



STATEMENT FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

DEAR INVESTORS, SHAREHOLDERS, COLLEAGUES AND PARTNERS,

In 2020, we all faced the global challenge of the COVID-19 pandemic, which tested our resilience and teamwork in the face of adversity. I am pleased to inform you that this past year has evidenced KMG's resilience, and that our long-term efforts in all areas of strategic importance have provided a cushion of support for the Company in this difficult period. I would also like to note the tremendous work undertaken this year by the entire team to adapt the Company's activities to the new normal and adjusted expectations concerning the international and domestic market environment.

Crisis response strategy

As a leader in the oil and gas industry of Kazakhstan and a representative of government interests who bears sizeable social obligations, KMG was particularly exposed to the negative impact of the pandemic and its consequences across virtually all of our business lines. The headwinds faced by the Company included a decline in oil prices, OPEC+ production cut commitments, lower demand for oil products, reduced hydrocarbon transportation volumes, a national lockdown, and many further factors. To ensure the Company could adapt to a lower oil price environment while maintaining production capacity and retaining talent, KMG's Board of Directors swiftly developed a comprehensive suite of crisis response measures for 2020 and 2021 and immediately set the ball rolling on their implementation. We identified five key areas for crisis response: our operating model, operational efficiency, financial stability, investment activities, and digital transformation.

We optimised the organisational structure of KMG's headquarters by downsizing its headcount by 34% and implementing a threefold reduction in the number of departments.

As part of our efforts to improve financial stability, we cut the Company's consolidated debt by USD 341 mln and smoothed out the schedule of lump-sum payments on our USD 907 mln Eurobonds through refinancing.

In 2020, we successfully launched a process for embedding different approaches to portfolio and project management when putting investment projects into motion. Portfolios are now managed by ranking projects and prioritising high-impact, strategic ones. Our prioritised project portfolio now also includes crisis response related digital transformation initiatives, which generated net benefits of KZT 9.3 bln in 2020, exceeding targets by 127%. At the same time, the list for asset divestment was expanded.

Our crisis response measures led to a better-than-expected financial performance in 2020, exceeding our start-of-year forecast which included no such response amidst a sharp fall in oil prices. EBITDA stood at USD 2.8 bln. Free cash flow was positive at USD 213 mln, despite a negative cash flow forecast in the early stages of the pandemic.

The success of our crisis response measures was confirmed by the fact that we retained our credit ratings from Moody's, Fitch and S&P. Key factors at play were our debt management and reduction programme of 2017–2019, swift refinancing of large lump-sum repayments, an improved covenant package, better liquidity control, cost optimisation and stronger overall financial health.

Safety

I am pleased to report that, in 2020, KMG had no fatal accidents related to work. This is the first time we have achieved this in the history of KMG. This achievement was matched by a 29% decrease

in the number of Lost Time Injuries Ratio. For the first time since KMG joined the International Association of Oil and Gas Producers (IOGP), KMG's injury rate is lower than the IOGP average.

It is my intent that every KMG employee returns to their family safely at the end of each work day. We are making significant steps in attaining this goal. I thank management and staff for their efforts in enabling this to happen.

Sustainable development

During the year, we were able to maintain our strong sustainability momentum from previous years and even make significant progress in this area, despite the extremely unfavourable environment. Embedding best practices in corporate governance and sustainability is one of our strategic priorities. KMG remains strongly committed to the United Nations Global Compact's (UNGC) ten principles for sustainable development and 17 global Sustainable Development Goals. To embed sustainability principles in the daily life of the Company in the most efficient way possible, in 2020, we developed a comprehensive, three-stage implementation roadmap to 2028. At the first stage, we selected six priority goals that KMG will focus on over the next five years, including human health, energy efficiency, economic growth, the environment, innovation, and climate action.

In 2020, the Board of Directors included ESG rating in the list of corporate KPIs for Board members for the first time, thus cascading the Company's strategic goal to the entire executive suite to ensure that every member of our team is motivated to embed sustainability in their daily activities.

I would also like to note that this year the Company expanded its Carbon Disclosure Project (CDP) reporting scope, with water management disclosures posted on the CDP's website for the first time as part of the 2019 Water Security Questionnaire. At the same time, we issued our second annual report on greenhouse gas emissions as part of our disclosures under the CDP Climate Change Questionnaire, disclosing data on direct and indirect greenhouse gas (GHG) emissions, GHG emissions management, key risks and opportunities.

We earned a further endorsement of our sustainability efforts when the Sustainalytics international rating agency scored KMG at 69 out of 100, which reflects the Company's robust sustainability performance. KMG's ESG aspects were rated as follows: Environmental scored 69, Social scored 70, and Governance scored 67.

KMG's ESG risk rating was assessed at 34.5, reflecting a high level of unmanageable risk. Although the Company was assigned to Category 4 out of five based on its ESG risk rating, the analysts at Sustainalytics rated KMG's ESG risk management as "strong".

Company outlook

This past year demonstrated once again that oil companies are highly exposed to oil price volatility. Being a vertically integrated company, KMG was able to mitigate the negative impact of falling oil prices. However, in addition to its existing areas for development, the Company finds it strategically feasible and expedient to venture into new businesses that will increase its value and sustain cash flows in the long run.

According to OPEC's World Oil Outlook 2045, petrochemicals will be the largest source of incremental demand for crude oil in the forecast period. KMG is already launching production of petrochemicals (benzene and paraxylene)

and is involved as a trustee of JSC Samruk-Kazyna in petrochemical projects (KPI and KLPE), covering polyethylene and polypropylene production. KMG is tentatively exploring the production of other petrochemicals as promising development opportunities.

The 2020 crisis gave an added impetus to energy companies in the oil and gas industry to review their strategies for reducing their carbon footprint by promoting renewable energy and decarbonisation projects. With the European Union's Carbon Border Adjustment Mechanism (CBAM) being developed under the Green Deal, a policy that envisages levying a carbon tax on EU imports with a large carbon footprint, KMG is looking into the possibility of tapping into low-carbon opportunities through decarbonisation and alternative energy projects, as well as GHG trading.

An important consideration in financing promising projects is the Company's focus on enhancing shareholder value while maintaining financial stability; that is to say that the Company's expenses must be covered by its revenues, the existing debt level be reduced and any additional debt may only be raised to finance high return projects.

To sum up the 2020 highlights, I would like to commend the vital work carried out by KMG's Management Board, who are coping well with the challenges involved in implementing our anti-crisis response measures, as well as the efforts of all KMG Group employees, who, each and every day, face distinct tasks on the front line and find solutions for them. I hope that next year, everyone can keep up this high pace in advancing our common, strategic mission.



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Christopher Walton,

Chairman
of the Board of Directors
of JSC NC KazMunayGas