



ECONOMICAL IMPACT

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SUPPLY CHAIN GRI 102-9 (2-6)

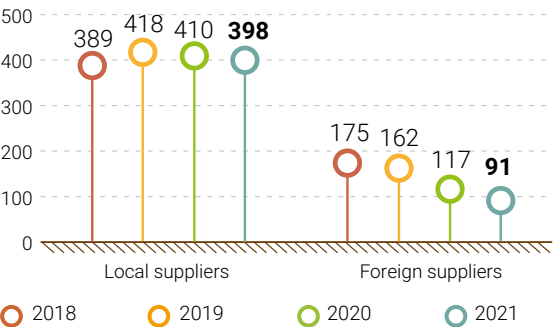
Development of the Karachaganak Field implies for Qazaqstan more than just generating income and taxes from oil and gas production. This is also an establishment of long-term and strong partnerships, which may impact and promote economic development.

Working with local suppliers and contractors constitutes an essential part of the economic development of the region and Qazaqstan as a whole.

KPO is committed to conducting its business ethically and in compliance with the established Code of Conduct policy, all applicable laws and regulations. Therefore, KPO enters into contractual relationships with suppliers and contractors, who maintain high standards and demonstrate commitment to personal and process safety when providing services to the Company, as well as maintaining the set standards of ethics, compliance and sustainable development. These fundamental principles are incorporated in and are evaluated at every stage of the contract and procurement process until the closure of the contract.

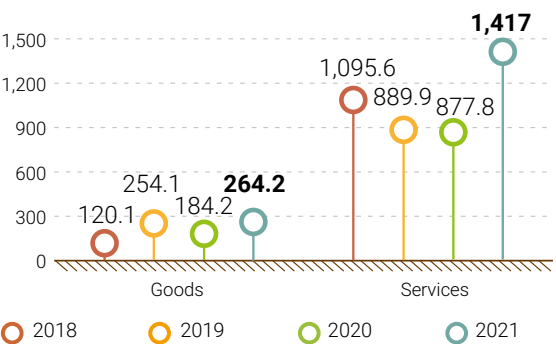
In 2021, KPO awarded contracts and contract amendments to some 500 contractors and suppliers, nearly 80% of which were local entities.

Graph 25. KPO contractors and suppliers, 2018 – 2021



In 2021, KPO signed approximately 600 contracts and contract amendments for delivery of goods worth approximately US\$ 0.3 bln and approximately 800 contracts and contract amendments for services worth approximately US\$ 1.4 bln.

Graph 26. Value of contracts and contract amendments (mln US\$), 2018–2021



Why is it important to us?

KPO procurement process is challenged with economic risks, such as limited market competition, inflation and exchange rate fluctuation. In order to maximize mitigation of these risks, KPO aims to develop technical specifications and tender requirements in a transparent and objective way to ensure market competition, application of various compensation mechanisms covering potential economic fluctuations in contract terms and conditions, and other measures described further.

GRI 102-15, 103-1 (3-3)



Participants of the Online Forum on Local Content for Karachaganak Field Expansion Project - Phase 1A

We perform our contracts and procurement activities in compliance with the legislation and the Karachaganak Joint Operating Committee's Tender Procedures, which regulate procurement of goods, works and services for the Karachaganak Project.

The latest Tender Procedures provide for enhanced electronic documents exchange and processing including tender receipt and evaluation, which in turn addressed the COVID-19 limitations. The Tender Procedures also focuses on the development of local content including goods manufacturing in the Republic of Qazaqstan by means of early tenders, trial orders, contracts in exchange of investments, conditional bid reduction, and Qazaq-only tenders.

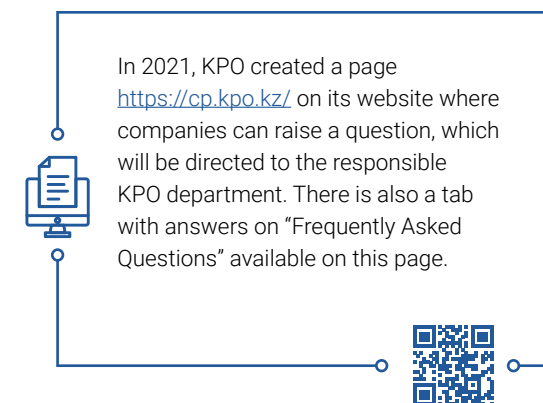
To help local potential contractors and suppliers better compete and to minimize disqualification risks for such companies, KPO has been focusing on structured pre-tender engagement sessions. In these sessions, clear explanations of KPO tender requirements are provided to the bidders, as well as lessons learned. **GRI 103-2 (3-3)**

KPO is an active participant in the events conducted by Atameken, KazService and other oil-and-gas organisations or associations. Using multiple opportunities, KPO actively presents its requirements to the local market participants and encourages their development and growth including cooperation with internationally recognised and experienced suppliers of goods, works and services.

Delivering Local Content targets is an important commitment of KPO to the Republic of Qazaqstan and is well recognized by KPO. **GRI 102-44**

As a transparent operator, KPO annually publishes its procurement plans on its website at <https://www.kpo.kz/en/suppliers/contract-plan>.

Potential suppliers interested in participating in KPO tenders are encouraged to register and keep their "vendor's profile" up-to-date in [KPO Vendor database](#) (please see details at www.kpo.kz) or directly in Kazakhstan Unified Vendor ALASH Database. It is very important for potential contractors and suppliers to provide accurate and relevant information on their competencies and experience to be considered by KPO in its sourcing strategies.



LOCAL CONTENT DEVELOPMENT

GRI 203-2, 102-44

Since the beginning of the Karachaganak field development, KPO has been actively working to increase the share of local content in the Karachaganak project by involving Qazaq manufactures and service providers, which implies a decrease in imports and an increase in the volume of local goods, services and works in the total volume of goods, works and services procured under the Karachaganak project.

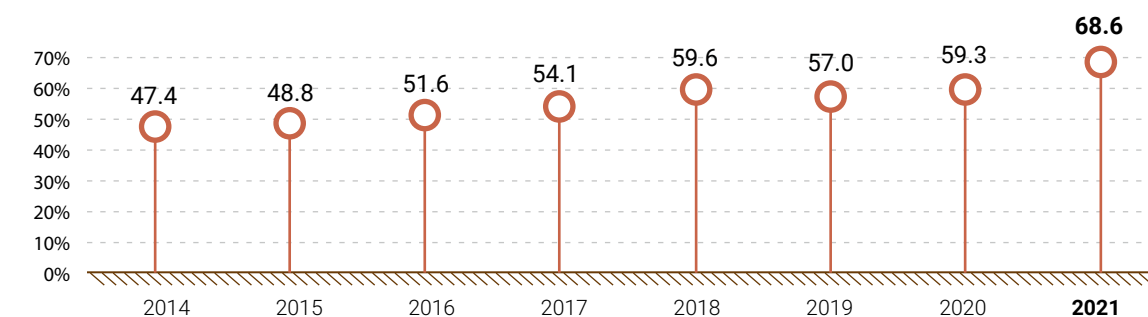
Since 2001, KPO has been developing and implementing a two-year Local Content Development Programme for the Karachaganak project. The objectives of the Programme for the period 2020 – 2021 are consistent with state initiatives for the development of mechanical engineering, industrialization and

digitization of the Republic of Qazaqstan and KPO Local Content Development policy. The Programme identifies the target areas for local content development, and also the key indicators for monitoring and assessing performance. **GRI 103-2 (3-3)**

KPO local content development initiatives have led to achieve the following results: **GRI 204-1**

- ▶ In 2021, the Local Content share in Karachaganak project reached 68.6% (US\$ 564.3 mln);
- ▶ 17.7% of total goods procured by KPO are locally produced (US\$ 26.7 mln) with 8.6% Local Content share as specified in the SR-KZ Certificate¹⁰.

Graph 27. Local Content Share in total KPO purchases of goods, works and services, 2014–2021
GRI 204-1



¹⁰ A certificate confirming that the product was produced or processed on the territory of Qazaqstan. This certificate is intended for circulation on the territory of Qazaqstan, for example, when participating in the procurement of subsurface users or in public procurement.

Why is it important to us?

The Company fully supports initiatives of the Government of the Republic of Qazaqstan aimed at the development of the local providers and recognizes the importance of attracting more local manufactures for the Karachaganak project implementation. With this end in view KPO implements various initiatives to develop Local Content; mechanisms in the procurement process were introduced to facilitate the participation of local companies in KPO activities. Nevertheless, there are risks associated with the quality of locally produced goods, as well as with an increase in the cost of production both for the Company itself and for the Authority on behalf of the Republic of Qazaqstan and local manufacturers due to the limited raw material market, the taxation system and certification as per international standards. **GRI 102-15, 103-1 (3-3)**

Since signing the FPSA in 1997 by the end of 2021, the cumulative Local Content share in goods, works and services had exceeded US\$ 8.85 bln. **GRI 204-1**

KPO gives the highest priority to Local Content share increase for goods locally made in Qazaqstan. The stable growth of overall indicators is achieved thanks to a number of goods' localization activities implemented since 2014.

In 2021, 50 contracts were awarded for a total value of US\$ 59.7 mln to produce goods in Qazaqstan for the Karachaganak project, such as separators, transformers, substations, (electrical & instrumentation), heat exchangers, lighting equipment, remote telemetry units, office furniture, gaskets, chemicals, fastening materials, heating systems, office container, heating / air conditioning system, flanges F22, personal gas detectors, 10" trunk lines, hand tools, LV power cables, spare parts of the electric equipment, valves, Filter Self-Rescuers, safety helmets and boots.

'Qazaqstani tendering' contributes to the growth of competitiveness of local manufacturers and suppliers. In 2021, KPO initiated 13 so-called 'Qazaqstani tenders' to be held exclusively among local companies for a total value of US\$ 50.4 mln. As a result, KPO awarded one contract to the local company worth US\$ 1.6 mln. The tender processes for the remaining contracts continue.

KPO intentionally contributes to the sustainable development of manufacturers within its footprint in the West Qazaqstan Oblast (WQO). KPO regularly invites WQO enterprises, including enterprises of the machine building sector, to participate in market research and tenders for the supply of goods, works and services, as well as to various events held by the Company in order to develop and increase the competitiveness of local businesses.

Following the awarded contracts results, in 2021 KPO paid US\$ 269.2 mln to the WQO enterprises for deliveries of goods, works and services, and Local Content share reached US\$ 201.3 mln or 74.8%.

"'Qazaqstani tendering' contributes to the growth of competitiveness of local manufacturers and suppliers."

DEVELOPMENT OF LOCAL SUPPLIERS' POTENTIAL **GRI 102-44**

The ability to attract competitive local suppliers is one of the critical factors for successful implementation of the localization initiatives.

Under the KPO Local Content Development Programme, which began in 2020, it was planned to have West Qazaqstan Machinery Building Company JSC and JSC Ust-Kamenogorsk Industrial Valves Plant certified as per ASME and API in 2021. At the same time, the set objectives were not achieved, as the contractor, engaged by KPO to provide consulting services in preparing the enterprise for certification, did not fulfil its obligations under the scope of the contract. The Certificate Programme for 2022 has been suspended due to lack of the budget.

As a result of cooperation between KPO and Euroconsultants S.A., which is defined by the World Bank and the RoQ government as a major consultant for local company development, 17 Qazaqstani companies have been certified to ISO 14001, 18001, 9001, 45001.

ENGAGEMENT ON LOCAL CONTENT ISSUES **GRI 102-44**

In order to attract investment for development of local production, KPO continues working with the International Trade Associations. This engagement is aimed at establishing partnerships with international companies to create joint ventures and facilitate the transfer of technology to Qazaq companies.

In June 2021, KPO participated in ITALY-KAZAKHSTAN BUSINESS FORUM, which discussed the issues of attracting international companies to the renewable and green energy area, the development of agribusiness and machine building, as well as the investment attractiveness of Qazaqstan.

On 5th August 2021, KPO organized an online forum on local content development which was held with the support and participation of the Ministry of Energy of the Republic of Qazaqstan, WQO Akimat and the Authority – PSA LLC. The purpose of the forum was to familiarize Qazaqstani companies with the Karachaganak Expansion Project Stage-1A (5ICP), with the project strategy and requirements for local content, as well as to brief engineering, procurement and construction (EPC) contractors with EPC scope of work, potential opportunities in GWS and EPC contractor requirements for local companies.

On 23rd August 2021, KPO separately held an introductory online workshop regarding Karachaganak Expansion Project Stage-1A (5 Gas Injection Compressor GIC) for representatives of WQO industrial enterprises to familiarize participants with opportunities of involvement to the project and to conduct face to face meetings among EPC contractor and WQO companies. As the outcome of the workshop, a visit to WQO enterprises by EPC contractor was organized in order to get acquainted with their production potential.

From 22 to 24 September 2021, KPO took part in the IX Forum of Machine Builders of Qazaqstan and I International Specialized Exhibition on Mechanical Engineering and Metalworking "2021 Qazaqstan Machinery Fair". The purpose of the forum was to organize a dialogue of machine-building enterprises with the state bodies of the Republic of Qazaqstan and large subsoil users.

"On 5th August 2021, KPO organized an online forum on local content development which was held with the support and participation of the Ministry of Energy of the Republic of Qazaqstan."

LONG-TERM INITIATIVES **GRI 102-13 (2-28)**

Under the Agreement signed in November 2020 between the Ministry of Industry and Infrastructure Development of the RoQ, the Ministry of Energy of the RoQ, the PSA LLC, the Association of Qazaqstan Machinery Industry and three major Operators: KPO, Tengizchevroil LLP and North Caspian Operating Company, International Centre for Development of Oil and Gas Machine Building (IMBC) was established and began its work in 2021. The International Centre conducts its activities on behalf of the three operators, closely interacting with relevant ministries, the Authority and petroleum associations involved in the development of the national oil and gas machinery building.

The main objective of this Centre is to increase local content in procurement by analysing the demand from the three Operators (TCO, NCOC and KPO) and studying the local market of existing manufacturers that could supply these goods that meet the requirements of the Operators. Also, the function of the Centre is to assist in expanding the production capacity of local manufacturers and developing their potential, where necessary. In addition, close cooperation with foreign companies is expected in the localization of their production in the Republic of Qazaqstan, as well as in attracting investments by facilitating the creation of joint ventures and the transfer of technologies and know-how.

During 2021, IMBC members (TCO, NCOC and KPO) approved the annual work program and budget, policies and procedures. They also provided information on categories of goods that are in demand on a long-term basis and production of which is subject to localization.

In the framework of the Memorandum of Understanding on localization, signed earlier in 2020, KPO continued activities on development of Road maps with the Original Equipment manufacturers. The categories of goods and spare parts for potential localization, timing of implementation and the estimated production scope in RoQ were defined. By the end of 2021, five Road maps were signed with such companies as Baker Hughes, Honeywell, nVent and Stuart Buchanan and John Crane, and two contracts for localization were awarded.

SUPPORTING SOCIAL INFRASTRUCTURE GRI 102-44, 203-1

KPO implements social and infrastructure projects in the West Qazaqstan Oblast (WQO) on the annual basis under the terms of Annex 5 to the Final Production Sharing Agreement.

The list of social projects to be implemented is annually approved between KPO and the WQO Akimat based on the priorities of the Oblast’s social development. The list is compiled by the WQO Akimat in accordance with state priorities and programmes and considering the needs of developing West Qazaqstan Oblast infrastructure, education and healthcare systems, sports and infrastructure in the region. Further on, the list is established by the Joint Operating Committee. From here KPO manages projects, including design and procurement processes, until the facilities are fully ready and then handed over to the balance sheet of the Republic of Qazaqstan. In case of failure to complete implementation of the projects by the end of the year as scheduled, the unspent funds are carried over the next calendar year. All social projects are to be implemented by local companies. **GRI 103-1 (3-3)**

Within 2021, KPO has been implementing 15 social and infrastructure projects in the West Qazaqstan Oblast, including the projects approved in 2021 and those carried forward from previous periods. One of the major long-term projects is the construction of the International Airport in Uralsk, which has been completed in March 2022. Out of 15 social and infrastructure projects seven were completed, worth KZT 13.4 bln (equivalent to US\$ 32.05 mln). Besides, implementation of the Aksai Hospital Emergency Capability Upgrade Project has continued throughout 2021 and at the moment of this Report’s publication. Its actual costs would be finalised upon full delivery of medical equipment.

The list of completed projects in 2021 is shown in table 47.

Tab. 47. Social infrastructure projects in Uralsk and adjacent villages completed by KPO in 2021
GRI 203-1

Area	Project name	Actual costs (mln KZT) *
Civil construction	Construction of Sports and Health Centre for 160 spectators in Podstepnoye village, Terektinskiy district, WQO	413.33
	Construction of multifunctional palace of culture for 1,500 seats in Uralsk	9,967.85
	Construction of Sports and Health Centre for 160 spectators in Zhanibek village, Zhanibek district, WQO	501.78
	Construction of a 9-storey residential house No. 6 on monolithic-frame scheme in the North-Eastern part of Uralsk, WQO (without external engineering networks and landscaping)	901.0
	Construction of the youth athletic center building located at the address: Zachagansk village in Uralsk, WQO	604.51
	Construction of Sports and Health Centre for 160 spectators in Zhalspaktal village, Kaztalovskiy district, WQO	355.31
	Construction of Sports and Health Centre for 170 spectators in Chingirlau village, Chingirlauskiy district, WQO	608.45
	TOTAL	13,352.23

*Amounts are VAT including.

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One of the major long-term projects is the construction of the International Airport in Uralsk completed in March 2022.
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Opening of Sports and Health Centres in the Zhanibek and Chingirlau villages in the WQO, December 2021



Opening of the Sports and Health Centre in Podstepnoye village of the Terekti District, West Qazaqstan Oblast, July 2021



The new airport in Uralsk commissioned in March 2022