



IN TOUCH

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LOCAL PROCUREMENT

The contribution of the Kumtor Gold Company to the economy of the Kyrgyz Republic is significant and accounts for 8% of national GDP and 23% of the country's industrial output. The sustainable operation of the Kumtor Mine allows many small and medium sized enterprises to develop successfully. To maintain continuous production KGC procures over 11,000 items, supplied by approximately 600 companies based in the Kyrgyz Republic. Over the last years, KGC has been working on improvement

of local procurement and has been successfully implementing its local procurement strategy aimed at increasing quantities of locally procured goods throughout the entire life of the mine. Our local procurement totaled \$58 million USD in 2016, which accounts for 55% of the total expenditure, excluding costs associated with capital equipment and spare parts being directly acquired from the manufacturers, general consumables and reagents unavailable on Kyrgyz market, and imported fuel.

In this issue:

- Local procurement strategy analysis
- KGC attention to local enterprises of the Issyk-Kul Province
- Main local procurement expenditures
- Core requirements and criteria for suppliers



“ One of KGC's priorities is to procure goods locally. Local suppliers must meet strict criteria that we are guided by while considering market sustainability, quality and price of goods and services in our procurement practices. ”

LOCAL PROCUREMENT STRATEGY ANALYSIS

We are convinced that local procurement brings significant benefits to KGC. It is one of the most effective ways for KGC to maintain its social license to operate, strengthen its relationship within the Kyrgyz Republic, and improve the supply chain efficiency. The Company's local procurement spending shows the extent of involvement in the local economy. We believe KGC's Local Procurement Strategy creates substantial economic benefits for Kyrgyzstan on local, regional, and national levels. Local

procurement leads to creation of new employment opportunities and income sources, acquisition of new skills and technologies, and helps to establish vital local business networks. We continue to provide all possible assistance to our international suppliers wanting to expand their potential in the local market and we are glad to launch several joint programs in 2016. For more information about the programs, please refer to our 2016 Annual Environmental and Sustainability Report available on our website.

CHALLENGES OF PROCURING GOODS LOCALLY:

Businesses are informal

- not registered
- not paying taxes
- not keeping good records
- not using bank facilities

Poor health and safety practices

- danger of food-borne illnesses
- products do not comply with international standards
- no certification

Small production capacity

- unable to supply large business demand
- no export potential

High production cost

- unable to compete with bigger, more efficient enterprises abroad

Low cash-flow

- unable to survive if they get paid 30 days after invoicing (standard for big businesses)

HOW KUMTOR IS HELPING

Requires good business practices

- licensing and registration
- paying taxes
- record keeping
- use of bank facilities
- compliance with international health and safety standards & provision of training

Helping businesses development

- fostering relationships with other development partners such as EBRD, who can help finance businesses
- helping businesses to harness national resources
- participating in meetings of International Business Council, Association of local businesses JIA, GIZ Office in KR

Pays more for local goods in the short run

- allows small businesses to compete for lucrative contracts
- provides stable revenue for businesses to grow and improve

Flexible Supplier Payment System

- paying faster, sometimes even in advance

EFFECT ON THE LOCAL ECONOMY

Formalization of business practices

- reduces corruption
- provides government revenue to pay for roads, schools, etc.
- job creation

Implementation of Health and Safety Standards

- lower risk of food borne illnesses
- access to new markets which have similar standards

Bigger production capacity

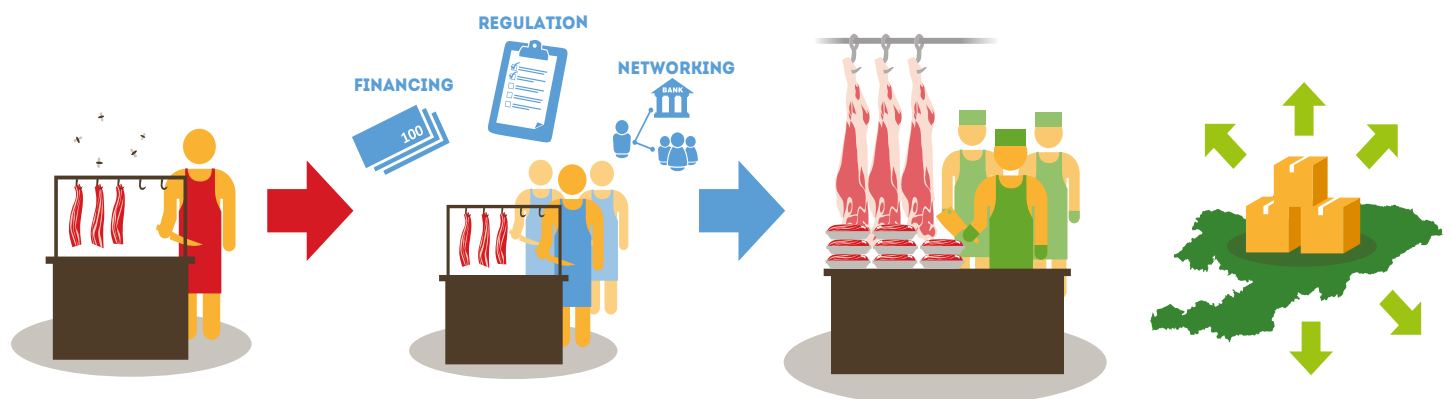
- ability to supply larger companies
- potential to export surplus products
- ability to support themselves after mine closure

Business Growth

- stronger, more self-sustaining economy

Competitiveness

- ability to compete with larger, more affluent enterprises for Kumtor contracts

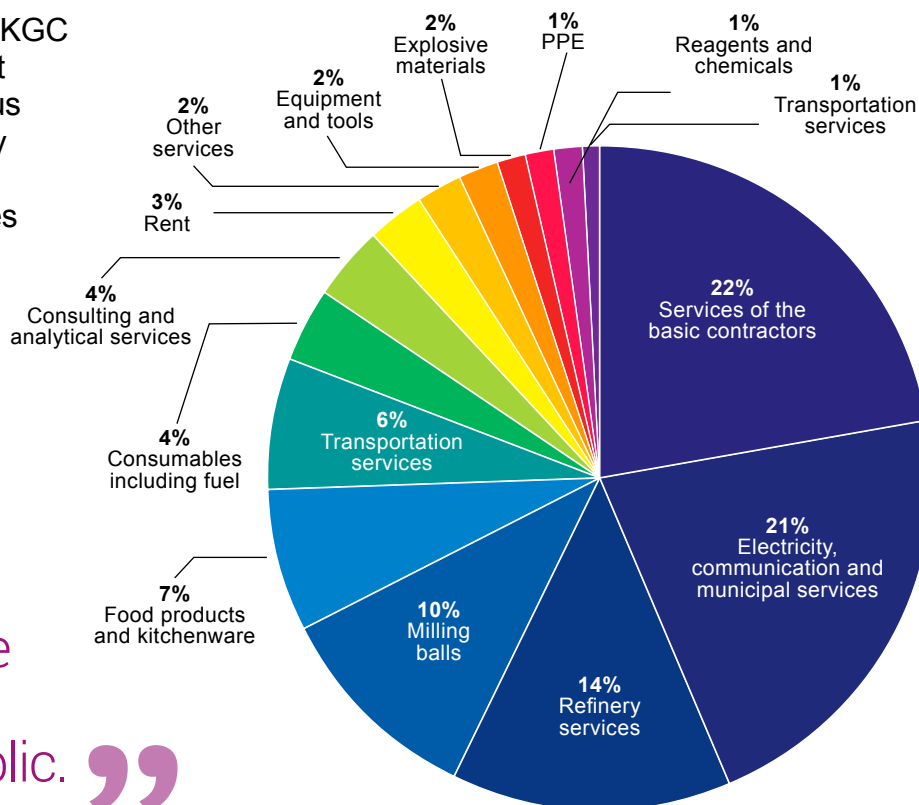


KGC ATTENTION TO LOCAL ENTERPRISES OF THE ISSYK-KUL PROVINCE

KGC pays special attention to local enterprises of the Issyk-Kul Region. Thus, throughout the calendar year, KGC continuously provides work for about 1,100 contracted personnel of various trades and qualifications. The survey showed that the contracted labour predominantly (about 88%) originates from the Issyk-Kul Region. This includes the major contributions of 48% from the Jeti-Oguz district, 14% from Ton district, with remaining 26% from other districts of Issyk-Kul province.

“ For more than 9 years 100% of food products are purchased within the Kyrgyz Republic. ”

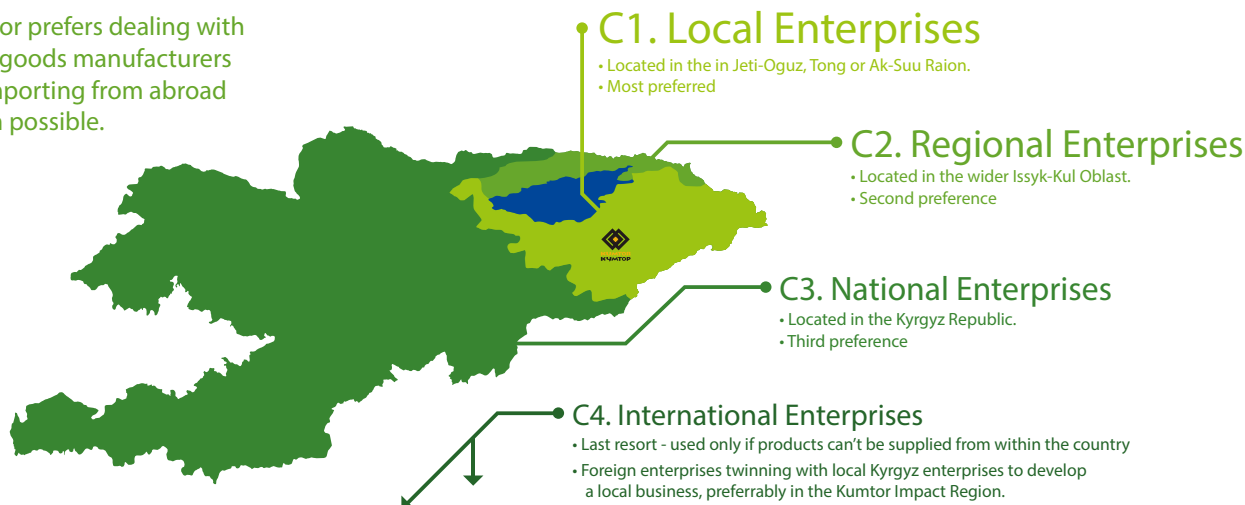
Main local procurement expenditures.



WHO IS ELIGIBLE TO BE A SUPPLIER?

- Businesses that meet Kumtor's health and safety standards
- Businesses that are licensed by the government and approved by Kumtor
- Businesses that are not likely to have a conflict of interest, of any kind, with Kumtor
- Businesses that can provide competitively priced goods and services on a sustainable basis

Kumtor prefers dealing with local goods manufacturers vs. importing from abroad when possible.





BASIC REQUIREMENTS AND CRITERIA FOR LOCAL SUPPLIERS

We inform potential suppliers, communicate our requirements, and advise on criteria necessary to achieving the best chance of becoming a KGC supplier. The information sessions for our potential suppliers, supported by our partners as the Kyrgyz

Republic Chamber of Commerce and Industry, GIZ, and others offer more opportunities to expand the database of local suppliers and manufacturers, to understand the procurement procedures as well as criteria of supplier selection.

Main requirements for local suppliers:

- Act as a legal entity or individual entrepreneur, have all registration and license documents;
- Honestly pay all KR payable taxes;
- Comply with KR laws, all KGC Policies relating to Business Conduct, Environment Protection, Health & Safety, and Code of Ethics;
- Experience, with sustainable source of goods, jobs, and services with continuous process improvement;
- Mandatory filling of the Vendor Information Questionnaire.

Main criteria of supplier selection:

- Quality and compliance with KGC requirements;
- Commercial provisions;
- Terms and conditions of orders;
- Supplier has all necessary permits for sale of goods and services (licenses, certificates, registration etc.);
- Provide warranty provisions, technical and service support, have production facility;
- Supplier's registration place.