**LOCAL CONTENT DEVELOPMENT**

Since the beginning of the development of the Karachaganak field, KPO company has been actively working on increasing the share of local content in the Karachaganak project by involving Kazakhstani commodity producers and service providers. This implies a decrease in imports and an increase in the volume of goods, services and works of domestic production in the total volume of goods, works and services purchased for the Karachaganak project.KPO has been continuously developing and implementing the Local Content Development Programme for the Karachaganak Project since 2001. The objectives of the Programme for the period 2022-2023 are consistent with the state initiatives for the development of mechanical engineering, industrialization and digitalization of the Republic of Kazakhstan and with the KPO corporate policy in the field of local content. This Program defines the goals and objectives for the development of local content, as well as key indicative data for monitoring and evaluating the effectiveness of activities. GRI 3-3

In 2023, KPO Local Content Development Initiatives allowed to achieve the following results: GRI 204-1

* The share of local content in the procurement of goods, works and services in the Karachaganak project in 2023 amounted to 63.24% (equivalent to US$ 756.1 million);
* Kazakhstani produced goods were purchased in the amount of 49 million US dollars, which is 24.4% of the total volume of purchases (of which the share of local content is 10.8% under the ST-KZ certificate[[1]](#footnote-2)).

**Chart 28. Share of local content in KPO total procurement, 2014 - 2023 GRI 204-1** [Chart Number Format 00.0]

Since the signing of the FPSA in 1997. at the end of 2023, the total share of local content in the procurement of goods, works and services in Karachaganak exceeded US$ 10.12 billion.GRI 204-1

The Company pays special attention to increasing the share of local content in terms of purchases of Kazakhstani produced goods.

In 2023 22 contracts were signed for a total amount of over US$ 77 million for the production of the following types of goods in the Republic of Kazakhstan: electrical equipment (junction boxes, transformers, remote telemetry units), valves, transformers, PPE, filter elements, instrumentation, pipe products, etc., for the needs of the Karachaganak project.

Holding "Kazakhstan tenders" contributes to the growth of competitiveness of local manufacturers and suppliers. In 2023, KPO initiated 7 "Kazakhstan tenders" exclusively among local companies for a total amount of US$ 60.5 million. As a result, KPO awarded one contract for a total amount of US$ 0.14 million. As for the rest of the tenders, work is still ongoing.

Results for the last 3 years:

|  |  |  |
| --- | --- | --- |
| **KZ Tender** | **Initiated** | **Awarded Contracts** |
| Quantity | Amount of requestin US$ | Quantity | The total amount of the contract in US$ |
| 2021 | 12 | **50,2** | 11 | **22,2** |
| 2022 | 10 | **383,8** | 6 | **62,7** |
| 2023 | 7 | **60,5** | 1 | **0,14** |

As part of the work to strengthen the sustainable development of commodity producers in the region of its presence - West Kazakhstan region (WKO), based on the results of 2023 KPO paid US$ 717.76 million to WKO enterprises for the supply of goods, works and services, in which the share of local content amounted to US$ 492.17 million or 68.6%.

In addition, the Company regularly invites enterprises of the West Kazakhstan region, 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 business. Below are the results for 2023:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Description**  | **Quantity of** **Contracts** | **Quantity of****Contractors** | **Costs in US$** | **LC in %** | **LC in US$** |
| Goods | 113 | 58 | 60,10 | 13.51% | 8,12 |
| Work  | 40 | 24 | 483,53 | 66.53% | 321,70 |
| Services | 199 | 104 | 174,12 | 93.23% | 162,34 |
| Total | 352 | 165 | 717,76 | 68.6% | 492,17 |

**Long-term initiatives**

On procurement issues with the participation of Kazakhstan commodity producers, KPO works in close cooperation with the Ministries of the Republic of Kazakhstan, industry colleagues, partners and business associations.

KPO actively cooperates with the International Oil and Gas Engineering Development Centre (IMBC), established to promote the development of oil and gas products manufacturing in Kazakhstan, connecting major oil and gas operators with the machine-building industry of the Republic of Kazakhstan.

The activities of the Center are carried out on behalf of three Operators - KPO, TCO and NCOC, in close cooperation with the Ministry of Industry and Construction, the Ministry of Energy, the Authorized Body PSA LLP, as well as with the Kazakhstan Electric Power Association (KEA) and the Union of Mechanical Engineers of Kazakhstan (UMEK).

As part of the implementation of the roadmap, KPO together with the Minister of Energy of the Republic of Kazakhstan held weekly meetings from May to September 2022 to discuss procurement issues:

- In 2022, 6 contracts were concluded, 4 trial orders (TO) were initiated;

- In 2023, 3 trial orders were awarded and 1 contract started in 2022 is under development, an additional pressure gauge localization frame is under development.

As part of the Relationship Agreement between the three major operators and the IMB Center, signed on April 8, 2021, the Annual Work Plan and Budget with Key Performance Indicators (KPIs), which are proposed by the IMB Center and approved by the Operators, are reviewed on an annual basis. Also, IMB Center twice a year submits for consideration a report on the implementation of the Annual Plan and Budget, in the format and templates of reports approved by the Operators.

In 2023, IMB Centre continued its capacity development activities with local manufacturers of Group A and B products, namely: valves, electrical and instrumentation, piping, pumps and seals, air conditioning systems (HVAC) and process filters. Thus, IMB Center is currently conducting a capacity development plan with 11 local companies: Goreltech Plant LLP, Byomer Armatura LLP, Sferova Kazakhstan LLP, KazEnergoCable JSC, Prolux LED LLP, Sigma Solutions LLP, KMG Automation LLP, Novus Sealing Caspian LLP, Kazelectromash LLP, Asiafilter Inc LLP, F.A.D. Kazakhstan LLP, and is also negotiating with 17 companies that want to localize in the territory of the Republic of Kazakhstan.

Also, in 2023, the Operators agreed on a list of product categories (product Group C), which includes: lifting mechanisms, heat exchangers, air coolers, fire-fighting equipment, insulation and chemicals.

In order to attract investments and develop production in the territory of the Republic of Kazakhstan, during 2023, KPO continued to work with original equipment manufacturers (OEMs) to implement the signed roadmaps, including due to attracting new manufacturers.

In order to expand localization capabilities, KPO has started to consider imported goods that do not belong to the "OEM" category; Localization of such goods was considered on the basis of constant demand and compliance of goods with KPO specifications.

Since the introduction of the initiative to localize the production of this type of equipment in 2029, KPO has signed 16 roadmaps for the localization of goods, awarded 6 contracts worth US$ 17.7 million with Original Equipment Manufacturers. KPO will continue to work on the implementation of roadmaps, within the framework of which investments in the amount of more than US$ 21 million are planned and the creation of more than 350 new jobs.

 **Interaction on Local Content Issues**

As part of the development and increase of LC in its production activities and in new projects, KPO regularly holds events in order to familiarize local and international suppliers, authorized state bodies (Ministry of Energy, PSA LLP, WKO Akimat), as well as associations (Union of Machine Builders of Kazakhstan, Council for the Development of Strategic Partnerships in the Oil and Gas Industry Petrocouncil.kz, Union of Oilfield Service Companies KAZSERVICE) on the development of LC, with current purchase volumes and plans for the coming period. The Company shares information about its needs for goods, works and services (GWS) both as part of its current operations and capital projects, as well as with technical terms and specifications.

1. [↑](#footnote-ref-2)