

SUPPLIER RELATIONS



Efficient procurement system

Ensuring efficient procurement while striving to comply with sustainability principles is an integral part of KMG's activities, which contributes to the achievement of strategic and operational goals.

The key principles of KMG Group's procurement activities include compliance with laws and internal requirements, transparency of procurement procedures, promotion of fair competition, and provision of equal opportunities for counterparties. At the same time, KMG implements a number of initiatives in procurement to support domestic manufacturers as

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

Procurement management at KMG companies is governed by two documents:

- Law of the Republic of Kazakhstan No. 47-VII ZRK On Procurement by Certain Quasi-Public Sector Entities dated 8 June 2021 (the "Law"), which became effective on 1 January 2022. The Law sets out the key principles and conditions of procuring goods, works and services required for the business and statutory operations of companies from the quasi-public sector, including those owned by Samruk-Kazyna;

- Procedure for Carrying out Procurements by Joint-Stock Company Sovereign Wealth Fund Samruk-Kazyna and Companies Where JSC Samruk-Kazyna Directly or Indirectly Holds Fifty or More Percent of Voting Stock (Equity Stake) on the Right of Ownership or Trust Management (the "Procedure"), approved by Resolution of the Fund's Board of Directors No. 193 dated 3 March 2022. The Procedure was developed in furtherance of the Law's Article 14 and sets out key procurement principles and approaches, the general procurement management procedure, procurement management competence of the

Fund and the Fund's operator for procurement, main requirements for procurement processes, the definition of applicable procurement methods, and grounds for the application of single-source procurement, while also specifying the procurement processes related to procurement category management, procurement planning, supplier selection and management, and management of supply contracts.

To maintain and enhance transparency and efficiency in line with the most advanced international procurement standards and technologies, KMG Group uses the E-Procurement IT System portal (the

"E-Procurement IT System") providing unhindered access (with certain exceptions, primarily related to state secrets) to procurement information to all stakeholders and ensuring equal opportunities for all participants in the procurement process.

The E-Procurement IT System enables automation and standardisation of all procedures within the procurement cycle (from planning to contract management) to cut the time needed to perform relevant tasks and reduce human factor. E-procurement facilitates market access and thus contributes to improved efficiency, increased competition and reduced administrative burden and operating expenses.

In addition to the public dissemination of information on procurement procedures and procurement contracts, including details of invitations to bid and the terms and conditions of contracts, the E-Procurement IT System envisages the advance establishment of requirements for participation in a competitive procurement, including selection criteria, bidding rules and publication thereof, while ensuring an efficient internal control system, including challenging the results of procurement in case of non-compliance with the rules or procedures established by regulations.

1 — Among other things, the specifications include applicable terms and requirements for the the applicable documents and procedures.

Total procurement volume

The total procurement volume in 2022 amounted to KZT 1,085,234 mln, net of VAT.

Reducing supplies from a single source and increasing the share of competitive procurement play an important role in KMG's procurement activities. Competitive procurement includes open tenders, requests for quotations, and competitive negotiations. In 2022, competitive procurement under contracts signed within KMG Group's annual procurement plan amounted to KZT 512 bln. Over the past three years

KZT 1,085 bln
total procurement volume in 2022, net of VAT

the share of competitive procurement has reached 49%, which demonstrates KMG's commitment to fair competition and sustainable development goals.

Despite our commitment to developing a competitive market, the share of non-competitive procurement carried out within the framework of intra-group cooperation and/or procurement from a single source apparently prevails.

Competitive procurement, KZT bln, net of VAT¹

Year	Goods		Works and services		Total	
	Total amount	Share, %	Total amount	Share, %	Total amount	Share, %
2018	137	7	375	19	511	26
2019	169	12	326	23	495	36
2020	168	15	252	23	420	38
2021	162	15	285	27	447	42
2022	237	23	275	26	512	49

The total volume of goods, works and services supplied, including long-term procurement contracts, and the share of local content for the year

Year	Goods		Works and services		Total	
	Total amount, KZT bln	Share of local content, %	Total amount, KZT bln	Share of local content, %	Total amount, KZT bln	Share of local content, %
2020	472	71	1,354	86	1,826	82
2021	273	57	943	85	1,216	78
2022	410	58	1,290	90	1,700	82

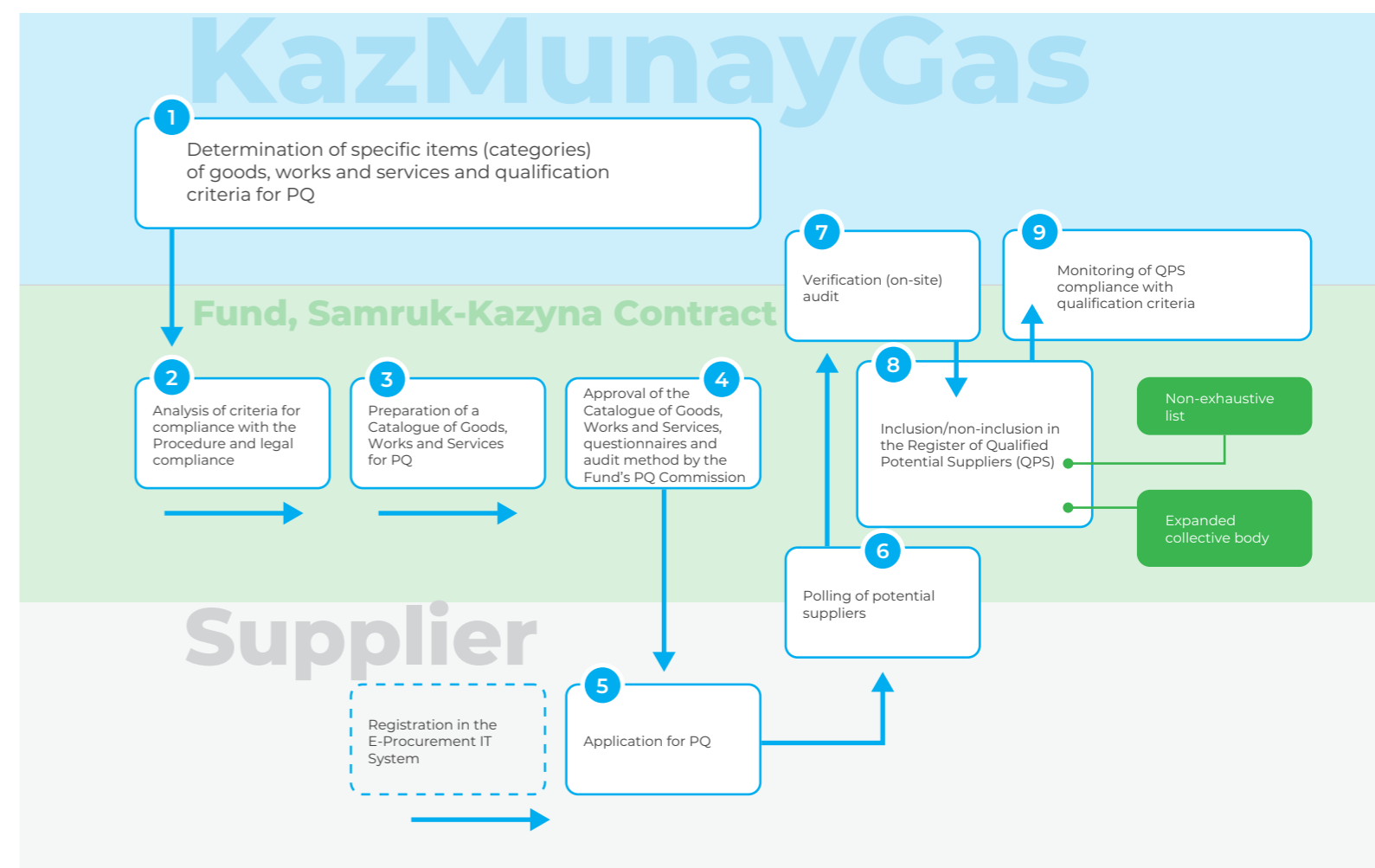
¹ — Competitive procurement includes open tenders, requests for quotations, and competitive negotiations

Pre-qualification of potential suppliers

Continuous improvement in procurement with a focus on the requirements and standards applied in Kazakhstani and international practices is one of KMG's priorities. Pre-qualification of potential suppliers is an effective tool for addressing this need.

Pre-qualification (PQ) is the questionnaire- and audit-based process of evaluating potential suppliers for compliance with the qualification requirements defined in accordance with the Procurement Procedure.

The key objectives of PQ are to identify qualified suppliers selected on the basis of formal criteria, and to improve procurement efficiency with respect to the goods, works and services sourced for the needs of the Fund's portfolio companies.



² — After completion of the PQ procedure and subject to the approval of the qualification body's commission potential suppliers are included in the Register of Qualified Potential Suppliers publicly available at Samruk-Kazyna's procurement portal. So far, the Fund's PQ Commission has approved 24 categories of goods, works and services that can be procured by KMG's subsidiaries and associates through open tenders held among bidders pre-qualified in line with the PQ procedure.

Category-based procurement

Procurement category management is the process of developing a comprehensive approach to reducing costs associated with procurement and the use of goods, works and services included in priority categories.

Categorisation implies combining goods, works and services into procurement categories on the basis of common characteristics of procurement items and/or a single market of potential suppliers. Categories may include one or more items of goods, works and services. Categories characterised by a high cost, criticality, savings potential and manageability are identified as priorities.

Category-based management helps increase the potential for savings through a more detailed analysis by developing and approving a category-based procurement strategy. This strategy determines an optimal approach to purchasing goods, works and services based on maximisation

Category-based procurement volume and benefits by year, 2018–2022, KZT mln

Indicator	2018	2019	2020	2021	2022
Category-based procurement volume	13,948.38	41,531.68	49,716.04	109,447.54	93,618.92
Category-based procurement benefits	1,565.01	4,101.81	7,011.23	13,109.53	8,435.32

of benefits in the long or short term. Category-based procurement should contain goals and objectives, internal and external environment analysis, approaches to procurement category management, requirements for supplier development, calculation of benefits, and an implementation plan.

Category-based management results in significant reduction of the cost of purchase and use of goods, works and services through strategic planning, a detailed analysis of goods and services to be purchased, and calculations of the total cost of ownership, as well as cross-functional interaction with various business units. This method of procurement is effective

in that it provides both quality and a transparent price by engaging reliable manufacturers and suppliers.

- Procurement category management includes:
- categorisation of goods, works and services to be purchased and identification of priority procurement categories;
 - development (update) and approval of category-based procurement strategies for priority categories;
 - implementation of category-based procurement strategies;
 - monitoring of the implementation of category-based procurement strategies;
 - supplier development.



Import substitution

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

private entrepreneurs who launch new production facilities and undertake technological upgrades to manufacture products sought by Samruk-Kazyna Group.

Off-take agreements provide for the implementation of import substitution projects with a condition precedent stipulating

the purchase and delivery of goods to be manufactured as a result of the project.

In 2022, KMG's subsidiaries entered into 55 off-take agreements with domestic manufacturers for a total of KZT 791 mln.

Commitment to sustainable procurement

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

At the same time, KMG, in turn, imposes on its counterparties counter obligations to comply with

applicable laws, treat employees fairly, prohibit child labour, ensure safe working conditions, protect the environment, and adhere to other principles of ethical conduct.

These conditions are included in contracts signed by KMG with its counterparties to guarantee respect of labour rights and create favourable working conditions for citizens of the Republic of Kazakhstan, protect children's rights and ensure environmental

safety. KMG believes that these measures will help reduce the number of cases of illegal activities at companies cooperating with KMG.

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

Imported goods in procurement

Year	Total amount, KZT bln	Share of goods supplied without a CT-KZ certificate confirming Kazakhstani origin ¹ , %
2018	173	21
2019	104	22
2020	94	20
2021	73	27
2022	90	23

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