- acquiring high-quality audit services for financial statements and related services;
- ensuring transparency of the selection process, control and responsibility for the decisions made;
- ruling out conflicts of interest and respecting independence.

In order to implement the selection of the external auditor, a Joint Commission consisting of members

of the Fund's and KMG's Audit Committees is set up. The Joint Commission determines the strategy for selecting the external auditor and implements the procedures for selecting the external auditor for KMG, including its material companies, and the Fund. The Audit Committee assesses the independence of the external auditor on an ongoing basis; the audit firm is rotated every five years. Partners and executives involved in the audit of KMG may not be hired by the Company.

### Provision of non-audit services by the external auditor

According to the Auditor Engagement Policy, the external auditor is required to obtain approval from the Audit Committee to provide non-audit consulting services. The total fee for non-audit services rendered by the external auditor to KMG Group for the reporting year must not exceed 50% of the average fee for audit services rendered by the external auditor to KMG Group for three consecutive previous reporting years. KMG annually submits to the Audit Committee for approval the information on non-audit services authorised for the external auditor and the audit and non-audit services provided by the external auditor during the reporting year. Non-audit services rendered by an external auditor in 2023 amounted to 3.4% of the total cost of audit services.

According to the resolution of shareholders represented by the Management Board of Samruk-Kazyna dated 20 January 2022, an independent audit firm Ernst & Young

LLP was selected as the external auditor of KMG's financial statements for 2022–2024.

## Risk management and internal control

### Corporate Risk Management System

KMG has implemented and effectively operates a corporate risk management system (CRMS) that is integrated into its key business and management processes. Its purpose is to ensure an optimal balance between the Company's value growth, profitability, and risks.

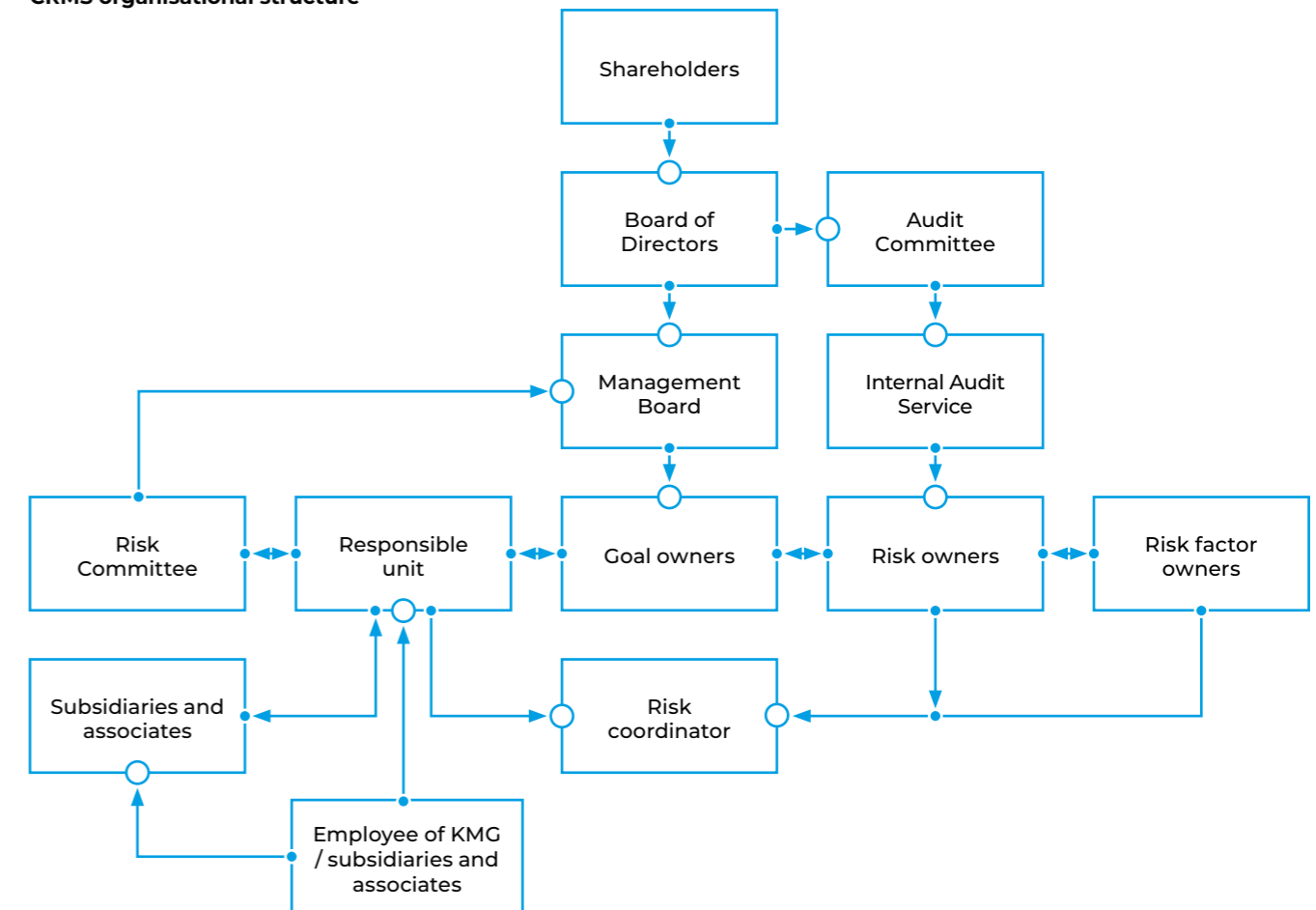
The Company's Risk Management Policy relies on the following key principles:

- continuity: functioning on an ongoing basis;
- adaptability: continuous improvement;
- comprehensiveness: addressing all types of risks across all areas of the Company's activities;

- rationality: efficient utilisation of risk management resources;
- active leadership participation: active involvement of and support from the Company's management in implementing and enhancing the risk management system across KMG Group.

The CRMS is a key component of KMG's corporate governance system, which has vertically-structured risk management processes at all governance levels:

### CRMS organisational structure



The Board of Directors, supported by the Audit Committee, is in charge of setting the overall risk management direction for the Company to ensure its alignment with KMG's strategic goals as well as timely identification and assessment of key risks and their mitigants. Additionally, the Board reviews reports on the CRMS effectiveness.

The Management Board is responsible for the organisation and effective functioning of the CRMS, timely submission of quarterly risk reports to the Fund, Audit Committee, and Board of Directors, ensuring the CRMS Policy implementation, enhancing KMG's internal risk management regulations, and taking appropriate measures to mitigate risks. The Management Board has a Risk Committee, which serves as a permanent consultative and advisory body tasked with the preliminary review of KMG Group's risk management matters and preparing recommendations to the Management Board to facilitate decision-making. The Risk Committee reviews the Company's risks and the effectiveness of risk management measures, guidelines on risk management, proposals to develop risk management policies, procedures, and structure; new approaches to risk management, and action plans to improve the CRMS.

At KMG, we have established a three lines of defence risk governance model. The first line of defence (business functions) is formed by managers and employees of business units that are responsible for assessing and managing risks at their level and for ensuring efficient operation of the internal control system. The second line of defence (monitoring functions) is formed by managers and employees of business units that are responsible for ensuring and monitoring the implementation of effective risk management practices, internal controls, compliance with legislation and internal documents, and investigating instances of misconduct by KMG employees. The third line of defence (an independent function) is the Internal Audit Service, which provides assurance to the Board of Directors and the Management Board regarding the effectiveness of the Company's management systems and the first and second lines of defence.

The Corporate Risk Management System Policy of KMG and its subsidiaries and associates is available on the Company's [website](#)

## Improving risk management

### Initiatives to develop and improve the CRMS

In 2021, as part of an independent evaluation of corporate governance, KMG's was assigned a BBB rating for its internal audit, risk management, and internal control practices. This is one notch higher than the 2018 level (BB) and serves as a testament to continuous improvements of the Corporate Risk Management System (CRMS), Internal Control System (ICS), and Business Continuity Management System (BCMS). Based on the evaluation results, an action plan for enhancing corporate governance for the years 2022–2023 was developed. By the end of 2023, all activities included the action plan to advance the CRMS, ICS, and BCMS were successfully completed.

KMG has been continuously improving its CRMS and consistently enhancing its risk management framework. To reaffirm its commitment to the continuous development and improvement of CRMS, the Company took a number of measures and steps in 2023:

- The Market Risk Management Rules of the Company were revised, with the updated version approved by KMG's Management Board.
- The Regulations on the Risk Committee were revised, with the updated version approved by KMG's Management Board.
- The composition of the Risk Committee was updated.
- The updated version of the Risk Coordinator Register was approved.
- Monitoring of sanction risks was put in place. The Chairman of the Management Board submits regular reports to the Board of Directors and the Fund providing regular updates and consolidated information on the impact of sanctions.
- The Company's Management Board and Board of Directors are informed in a timely manner on key risks; the risk register, risk map, quarterly risk reports and risk appetite are reviewed. In 2023, the Risk Committee held six meetings, with 28 matters reviewed and corresponding resolutions passed.
- International certification in sustainability and climate risks was obtained to improve the risk assessment of investment projects.
- KMG-Security provided training on the risk management system for its managers and employees (with all regional branches covered).
- Insurance brokers AON Kazakhstan and Willis Towers Watson provided training on the fundamentals of insurance as a risk management tool for employees of KMG's subsidiaries and associates.

### Plans to develop the risk management system

- Developing the CRMS (updating the CRMS Policy and standard rules for establishing a risk management process, regulatory and methodological documents).
- Implementing the action plan based on the findings of the internal audit of the CRMS.
- Ensuring timely communication of key risks to the Audit Committee and the Board of Directors.
- Preparing a set of risk management documents for the year 2025.
- Fostering the risk culture.

### Internal Control System

The Internal Control System (ICS) is an integral part of CRMS. The COSO (Committee of Sponsoring Organisations)-based system includes five interrelated elements – control environment, risk assessment, controls, information and communication, and monitoring procedures. It is designed to achieve reasonable assurance that KMG will reach its goals across three key areas:

- improving operational efficiency;
- preparing complete and reliable financial statements;
- complying with Kazakhstan's laws and KMG's internal documents.

The ICS focuses on analysing business processes, timely identifying and analysing process-level risks inherent in KMG's operations, as well as defining and analysing controls for managing these risks.

The ICS is integrated into KMG's core and supporting business processes and includes procedures for promptly notifying the appropriate governance level of any material weaknesses and control bottlenecks, together with details of corrective actions that have been or should be taken.

The ICS is organised in line with the Internal Control System Policy, which sets out the goals, operating principles and components of the ICS and the Control System Guidelines, which define powers and responsibilities, operating procedures, internal control structure, performance criteria and forms of records.

KMG annually approves the ICS operation schedule based on the criticality ranking of business processes as well as recommendations by external and internal auditors. The schedule specifies when business processes will be formalised/updated and controls design analysed. Formalisation means the design and update of the existing risk flowcharts and matrices, along with business process controls. Improvement recommendations and areas for improvement are defined following the analysis of controls design performance. Similar activities are performed by subsidiaries and associates. The results of these ICS activities are from time to time communicated to business process owners, IAS, the external auditor, Management Board, and the Board of Directors of KMG.

ICS-related meetings and training sessions for employees of KMG and its subsidiaries and associates, which feature workshops, experience sharing, discussions of issues and their solutions, take place annually.

In 2023, KMG Risk Management and Internal Control Service continued its work to further implement and improve internal controls. Efforts were made jointly with business process owners to formalise internal controls for eleven business processes. Areas for improvement were identified and recommendations for the improvement of controls were prepared. To date, the ICS was successfully formalised for more than 40 business processes. The ICS methodology was updated. Work is underway in line with the action plan to improve the ICS and BCMS at subsidiaries and associates. Subsidiaries receive assistance and methodological support in developing the ICS documents (identification and prioritisation of business processes for the ICS formalisation, analysis and comments/recommendations on draft flowcharts and risk and control matrices, review of reports).

In 2024, KMG's Risk Management and Internal Control Service will continue to improve the ICS. The Company plans to continue formalising and analysing the controls design, providing recommendations on control procedures, carrying out internal control in line with the SAP S4/HANA project, conducting training for CEOs and heads of departments of KMG subsidiaries, strengthening its risk culture, and organising joint audits of IAS and RMICS (as agreed) at subsidiaries and associates subject to availability of risk matrices and controls for the respective business

processes. In addition, RMICS specialists are engaged in the audit of financial and economic activities of subsidiaries and associates in order to verify self-assessment of internal controls.

KMG is aware of the importance of internal controls for the preparation and review of financial statements. This process involves providing reasonable assurance as to the reliability of financial statements and their conformity with applicable accounting standards. To this end, in addition to methodological documents defining the approach to the accounting of transactions and the preparation of financial statements, KMG group companies formalised and implemented an internal control process, including a risk matrix and controls over financial reporting. The effectiveness of internal controls over financial reporting is subject to regular review by independent auditors. On top of that, the following measures to prevent potential risks in preparing financial statements are in effect:

- annual approval of KMG's consolidated financial reporting calendar;
- quarterly development and communication of the schedule for closing and preparation of financial statements across KMG Group;
- quarterly analysis of questionnaires for non-routine situations submitted by KMG group companies;
- quarterly assessment of the chief accountants at KMG Group (in terms of timely and correct presentation of financial statements).

### Business Continuity Management System

The Business Continuity Management System (BCMS) is a set of processes and procedures aimed at identifying potential threats/risks and assessing their impact on the activities of KMG and its subsidiaries and associates, which provides the basis for improving the Company's resilience to incidents by implementing effective responses capable of restoring its operations and protecting stakeholders' interests, the Company's business reputation, brand and value-adding operations.

The Company recognises the importance of having the BCMS in place and manages business continuity by identifying the necessary conditions and resources to develop and improve measures and tools to ensure business continuity in the context of threats and risks leading to business interruption.

The BCMS is organised in line with KMG's Business Continuity Management System Policy and the Guidelines for the Business Continuity Management Process. The BCMS Policy defines the scope, objectives, basic principles, and model of the business continuity management system, taking into account the recommendations of the international standard in business continuity management. The Rules for the Business Continuity Management Process define the procedures for determining BCMS' scope of application, business impact analysis, developing and approving the Business Continuity Plan (the "BCP"), BCP testing, monitoring and improvement of the BCMS, training and raising awareness of employees.

In 2023, the BCMS methodology was updated. Work was carried out at subsidiaries and affiliates to identify critical business processes and assess their impact on business continuity. In 2024, the Risk Management and Internal Control Service will continue to improve the BCMS. Efforts will be made to update the Business Continuity Plan, and similar work will be done at subsidiaries. The Risk Management and Internal Control Service will also continue to coordinate BCMS rollout across subsidiaries, provide methodological assistance, and conduct training for employees in charge and the management.

### Corporate insurance

Insurance is central to ensuring robust risk control and financial management across KMG Group as it serves to protect the property interests of the Company and its shareholders against unexpected losses that may result from operations, including due to external factors.

The Group's insurance function is centralised in order to enforce the unified corporate standard for insurance, which enables the Company to apply a comprehensive approach to managing continuous coverage. Independent appraisal of reproduction cost / replacement cost new (RCN) and risk assessments are also coordinated through risk surveys conducted by independent risk engineers across KMG Group.

KMG's Corporate Insurance Programme includes the following key types of insurance coverage:

- insurance of core operating assets of the Company;
- third party insurance;
- energy risk insurance.

A reinsurance company is only considered for reinsurance when holding a financial credit rating of at least A- on the S&P scale or a comparable rating from other rating agencies. The Company employs best industry practices in negotiating the optimal insurance and risk coverage terms.

### Key risks

KMG operates in a constantly changing environment. Some risks can evolve over time, while their potential impact and likelihood can change in response to internal and external factors. KMG manages, tracks and reports key risks and uncertainties that can affect its strategy implementation. As a company representing the interests of the government in the oil and gas industry, KMG is strategically committed to sustainable development. Consequently, our risk identification process encompasses ESG risks.

During the reporting period, a number of risks materialised, but their negative impact was managed and minimised through risk mitigation measures.

### Key risks of the Company

- Risk has reduced
- Risk has increased
- No change

Trend (over the year)	Risk description and likely impacts	Mitigation and management
	<p><b>Production decline risk</b></p> <p>The main external risk factors are power outages, failures of external electricity supply (for example, supply failures on the part of KEGOC, Mangistau Atomic Energy Complex and Mangistau Regional Electricity Network), and severe weather conditions.</p> <p>Key reasons behind power outages and supply restrictions:</p> <ul style="list-style-type: none"> <li>■ emergency shutdown of power-generating units at the TPP of Mangistau Atomic Energy Complex;</li> <li>■ shortage of power capacities in the Mangistau and Atyrau regions.</li> </ul> <p>For more details, see the <a href="#">Upstream</a> section</p>	<ol style="list-style-type: none"> <li>In order to ensure energy security and uninterrupted power supply to oilfield facilities, KMG's subsidiaries and associates are pursuing the following initiatives:                             <ul style="list-style-type: none"> <li>■ construction of a hybrid power plant leveraging renewable energy sources (solar + wind) and gas-fired energy. The project timeframe is 2024–2025.</li> <li>■ implementation of the project titled "Strengthening the Power Grid in the Western Zone of the Unified Power System of Kazakhstan" to enhance the reliability of power supply to consumers in the western zone of JSC KEGOC. The project was completed in November 2023, doubling the reliability of the network's western zone and minimising the probability of consumers being disconnected.</li> </ul> </li> <li>Allocation of KZT 4.9 bln by the Government of Kazakhstan to finance the refurbishment of Mangistau Atomic Energy Complex.</li> <li>Commissioning of a backup gas turbine unit (GTU) from Siemens at Mangistaumunaigaz in line with the plan envisaging simultaneous operation of GTU 1 and GTU 2 (2 x 45 MW Gas Turbine Power Plant) at the Kalamkas field as a way to ensure emergency power supply to the Kalamkas and Zhetibai facilities.</li> </ol>
	<p><b>Risk of lower transportation and sales volumes in the segment of oil exports</b></p> <p>Key risk factors:</p> <ul style="list-style-type: none"> <li>■ Strong dependence on Caspian Pipeline Consortium (CPC).</li> <li>■ Oil transportation and shipment restrictions (due to accidents, technical failures, sanctions extensions, geopolitical conflicts, sabotage, and acts of terrorism).</li> </ul> <p><b>Impact</b></p> <p>Oil transportation restrictions, curtailment or suspension of production at the TCO, Kashagan and KPO fields and the Company's operating assets, insufficiency of the tank farm capacities to meet the increasing supply.</p>	<p>Exploring oil transportation alternatives.</p> <ul style="list-style-type: none"> <li>■ To diversify export routes for domestic oil, the following initiatives have been implemented:                             <ol style="list-style-type: none"> <li>crude oil is being supplied to Germany through the Druzhba pipeline;</li> <li>crude oil is being supplied from the Port of Aktau via Azerbaijan to the Baku–Tbilisi–Ceyhan pipeline;</li> <li>joint working groups with CNPC have been established to address the expansion of the Kazakhstan–China oil pipeline.</li> </ol> </li> <li>Utilising KEBCO (Kazakhstan Export Blend Crude Oil) and addressing related matters with relevant authorised bodies.</li> <li>Considering the possibility of manufacturing and replacing CPC's critical equipment (single point moorings (SPMs)).</li> </ul>



Trend (over the year)	Risk description and likely impacts	Mitigation and management
↔	<p><b>Work-related injury risk</b></p> <p>Employees' non-compliance with the established health and safety rules, and breaches of operational discipline may pose a threat to their life and health.</p> <p>In 2023, a total of 29 KMG Group's employees were involved in workplace accidents, down 19% year-on-year.</p> <p>Due to the increased number of lost-time accidents involving subcontractor employees in 2023, the Company is taking steps to improve its subcontractor interaction processes with a view to minimising HSE risks</p> <p><b>Impact</b></p> <p>Violations of operational health and safety rules may lead to injuries, as well as production disruptions, financial losses, and reputational damage</p> <p>For more details, see the <a href="#">Health, Safety and Environment</a> section</p>	<p>To prevent workplace accidents, KMG implements a number of organisational and technical measures that ensure:</p> <ul style="list-style-type: none"> <li>a safe working environment and prevention of work-related injuries and occupational diseases;</li> <li>timely training and knowledge testing;</li> <li>internal health and safety controls;</li> <li>deployment of new technologies and mechanised techniques;</li> <li>improvement of industrial safety for production facilities.</li> </ul> <p>The Company is implementing a near miss reporting programme through the Qorgau Card<sup>1</sup> project and behaviour-based working and driving safety cards.</p> <p>Implementation of the Behaviour-Based Safety Programme and Behaviour-Based Driving Safety Programme in subsidiaries and associates continues.</p> <p>Comprehensive HSE inspections were conducted at selected subsidiaries and associates</p>
↔	<p><b>Pandemic risk</b></p> <p>The emergence of new viruses/strains poses a threat to the health of employees. The COVID-19 situation in Kazakhstan is relatively stable for now, with the infection rates on the decline. In May 2023, the WHO determined that COVID-19 is now an established and ongoing health issue which no longer constitutes a public health emergency of international concern (PHEIC)</p> <p><b>Impact</b></p> <ul style="list-style-type: none"> <li>Spread of infection and an increase in the number of exposed individuals within KMG Group.</li> <li>Discontent, refusal to go to work, misinformation, panic and protest moods, xenophobia.</li> <li>Health damages, temporary disabilities, fatalities and compensation payments.</li> <li>Absence or lack of qualified operational, engineering and technical personnel, leading to a decrease in productivity.</li> <li>Mandatory isolation and hospitalisation of infected individuals and exposed persons; restrictive measures imposed by government authorities (such as lockdowns)</li> </ul>	<p>The Corporate Centre, subsidiaries and associates comply with the requirements and follow recommendations of applicable resolutions of chief state sanitary doctors depending on the current epidemiological situation and the zone of epidemiological risk in a particular region.</p> <p>A set of measures is being implemented in line with approved comprehensive business continuity plans of KMG and its subsidiaries and affiliates to be ready in case of deteriorating epidemiological situation associated with the spread of new strains</p>


Trend (over the year)	Risk description and likely impacts	Mitigation and management
↑	<p><b>Risk of emergencies or man-made disasters at production facilities</b></p> <p>The Company's operations are potentially hazardous. KMG is exposed to the risk of damage to property, third parties or the environment caused by accidents, emergencies, or man-made disasters at production facilities.</p> <p>In the reporting period, an accident was registered at the oil and gas production department of Embamunaigas: on 16 November 2023, a gas, oil, and water influx occurred while extracting core from the well during drilling operations. No injuries were reported</p> <p><b>Impact</b></p> <p>Accidents at production facilities may have the following consequences:</p> <ul style="list-style-type: none"> <li>Worker injuries and fatalities</li> <li>Partial or complete destruction of equipment, facilities, and structures</li> <li>Costs associated with environmental remediation, fire suppression, and production recovery</li> <li>Imposition of penalties for excessive environmental impact</li> </ul>	<p>To prevent incidents during drilling operations, the following preventive measures are implemented:</p> <ul style="list-style-type: none"> <li>conducting surveys to enhance the accuracy of geological data;</li> <li>monitoring parameters such as drilling fluid flow rate, gas concentration in the drilling fluid, and the process as a whole;</li> <li>mandatory oversight by well construction supervisors to control the drilling fluid formulation and preparation methods;</li> <li>monitoring direct and indirect indicators for early detection of gas, oil, and water influxes;</li> <li>conducting checks to ensure that the volume of added (displaced) drilling fluid matches the volume of lifted (lowered) drilling pipes during tripping operations</li> </ul> <p>To mitigate its production risks, the Company:</p> <ul style="list-style-type: none"> <li>ensures timely maintenance and repair of equipment as required by relevant regulations;</li> <li>performs timely diagnostics and identification of potential hazards, as well as industrial safety assessments of production facilities;</li> <li>controls safety review activities with respect to life-expired equipment;</li> <li>holds briefings on safe operation of equipment (technical devices);</li> <li>trains personnel in safe operation regulations and tests their knowledge with the subsequent assignment of qualification certificates (permits)</li> </ul> <p>Annual voluntary property insurance contracts are executed (against the risk of accidental destruction, loss or damage) for insured events</p>
↔	<p><b>Risk of terrorism</b></p> <p>Acts of terrorism and other violence against the Company's and contractors' personnel and assets.</p> <p><b>Impact</b></p> <p>The Company operates in a number of countries where acts of terror and other criminal wrongdoings against the Company's assets are possible. In 2023, there were no events when this risk materialised within KMG Group</p>	<p>The Company takes a set of preventive measures, including:</p> <ul style="list-style-type: none"> <li>checking the condition of security equipment, alarm systems, up-to-date status of evacuation plans, current status of exits and evacuation routes;</li> <li>training of security and maintenance personnel in counter-terrorist protection of facilities and personal safety in case of emergencies;</li> <li>physical security checks and counter-terrorist security inspections of facilities at subsidiaries and associates;</li> <li>interacting with law enforcement and special agencies on physical security and counter-terrorist security at facilities;</li> <li>screening of contractor employees authorised to work at the Company's facilities; training sessions for security, service, and technical personnel in the event of emergencies at facilities;</li> <li>control over the maintenance of video surveillance systems and routine maintenance of ISS, ACS, and boom barriers;</li> <li>issuance of IDs for terror vulnerable facilities in line with legal requirements for countering terrorism</li> </ul>

<sup>1</sup> The use of the Qorgau Card is aimed at identifying and reporting an unsafe condition, unsafe behaviour, unsafe action, hazardous event or hazardous factor, as well as good practice and suggestions (initiatives).

Trend (over the year)	Risk description and likely impacts	Mitigation and management
↑	<p><b>Environmental risk</b></p> <p>The Company is exposed to the risk of adverse environmental impact and the risk of tougher responsibility for non-compliance with environmental laws</p> <p><b>Impact</b></p> <p>Environmental risk materialisation may entail financial expenses in the form of fines, excess emissions charges, environmental remediation costs, as well as legal liability and escalating social and environmental tensions</p>	<p>The Company's priorities in environmental protection:</p> <ul style="list-style-type: none"> <li>atmospheric emissions management and reduction of routine flaring;</li> <li>water management;</li> <li>production waste management;</li> <li>land reclamation;</li> <li>energy efficiency improvement</li> </ul> <p>To mitigate the environmental risk, the Company:</p> <ul style="list-style-type: none"> <li>ensures preventive management of significant environmental aspects, based on project management and a risk-based approach, to improve environmental performance;</li> <li>engages stakeholders on environmental issues;</li> <li>implements the Memorandum of Cooperation in Environmental Protection signed with a competent authority to dispose of and recycle waste from its subsidiaries and associates;</li> <li>monitors the inventory of accumulated waste and the progress of land remediation for oil-contaminated soils;</li> <li>comprehensively develops the corporate environmental function and aligns KMG's activities with green economy principles;</li> <li>introduces the best available technologies and an automated environmental monitoring information system at subsidiaries and associates</li> </ul>
←	<p><b>Risk of oil spills during offshore operations</b></p> <p>The risk of oil spills during offshore operations can be attributed to several factors. These include the violation of technological procedures, pipeline accidents, malfunctions in production and process equipment, gas, oil, and water influxes during the drilling of exploration and appraisal wells, as well as the closed ecosystem of the Caspian Sea, shallow waters, abnormally high reservoir pressure at the oil field, high hydrogen sulphide concentrations, and seasonal freezing of the surface</p> <p><b>Impact</b></p> <p>These factors can lead to significant environmental damage, disrupt production processes, and result in substantial financial costs associated with accident response and cleanup efforts</p>	<p>To minimise the risk of oil spills, the Company implements the following measures:</p> <ul style="list-style-type: none"> <li>Continuous monitoring and control to ensure compliance with technological processes.</li> <li>Ongoing monitoring of the functioning of production equipment, process equipment, and pipelines. Timely scheduling and completion of preventive maintenance and technical servicing.</li> <li>Being prepared to respond to oil spill emergencies, training and conducting level 1, 2, and 3 drills jointly with the Ministry for Emergency Situations of the Republic of Kazakhstan.</li> <li>Ensuring the effective functioning of the North Caspian Environmental Base for Oil Spill Response.</li> <li>Monitoring the condition of decommissioned wells.</li> <li>Participating in committees and working groups in accordance with the Production Sharing Agreement in respect of the North Caspian Sea (NCSPSA) to review preventive measures, provide recommendations, and make amendments</li> </ul>

Trend (over the year)	Risk description and likely impacts	Mitigation and management
←	<p><b>Climate risks and low-carbon development</b></p> <p>In its operations, the Company faces risk factors related to energy transition and climate change, including:</p> <ul style="list-style-type: none"> <li>Risks related energy transition such as limitations on carbon unit sales, significant costs for implementing energy transition measures, inadequate profitability of low-carbon projects, absence of legislative and authorisation standards, and increases in electricity tariff rates.</li> <li>Physical impacts of climate change risks, including short-term risks like floods, landslides, droughts, fires, and hurricanes, as well as systematic risks like prolonged periods of abnormally high air temperatures, rising sea levels, onshore well flooding, and a decrease in the Caspian Sea level</li> </ul> <p><b>Impact</b></p> <p>These risks may have an adverse impact on operations of the Company as a major producer of fossil fuels and source of greenhouse gases in the form of higher costs, lower profits, and limited opportunities for further development.</p> <p>An increase in renewable energy generation can be expected in individual partner countries. It may lead to decline in demand for products supplied by the Company</p>	<p>As part of KMG Group's climate risk mitigation efforts, the following measures were implemented or are ongoing:</p> <ul style="list-style-type: none"> <li>in 2023, a Corporate Climate Governance Plan was developed with the support of the European Bank for Reconstruction and Development, in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD);</li> <li>an agreement of understanding was signed with Baker Hughes in the field of carbon capture and storage (CCUS);</li> <li>a memorandum of cooperation was signed with Samruk-Energy for the construction of solar power plants;</li> <li>an updated Internal Carbon Pricing Programme was approved;</li> <li>a corporate green project investment standard was drafted;</li> <li>participation in working groups to improve legislation related to low-carbon development, energy efficiency, renewable energy, and alternative energy, taking into account corporate interests;</li> <li>a feasibility study for a pilot project to build a full CCUS chain (Stage 2) underway;</li> <li>implementation of a forest-climate project, with Stantec engaged as contractor;</li> <li>methodology for recording GHG emissions (Scope 3) was drafted for integration into the Company's GHG Emission Monitoring and Reporting Methodology;</li> <li>the Company signed a memorandum of cooperation with Tetra Tech, implementer of the Power Central Asia (PCA) Activity, to inventory methane emissions sources across KMG assets and further cut relevant emissions;</li> <li>KMG joined the OGMP 2.0 (Oil and Gas Methane Partnership) initiative for methane emissions reporting among oil and gas companies</li> </ul>
←	<p><b>Geological risk</b></p> <p>The implementation of new exploration projects is always associated with geological risks arising from the uncertainty of geology: lack of hydrocarbon discoveries; failure to confirm or low recoverable oil/gas reserve estimates</p> <p><b>Impact</b></p> <p>Absence of commercially viable oil and gas reserves and/or the discovery of reserves that are below the anticipated level</p>	<p>To address this risk, the Company:</p> <ul style="list-style-type: none"> <li>collects and analyses the geological and geophysical data from the operating area and similar nearby fields;</li> <li>plans geophysical surveys and exploration for hydrocarbons, applies effective study techniques and data processing and interpretation methods;</li> <li>conducts regional basin studies;</li> <li>conducts advanced seismic surveys as part of subsoil exploration efforts to reduce geological risks and obtain new data for the purposes of comprehensive geological, technical and economic analysis;</li> <li>attracts strategic partners for joint exploration and development of new fields;</li> <li>fosters professional development of personnel (training, experience sharing with international companies)</li> </ul>

Trend (over the year)	Risk description and likely impacts	Mitigation and management
	<p><b>Social unrest in regions of operation</b></p> <p>The Company is exposed to the risk of unauthorised strikes</p> <p><b>Impact</b></p> <p>Adverse impact on the Company's reputation, disruption to operations and higher OPEX and impact on CAPEX and project schedules. Rising commodity prices, accelerated domestic inflation or continued weakening of the national currency may affect negotiations over changes to wages and salaries.</p> <p>In 2023, there was a number of unauthorised strikes called by employees of the Company's contractors and some of its subsidiaries and associates. The Company held negotiations with the leaders of the trade union committees and met with rank-and-file employees. As a result, KMG took steps to narrow the salary gap between the Company's workers and contractor employees.</p> <p>The number of strikes called by employees of KMG's subsidiaries and associates and their contractors in the Mangistau Region decreased from 22 strikes in 2022 to 9 strikes in 2023, down 59% year-on-year</p>	<p>To mitigate social risks, the Company pursues a wide variety of initiatives:</p> <ul style="list-style-type: none"> <li>■ To ensure the timely settlement of social and labour conflicts in the Mangistau Region, KMG opened a representative office in Aktau. KMG participates in the meetings of the Interdepartmental Headquarters for Addressing Issues of Zhanaozen (Mangistau Region).</li> <li>■ A continuous monitoring system has been implemented to closely oversee the social climate at KMG enterprises and their contractors. In line with the developed Protest Action Response Algorithm, a unified position has been formed in collaboration with relevant government authorities. To prevent potential conflicts and improve the social environment, now continuous control is exercised over industrial relations at KMG subsidiaries and associates' contractors.</li> <li>■ The Company's subsidiaries and associates have developed 2023–2027 roadmaps for improving employees' working and leisure conditions, with plans to build new and overhaul existing social infrastructure facilities.</li> <li>■ In 2023, the Corporate Centre developed a unified form of the Samruk Research Services (SRS) improvement plan for all subsidiaries and associates, and introduced the practice of visiting KMG enterprises and providing assistance in drafting action plans to improve social stability. PetroKazakhstan Oil Products also partnered with the Social Partnership Centre at Samruk-Kazyna to conduct in-depth sociological surveys. In 2023, the SRS index reached 75%.</li> <li>■ KMG Group has a Unified Internal Communications System (Regulations) in place and holds mandatory meetings between the management and employees at all the Company's facilities to discuss social, day-to-day, and operational matters as well as to develop solutions together</li> <li>■ 2023 saw 101 reporting meetings covering some 14,000 employees of KMG subsidiaries and associates, with over 500 questions asked and answered.</li> <li>■ KMG actively contributes to the unemployment reduction efforts in the Mangistau Region. In 2023, under the direct joint coordination of the KMG's Representative Office and the Akimat of the Mangistau Region, a total of 2,216 individuals were employed by KMG's subsidiaries, associates, and contractors. Furthermore, as part of the agreement between KMG and Abu Dhabi Ports Group (ADP), a competition was launched among the local residents to fill vacant positions within ADP.</li> <li>■ To foster team spirit, consolidate the workforce, and cultivate a healthy psychological atmosphere, various events are regularly organised to develop corporate culture within KMG. These include the KMG Sports Competition involving all KMG's subsidiaries and associates and the Uzdyk Maman professional skills competition.</li> <li>■ To improve the quality of education offered to the young residents of Zhanaozen, the Company launched a programme for financing schoolchildren's training in the country's best specialised boarding schools and colleges. The programme is designed to provide training opportunities to an average of 1,300 students annually</li> </ul>

Trend (over the year)	Risk description and likely impacts	Mitigation and management
	<p><b>Liquidity and financial stability risks</b></p> <p>Liquidity, financial stability, and credit rating downgrade risks are KMG's key risks.</p> <p><b>Impact</b></p> <p>Need to immediately repay current borrowings and Eurobonds. Inability to raise sufficient funds to finance the Company's current and investment activities. In 2023, the Company maintained an appropriate level of liquidity and demonstrated adequate financial stability</p>	<p>To overcome these risks, along with debt management activities and efforts to prevent liquidity shortages, the Company is focused on improving operational efficiency, clear prioritisation of capital expenditures, commitment to financial discipline, rationalisation of the Company's asset and project portfolios, and transition to portfolio-based project management.</p> <p>The Company takes the following measures to prevent risks:</p> <ul style="list-style-type: none"> <li>■ controlling leverage, preventing its growth to maintain financial stability, using free cash flow to repay debt;</li> <li>■ achieving an optimal balance between debt and internal sources of financing;</li> <li>■ cost cuts, budget control;</li> <li>■ repaying existing loans and providing financial aid to subsidiaries and affiliates;</li> <li>■ preventing deterioration of the Company's solvency position in order to maintain access to debt capital markets and avoid increases in borrowing costs;</li> <li>■ deleveraging through early debt repayment</li> </ul>

Trend (over the year)	Risk description and likely impacts	Mitigation and management
↔	<p><b>Compliance risks</b></p> <p>Intentional corruption for personal or material gain, including for the benefit of third parties. The Company has zero tolerance towards any fraudulent actions regardless of the amount of monetary damage.</p> <p><b>Impact</b></p> <p>Financial losses and reputation damage</p>	<p>The Company consistently implements and reinforces internal controls, embedding group-wide policies to prevent unlawful or wrongful acts of third parties or its employees, and maintaining the procedure for conducting internal investigations of unlawful or wrongful acts of its employees. The Company has adopted policies and standards in line with best global practices, while also committing itself to:</p> <ul style="list-style-type: none"> <li>■ improving and consolidating its internal and compliance controls (in the reporting period, additions were made to):                             <ul style="list-style-type: none"> <li>– the Anti-Corruption Policy as regards the liability of the Chairman of the Management Board and their deputies for a failure to perform their job duties with respect to the prevention of corruption-related offences by their direct subordinates or for improper performance thereof;</li> <li>– the Confidential Informing Policy of KMG as regards the responsibility to submit investigation materials on received reports indicating criminal or administrative offences to authorised law enforcement bodies;</li> <li>– the Rules for Planning, Organising and Conducting Procurement of Goods, Works and Services at KMG as regards the feasibility of grounds for the application of single-source procurement;</li> </ul> </li> <li>■ anti-corruption monitoring;</li> <li>■ analysing corruption risks;</li> <li>■ promoting an anti-corruption culture, taking preventive steps and informing employees on potential violations and enforcement;</li> <li>■ establishing an organisational and legal framework to foster accountability and transparency of decision-making procedures;</li> <li>■ conducting compliance audits (in the reporting period, long-term contracts, single-source procurement deals, and arrangements for the privatisation of economically material assets were reviewed for compliance with anti-corruption requirements);</li> <li>■ implementing and complying with business ethics standards;</li> <li>■ holding anti-corruption workshops and trainings;</li> <li>■ analysing drafts of internal documents to identify corruption factors;</li> <li>■ preventing conflicts of interest;</li> <li>■ conducting counterparty due diligence reviews;</li> <li>■ compiling an insider list and serving limitations, obligations and responsibility notifications on respective insiders;</li> <li>■ handling whistleblowing reports via the Hotline and submitting respective findings to the Board of Directors.</li> </ul>

Trend (over the year)	Risk description and likely impacts	Mitigation and management
↑	<p><b>Strong volatility of oil prices</b></p> <p>The Company is exposed to the risk of energy price volatility.</p> <p><b>Impact</b></p> <p>Oil price volatility may lead to significant changes in the Company's performance, revenues, and cash flow. The decrease in the average oil price in 2023 compared to 2022 had a negative impact on the Company's revenue and cash flow, leading to their reduction.</p> <p>For more details, see the <a href="#">Macroeconomics and Global Trends</a> sections</p>	<p>In the event of high oil price volatility and a drop in demand due to adverse developments in the global markets, the Company will take steps to ensure financial stability, including but not limited to:</p> <ul style="list-style-type: none"> <li>■ introducing and taking anti-crisis measures in a timely manner;</li> <li>■ adjusting the Company's Development Plan, cutting costs;</li> <li>■ prioritising and optimising CAPEX and investment projects.</li> </ul> <p>KMG continuously monitors and analyses price and demand movements for crude oil and oil products</p>
↔	<p><b>Country risks and the risk of sanctions</b></p> <p>The Company operates overseas. Any significant adverse economic and political developments in a recipient country could affect the Company's operations. Sanctions against certain countries, including sectoral sanctions, may affect the Company's operations and its prospective joint projects.</p> <p><b>Impact</b></p> <p>Tightening of sanction laws may affect the Company's operating, financial and investment activities, including through secondary sanctions imposed on the Company</p>	<p>To manage and prevent relevant risks, KMG:</p> <ul style="list-style-type: none"> <li>■ conducts ongoing monitoring and analysis of sanction risks and shares regular updates on the impact of sanctions on KMG with the Fund and relevant Company departments;</li> <li>■ evaluates the feasibility of implementing promising projects and explores options for engaging alternative contractors;</li> <li>■ incorporates mechanisms to prevent or mitigate the negative impact of sanctions on KMG into agreements and contracts</li> </ul>
↔	<p><b>Investment (project) risks</b></p> <p>The Company is implementing a number of projects in hydrocarbon exploration, production, transportation and processing, which could be exposed to significant risks associated with external and internal factors. The materialisation of such risks can significantly affect the success of these projects.</p> <p><b>Impact</b></p> <p>When running investment projects, the Company faces the risks of rising costs, delays in the commissioning of production facilities, and failure to achieve design parameters</p>	<p>The Company regularly monitors progress against projects in the regions where it operates, making timely adjustments to project implementation plans as necessary. Where risk can arise affecting the timing, budget or quality of projects, mitigation measures may include negotiations with stakeholders, reduction of operating costs, optimisation of the investment programme, abandonment of unprofitable investment projects.</p> <p>We rely on a project management and investment decision-making system similar to standards adopted by global companies (Stage Gate Process)</p>



Trend (over the year)	Risk description and likely impacts	Mitigation and management
<p>←</p>	<p><b>Risk of changes in applicable laws, and litigation and arbitration risks</b></p> <p>The Company's performance can be impacted by changes in applicable laws, including subsoil use, tax, currency, customs regulations, etc., as well as the risk of negative court decisions on court or arbitration disputes involving the Company.</p> <p><b>Impact</b></p> <p>In 2023, 12 lawsuits worth over USD1 mln were initiated. Until the proceedings are completed, it is impossible to fully assess the impact of these events on the Company's operations</p>	<p>The Company continuously monitors changes in laws, while also evaluating and forecasting the extent to which they can potentially impact the operations of KMG entities.</p> <p>The Company regularly takes part in working groups to develop and discuss draft laws in various areas of legislation.</p> <p>The Company continuously monitors judicial and law enforcement practices, and actively applies best practices in resolving legal issues and disputes arising in the course of the Company's operations.</p> <p>In 2023, there were developments in the Stati case.</p> <p>On 22 September 2023, the Supreme Court dismissed the Stati Parties' appeal, confirming that the shares were immune from execution under customary international law.</p> <p>The Supreme Court ruled "that the Stati Parties' appeal was based on an incorrect interpretation of the decision of the Court of Appeal. Their appeal proceeded from the assumption that the Court of Appeal considered Samruk's statutory purpose decisive and ignored Samruk's actual activities.</p> <p>However, the Supreme Court noted that the Court of Appeal reached the correct conclusion the Stati Parties failed to prove that the shares have no public purpose"</p>

# STAKEHOLDER ENGAGEMENT

## Key stakeholder groups

