



**ҚазМұнайГаз**  
NATIONAL OIL & GAS COMPANY УЛТТЫҚ МҰНАЙ ГАЗ КОМПАНИЯСЫ

# KMG Strategic Development and HR Transformation

**Japan, 2016**





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NATIONAL COMPANY  ҰЛТТЫҚ КОМПАНИЯСЫ

## KMG Overview

# KMG Overview



## Upstream

- **Key Operating Assets**
  - KMG Exploration & Production
- **Key Non-operating Assets**
  - North Caspian Operating Company N.V.
  - Karachaganak Petroleum Operating B.V.
  - Tengizchevroil

## Midstream

- **Pipeline Oil Transportation**
  - KazTransOil
- **Maritime Oil Transportation**
  - KazMunayTeniz
- **Gas Transportation**
  - KazTransGas

## Downstream

- **KMG Refining & Marketing**
  - Atyrau Refinery
  - Pavlodar Refinery
  - Shymkent Refinery
  - Kaspibitum
- **KMG International N.V.**
  - Petromedia

## KMG Today

- **Shareholders:** - Sovereign Wealth Fund “Samruk-Kazyna” (90%), National Bank (10%)
- **Chairman of BD:** Frank Kuijlaars
- **CEO:** Mr. Sauat M. Mynbayev
- **Structure:** vertically integrated oil & gas company.
- **Group:** over 200 subsidiaries and legal entities.
- **Number of employees:** about 84 000.
- **Upstream assets:** 44 oil & gas fields.
- **Main international assets:** KazMunayGas International (Rompetrol Group)

### KMG: Facts and Figures

Over the last 10 year KMG has achieved significant operational results:

- Output production reached **22,5 million tons** or **470 thousand** barrels per day (+186%).  
**28%** Of all oil produced in Kazakhstan
- Oil reserves were increased to **811 million tons** or over **6 billion barrels** (+49%).
- Refining output reached **12,7 million tons** or 243 thousands barrels per day.  
**16%** Of all natural gas produced in Kazakhstan  
**65%** Pipeline oil transportation in Kazakhstan  
**100%** Controls gas transportation system in Kazakhstan

**KMG has achieved significant financial results.**

- Profits in 2014 reached around **200 billion tenge** or **\$1,1 billion**.

**KMG has strengthened its position on the global stage.**

- Based on the Petroleum Intelligence, KMG ranks **32<sup>nd</sup>** among the largest oil & gas companies.



## **KMG Strategy 2025**

## KMG Strategic Priorities

- **Strengthening KMG position in Kazakhstan's oil & gas sector**
- **Ensuring financial stability**
- **Business portfolio restructuring**

## Description

- KMG will focus on increasing reserves, consolidating assets in Exploration & Production sector, and effective management of joint ventures.
- KMG will optimize capital expenditures, increase operational efficiency and plan to prepare for IPO in 2018.
- In 2016 KMG plans transferring downstream assets to the private sector. Optimization and gradual withdrawal from oil services and other non-core business assets are planned to be completed by 2021.

# KMG Strategic Goals in the Upstream Sector

## Strategic goals

**Increase of oil and condensate production,**  
million tons

22,5

35,0

+56%

**Increase of the Proven Recoverable Reserves of Liquid Hydrocarbons (Oil and Gas Condensate),**  
million tons

818

>1 000

+22%

2014

2025

## Target values of indicators

Development areas for the achievement of the goals:

- Expansion in the participatory interest in the Tengiz, North-Caspian and Karachaganak Projects
- Maintaining high rate of the exploration
- Strengthening the role in the field exploration and development projects, gaining operator/co-operator's rights under the existing and new projects
- Enhanced oil recovery at the producing fields
- Development of hard-to-recover reserves (heavy oil and bitumens, coalbed methane)
- Building strategic partnerships with the world's leading oil and gas companies



## **Key Growth Projects**



# Key Growth Projects: Kashagan

## Kashagan Project

16,88%



16,81%



**INPEX**  
7,56%



**CNPC**  
8,33%

**Shell**  
16,81%



**ExxonMobil**  
www.exxonmobil.com

16,81%

16,81%

- Kashagan is one of the largest and most important oil discoveries in the last 45 years and ranks as one of the world's largest known oilfields.
- The geological reserves are estimated at 4,5 billion tons.
- Kashagan project is being carried out by the Consortium of 7 leading companies: KazMunayGas, Eni, ExxonMobil, Shell, Total, CNPC, Inpex.

## Current Status and Future Development of the Kashagan Project

- Today Consortium is focused on the replacement of 28-inch pipelines between D-island and Bolashak onshore treatment facilities.
- According to the schedule, production re-start is planned at the end of 2016.
- Production volume: initial production is 180 thousand barrel per ay, then ramping up to 370 thousand barrels per day with gas re-injection.
- Further phases of Kashagan development are at the conceptual studies stage.



# Key Growth Projects: Tengiz

## Tengiz Project



- Tengiz was discovered in 1979 and to this day remains one of the largest fields in the world.
- The geological reserves are estimated at 3,7 billion tons of oil and 1,9 trillion tons of gas.
- Tengiz project is being carried out by the consortium of 4 leading companies: KazMunayGas, Chevron, ExxonMobil, LukArco.



## Current Status and Future Development of the Tengiz Project

- In 2015 TCO produced 27,157 million tons of oil or 550 thousand barrels per day.
- Currently TCO is planning to implement the Wellhead Pressure Management Project / Future Growth Project (WPMP/FGP).
- The WPMP / FGP Projects plan to build a new system of collecting production wells, pressure boosting facilities, infrastructure and utility facilities. WPMP / FGP Projects will bring the annual oil production up to 39 million tons per year.

# Key Growth Projects: Karachaganak

## Karachaganak Project



- Karachaganak was discovered in 1979 and to this day remains one of the largest oil & gas fields in the world.
- The geological reserves are estimated at 1,7 billion tons of liquids and 1,6 trillion cubic meters of gas.
- Karachaganak project is being carried out by the consortium of 5 leading companies: KazMunayGas, BG Group, Eni, Chevron, Lukoil.

## Current Status and Future Development of the Karachaganak Project

- According to the Final Production Sharing Agreement (FPSA), BG and Agip are joint operators of the project.
- The stage of commercial development 2M is being implemented (liquid hydrocarbons production at the level of 11 million tons of oil per year and 17 bcm of gas per year).
- After completion of Stage 2M projects for the further extension of the liquid-rate plateau the Karachaganak Expansion Project is to be executed.

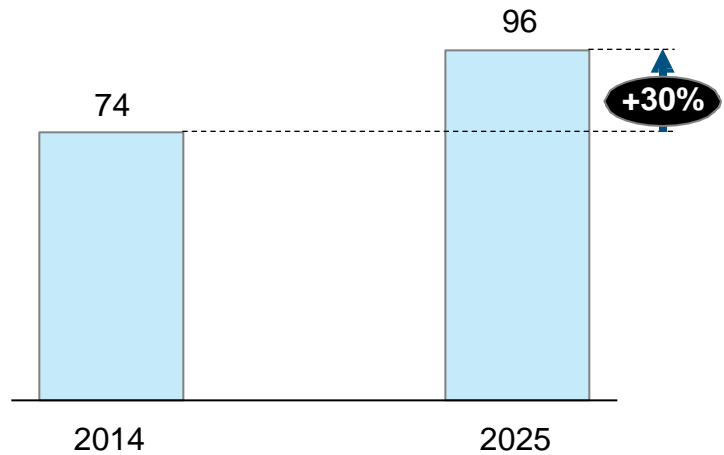


# KMG Strategic Goals in the Oil Transportation Sector

## Strategic goal

**Increase of the oil transportation**  
million tons

## Target values of indicators

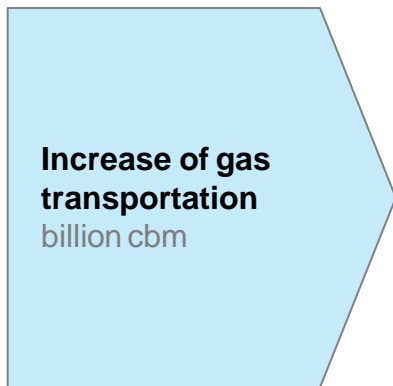


## Development areas for the achievement of the goals:

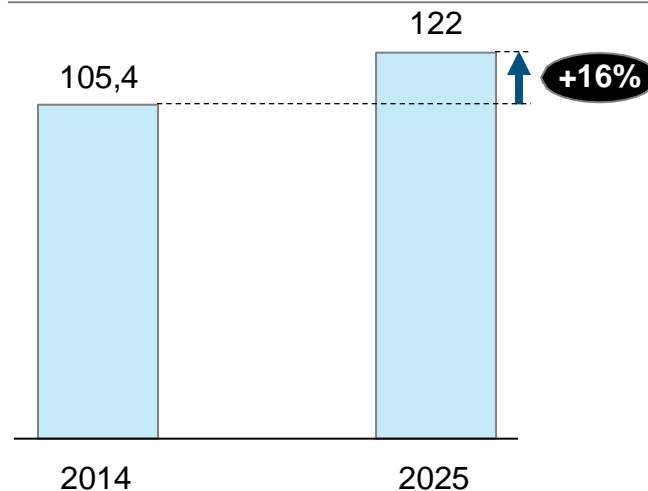
- Improvement of the oil pipelines management system (process automation system, SCADA, equipment remote control, implementation of energy efficiency improvement programs)
- Involvement of KMG's fleet (KMTF) as a sole operator in sea transportation on the Black Sea and Caspian Sea
- Increase in capacity, as well as the continued implementation of the Kazakhstan-China oil pipeline expansion project

# KMG Strategic Goals in the Gas Transportation Sector

## Strategic goal




## Target values of indicators




## Development areas for the achievement of the goals :

- Integration and increase in the capacity of the gas transportation systems
- Reliable gas supply to the internal market of Kazakhstan
- Increase in the production of gas at the Amangeldy group of fields, coal bed methane, and securing growth in associated gas processing to supply Kazakhstan consumers and develop export potential
- Gas flow assurance to the end consumers
- Participation in the program of regional gas distribution network development to provide gas to 1600 areas within Kazakhstan


# KMG in the global ranking of companies on production and oil reserves

 Ranking in case of attainment of the current strategic goals

By producing 35 million tons of oil (0,71 million b/d), KazMunayGas will rank number 28 among the largest oil producing companies in the world

Rating	Oil and condensate production over 2013. MMtpa <sup>1</sup>	
1	Saudi Aramco	465
2	NIOC	176
3	Rosneft	167
4	CNPC	159
5	KPC	155
6	PDV	149
7	INOC	147
8	Pemex	141
9	Exxon Mobil	109
10	Adnoc	107
22	Statoil	48
23	CNOOC	45
24	Sinopec	45
25	ConocoPhillips	43
26	Eni	41
27	Libya NOC	34
28	Ecopetrol	32
29	ONGC	31
30	Occidental	28
36	 KazMunayGas	23

Upon attainment of the strategic goal of 1 billion tons (7,38 billion barrels), KazMunayGas will climb to number 21 based on global oil reserves

Rating	Hydrocarbon reserves volume MMt <sup>1</sup>	
1	PDV	40 427
2	Saudi Aramco	35 257
3	NIOC	21 274
4	INOC	20 325
5	KPC	13 762
6	Adnoc	7 472
7	Libya NOC	4 467
8	CNPC	3 759
9	Rosneft	3 347
10	NNPC	2 365
15	Petrobras	1 496
16	Gazprom	1 464
17	QP	1 428
18	BP	1 364
19	Surgutneftegas	1 335
21	Royal Dutch Shell	897
22	Chevron	860
24	 KazMunayGas	811
25	ConocoPhillips	748
26	Total	733

<sup>1</sup> 7.38 barrelization ratio was used for the calculation



## **KMG Privatization Program**

## KMG Privatization Program

- On December 25, 2015 the Government of the Republic of Kazakhstan approved a large-scale **privatization program**.
- The aim of the program is **to support market reforms** in Kazakhstan, **increase efficiency of enterprises** by transferring government-controlled companies into the private sector. It is expected that by 2021 the government share in the economy will be decreased to 15%.

- **KMG is an active participant of the privatization program.** About 73 KMG subsidiaries will be privatized until 2020. Specifically, around 45 companies will be transferred to the private sector, another 28 companies will be consolidated or liquidated in order to optimize the group structure.



### KMG Privatization Program

Upstream

Midstream

Downstream

Oil Services

Non-core business

▪ 1 company

▪ 2 companies

▪ 16 companies

▪ 1 company

▪ 25 companies





## **KMG Transformation Program**

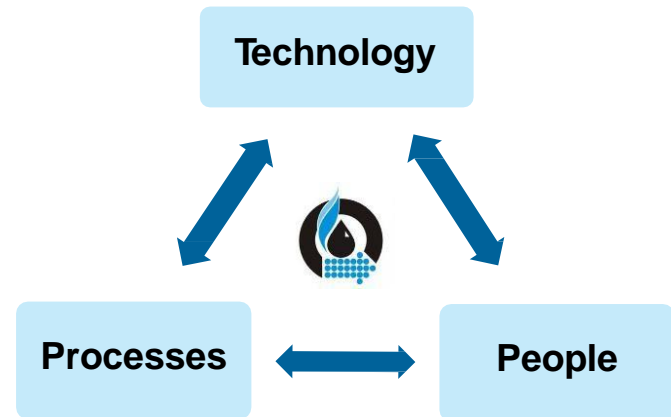
# KMG Transformation Program



## KMG Transformation Program



- At the end of 2014 the **KMG transformation program** was launched by the President of Kazakhstan.
- The **KMG Transformation Program** focuses on three directions:
  - **Technology**
  - **Processes**
  - **People**



# HR Transformation Program

HR Transformation Program covers the following areas:

1

- **Model of Competencies**

- Verbal and Non-verbal competencies.
- Education Plan.

2

- **KPIs**

- Tree of KPIs.
- System of Evaluation (strategy to action).

3

- **Recruitment Process**

- Announcement.
- Qualification of Standards.
- Qualitative and Quantitative Tests.
- Interview Process (Interview with a Department Head and Commission Chaired by a Member of the Management Board).

4

- **Professionals Recruitment**

- Attracting the Best International Experts in Highly Technical Fields.

5

- **Talent Pool**

- Creating a Talent Pool of Employees Who Will Fill Key Positions in the Company.

6

- **Grading**

- Attracting the Best International Experts in Highly Technical Fields.

## Model of Competencies

### Model of Competencies

- **The model of competencies** allows KMG to evaluate and develop key professional verbal and non-verbal competencies of employees.
- The model of competencies is especially important for the **managerial staff** of the company.
- The model of competencies aims to identify an employee's **professional strengths** and **areas for improvement**.

### Description

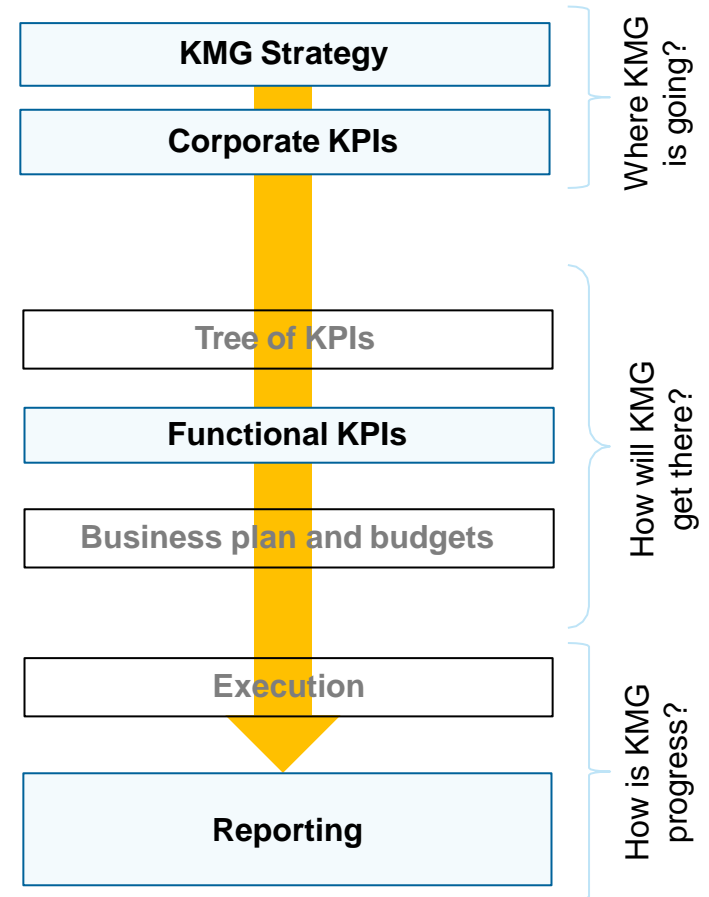
- Verbal and non-verbal competencies are developed via education plan and on-site training.
- Education plans are carried out in partnership with educational institutions, Kazakh-British Technical University and Samruk-Kazyna Corporate University.
- Internal corporate trainings and mentorship programs are integral part of developing verbal and non-verbal competencies.

# Performance Management

## Key Performance Indicators

- KMG has developed a tree of KPIs that cascaded from the strategic goals and aimed for **value creation**. KPIs are cascaded across all employees of the company.
- The Tree of KPIs allows KMG to evaluate **contributions of every cash generating unit** to the achievement of strategic goals and objectives.
- **Corporate KPIs** are assigned only to the top-management of the company.
- **Functional KPIs** describe specific areas of responsibility of KMG staff.

## Description



# Recruitment Process

## Recruitment Process

- **Vacancy announcement.** All vacancies are announced in advance on the corporate website.
- **Qualification Standards.** Applicants are considered on the basis of qualification requirements.
- **Tests.** Qualified applicants are tested on their qualitative and quantitative aptitudes.
- **Interview.** Short-listed candidates are interviewed by a department head and the commission headed by one of the members of the Management Board.
- **Talent Pool.** Talent pool is established to play a role of a key mechanism for recruitment candidates with the most potential.

## Description

- All candidates are hired via established competitive procedures.
- KMG adopts best international practices in hiring and recruitment process.
- All candidates are selected on the basis of merit-based approach.
- The recruitment process proceeds in transparency and conforms to the highest standards of accountability.

### Recruitment of foreign professionals

- KMG has started recruitment of **high level professionals** with advanced technical skills and extensive experience.
- At present, KMG has the experienced **foreign professionals** on the following senior positions:
  - **First CEO Deputy** for Upstream.
  - **Managing Director** for Safety and Environment Protection.
  - **Managing Director** for Drilling and Well Services.
  - **General Director** of the Institute of Drilling and Production Technology.

### Description

- KMG will continue to attract experienced international experts for specific and highly technical areas.
- International experts bring to KMG relevant experience, highly technical skills, and managerial competencies.
- This policy will enable the company to develop and strengthen local human resources potential.

### KMG Talent Pool (Reserve)

- KMG is continuously working to form a **talent pool of promising employees** for managerial and administrative positions at KMG group of companies.
- Employees who are included in the personnel reserve **demonstrate high motivation for career growth, professional and management skills.**
- At present, KMG has created a single talent pool, which consists of three categories:
  - **Category A** – future leaders of KMG subsidiaries and affiliates.
  - **Category B** – future leaders of KMG structural subdivisions
  - **Category C** – key experts of KMG group of companies.

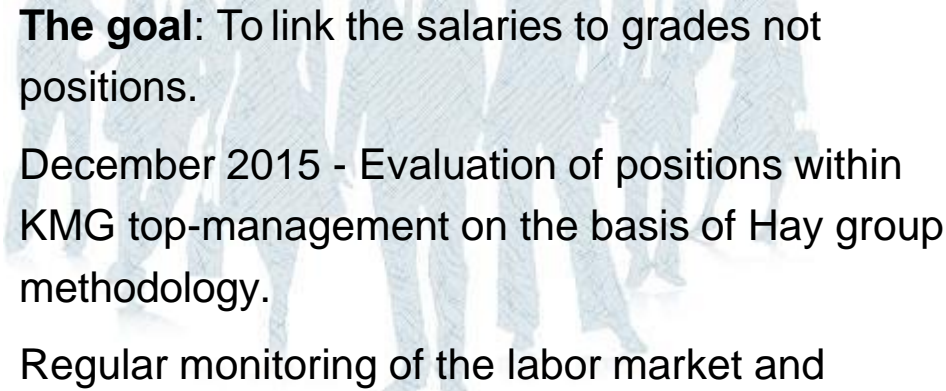
### Description

- Each category has specific set of requirements selection procedures. Members of the KMG Talent Pool can also apply for membership in the Samruk-Kazyna Personnel Reserve Program.
- KMG employees enrolled in the Personnel Reserve Program create individual career development plan for improving professional knowledge and managerial skills.

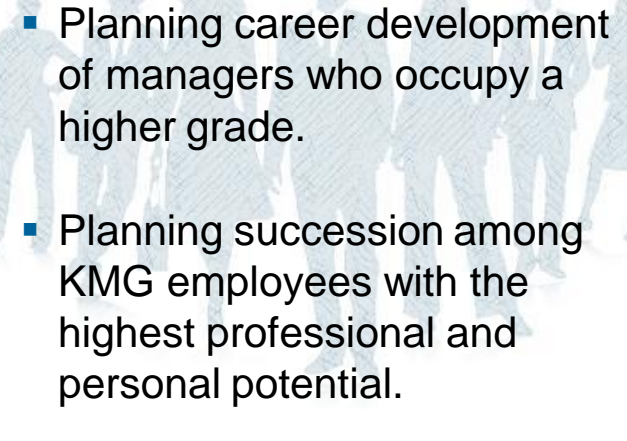


# Grading System Project

## Grading

- 
- **The goal:** To link the salaries to grades not positions.
  - December 2015 - Evaluation of positions within KMG top-management on the basis of Hay group methodology.
  - Regular monitoring of the labor market and adjusting KMG pay-roll and reward system.
  - Developing recommendations on improving KMG organizational structure on the basis of positions analysis.

## Description

- 
- Planning career development of managers who occupy a higher grade.
  - Planning succession among KMG employees with the highest professional and personal potential.
  - Systemic and purposeful development of managerial cadre who take a leading role in KMG growth.

- The most effective and competent employees work on key positions in the company.
- Remuneration and reward system allows the company to attract and retain the most skilled personnel.

# HR Transformation Program

## Top Priorities of the Human Resources Management

### 1 Attraction and Employee Retention

- **Transparent processes** of employee selection via competitive procedures.
- Qualitative and quantitative **tests** to determine professional competencies.
- Several stages of **interviewing** process.
- **Talent pool** enables HR Department to fill vacancies with the best professionals on the market.



### 2 Employee Evaluation And Reward

- The pay-roll process is based on the **grading system**.
- Reward and compensation is **merit-based, transparent, and competitive**.
- All employees, especially in management roles, have **KPIs** and **goals** to evaluate their performance.



### 3 Employee Education

- **Kazakhstan-British Technical University** (100% owned by KMG) will play a key role in developing KMG human resources capacity.
- **Samruk-Kazyna Corporate University** and other **Partners**.
- Continuous learning and education based on **internal trainings**.



**КазМунайГаз**  
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ

**KMG is an Industry Leader in Human Resources Management in Kazakhstan**

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**Thank you for your attention!**