

INTERNAL DRIVERS AND THEIR IMPACT ON STRATEGY IMPLEMENTATION

KAZAKHSTAN'S OIL AND GAS INDUSTRY IN 2020

The oil and gas industry is a key sector of Kazakhstan's economy due to its significant hydrocarbon reserves. The industry accounts for approximately 15% of Kazakhstan's total gross domestic product (GDP) and more than 40% of general government revenue, according to S&P's report dated 26 March 2020. 39% of gross foreign direct investment (FDI) inflows in 9M2020 came into the crude oil and natural gas production sector. In 2020, exports of crude oil, natural gas and oil products accounted for 57%¹ of Kazakhstan's total exports.

As production expanded over the past decades, Kazakhstan has significantly consolidated its position in the global hydrocarbon market. According to BP's Statistical Review of World Energy (June 2020), Kazakhstan ranks 12th for proved reserves globally.

According to the Information and Analytical Centre of Oil and Gas of the Ministry of Energy of the Republic of Kazakhstan, 85.7 mln tonnes of crude oil and gas condensate were produced in Kazakhstan in 2020 (82.1 mln tonnes and 3.6 mln tonnes, respectively), down 5.4% year-on-year. According to the Ministry of Energy, the country exported 68.5 mln tonnes. Gas production was at 55.1 bln m³ in 2020, up by 2.3% year-on-year.

In 2021, Kazakhstan's oil output is expected to total 83.4 mln tonnes as planned by the Ministry of Energy in mid-February 2021. Tengizchevroil LLP (TCO) is expected to produce 25.3 mln tonnes, Kashagan 14.5 mln tonnes and Karachaganak 12.1 mln tonnes. Oil exports are expected to total 67.5 mln tonnes in 2021.

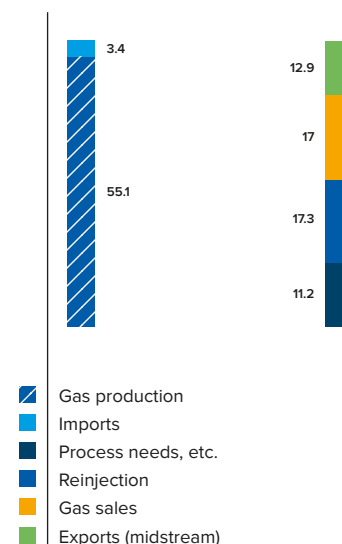
Oil and gas transportation

Kazakhstan has a modern and diversified oil and gas transportation, refining and processing infrastructure, which facilitates its exports to global sales markets.

Oil refining and gas processing

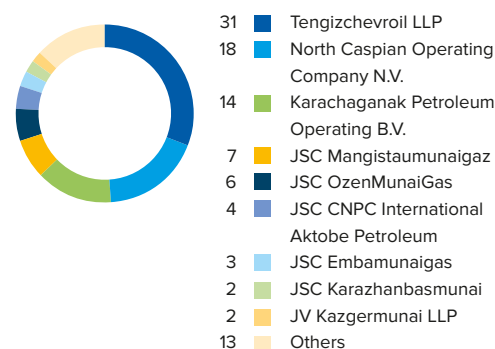
According to the Information and Analytical Centre of Oil and Gas of the Ministry of Energy, the throughput at Kazakhstan refineries was 15.8 mln tonnes in 2020, down 7.6% year-on-year. The production of petrol was at 4.5 mln tonnes (down 1.5% year-on-year), jet fuel was at 0.4 mln tonnes (down 29.9% year-on-year), and diesel fuel was at 4.6 mln tonnes (down 5.4% year-on-year).

Gas balance in Kazakhstan in 2020, bln m³



Source: Information and Analytical Centre of Oil and Gas of the Ministry of Energy of the Republic of Kazakhstan

Oil and condensate production in Kazakhstan in 2020, %



Source: Information and Analytical Centre of Oil and Gas of the Ministry of Energy of the Republic of Kazakhstan

¹ HS Code 2709 – Petroleum oils and oils obtained from bituminous minerals; crude, HS Code 2711 – Petroleum gases and other gaseous hydrocarbons, HS Code 2710 – Petroleum oils and oils from bituminous minerals, not crude.

KMG's position in Kazakhstan's oil and gas industry

KMG is the national leader in Kazakhstan's oil and gas industry with a fully integrated added value chain.

Proved (1P) oil and condensate reserves life was 16 years (based on the 2020 output), far exceeding the average of about 11 years for the global oil majors (based on the 2019 output). KMG's proved and probable (2P) oil and condensate reserves life (based on the 2020 oil and condensate production level) was 22 years.

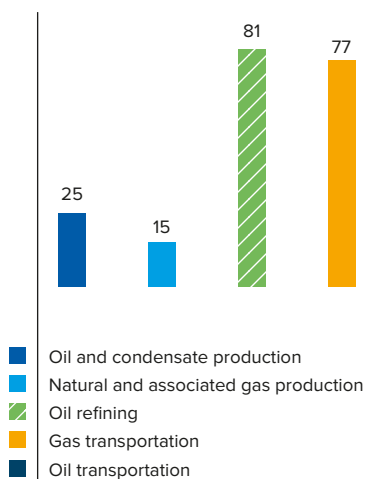
KMG showed the best operating performance for oil and condensate production in Kazakhstan in 2020, according to the Company's in-house estimates. In 2020, KMG's share was 25% in oil and condensate production in Kazakhstan and 15% in gas production.

KMG operates the four largest refineries in Kazakhstan with an 81% share in the refining market in 2020. We put in place an ambitious investment programme to upgrade the three core refineries in Kazakhstan, ramping up their refining capacity and improving their products while also fully covering the domestic demand for oil products and boosting their exports to regional markets.

The oil transportation infrastructure managed by KMG is well-diversified and has a high transit and export potential. KMG's share in the oil transportation market, including trunk pipelines and transportation by sea, totalled 56% for 2020.

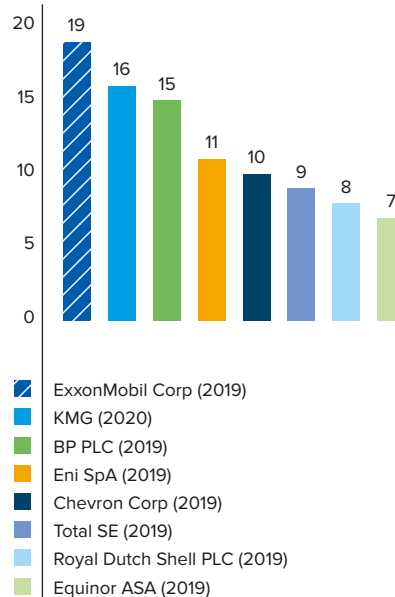
KMG has completed the construction of advanced and diversified gas transportation infrastructure to support domestic and international gas sales. KMG's share in the gas transportation segment in 2020 is estimated at 77%.

KMG's market share by segment in Kazakhstan in 2020, %



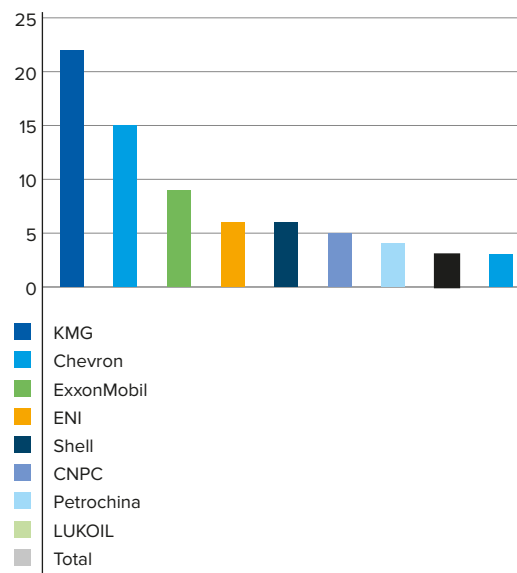
Source: Company estimates, Information and Analytical Centre of Oil and Gas of the Ministry of Energy of the Republic of Kazakhstan

1P oil and condensate reserves life in 2019–2020



Source: Bloomberg

Estimated oil and condensate output in 2020 in Kazakhstan, mln tonnes



Source: Company estimates, Information and Analytical Centre of Oil and Gas of the Ministry of Energy of the Republic of Kazakhstan

KAZAKHSTAN'S INVOLVEMENT IN THE OPEC+ AGREEMENT

In April 2020, OPEC+ countries decided to cut oil production but gradually ease curbs on oil supply later. From May to June 2020, the production cuts totalled 9.7 million bbl per day from October 2018. Output increments for specific countries are reviewed and agreed at regular ministerial meetings of OPEC+.

As a member of OPEC+, the Kazakhstan Government introduced temporary restrictions on oil production as of 1 May 2020. The Resolution of the Government of the Republic of Kazakhstan On Introduction of Temporary Restrictions on the Use of Subsoils for Exploration, Production and Extraction of Hydrocarbons, imposed restrictions on certain fields of KMG until the end of 2020.

KAZAKHSTAN'S NEW ENVIRONMENTAL CODE

On 2 January 2021, the President of the Republic of Kazakhstan, Kassym-Jomart Tokayev, signed the new Environmental Code of the Republic of Kazakhstan. The new Environmental Code is based on the polluter pays and fixes principle, which implies that major industrial businesses take measures to prevent pollution and introduce best available technology. The new Environmental Code provides for new approaches to environmental impact assessment, charges for emissions and improved industrial and consumer waste management, significantly contributing to environmental improvements. During the first phase, the 50 largest enterprises, including the oil and gas sector, will begin an orderly transition to best available technologies (BAT). The new Environmental Code, actively discussed by KMG during 2020, will become effective in Kazakhstan as of 1 July 2021.

STRATEGIC DIRECTION

Despite OPEC+ restrictions, we were able to maintain basic output across our operations and, given low oil prices, focused on shutting down unprofitable assets. In 2020, KMG's output was 21.7 mln tonnes, down from 23.6 mln tonnes in 2019. In 2021, our oil output will depend on the terms of the OPEC+ agreement.

For more details see the Operating Review section.



STRATEGIC DIRECTION

KMG supports the government's ongoing environmental reform. The Company prioritises measures to minimise its environmental footprint.

As part of the Environmental Code of Kazakhstan, our subsidiaries and dependent companies were among the first, together with experts from International Green Technologies and Investment Projects Centre to launch comprehensive process audits to analyse the current state of our production facilities. The results of the comprehensive process audits will be used to draw up sectoral guides on best available techniques (BAT), which will serve as the basis for BAT implementation.

As part of its Development Strategy until 2028, KMG implements strategic initiatives to promote greater environmental responsibility. The Company's environmental priorities include management of greenhouse gas emissions, water resources and production waste, flaring reduction and land reclamation.

In 2020, the Board of Directors approved the corporate Environmental Policy. Management teams of KMG and its subsidiaries and dependent companies take a zero tolerance approach to losses and harm caused by environmental pollution.

For more details see the Ensuring sustainable development section



STATE GEOLOGICAL EXPLORATION PROGRAMME FOR 2021–2025

Kazakhstan has 15 sedimentary oil and gas basins, some of which have been poorly explored but have good prospects for discovering new fields, according to the Ministry of Ecology, Geology and Natural Resources of the Republic of Kazakhstan (the “Ministry of Ecology, Geology and Natural Resources”).

According to the official website of Kazakhstan’s Prime Minister, the State Geological Exploration Programme for 2021–2025, currently under development, will be aimed at ensuring the geological exploration of the country’s territory, replenishing the mineral resource base, providing scientific support for the geological exploration of mineral resources, driving automation and digitalisation, developing the infrastructure and staffing the geological industry, as well as ensuring the socio-economic well-being of the country’s population.

In mid-February, the Ministry of Ecology, Geology and Natural Resources announced that the draft State Geological Exploration Programme for 2021–2025 would be transformed into a national project.

STRATEGIC DIRECTION

KMG’s Geology and Exploration team was actively involved in the development of the State Geological Exploration Programme for 2021–2025, including in the analysis and simulation of the oil and gas systems in Kazakhstan’s key sedimentary basins.

For more details see the Reserves section.



KAZAKHSTAN'S ECONOMY

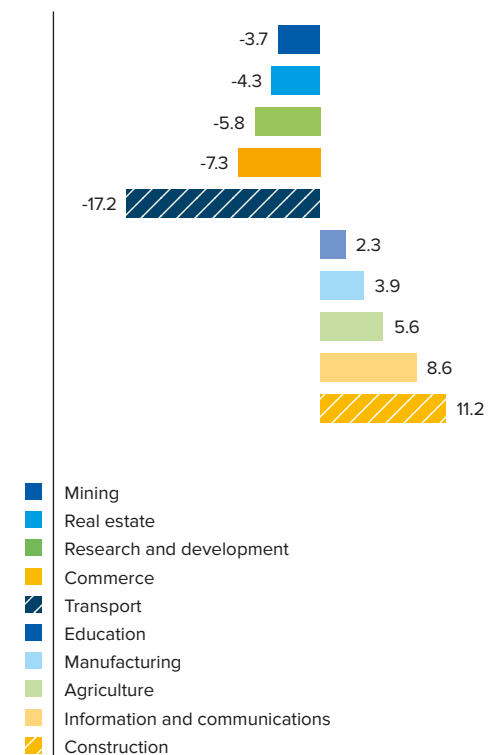
Kazakhstan’s economy has also been affected by the global COVID-19 pandemic. For example, the lockdown imposed to curb the spread of the virus, along with lower oil prices and reduced oil output, have put pressure on the country’s economic growth.

However, the Government of Kazakhstan took measures to contain the spread of COVID-19 at early stages. Thanks to the government’s support for households and businesses, Kazakhstan’s economy has remained resilient as evidenced by the growth in the production sector within its GDP, specifically in construction, ICT, agriculture, manufacturing and education. 2020 also saw a trade surplus, increased lending and investment activity in non-extractive sectors.

GDP declined by 2.6%, reflecting lower commodity prices and weakened trade and economic activity due to the lockdown restrictions. GDP mainly declined due to a downturn in the mining, commerce and transportation sectors. The decline in the mining industry was driven by a lower oil and condensate output. Reduced freight and passenger traffic contributed to the decline in transportation. The negative trends in commerce are associated with the continuing lockdown restrictions and suppressed demand.

The exchange rate flexibility absorbed external shocks. The tenge depreciated by 8.0% year-on-year against USD, but was supported by a number of measures such as sale of 50% of revenues in foreign currencies by state-owned enterprises and direct sales of foreign currency by the National Bank of Kazakhstan in February-March, and September-October 2020.

Year-on-year growth in key sectors of the economy in 2020, %



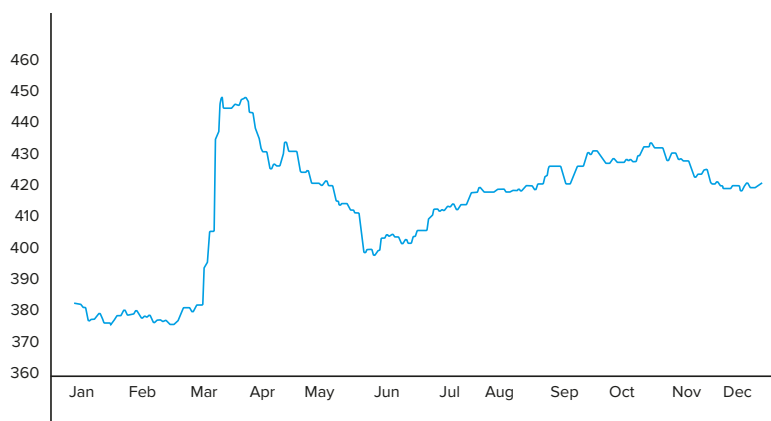
Source: Ministry of National Economy

The tenge’s depreciation led to a rise in inflation. Inflation rose above the upper limit of the target range set by the National Bank of Kazakhstan (4–6%) to 7.5% year-on-year in December 2020. In 2020, the National Bank of Kazakhstan adjusted its monetary policy to support liquidity for companies and households. Due to the rising inflation and the tenge’s depreciation against the US dollar, the National Bank of Kazakhstan made an unscheduled increase in its policy rate from 9.25% to 12% in mid-March 2020. In early April 2020, given the renewed market expectations for a longer economic impact from the pandemic, the National Bank of Kazakhstan adjusted its monetary policy by cutting its policy rate to 9.5% and widening the corridor to +/-2 p.p. to support the economy. On 20 July 2020, NBK decided to cut the base rate to 9.0% with tightening the corridor to +/- 1.5 p.p. in response to the weakened inflationary risks and stronger economic contraction in the first half of 2020 than expected. On 14 December 2020, NBK decided to keep the base rate at 9.0% with tightening the corridor to +/- 1.0 p.p.

STRATEGIC DIRECTION

In its operations, KMG focuses on achieving the key strategic objectives of the government in developing the country’s oil and gas industry. The Company is guided by Kazakhstan’s strategic documents and implements development programmes to support the country’s economy and social initiatives.

USDKZT rate in 2020



Source: National Bank of Kazakhstan

