



STATEMENT FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

DEAR SHAREHOLDERS, INVESTORS AND PARTNERS,

As years go, 2020 was unprecedented – for the entire world, but for the oil and gas industry in particular. The COVID-19 pandemic and the ensuing drop in energy demand, coupled with our OPEC+ production cut commitments led to a decline in our key operating results. Our consistent, multi-year effort to build up resiliency, paired with the concerted, comprehensive action taken by our entire team, helped us stay stable and cope with the major challenges of the year. Moreover, we were able to contribute as much as we could to the global fight against COVID-19.

Maintaining leadership in the national oil and gas industry

Oil and condensate production for 2020 was 21.8 mln tonnes or 445 ths bbl per day, down 7.9% year-on-year, mainly attributable to OPEC+ compliance with pledged output curbs as well as natural decline in production from mature fields. KMG fully delivered on its commitment to cut oil and condensate production by 1.3 mln tonnes compared to the original pre-COVID targets for 2020.

Despite production declines, there have been some positive developments in our upstream segment, with two wells brought into pilot operation at the East Urikhtau field in the Aktobe Region in December 2020. If the wells prove successful at the first phase, and if the market conditions are favourable, the Company will consider moving on to the second phase, under which 58 wells will operate at the Urikhtau group of fields and a number of production facilities will be constructed. If we carry out the full-scale implementation of the project, the expected production may reach 1.5 bln m3 of gas and 500 ths tonnes of oil annually.

I would also like to stress our achievements in ongoing exploration projects. A natural flow of up to 85 tonnes per day of water-free Jurassic oil was produced from an exploration well on the Bekturly Vostochny block in 2020. Further exploration projects include a natural flow of 70 tonnes per day of water-free Triassic oil from Embamunaigas' Sagidulla Nurzhanov field.

Oil transportation by pipeline and by sea decreased by 6.3% year-on-year to 73.2 mln tonnes. The decline was driven by the limited oil supply from JSC CNPC International Aktobe Petroleum, after a critical excess of organochlorine

compounds was discovered in their oil supply in January 2020, compounded by an overall decline in oil supply amid a drop in oil production from other companies. Within the flow reversal project at the Kenkiyak–Atyrau oil pipeline, launched in 2018, the first start-up complex has been commissioned, and the construction of the second start-up complex is now complete. Overall project completion is slated for Q2 2021.

The volume of gas transported through trunk pipelines decreased by 16.3% to 86.6 bln m3, mainly linked to lower gas transit and exports. In 2020, the Beineu–Bozoi–Shymkent gas pipeline was ramped up to its full design capacity of 15 bln m3, supplying natural gas to Kazakhstan's southern regions from the country's western fields and diversifying gas exports.

The output of oil products at our Kazakh and Romanian refineries decreased by 12.5% to 16.8 mln tonnes, of which our Kazakhstan refineries produced 11.7 mln tonnes. As a nationwide lockdown was imposed across all cities in Kazakhstan in 2020, demand for major oil products fell, which affected the production activity of refineries across the country. In order to avoid overstocking, we cut our refining throughput and output of oil products without suspending operations, balancing refinery utilisation to match the demand.

For the second year running, we published data on our hydrocarbon reserves under international PRMS standards. At end-2020, KMG's proved plus probable (2P) reserves totalled 635 mln toe (4,894 mln boe), down 6.1% year-on-year due

to natural decline in production from mature fields, lower oil price forecasts, and exchange rate volatility.

An effective crisis response

The scale of the Company's business, with its complex integrated production chain, significant economic and social role, and large operational workforce, presented significant financial and operational challenges in the context of the pandemic. The Company implemented its crisis response strategy for 2020 and 2021 in order to overcome the negative impacts of the pandemic, a move that helped us to substantially mitigate the pandemic's effects, remain resilient and retain the potential for future growth.

We maintained uninterrupted operations across all our business lines, despite the pandemic and the plummeting oil prices. To streamline our business processes, we took further steps to cut red tape in processes both at the Corporate Centre level and across our subsidiaries and associates. Unprofitable wells were shut down to boost operational efficiency.

A special emphasis was placed on optimising controllable costs within total costs and reducing the proportion of fixed costs. We also reduced our planned expenses by KZT 147 bln, including CAPEX by KZT 103 bln, OPEX by KZT 27 bln and administrative expenses by KZT 17 bln.

In 2020, KMG Group's consolidated debt was reduced by USD 341 mln. We also reduced the debt burden of our joint ventures by over USD 1.1 bln, with over half of this amount accounted for by North Caspian Operating Company N.V., which represents KMG in the Production Sharing Agreement under the North Caspian project. KMG Eurobonds were successfully refinanced for USD 907 mln, smoothing the repayment schedule, with the next large lump-sum repayment pushed out to as far as 2025 as a result.

We launched four digital transformation projects, which turned out to be indispensable amid the pandemic: the ABAI Information System, the Engineering Simulation System at Kazakhstan Refineries, the Multifunctional KMG Shared Services Centre, and Trip Management. The benefit from these projects is expected to total KZT 72.4 bln.

With a key focus placed on the health and safety of our employees and their families, we implemented a necessary and far-reaching range of measures, drafted and adopted relevant guidelines and policies, and developed and approved specific action plans to reduce the number of COVID-19 cases and curb the virus' spread, all while mitigating its impact on production processes.

Sustainable development efforts

Apart from achieving its operational and financial targets, KMG management faces the important task of embedding sustainability into day-to-day life at KMG through a range of relevant initiatives.

KMG's environmental agenda prioritises GHG emissions, water and production waste management, flaring reduction, land remediation and energy efficiency. Management teams of KMG and its subsidiaries and associates take a zero tolerance approach to losses and harm caused by environmental pollution. In 2015, KMG supported the World Bank's Zero Routine Flaring by 2030 initiative.

KMG Group's energy saving and energy efficiency initiatives focus on process equipment upgrades, deploying energy saving technologies, optimising heat

generation and consumption, and developing the Group's own generation assets, including APG-fired generation.

In reducing our GHG footprint, we focus on increasing associated petroleum gas (APG) utilisation while minimising flaring. Thanks to our development and raw gas processing programmes, we have achieved a 98% APG utilisation rate, with flaring at 2.2 tonnes per 1,000 tonnes of produced hydrocarbons (down 24% year-on-year and 79% lower than the industry average).

Our production facilities regularly monitor and control all waste handled by facilities (including contractors' waste), take measures to minimise waste generation and earmark annual funding for recycling/reuse and disposal of generated, accumulated and historical waste, with KMG spending on this topping KZT 13 bln in 2020.

Projects are underway to curb discharges and reduce fresh water withdrawal from natural sources. For example, the TAZALYQ project includes an upgrade of mechanical and biological wastewater treatment facilities, the construction of an advanced treatment facility, and the upgrade of evaporation fields. Another project envisages the construction of desalination plants near the Kenderly recreational zone in the Mangystau Region.

No protests or strikes were recorded at the Company subsidiaries over the last two years thanks to our comprehensive efforts to maintain social stability among the workforce and improve the social well-being of local communities across our operational footprint.

According to a survey conducted in November 2020 by the Social Partnership Centre at JSC Samruk-Kazyna, the social well-being index across KMG Group rose from 72% in 2019 to 74% in 2020.

Another highlight of the year was the absence of work-related fatalities, a first for the Company. We have also significantly reduced the number of accidents, with KMG's injury rate below the IOGP's industry average for the first time in our history as a company.

Our contribution to life in Kazakhstan

As a major national taxpayer, the Company paid KZT 548 bln in taxes and other mandatory payments to the national budget in 2020. Our dividends to shareholders reached KZT 82 bln.

Committed to enhancing our operational and financial performance, we embrace a responsible social policy. During the year, we provided our employees with social assistance for a total of KZT 21 bln, with our social investments under subsoil use contracts worth over KZT 4.5 bln. As part of the wider national response to the COVID-19 pandemic, the Company supported the country's national healthcare system and local executive bodies to the tune of KZT 6.2 bln. Going forward, we will uphold this responsible approach to the wider community in Kazakhstan.

To summarise the results of the past year, I would like to emphasise that we only succeeded against all headwinds through well-coordinated teamwork and the dedication of every single employee within our Company. I would like to thank all our employees for their immense hard work, which has brought us through all the trials and tribulations of 2020, while also setting us up for future growth.

Alik Aidarbayev,

Chairman
of the Management Board
of JSC NC KazMunayGas