

IMPACT OF COVID-19 AND ANTI-CRISIS RESPONSE

IMPACT OF COVID-19

In 2020, the planet faced a major challenge from the COVID-19 pandemic, which has had a devastating impact on human health, entire economies and the current order of modern life in general. Moreover, the global fight against the virus and its aftermath is still ongoing. The scale of the impact is yet difficult to assess yet objectively, but an analysis of the 2020 indicators clearly shows a major decline in our financial and operational performance, and, most importantly, the lost human lives.

The negative effects of the pandemic on KMG's performance include the following changes in actual performance compared to 2019:

- ◆ Oil prices dropping by 34.8% due to a weaker global demand due to the pandemic
- ◆ Oil and condensate production reduced by 1.3 mln tonnes compared to the original plan for 2020 under the OPEC+ agreement on production cuts to support and stabilise oil prices
- ◆ Reduced demand for oil products, resulting in an overall decrease in refining throughput by 12.2% in the Republic of Kazakhstan and at the facilities of KMG International (KMG I) in Romania
- ◆ The decline in oil production in the Republic of Kazakhstan was one of the drivers behind the decrease in the amount of oil delivered by consignors to the oil pipeline system, leading to a 6.3% decline in KMG's oil transportation compared to 2019
- ◆ The reduced gas consumption in China was one of the causes for a 17% decrease in transit gas transportation through KMG's gas pipelines towards China

Despite prompt response, KMG's annual financial performance has weakened year-on-year:

Indicator	2019	2020	Change, %
Revenue, KZT bln	6,859	4,556	-33.6
EBITDA, KZT bln	1,963	1,151	-41.3
Net profit, KZT bln	1,158	172	-85.2
Free cash flow, KZT bln	592	88	-85.1

Unfortunately, some KMG Group employees lost their lives to COVID-19. In 2020, 3,623 cases of COVID-19 were identified. As at 31 December 2020:

- 3,387 people recovered
- 122 employees were sick
- There were 114 fatalities (11 people died of coronavirus infection, 103 – of pneumonia)

ANTI-CRISIS RESPONSE

The COVID-19 pandemic directly and indirectly caused a number of challenges for KMG, which needed to be addressed comprehensively and as quickly as possible. Importantly, unlike the 2014–2015 crisis, the Company approached this crisis more prepared and financially stable, thanks to prior consistent and structured work on financial stability, improvements to corporate governance and other measures. In developing our crisis response, we considered KMG's role as the flagship of the country's oil and gas industry representing the interests of the government in the industry and holding considerable social commitments towards our operating regions. The Company's crisis response focused on its effective adaptation to low oil prices while retaining the maximum production and human resources. This in turn involves two aspects: ensuring stable day-to-day operations and maintaining and accumulating resources for post-crisis development. As a result, KMG has developed and is implementing its crisis response strategy for 2020–2021 across five key areas, which has significantly mitigated the crisis' impact on the Company:

- ◆ Operating model
- ◆ Operational efficiency
- ◆ Financial stability
- ◆ Investment
- ◆ Digital transformation

Measure 1. Operating model

Measures applied to the operating model focused on:

- Business process optimisation
- Changes to the organisational structure and downsizing at the KMG Corporate Centre
- Applying to operational staff downtime mode payment rates

2020 results

- ◆ The organisational structure of the headquarters has been revised: its staff was cut by 34% from 729 to 480 and positions of all 22 managing directors made redundant while the number of departments was reduced by three times. Bonuses and company cars for the management were cancelled while remuneration of top managers was cut by 30%
- ◆ In some cases, KMG paid compensation for the forced downtime to employees of oil service companies as their workloads fell amid the decline in production
- ◆ The outplacement project was implemented to help departing employees find a new job or transition to a new career. As a result, 25% of employees involved found jobs within six months after the launch of the project; 12% changed their careers and started their own businesses; 93% of members of the outplacement plan are satisfied with its results
- ◆ As part of the efforts to streamline, cut red tape and improving business processes at KMG and its engagements with subsidiaries and associates, the Company:
 - introduced a new procurement and contract signing procedure
 - drafted Standard Competences for Management Bodies of Subsidiaries and Associates. Currently, our subsidiaries and associates make amendments to their Articles of Association in line with the Standard Competences.

Measure 2. Operational efficiency

Improvements to operational efficiency include:

- reducing output primarily through closing economically unviable wells
- reducing rates/prices and the scope of work for contractors/suppliers across KMG Group.

2020 results

- ◆ The Company prevented the shutdown of operations across KMG Group during the pandemic
- ◆ KMG delivered on all its production cut commitments under the OPEC+ agreement

Measure 3. Financial stability

KMG supports its financial stability through:

- optimising controllable costs within the cost of goods sold
- reducing the proportion of permanent costs
- streamlining capital expenses (CAPEX)
- maintaining leverage at an acceptable level subject to the need to cover potential cash gaps and investment requirements.

2020 results

- ◆ In 2020, KMG Group's debt was reduced by USD 341 mln, including early repayment. We also reduced our debt at the level of joint ventures by over USD 1.1 bln, with North Caspian Operating Company N.V. accounting for over half of this amount
- ◆ 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
- ◆ We were able to retain our credit ratings from Moody's, Fitch and S&P without relying on the government's support thanks to our debt management and reduction programme of 2017–2019, timely refinancing of large repayments, an improved covenant package, better liquidity control, cost optimisation and solid financial performance
- ◆ Our crisis response programme reduced our expenses by KZT 147 bln (CAPEX by KZT 103 bln, OPEX by KZT 27 bln and administrative expenses by KZT 17 bln)

Measure 4. Investment

Our investments were streamlined in two key areas:

- ◆ The list for asset divestment was expanded
- ◆ The priority in the investment project portfolio was given to the highest-margin projects that are aligned with the Company's strategic goals

2020 results

- ◆ Unprofitable and low-margin projects were excluded from KMG's investment portfolio
- ◆ Investment project CAPEX were reduced, with development costs reduced by KZT 29 bln

Measure 5. Digital transformation

As part of the crisis response agenda, digital transformation also serves to prioritise our project portfolio.

2020 results

- ◆ Net benefits for 2020 totaled KZT 9.3 bln, exceeding the target by 127% thanks to our post monitoring projects: Merger between JSC KazMunayGas Exploration Production and JSC National Company KazMunayGas, and Category-Based Procurement Management
- ◆ Four projects were launched: Adopting the ABAI Information System, Adopting an Engineering Simulation System at Kazakhstan Refineries, Establishing the Multifunctional KMG Shared Service Centre, and Trip Management. The benefits from the project is expected to total KZT 72.4 bln

Importantly, with the onset of the COVID-19 pandemic, we implemented necessary comprehensive measures, drafted and adopted relevant guidelines and policies, and developed and approved specific action plans to reduce the virus incidence rate and spread as well as to mitigate its impact on production processes.

Results of the anti-crisis programme

As a result of our crisis response efforts, we exceeded our initial, pre-COVID financial guidance, which did not factor in any crisis response.

Results of the crisis response programme, KZT bln

Indicator	Initial downside guidance for 2020	Crisis response in 2020 (actual)	Change
Revenue	2,955	4,556	54.2%
Net profit	65	172	164.6%



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