



JSC NC “KAZMUNAYGAS” MANAGEMENT REPORT ON FINANCIAL AND OPERATING PERFORMANCE

for 12 months ended 31 December 2020



The objective of the following document is to assist in understanding and assessment of the trends and material changes in the Group's operating and financial performance. This overview is based on the Group's consolidated financial statements and shall be considered together with the consolidated financial statements and related notes. All financial data and their discussion are based on the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS). In accordance with the Group's accounting policies, investments in joint ventures and associates are accounted for using the equity method and, therefore, are not consolidated line by line ("equity method treated enterprises").

All KZT amounts are given in billions, except as otherwise expressly provided for herein. The figures are rounded, however, actual indicators before rounding are taken to calculate rates per unit.

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1. GENERAL

JSC NC “KazMunayGas” is a vertically integrated company operating in exploration, production, transportation, refining and marketing of oil and gas, as well as selling crude oil, gas and refined products in Kazakhstan and abroad.

JSC NC “KazMunayGas” is a state-owned oil and gas enterprise of the Republic of Kazakhstan established by Decree No. 811 of the President of the Republic of Kazakhstan of 20 February 2002 and by Regulation No. 248 of the Government of the Republic of Kazakhstan of 25 February 2002. JSC NC “KazMunayGas” was established by the merger of National Oil and Gas Company CJSC “Kazakhoil” and National Company “Oil and Gas Transportation”. As a result of the merger, JSC NC “KazMunayGas” acquired all the assets and liabilities, including stakes in all businesses owned by these companies.

The shareholders of KMG are JSC SWF “Samruk-Kazyna” (90.42% – 1 share) and the National Bank of the Republic of Kazakhstan (9.58% + 1 share). The Group produces more than a quarter of Kazakhstan national market of oil and gas condensate and dominates in national oil refining and transportation of oil and natural gas through trunk pipelines.

The Group’s largest and most important contributors to the consolidated business in the reporting period:

- JSC “Ozenmunaigas” (oil and gas exploration and production);
- JSC “Embamunaigas” (oil and gas exploration and production);
- JSC “KazTransOil” (oil transportation);
- JSC “KazTransGas” (gas transportation and sales);
- JSC “KazMunayTeniz” (offshore oil operations);
- LLP “Atyrau Refinery” (crude oil refining);
- LLP “Pavlodar Oil Chemistry Refinery” (crude oil refining);
- KMG International N.V. (refining and marketing of crude oil and refined products in Romania and countries of the Black Sea and Mediterranean basin);
- Large investment projects:
 - North Caspian Operating Company B.V. (share – 8.44%);
 - Karachaganak Petroleum Operating B.V. (share – 10%);
 - Tengizchevroil (share – 20%).

Key corporate events:

- Transfer of 70% of JSC “Kazakhstan-British Technical University” shares to EF “Nursultan Nazarbayev Educational Foundation” as part of the sale and purchase contract for 100% of KBTU shares.
- On 21 January 2020, Tengizchevroil Finance Company S.ar.L (SAC of LLP “Tengizchevroil”) was liquidated;
- On 27 January 2020, JSC “KazTransGas” acquired 100% share in the KMG EP RF Holding (Cooperative KMG EP U.A.) authorized capital;
- During reorganization (merger/liquidation), EP KMG has implemented the following activities:
 - a) From 23 to 28 January 2020, KMG acquired 100% share in the LLP “UBRiOS”, LLP “OzenMunaiService”, LLP “Ken-Kurylysservice”, LLP “WPTD”, LLP “KazGPP” authorized capitals;
 - b) On 24 February 2020, LLP “Kazgermunai” was reregistered to KMG;
 - c) On 10 March 2020, LLC “KMG EP-Catering” was reregistered to KMG;
- On 26 March 2020, 100% share in the JSC “KazMunayGas-Service-NS” authorized capital was transferred to KMG by means of reduction of LLC “KazMunayGas-Service” authorized capital by the amount of KZT 15,2 billion;
- On 27 March 2020, the international rating agency S&P Global Ratings (S&P) have affirmed KMG’s ratings as BB, in connection with the reduction of the price of oil S&P revised the outlook from “Stable” to “Negative”;
- On 27 March 2020, the international rating agencies Fitch Ratings have affirmed KMG’s ratings as BBB- /outlook Stable;
- On 29 April 2020, the KMG BoD approved a new organization chart of the KMG Headquarters providing for a reduction of personnel number by 34% from 729 to 480 (a reduction by 249 employees). The changes in the organization chart have been implemented as part of the anti-crisis measures in relation to the Covid-19 pandemic and global oil price drop and provide for focusing the Corporate Centre’s effort on achieving of strategic tasks;
- On 22 May 2020, the KMG BoD decided to transfer 100% shares of JSC NC “KazMunayGas-Service NS” to KTG.
- On 10 July 2020, the Supreme Court of Romania adopted the final decision on Case 225 (criminal proceedings terminated, and risk in excess of 780 million U.S. dollars was removed).
- On 20 August, KMG paid dividends in the amount of KZT 82 billion (USD 198 million), including dividends to Samruk-Kazyna in the amount KZT 74 billion (USD 178 million) and to RoK National Bank in the amount of KZT 8 billion (USD 19 million);
- On 7 October 2020, an agreement between KMG and PJSC “LUKOIL” was signed in Moscow regarding the Al-Farabi project, that defined the rights and obligations of KMG and PJSC “LUKOIL” in respect of the future subsoil user’s operations;

- On 16 October 2020, an auction was held to dispose of 50% of LLP “Atyrau Refinery” participation share in the authorised capital of LLP “LPG Storage Farm”. Following the auction, LLP “Joint Technologies” was declared the winner with the final price of KZT 5.8 billion, at the starting price of KZT 5.7 billion.
- On 25 October 2020, pursuant to Resolution of RoK Government No.791, a deal was concluded for disposal of ICA’s preferred shares from KMG to KMG that resulted in KTG’s becoming the Sole shareholder of 100% of shares (85.60% in ordinary shares, and 14.40% in preferred shares) of ICA.

Production events:

- On 29 January 2020, Resolutions of the Kazakhstan Government regarding inclusion of “Sary-Arka” trunk gas pipeline into the list of strategic assets and the consent to encumber it with rights of third parties by means of transferring it on hire to ICA;
- On 6 February 2020, results of reserves and resources evaluation according to SPE-PRMS international standards were accepted in respect of NC “KazMunayGas” assets as of 31 December 2019;
- On 28 February 2020, TCO Partners approved the updated cost of the Tengiz field future growth project/Well-head pressure control project at the Tengiz field (FGP/WPCP) in the amount of USD 45.2 billion;
- On 16 March 2020, authorized capital of LLP “Magistralny Vodovod” was increased to KZT 52.4 billion by means of additional contribution of the following property with the total value of KZT 15.1 billion.
- Due to overstocking with refined products and influence of Covid-19 on refined products consumption, RoK refineries performed the following activities: LLP “Atyrau Refinery” - The scheduled current repairs of CDU 2 unit, combined gasoline and diesel fuel hydrotreating unit, SPU, Hydrogen Production and Purification Unit started on 16.03.2020 (4 days earlier, against the beginning on 20.03.2020 as per the approved plan). Completion of the repairs and reaching the full processing capacity on 04.04.2020 as per the preventive maintenance schedule;
- On 27 April 2020, the reports “Current estimation of hydrocarbons reserves of Zhambyl field” and “Current estimation of hydrocarbons reserves of Zhetysay field” were defended to the RoK State Commission of Mineral Reserves. Incremental oil reserves in category C1 for Zhambyl field are 4,096 thousand tonnes, and 1,240 thousand tonnes for Zhetysay field. This is the first estimation of the reserves;
- On 29 April 2020, 1A CS was commissioned at Beineu – Bozoi – Shymkent trunk pipeline;
- From 15 March to 1 May 2020 inclusive, the 3 KMG plants: Petromidia Refinery, “Vega” and Petrochemical Complex performed their scheduled long-term shutdowns for repairs conducted every 4 years.
- On 6 May 2020, the report “Re-estimation of hydrocarbons reserves of Saztobe East field” was defended to the RoK State Commission of Mineral Reserves. Incremental recoverable oil and condensate reserves in Category C1 is 593 thousand tonnes.
- On 14 May 2020, drilling and testing of the appraisal well HCB-11 at C3 field, flank of S. Nurzhanov field (EMG), resulted in free flow of pure oil with the yield of 165 m³/day with a 9-mm choke from the Triassic Horizon (T-IV-A);
- On 23 June 2020, it was announced that geological exploration works in the exploration block of Becturly East in Mangistau Region produced a free flow of oil with the yield of 100 m³/day with a 12-mm choke (oil gravity ranging from 0.82 to 0.85 g/cm³);
- In June, due to the Covid-19 situation at Tengiz field, all non-critical personnel (27 thousand employees) was demobilized, including 1000 foreign employees. On 1 September 2020, remobilization of TCO personnel and contractors to construction sites was started;
- On 28 October 2020 – the final process module was delivered at Tengiz, which means completion of all carriage by sea under the FGP/WPCP;
- By 19 November 2020, Kashagan field produced the first 50 million tonnes of oil since the startup of the field;
- On 11 December 2020 an official ceremony of bringing two wells into pilot operation at the East Urikhtau field took place in Aktoke oblast;
- In December, AR produced the first batch of winter diesel fuel Altay-45 meeting the K5 class environmental requirements, with a pour point of minus 45°C. Altay-45 fuel has been produced to ST TOO 403 19154-38-2020 using the diesel hydrotreating unit Prime D 3205 of the advanced oil refining complex;
- On 20 December 2020, the Report “Re-estimation of Oil and Dissolved Gas of XX-XXIV Productive Horizons of Karamandybas Field with TEOKI” (as of 01.06.2020) was defended to the RoK State Commission of Mineral Reserves. Incremental recoverable oil reserves in Categories B+C1 is 5,521 thousand tonnes;
- On 20 December, implementation of the project for increase of storage capacity at “Bozoi” underground gas storage facility to 4 billion m³/year was completed.
- On 28 December 2020, the Report “Current estimation of hydrocarbons reserves of Becturly East field” (Mangistau region, Republic of Kazakhstan) as of 01.09.2020 was defended. Incremental recoverable oil reserves in Category C1 is 542 thousand tonnes (Including KMG’s participation interest).

Financial events:

- Resolutions of the Kazakhstan Government dated 21.03.2020 and 26.03.2020 were issued regarding currency market stabilization measures. Instructions given to KMG Group concerning mandatory sale of 50% of foreign currency earnings during the emergency period are being implemented as normal. Transfer of funds from foreign banks to RoK in the total amount of USD 375 million has been implemented as per the following breakdown: 31.03.2020 NC KMG transferred USD 100 million to Halyk Bank; 05.05.2020 NC KMG transferred USD 100 million to National Bank; 01.04.2020 KTG transferred USD 95 million to Citibank; 07.04.2020 KTG transferred USD 80 million to Citibank;
- The KMG guarantee amount issued as a security for the obligations of JSC “AstanaGas MG” to JSC “Halyk Bank of Kazakhstan” has been reduced from KZT 9.5 billion to KZT 1.9 billion by signing and Addendum to the guarantee dated 27 April 2020;
- On 30 April 2020, KTG effected a partial repurchase of guaranteed bonds to the amount of USD 750 million with the yield rate of 4.375% and to mature in 2027, to the amount of USD 43.4 million;
- On 17 July 2020, the Agreement on Settlement of the Fairness Index Dispute between the Republic of Kazakhstan and foreign Partners was signed.
- In October 2020, the Company issued Eurobonds in the amount of USD 750 million (equivalent to 322 billion tenge) with a coupon rate of 3.5% per annum and maturing in 2033 with simultaneous full early redemption of Eurobonds in the amount of USD 906.6 million (equivalent to 392 billion tenge) and maturing in 2022 and 2023;
- On 16 November 2020 KTG, VTB Bank and SB VTB Bank JSC (Kazakhstan) signed a credit agreement on borrowing a total of 200 million U.S. dollars in the Russian rouble equivalent with a maturity of three years with enhanced commitment package. KTG directed the borrowed funds to refinance the obligations to the syndicates of banks, including ING Bank, Citibank N.A., MUFG, Société Générale and Mizuho Bank Ltd. provided in 2018, to the amount of USD 200 million;
- On 17 November 2020, LLP “KMG Drilling&Services” made a full payment to the Consortium (LLP “ERSAI CASPIAN CONTRACTOR” AND LLP “CASPIAN OFFSHORE AND MARINE CONSTRUCTION”) pursuant to the Agreement on final settlement of dispute in the amount of KZT 38.8 billion, which as at the date of payment was equivalent to USD 90.4 million;
- On 21 and 22 December 2020, conversion of AR currency loan was effected, with the principal debt amount of USD 98 million in JSC “Halyk Bank of Kazakhstan” from USD to KZT;
- On 23 December 2020, KMTF effected early repayment of its debt to JSC “Islamic Bank “Al Hilal” in the amount of USD 4.8 million .

2. KEY MACROECONOMIC FACTORS

The key factors that affected the Company's performance are:

- fluctuations of prices for crude oil and processing margin;
- effect of exchange rate changes;
- changes in the tariffs for oil and gas transportation;
- taxation.

Below are macroeconomic indicators for 2020, which influenced the group's operations.

Description	UoM	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Change	
				absolute	%
End-of-period inflation rate (CPI, % to the corresponding month of the preceding year)	%	107.5	105.4	2.1	2
Oil export customs duty	(\$ USD per tonne	34	60	-26	-43
Monthly Calculation Index (MCI)	KZT	2,651/2,778*	2,525	253	10
Minimum wage amount (MWA)	KZT	42,500	42,500	0	0

* from 1 April 2020

2.1. Changes in the market prices for crude oil and oil products

Crude oil and oil product prices in the international and Kazakh markets have a significant influence on the Company's performance.

Changes in the global oil prices (USD /barrel)	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, %
Brent	41.84	64.21	-34.8
Urals	41.58	63.78	-34.8

Source: Thomson Reuters

Generally, the change in crude oil prices in 2020 was driven by a number of global factors, including extension of the OPEC+ deal, the Covid-19 pandemic, and market expectations about the slowdown of the global economic growth.

The price trends of oil products in the international and Kazakh markets are determined by a number of factors, the most important of which are crude oil prices, oil products supply and demand ratio, competition, remoteness of the sales markets from the enterprises that refine oil into end products or petroleum intermediates, and the seasonal shortage/surplus in oil product supplies.

As of the end of 12 months of 2020, the global oil product quotations were lower as compared with same period of 2019 due to oil price drop and reduced consumption caused by the worldwide anti-Covid-19 lockdown measures.

Average global prices for oil products	UoM	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, %
Fuel oil	(\$ USD per tonne	273	389	-29.8
Naphtha	(\$ USD per tonne	355	503	-29.4
Jet fuel	(\$ USD per tonne	361	631	-42.8

Source: Thomson Reuters, S&P Global Platts

Average wholesale prices for oil products in RK*	UoM	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, %
AI-95 Gasoline	KZT/tonne	174,363	166,143	4.9
AI-92 Gasoline	KZT/tonne	161,322	154,935	4.1
Diesel fuel (summer)	KZT/tonne	180,461	196,574	-8.2
Jet fuel	KZT/tonne	173,497	220,324	-21.3

Source: Argus Caspian market of oil products produced at the RK refineries

The average wholesale market prices for high-octane gasolines in the RoK domestic market as of 12 months of 2020 exceeded the prices of same period of 2019 by 5% due to an increase of excise rate from KZT 10,500 per tonne to KZT 24,435 per tonne, from 1 January 2020.

Wholesale market prices for diesel and jet fuel in the domestic market of the Republic of Kazakhstan as of the end of the reporting period have decreased by 8% and 21% respectively as compared with 2019. The negative trend of the wholesale prices was shaped by reduction of business activity and the anti-Covid-19 pandemic lockdown measures.

2.2. Change in foreign exchange rate

The change of the KZT-to-USD exchange rate has significantly affected the consolidated performance of the Company, since a significant share of the Company's revenues from sales of crude oil and refined products is denominated in USD, while a significant portion of the Company's expenses is denominated in KZT. Besides, most of the Company's borrowings and accounts payable are denominated in USD.

	Average exchange rate for the period	As of the end of the period
For 12 months, as of 31 December 2020 (KZT per USD 1.00)	413.46	420.91
For 12 months, as of 31 December 2019 (KZT per USD 1.00)	382.87	382.59*

Source: foreign exchange rates established based on the results of trading on the Kazakhstan Stock Exchange

* As of December 31, 2019.

2.3. Oil and gas transportation tariffs

Oil transportation by trunk pipeline

Since most of the regions of oil production in Kazakhstan are located far from the main sales markets for crude oil and petroleum products, oil companies depend on transportation infrastructure development, as well as on its accessibility.

The Group transports a considerable portion of crude oil volumes to be sold for export and to the domestic market, through the Kazakh trunk pipeline system owned by JSC “KazTransOil”, a subsidiary company. Furthermore, the Group owns 20.75% of the share capital in the Caspian Pipeline Consortium.

Crude oil is transported through the trunk pipelines by the KTO Group under oil transportation services contracts signed by them with consumers in accordance with the standard contract form approved by Order No. 58 of the Minister of National Economy of the Republic of Kazakhstan dated 24 June 2019. These contracts established rights and obligations of the parties during oil transportation. The Group's oil is transported through the trunk pipelines of KTO Group to the domestic market and for export in admixture with oil of other producers.

Pursuant to the amendments to the Republic of Kazakhstan Act “Amendments to Certain Natural Monopolies and Regulated Markets Legislative Acts of the Republic of Kazakhstan” adopted in May 2015, transportation of oil for the purpose of transit across the Republic of Kazakhstan and export outside the Republic of Kazakhstan, is not any more considered a natural monopoly.

In February 2018, KTO approved (Order No. 47) a tariff for oil transportation across the Republic of Kazakhstan through the Kazakhstan sector of the trunk pipeline Tuimazy-Omsk-Novosibirsk-2 – KZT 4,292.4 per 1 tonne per 1000 km (excluding VAT) effective since 1 April 2018; the previous tariff was KZT 1,727.1 per 1 tonne per 1000 km (excluding VAT).

In January 2020, KTO approved (Order No. 4) a tariff for export of oil over trunk pipelines – KZT 7,358.76 per 1 tonne per 100 km (excluding VAT) effective since 1 March 2020; the previous tariff was KZT 6,398.92 per 1 tonne per 1000 km (excluding VAT).

In December 2018, the Minister of Energy of the Republic of Kazakhstan approved (Order No. 545) the tariff for transporting Russian oil for 2019–2023 in the amount of 10 million tonnes annually through the territory of the Republic of Kazakhstan to the People's Republic of China along the transportation route: border of the Russian Federation – border of the Republic of Kazakhstan (Priirtyshsk) – Atasu (Republic of Kazakhstan) – Alashankou (People's Republic of China), in the amount of USD 15 per 1 tonne (excluding VAT), which includes:

- Section border of the Russian Federation – border of the Republic of Kazakhstan (Priirtyshsk) – Atasu (Republic of Kazakhstan), including oil transshipment at the main pump station Atasu – USD 4.23 per 1 tonne (excluding VAT); the previous tariff was USD 3.11 per 1 tonne (excluding VAT);
- Section Atasu (Republic of Kazakhstan) – Alashankou (People's Republic of China) – USD 10.77 per 1 tonne (excluding VAT); the previous tariff was USD 8.25 per 1 tonne (excluding VAT).

Due to expiry of the cap tariffs for oil transportation to the domestic market through the trunk pipeline system of KTO for 2015-2019 as approved by the Order No. 347-OD of the Chairman of the Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan dated 21 August 2015, KTO, since 1 January 2020, applied a temporary tariff for said service of KZT 4,109.50 per tonne per 1000 km (excluding VAT); the previous tariff was KZT 4,721.72 per tonne per 1000 km (excluding VAT). Later, on 27 November 2020, the tariff for oil transportation to the domestic market of RoK through the trunk pipeline system of KTO of KZT 4,355.57 per tonne per 1,000 km (excluding VAT) effective from 1 January 2021 was approved by the Order No.71-OD of the Chairman of the Committee on Regulation of Natural Monopolies of the Ministry of National Economy of the Republic of Kazakhstan.

Gas transportation

Gas is transported by the trunk gas pipelines and gas distribution systems of JSC “KazTransOil” Group. Gas is mainly transported by the trunk pipelines of JSC “Intergas Central Asia” and joint ventures of LLP “Asia Gas Pipeline” and LLP

“Beineu-Shymkent Gas Pipeline”. Gas transportation by the distribution gas pipelines is provided by JSC “KazTransGas Aimak”.

International transit and export tariffs for gas transportation

In accordance with the amendments to the Natural Monopolies Act introduced in May 2015, gas transportation for transit and export is no longer subject to governmental regulation. Tariffs for gas transit and export are established on a contractual basis without approval by the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan.

Tariffs for gas transportation for transit and export in 2020 were as follows:

- JSC “Intergas Central Asia”:
 - gas transit – USD 2 per thousand m³ per 100 km, excluding VAT, for Gazprom PJSC and its subsidiaries; USD 2.9 per thousand m³ per 100 km, excluding VAT, for JSC “Uztransgas”;
 - gas export – USD 5 per thousand m³ per 100 km, excluding VAT, for Tengizchevroil LLP, JSC “KazTransGas”;
 - gas export – USD 2 per thousand m³ per 100 km, excluding VAT, for LLP “KazRosGas”;
- LLP “Asia Gas Pipeline” – gas transit and export, USD 3.58 per thousand m³ per 100 km, excluding VAT;
- LLP “Beineu-Shymkent Gas Pipeline” – a single tariff for gas transportation in the domestic market, gas transit and export: KZT 15,964.4 per 1000 m³ per 100 km (excluding VAT).

Tariffs for domestic gas transportation by trunk and distribution gas pipelines

Tariffs for gas transportation in the domestic market are subject to regulation by the Committee on Regulation of Natural Monopolies and Protection of Competition and Consumer Rights, as prescribed by law.

Tariffs for marketable gas transportation by the trunk pipelines to consumers of the Republic of Kazakhstan have been approved as follows:

- JSC “Intergas Central Asia” from 1 January 2017 – KZT 2,212.7 per thousand m³ (excluding VAT), from 1 May 2020 – KZT 2,367 per thousand m³ (Order No.5 of the Committee for Regulation of Natural Monopolies dated 06.05.2020) and KZT 2,333.32 per thousand m³ from 10 December 2020 (Order No.76-OD of the Committee for Regulation of Natural Monopolies dated 03.12.2020);
- LLP “Asia Gas Pipeline” from 1 January 2020 – KZT 555.5 per thousand m³ per 100 km (excluding VAT);
- LLP “Beineu-Shymkent Gas Pipeline” from 1 January 2020 – KZT 15,964.4 per thousand m³ (excluding VAT).

Tariffs for marketable gas transportation by the trunk pipelines of JSC “KazTransGas Aimak” to consumers in the Republic of Kazakhstan have been approved as follows:

No.	Region	Transportation tariff, KZT per thousand m ³ , excl. VAT
1.	Zhambyl region	6,443.38
2.	Shymkent	6,248.66
3.	Kyzylorda region	9,083.51
4.	West Kazakhstan region	2,615.37
5.	Aktobe region	4768.64/5107.36
6.	Kostanay region	4,922.51
7.	Mangistau region (RT)	2,392.59
8.	Mangistau region (MT)	591.80
9.	Atyrau region	1769.16/1769.42
10.	East Kazakhstan region	1546.75/1550
11.	Almaty	4,309.80
12.	Nur-Sultan	4,107.87

2.4. Tariffs for refining

Starting from 2016, three major local oil refineries (Atyrau Refinery, Pavlodar Refinery, and JSC “PetroKazakhstan Oil Products”) began utilising a new refining model, under which the refineries provide only oil refining services at established rates, and do not buy oil for refining and do not sell refined products. These obligations are now owed by oil suppliers, who sell finished refined products independently. Thanks to the vertically integrated structure of the KMG Group and its new refining business model, each business segment is now able to focus on its specific area of expertise, which ultimately increases the operational efficiency of the entire KMG Group. In light of KMG’s transformation and its transition from a strategic manager of its assets to an operational manager, the refining business model helps refineries focus on the production aspects only, which results in optimised refining operations and reduced costs.

In accordance with Act No. 376-V “Amendments to Certain Entrepreneurship Legislative Acts of the Republic of Kazakhstan” dated 29 October 2015, governmental regulation of refining fees was cancelled on 1 January 2017.

Weighted average tariffs for refining operations are listed below:

Refinery	UoM	12 months of 2020	12 months of 2019	Δ, %
Atyrau Refinery	KZT/tonne	41,168	37,179	10.7
Pavlodar Refinery	KZT/tonne	20,904	19,805	5.5
PKOP	KZT/tonne	30,783	24,485	25.7
CASPI BITUM	KZT/tonne	18,003	18,012	-0.0

2.5. Taxation

The table below shows fixed tax rates applicable by the Group in the relevant periods:

Tax	30.09.2020	30.09.2019	Tax base		
Corporate income tax (CIT)	20%	20%	Taxable income		
Value added tax (VAT)	12%	12%	Sale of goods, works, services		
Property tax	1,50%	1,50%	Average annual book value of taxable items determined by the accounting data		
Land tax	Variable value, the rate depends on the purpose and quality of the land plot	Variable value, the rate depends on the purpose and quality of the land plot	Land plot area		
Environmental emissions fee	Variable value, the rate depends on the type of emissions	Variable value, the rate depends on the type of emissions	Actual volume of emissions within and/or exceeding the limits of environmental emissions		
Export rent tax	0%-32%	0%-32%	Crude oil and oil products export volume		
Mineral extraction tax (MET)	0%-18%	0%-18%	Value of produced crude oil, gas condensate and natural gas		
Excess profits tax (EPT)	0%-60% at a sliding scale of rates	0%-60% at a sliding scale of rates	Portion of the subsurface user’s net income defined as a difference between the total annual income and deductions (in the amount of actual CAPEX for fixed assets) and CIT exceeding an amount of 25% of these deductions. EPT is calculated for each individual subsurface use contract.		
Crude oil and gas condensate excise	0 KZT/tonne	0 KZT/tonne	Amount of crude oil and gas condensate produced and sold		
Excise rates for 1 tonne (KZT) and duties					
	30.09.2020		30.09.2019	Tax base	
Oil products excise tax	Gasoline (except jet fuel), <u>EAEU FEACN</u> code 2710 12 411 0-2710 12590 0)	Diesel fuel (<u>EAEU FEACN</u> code 2710 19310 0- 2710 19 480 0)	Gasoline (except jet fuel), <u>EAEU FEACN</u> code 2710 12 411 0-2710 12590 0)	Diesel fuel (<u>EAEU FEACN</u> code 2710 19310 0- 2710 19 480 0)	Produced, sold, and imported oil products
Wholesaling of own gasoline (except jet fuel) and diesel fuel by producers (July – November)	24,435	9,300	10,500	9,300	
Wholesaling of gasoline (except jet fuel) and diesel fuel by individuals and entities	0	0	0	0	
Retailing of own gasoline (except jet fuel) and diesel fuel by producers, utilization for own operating needs (July – November)	24,935	9,360	11,000	9,360	
Retailing of gasoline (except jet fuel) and diesel fuel by individuals and entities, utilization for own operating needs	500	60	500	60	
Import	24,435	540	10,500	540	
Transfer of excisable goods specified in Article 462 (5) of the Tax Code, which are the product of toll refining (July – November)	24,435	9,300	10,500	9,300	
Crude oil export duty	On a scale linked to the world oil price		On a scale linked to the world oil price		Export volume

Mineral extraction tax, rental export tax and export customs duty rates for oil and oil products are tied to the world oil price and change accordingly. If crude oil and gas condensate is sold and/or transferred within the domestic market of the Republic of Kazakhstan, including sale/transfer in kind towards payment of the mineral extraction tax, rental export tax,

royalties and share of the Republic of Kazakhstan under product sharing to the beneficiary on behalf of the State, or if used for the own operating needs, a 0.5 decreasing factor shall be applied to the established rates.

Mineral extraction tax rate for sour gas is 10%. When sour gas is sold in the domestic market, the mineral extraction tax is paid at the rates depending on the annual production (from 0.5% to 1.5%).

In February 2016, the Ministry of National Economy of the Republic of Kazakhstan introduced a progressive scale of export customs duties for crude oil. According to the new scheme, export duties are calculated based on the average market price of crude oil established on the world Brent and Urals markets. Based on the oil prices scale, given the global prices below USD 25 per barrel, the export duty rate is 0, and if the world oil price is above USD 25 per barrel, the export duty rate is to be determined in accordance with the scale. Rental export tax is calculated based on the rate scale, given the global oil price is above USD 40 per barrel.

3. GROUP'S OPERATING PERFORMANCE

Operating results	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Oil and condensate production, taking into account share in joint ventures (thousand tonnes)	21,752	23,618	-1,866	-7.9
Gas production, including share in joint ventures (million m ³)	8,191	8,455	-264	-3.1
Refining of raw hydrocarbons at own refineries and refineries of joint ventures (thousand tonnes)	18,077	20,588	-2,511	-12.2
Oil transportation by trunk pipeline (thousand tonnes)	64,181	67,337	-3,156	-4.7
Oil cargo turnover (million tonnes * km)	59,778	62,804	-3,026	-4.8
Oil transportation by sea (thousand tonnes)	8,990	10,728	-1,738	-16.2
Gas transportation by trunk gas pipelines (million m ³)	86,590	103,494	-16,903	-16.3
Gas commodity/transportation operations (billion m ³ * km)	49,886	58,394	-8,509	-14.6

3.1. Production of crude oil and condensate

Consolidated oil and condensate production (thousand tonnes)	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
	21,752	23,618	-1,866	-7.9
JSC "Ozenmunaigas" (100%) + LLP "KazGPP" (100%)	5,347	5,586	-239	-4.3
JSC "Embamunaigas" (100%)	2,601	2,900	-299	-10.3
LLP "Kazakhturkmunai" (100%)	432	409	23	5.6
JSC "KazTransGas" ("Amangeldy Gas" – 100%)	15	17	-2	-10.3
LLP "Urikhtau Operating" (100%)	6	0	6	-
LLP "JV "Kazgermunai" (50%)	778	1,114	-336	-30.2
LLP "Mangistaumunaigas" (50%)	2,977	3,204	-227	-7.1
JSC "Karazhanbasmunai" (50%)	1,001	1,082	-81	-7.5
LLP "Kazakhoil-Aktobe" (50%)	295	320	-25	-7.9
Petrokazakhstan, Inc (33%)	661	844	-183	-21.7
LLP "Tengizchevroil" (20%)	5,292	5,958	-667	-11.2
Karachaganak Petroleum Operating B.V. (10%)	1,094	1,015	79	7.8
PLLC "KMG Kashagan B.V." (50%)	1,253	1,169	84	7.2

The consolidated amount of oil and gas condensate production over the reporting period amounted to 21,752 thousand tonnes, which is 1,866 thousand tonnes less than the amount for the same period of the past year. The main cause for the decline of production is due to limited oil production at certain fields as per the requirements of OPEC+ Agreement as well as natural decline in production rates at mature fields. Oil and gas condensate production at Kashagan field increased due to the successful turnaround in 2019 that resulted in an increase in the utilization rate of the offshore and onshore complexes, an increase in the number of injectors from 4 to 6 wells, installation of additional reboilers at oil trains as well as commissioning of new wells. The increase in production of oil and gas condensate at KMG-Karachaganak is due to the upgrade of production facilities of the Karachaganak processing complex and gas treatment units following the preventive maintenance of the facilities conducted in September-October 2019.

3.2. Gas production

Consolidated gas (associated and natural) production, million m ³	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
	8,191	8,455	-264	-3.1
JSC “Ozenmunaigas” (100%) + LLP “KazGPP” (100%)	726	709	17	2.4
JSC “Embamunaigas” (100%)	217	260	-43	-16.7
LLP “Kazakhturkmunai” (100%)	140	143	-3	-2.0
JSC “KazTransGas” (“Amangeldy Gas” – 100%)	326	350	-24	-6.9
LLP “Urikhtau Operating” (100%)	2	0	2	-
LLP “JV “Kazgermunai” (50%)	188	224	-37	-16.4
LLP “Mangistaumunaigas” (50%)	334	394	-60	-15.3
JSC “Karazhanbasmunai” (50%)	27	27	0	1.0
LLP “Kazakhoil-Aktobe” (50%)	361	348	13	3.6
Petrokazakhstan, Inc (33%)	142	181	-38	-21.1
LLP “Tengizchevroil” (20%)	2,950	3,258	-308	-9.5
Karachaganak Petroleum Operating B.V. (10%)	2,021	1,861	160	8.6
PLLC “KMG Kashagan B.V.” (50%)	758	700	58	8.3

The consolidated amount of gas production over the reporting period amounted to 8,191 thousand tonnes, which is 264,000 tonnes less than the amount of the past year. The main cause for the decline of production is limited oil production at certain fields as per the requirements of OPEC+ Agreement. At the same time, there is an increase in gas production at Karachaganak and Kashagan fields which is related to the increase in oil production at Kashagan and upgrade of Karachaganak processing complex, GTU-2 and GTU -3 after the preventive maintenance in September-October 2019.

3.3. Oil transportation by trunk pipelines

The main export pipeline routes for Kazakh oil are:

- Atyrau-Samara pipeline (JSC “KazTransOil” – 100%);
- Atasu-Alashankou pipeline (JSC “KazTransOil” – 50%);
- Caspian Pipeline Consortium pipeline (JSC NC “KazMunayGas” – 20.75%).

JSC “KazTransOil” provides the services of oil transportation to the domestic market, for export, as well as transit operations.

Consolidated oil transportation by trunk pipelines by companies (thousand tonnes)	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
	64,181	67,337	-3,156	-4.7
JSC “KazTransOil”	42,298	44,463	-2,166	-4.9
JSC “MunaiTas North-West Pipeline Company” (51%)	1,694	1,648	45	2.7
LLP “Kazakhstan-China Pipeline” (50%)	7,942	8,100	-158	-2.0
JSC “Caspian Pipeline Consortium” (20.75%)	12,248	13,126	-878	-6.7
Consolidated crude oil cargo turnover (million tonnes * km)	59,778	62,804	-3,026	-4.8
JSC “KazTransOil”	35,898	37,657	-1,759	-4.7
JSC “MunaiTas North-West Pipeline Company” (51%)	674	628	46	7.3
LLP “Kazakhstan-China Pipeline” (50%)	7,185	7,296	-111	-1.5
JSC “Caspian Pipeline Consortium” (20.75%)	16,020	17,222	-1,202	-7.0

Consolidated oil transportation by trunk pipelines over the reporting period amounted to 64,181 thousand tonnes, which is 3,156 thousand tonnes less than the amount of the past year.

A decrease in oil transportation by the pipelines of KTO is mostly due to the limited oil delivery from JSC “CNPC-Aktobemunaygas” related to the excessive concentrations of organic chlorine compounds in oil, a decrease in oil delivery to

the pipeline system due to natural decrease in the oil production at Kumkol group of fields as well as limitation of oil production at certain fields as per the requirements of OPEC+ Agreement.

3.4. Oil transportation by sea

The main routes of oil transportation by sea are:

- Routes in the water area of the Caspian Sea
- Routes in the water area of the Black and Mediterranean Seas.

Consolidated oil transportation by sea broken down by directions (thousand tonnes)	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
	8,990	10,728	-1,738	-16.2
Aktau-Makhachkala	533	505	28	5.5
Black Sea	3,420	3,678	-258	-7.0
Mediterranean Sea	4,941	6,507	-1,566	-24.1
Turkmenbashi/Baku, Makhachkala	96	38	58	152.6

The consolidated oil transportation by sea over the reporting period amounted to 8,990 thousand tonnes, which is 1,738 thousand tonnes less than the amount for the past year. The decrease in oil transportation by sea over 12 months of 2020 is mostly caused by a decrease in oil quantities in the Mediterranean Sea resulting from down time due to waiting for loading and adverse weather conditions.

3.5. Gas transportation

Gas is transported in the following directions: international gas transit, gas transportation for export, and gas transportation to domestic consumers.

Consolidated gas transportation (million m ³)	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
	86,590	103,494	-16,903	-16.3
International transit	46,727	59,369	-12,643	-21.3
Gas transportation for export	19,698	26,160	-6,461	-24.7
Gas transportation to domestic consumers	20,165	17,964	2,201	12.3
Consolidated gas transportation (million m³)	86,590	103,494	-16,903	-16.3
JSC "Intergas Central Asia"	57,753	72,961	-15,209	-20.8
JSC "KazTransGas-Aimak"	2,603	2,554	50	1.9
LLP "Asia Gas Pipeline" (50%)	19,888	22,935	-3,047	-13.3
LLP "Beineu-Shymkent Gas Pipeline" (50%)	6,347	5,044	1,303	25.8
Gas commodity/transportation operations (billion m³ * km)	49,886	58,394	-8,509	-14.6

Total oil transportation volumes in 2020 amounted to 86,590 million m³ having reduced by 16,903 million m³ in the reporting period of the past year, for the following reasons:

- reduction in PJSC "Gazprom" transit gas streams from Russia through RoK;
- lack of transit of Uzbek gas by the Central Asia – Centre trunk gas pipeline;
- increased amount of requests for transit of Uzbek gas from JSC "Uztransgas";
- decrease in natural gas consumption in PRC, the reasons for which include stoppage of many production facilities in PRC amid a backdrop of the Covid-19 pandemic;

At the same time, an increase in gas transportation to domestic consumers is observed in the reporting period due to a higher gas consumption and higher total production quantities at LLP "MNPC-Kazatompom".

3.6. Hydrocarbon crude refining

- Pavlodar Oil Chemistry Refinery (wholly owned by JSC NC "KazMunayGas"): POGR can currently refine 6 million tonnes of crude oil annually. The oil conversion ratio was 87.20% in the reporting period.
- Atyrau Refinery (99.53% owned by KMG): designed refining capacity is 5.5 million tonnes annually; the oil conversion ratio was 77.15% in the reporting period.

- Shymkent Refinery (Petro Kazakhstan Oil Products, 49.72% owned by KMG): designed capacity is 6 million tonnes annually; the oil conversion ratio was 90.14% in the reporting period.
- Caspi Bitum (50% owned by KMG): a plant for the production of road bitumens from the heavy Karazhanbas oil. Designed refining capacity is 1.0 million tonnes annually.
- KMG International N.V. (Rompetrol Rafinare) includes two refineries, Petromidia and Vega, and Petrochemicals petrochemical complex (PCC):
 - Petromidia Refinery (wholly owned by Rompetrol Rafinare S.A.), designed capacity is 5.0 million tonnes of oil annually and 1 million tonnes of other raw hydrocarbons annually. The PCC is integrated with the Petromidia Refinery.
 - Vega Refinery (wholly owned by Rompetrol Rafinare S.A.), designed capacity – 500 thousand tonnes annually. The Vega Refinery is the only enterprise in Romania which specialises in the processing of alternative raw materials (naphtha, heavy hydrocarbon fractions, fuel oil).

Consolidated hydrocarbon crude refining, including the operating share (thousand tonnes)	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
	18,077	20,588	-2,511	-12.2
LLP "Atyrau Refinery"	5,016	5,388	-372	-6.9
LLP "Pavlodar Oil Chemistry Refinery"	5,004	5,290	-286	-5.4
LLP "PetroKazakhstan Oil Products" (50%)	2,397	2,701	-304	-11.3
"CASPI BITUM" (50%)	433	443	-10	-2.3
KMG International N.V. (Rompetrol Rafinare)	5,228	6,767	-1,539	-22.7

The main reasons for changes in the processing volumes:

- PKOP – reduced supply of oil to the plant due to lack of demand for refined products during the lockdown period in RoK;
- AR and PPCP – reduced consumption of refined products in RoK due to the Covid-19 pandemic in 2020 that caused the earlier preventive maintenance at the facilities;
- KMG International N.V. (Rompetrol Rafinare) – Planned temporary shutdown of the refinery from 15 March to 1 May 2020 for repairs conducted every 4 years.

3.7. Sales of crude oil, oil products and gas

Sales of oil produced by KMG

thousand tonnes	For 12 months ended 31.12.2020			For 12 months ended 31.12.2019		
	Export	Domestic market	Total	Export	Domestic market	Total
Operating assets*	7,524	6,849	14,373	8,472	7,137	15,609
Megaprojects**	7,637	2	7,639	8,215	1	8,216
Total	15,161	6,851	22,012	16,688	7,138	23,826

* Ozenmunaigas, Embamunaigas, Mangistaumunaigas, Karazhanbasmunai, Kazgermunai, PetroKazakhstan Inc., Kazakhoil Aktobe, Kazakhturkmunai, Amangeldy Gas, Urikhtau Operating.

** Tengizchevroil, Karachaganak Petroleum Operating B.V., North Caspian Operating Company N.V.

Oil sales over the reporting period are lower than those in the same period of the past year due to the decrease in oil production.

Sale of oil products

In the reporting period, oil products were sold by JSC NC “KazMunayGas”, JSC “KazMunayGas-Aero”, KMG International N.V.

thousand tonnes	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Wholesale	8,188	8,317	-128	-1.5
Light oil products	6,903	5,556	1347	24.2
Dark oil products	892	1,034	-142	-13.7
Petrochemicals	109	194	-84	-43.6
Liquefied gas	135	423	-288	-68.2
Other	150	1,111	-960	-86.5
Retail	0	1,579	-1579	-100.0
Light oil products	0	1,433	-1433	-100.0
Liquefied gas	0	0	0	-
Other	0	145	-145	-100.0
Total refined product sales	8,188	9,895	-1707	-17.2

KMG's sales of refined products

thousand tonnes	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Sale of domestic refined products	3,317	3,343	-26	-0.8
Wholesale*	3,317	3,136	181	5.8
Retail sale	0	207	-207	-100.0
KMGI's sales of refined products	4,871	6,552	-1,681	-25.7
Wholesale	4,871	5,181	-309	-6.0
Retail sale	0	1,371	-1,371	-100.0
Total	8,188	9,895	-1,707	-17.3

* except wholesale distribution of oil products for the retail network of KMG fuel stations

Refined product sales in the reporting year compared to 2019 reduced by 1,707 thousand tonnes, mostly due to reduced oil refining at KMGI as well as lack of retail sales of Kazakh refined products.

The lack of retail sales of Kazakh refined products is due to the sale of a refined products retail network in 2019.

Decrease in the sales of refined products by KMGI due to shutdown of the refinery for repairs and interruptions in oil supply in February caused by poor weather conditions.

Gas sales

Natural gas is mainly sold by JSC “KazTransGas”. The company's functions include wholesale purchases of natural gas for the domestic market, transportation of gas through regional gas distribution networks, operation of gas distribution facilities and networks, and sale of natural gas in the domestic market.

KTG gas sales* (million m ³)	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Gas export	7,852	8,806	-954	-11
Gas sales to the domestic market	14,811	14,028	783	5.6
Total gas sales	22,663	22,834	-171	-0.7

The decreased gas exports are due to the reduced amounts to Russia and lack of export to Uzbekistan.

The increase in gas sales to the domestic market is mostly due to the growth of sales driven by connection of new industrial enterprises and larger consumption by population.

4. GROUP FINANCIAL PERFORMANCE

Statement of Profit and Loss

Profit and loss (KZT million)	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Revenue and other income	5,202,080	7,970,132	-2,768,052	-34.7
Revenue from products sold and services rendered	4,556,037	6,858,856	-2,302,819	-33.6
Share in profit of joint ventures and associates, net	511,195	827,979	-316,784	-38.3
Finance income	109,753	240,880	-131,127	-54.4
Revenue from disposal of a subsidiary	519	17,481	-16,962	-97.0
Other operating income	24,576	24,936	-360	-1.4
Expenses and costs	-4,923,880	-6,585,501	1,661,621	-25.2
Cost of crude oil, oil products, and other materials purchased	-2,277,066	-3,913,744	1,636,678	-41.8
Production expenses	-740,786	-721,693	-19,093	2.6
Taxes other than income tax	-269,559	-454,295	184,736	-40.7
Depreciation, depletion and amortisation	-360,283	-337,424	-22,859	6.8
Transportation and selling expenses	-458,186	-420,402	-37,784	9.0
General and administrative expenses	-170,208	-213,967	43,759	-20.5
Impairment of PP&E and exploration and appraisal assets	-243,694	-150,751	-92,943	61.7
Exploration costs	-19,807	-57,068	37,261	-65.3
Impairment of investments on joint ventures and associates	-30,654	0	-30,654	0.0
Finance costs	-297,551	-317,433	19,882	-6.3
Other operating loss	-32,151	-7,203	-24,948	346.4
Foreign exchange (loss)/gain, net	-23,935	8,479	-32,414	-382.3
Profit before income tax	278,200	1,384,631	-1,106,431	-79.9
Corporate income tax expenses	-106,303	-226,180	119,877	-53.0
Profit for the year from continuing operations	171,897	1,158,451	-986,554	-85.2
Profit/(loss) after tax from discontinued operations	0	6	-6	-100.0
Net profit/(loss)	171,897	1,158,457	-986,560	-85.2

4.1. Revenues

Consolidated revenues from products and services

KZT million	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Oil product sales	1,337,579	2,043,849	-706,270	-34.6
Crude oil sales (including crude oil quality bank)	1,676,749	3,091,720	-1,414,971	-45.8
Marketable gas sales	790,642	874,422	-83,780	-9.6
Oil transportation	155,696	168,624	-12,928	-7.7
Gas transportation	121,969	209,623	-87,655	-41.8
Oil and oil product processing	193,659	195,896	-2,237	-1.1
Other	279,743	274,723	5,020	1.8
Total revenues from products and services	4,556,037	6,858,856	-2,302,819	-33.6

Consolidated sales of products and services

Product and service sale volumes	UoM	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Oil product sales	thousand tonnes	7,575	10,341	-2,766	-26.7
Crude oil sales	thousand tonnes	13,844	16,941	-3,097	-18.3
Marketable gas sales	million m ³	22,674	22,834	-160	-0.7
Oil transportation by trunk pipeline	thousand tonnes	34,655	36,842	-2,186	-5.9
Gas transportation	million m ³	47,701	54,982	-7,281	-13.2
Oil refining	thousand tonnes	6,514	7,176	-661	-9.2

Average established estimated prices

Average established estimated prices	UoM	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Oil product sales	KZT per tonne	176,567	197,640	-21,073	-10.7
Crude oil sales	KZT per tonne	121,118	182,504	-61,386	-33.6
Marketable gas sales	KZT per thousand m ³	34,870	38,295	-3,425	-8.9
Oil transportation by trunk pipeline	KZT per tonne	4,493	4,577	-84	-1.8
Gas transportation	KZT per thousand m ³	2,557	3,813	-1,256	-32.9
Oil refining	KZT per tonne	29,728	27,301	2,427	8.9

Sale revenues in the reporting period amounted to KZT 4,556 billion and decreased by 34% compared to the same period of the past year. The revenue structure shows growth in the share of revenues from oil products, marketable gas sales, oil and gas transportation, oil and oil product processing.

The main reasons for changes in income by types of activities:

- crude oil sales – a 45.8% decline is due to a reduction in the weighted average global oil price and limited oil production as per the requirements of OPEC+ Agreement;
- refined products sales – a 34.6% decline is due to a decline in the amounts of sales by KMGI and a reduction of sales by KMG-Aero due to the limitations related to the viral pandemic, reduction of Platts quotations for gasoline and diesel fuel;
- marketable gas sales – a 9.6% reduction is due to a decline in the sales amounts and average selling price for PRC;
- oil transportation – a 7.7% decrease is due to the reduction of tariffs for oil transportation over trunk pipelines to the domestic market from KZT 4,721.72 to KZT 4,109.50 per 1 tonne per 1000 km (excluding VAT), as well as a decrease in oil cargo turnover due to decreased oil supplies;
- gas transportation – a 41.8% decrease is mostly due to the reduction of revenues from international transit, reduction of Central Asian transportation, mainly gas from Turkmenistan, due to suspension of transit of Turkmenian gas to the Russian Federation.

4.2. Expenditure

Cost of crude oil, oil products, and other materials purchased

KZT million	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Crude oil purchased for resale	1,311,169	2,448,412	-1,137,243	-46.4
Gas purchased for resale	380,261	493,280	-113,019	-22.9
Cost of oil for refining	313,543	638,293	-324,750	-50.9
Oil products purchased for resale	45,870	116,621	-70,751	-60.7
Materials and reserves	226,223	217,138	9,085	4.2
Total	2,277,066	3,913,744	-1,636,678	-41.8

The consolidated net cost of crude oil, oil products, and other materials purchased in 2020 declined by 42% or by KZT 1,637 billion as compared with 2019.

The reduction of the costs for crude oil and refined products purchased for resale is associated with the decrease in trading operations with KMGI oil and refined products in the reporting period following the decrease in the demand in the Asian

market, subsequent closure of the branch in Singapore, the Covid-19 pandemic, and due to a lower price for Brent oil in the reporting period (actual for 2020 – USD 41.84 per barrel, actual for 2019 – USD 64.21 per barrel); The reduction of expenses was partially offset by the change in the average annual KZT-to-USD exchange rate (actual for 2020 – KZT 413.46 for USD 1, actual for 2019 – KZT 382.87 for USD 1).

The reduction of expenses on gas purchased for resale is mostly due to the decline in the weighted average purchase price of gas (actual for 2020 – KZT 16,853 per thousand m³, actual for 2019 r. – KZT 21,499 per thousand m³), as well as reduction of gas sales (actual for 2020 – KZT 22,663 per thousand m³, actual for 2019 – KZT 22,834 per thousand m³).

The reduction of expenses on the cost of oil for refining is due to a lower price for Brent oil in the reporting period. A decrease in oil purchased for refining is due to the shutdown for repairs at KMGI conducted every 4 years. This decline was partially offset by the change in the KZT-to-USD exchange rate.

For the Materials and Reserves, the increase in expenses is mostly at LLP “Ken-Kurylys Service” due to the larger amount of pipe replacement works in the reporting period. The increase at AR is also due to the use of new catalysts, reagents, perchloroethylene (tetrachloroethylene) and other raw materials for the units.

Production expenses

KZT million	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Payroll expenses	339,877	338,120	1,757	0.5
Electrical energy	83,290	88,910	-5,620	-6.3
Repair and maintenance services	114,700	129,450	-14,750	-11.4
Lease expenses	37,743	52,091	-14,348	-27.5
Transportation costs	42,507	30,456	12,051	39.6
Other	122,669	82,666	40,003	48.4
Total	740,786	721,693	19,093	2.6

Consolidated production expenses grew by 3% or by KZT 19 billion over the reporting period as compared with the expenses of 2019.

Remuneration expenses have remained at the past year’s level mostly due to employee turnover and availability of vacancies, that is partially offset by indexation of remunerations of operations personnel as well as increased USD exchange rate.

Transport expenses grew mostly in terms of internal logistics expenses at KMGI due to inclusion of these expenses into other net costs in 2019.

An increase in other expenses is mostly observed at oil producers due to the change in the balance of finished products caused by changes in macroeconomic indicators.

The above increase is partially offset by a decrease in expenses for the following items:

- Repair and maintenance expenses reduced mostly at OMG, KMG-Karachaganak, and LLC “OzenMunaiServis” due to optimisation, saving and carry over of costs in relation to the Covid-19 pandemic;
- Electrical energy expenses reduced mostly at KMGI, AR, KTO, KTG, PPCP, EMG, and OMG due to optimisation of costs, repair operations, and a decrease in production and processing;
- Lease expenses reduced mostly at KMTF due to a reduction in the additional resources from the shippers for Open Seas transportation which, respectively, caused the lower number of chartered tankers.

Taxes other than income tax

KZT million	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Export customs duty	71,746	131,326	-59,580	-45.4
Rental tax on crude oil export	41,120	133,144	-92,024	-69.1
Mineral extraction tax	59,374	100,300	-40,926	-40.8
Other taxes	97,319	89,525	7,794	8.7
Total	269,559	454,295	-184,736	-40.7

Consolidated tax expenses (other than corporate income tax) in 2020 declined by 41% or by KZT 185 billion as compared with the actual figures of 2019.

The export customs duty expenses reduced by KZT 59.6 billion and the rental tax reduced by KZT 92 billion due to the change in Brent oil price as well as a reduction of oil export, which was partially offset by a rise of the KZT-to-USD exchange rate.

MET expenses declined by KZT 40.9 billion mostly due to the application of a reduced rate associated with the reduced rate applied to OMG raw hydrocarbons fields classified as low-profitable, high-viscosity and water-flooded according to Resolution No. 449 of the RoK Government dated 27 June 2019 as well as the oil price reduction.

Expenses on other taxes grew mostly due to the increase in gasoline excise duties as a result of changes in the RoK legislation.

Transportation and selling expenses

KZT million	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Transportation	415,842	374,686	41,156	11.0
Payroll expenses	12,811	12,542	269	2.1
Other	29,533	33,174	-3,641	-11.0
Total	458,186	420,402	37,784	9.0

The consolidated transportation and sales expenses for the reporting period grew by 9% or KZT 37.8 billion. The higher transportation costs are mostly due to changes in the scheme of supplies to Mangistau region and south of RoK as in the reporting period of 2020 KRG supplied gas from Karachaganak directly, with full coverage from western part of RoK by means of transportation through Beineu-Shymkent Gas Pipeline and Uztransgas. In 2019, gas for these regions was purchased from Uzbekistan (Gazprom Schweiz), and, accordingly, the transportation costs were significantly lower. The increase was partially offset by the decline of other expenses, mostly due to the sale of a retail network of fuel stations (KMG-Onimderly).

General and administrative expenses

KZT million	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Payroll expenses	74,704	78,055	-3,351	-4.3
Consulting services	23,402	25,448	-2,046	-8.0
VAT not taken as an offset	4,528	6,910	-2,382	-34.5
Accrual of the provision for expected credit loss on trade receivables	4,225	14,096	-9,871	-70.0
Impairment/(reversal) of VAT refundable	6,435	15,703	-9,268	-59.0
Accrual/(reversal) of the provision for taxes, fines and penalties	44	-19,755	19,799	-100.2
Accrual of the provision for expected credit loss on other current assets	-65	42	-107	-254.8
Social payments not included in payroll expenses	5,961	8,933	-2,972	-33.3
Service costs	8,655	8,711	-56	-0.6
Communication services	3,809	2,963	846	28.6
Other	38,510	72,861	-34,351	-47.1
Total	170,208	213,967	-43,759	-20.5

General and administrative expenses for the reporting period amounted to KZT 170 billion, which is KZT 43.8 billion less than in the past year. The main changes in the cost structure were observed in the following items:

- Payroll expenses reduced mostly at KMG CC following optimization of the organization chart that was partially offset by indexation of remunerations of the Group's employees in the reporting period;
- A reduction in respect of consulting services mostly at KMG D&S due to the provisions formed in the reporting period of 2019 for the lawsuit with the Consortium of LLP "Ersai Caspian Contractor" and LLP "Caspian Offshore and Marine Construction" related to purchasing works to upgrade "Satti" jack-up self-elevating drilling rig;
- A decrease in expenses related to impairment of VAT refundable due to the lower amount of VAT accrued in the reporting period;
- A decrease in expenses related to accrual of the provision for expected credit loss on trade receivables due to a lower amount of provisions for doubtful debts of KMG, KTG, and KMG CC;
- A decrease in expenses related to impairment of VAT refundable mostly due to accrual of VAT not taken as an offset in the same period of 2019 at KTG;
- An increase in expenses related to accrual/(reversal) of the provision for taxes, fines and penalties at EMG – At the end of 2019, by court order, reversing transactions were effected in respect of accrued provisions for environmental damage.
- An decrease in expenses related to social payments not included in the payroll due to compensation payment expenses to KMG EP employees in 2019 in relation with liquidation of the company that was partially offset by expenses covering compensation payments to KMG CC employees due to the headcount optimisation in the reporting period;

- An increase in communication service expenses mostly at KMGI due to correct reclassification of communication service expenses in the reporting period from general administrative expenses into net cost, starting from 2020;
- Other expenses reduced mostly due to the returned provisions for the lawsuit with the Consortium in respect of KMG D&S related to construction of the jack-up self-elevating drilling rig. These arbitration proceedings have been closed in the reporting period as the parties arrived to an agreement.

4.3. Share in profit of jointly controlled entities and associates

KZT million	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Asia Gas Pipeline	175,339	168,086	7,252	4.3
TengizChevroil LLP	173,476	414,940	-241,464	-58.2
Caspian Pipeline Consortium	81,582	70,869	10,713	15.1
Beineu-Shymkent Gas Pipeline	55,005	56,194	-1,188	-2.1
Mangistau Investments B.V.	16,749	81,991	-65,241	-79.6
LLP “KazGerMunai”	15,622	17,561	-1,938	-11.0
Teniz Service	3,891	6,742	-2,851	-42.3
LLP “Kazakhoil-Aktobe”	2,448	9,722	-7,274	-74.8
LLP “KazRosGas”	957	18,091	-17,135	-94.7
Valsera Holding B.V.	-6,137	-6,107	-30	0.5
KMG Kashagan B.V.	-6,961	13,114	-20,075	-153.1
PetroKazakhstan Inc.	-8,812	-18,244	9,433	-51.7
Ural Group Limited	-10,265	-18,895	8,630	-45.7
Other	18,302	13,915	4,387	31.5
Total	511,195	827,979	-316,783	-38.3

As of the end of 2020, the share in profit of jointly controlled entities and associates reduced by KZT 316.8 billion or by 38% as compared with same period of 2019.

The main reasons for such reduction are:

- TCO and Mangistau Investments B.V. – Brent oil price reduction (actual for 2020 – USD 41.84 per barrel, actual for 2019 – USD 64.21 per barrel), limitation of oil production at certain fields as per the requirements of OPEC+ Agreement as well as redirection of export quantities of oil to the domestic market;
- KMG Kashagan B.V. – Brent oil price reduction (actual for 2020 – USD 41.84 per barrel, actual for 2019 – USD 64.21 per barrel);
- KRG – lack of purchases/sales of Russian gas, reduction of gas sales price for the domestic market;
- Teniz Service – the reduction is mostly related to increased depreciation at MTG facility in 2020;
- KOA – Brent oil price reduction (actual for 2020 – USD 41.84 per barrel, actual for 2019 – USD 64.21 per barrel), as well as reduction of gas sales price for the domestic market (actual for 2020 – KZT 57.21 thousand per tonne, actual for 2019 – KZT 73.93 thousand per tonne), due to the natural decline in production by the carry-over assets and reduction of bottomhole pressure;

During 2020, KMG received KZT 134.77 billion of dividends from joint ventures and associates, which is KZT 8.31 billion more than for the same period of the past year.

KZT million	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Dividends received from JVs and associates, net	134,772	126,461	8,311	7%

4.4. Corporate income tax expenses

KZT million	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Current income tax:				
Corporate income tax	73 449	146 658	-73 209	-49,9
Excess profits tax	-194	11 291	-11 485	-101,7
Withholding tax on dividends received	9 416	12 893	-3 477	-27,0
Deferred income tax:				
Corporate income tax	546	-1 999	2 545	-127,3
Excess profits tax	-2 985	-4 904	1 919	-39,1
Withholding tax on dividends received	26 021	62 241	-36 220	-58,2
Total	106 303	226 180	-119 877	-53,0

Over 12 months of 2020, the income tax expenses amounted to KZT 73,449 million, which is 50% less than in 2019. CIT decline in 2020 is mostly due to the reduction of Brent oil global prices to USD 41.84 per barrel with the actual for 2019 – USD 64.21 per barrel, the impact of the Covid-19 pandemic and lockdown measures, reduction of costs, reallocation of oil quantities from export to the domestic market, the change in export gas sales, as well as the growth of tariff for oil products from 1 January 2020 that is partially offset by the growth of USD exchange rate (average monthly USD exchange rate in the reporting period was KZT 413.46 per USD 1, and KZT 382.87 per USD 1 in the same period of the past year). In the reporting period, the amount of deferred corporate income tax, EPT, and withholding tax was changed due to the influence of temporary differences and changes of asset value/PP&E value, including due to accrual of EPT for EMG, the asset was reassessed based on recommendations of external auditors, following which the EPT was deferred for recoverability and recognised as a cost of the current period, the amount of deferred withholding tax in respect of TCO dividends was changed at consolidation level.

4.5. Liquidity and capital expenditures

Debt obligations

The Group's total debt on credits and loans raised (excluding financial guarantee liabilities) amounted to KZT 4,078 billion as of the end of the reporting period as compared with KZT 3,838 billion as of the beginning of the reporting period. The total debt as of 31 December 2020 increased by 6.3% vs. the total debt as of 31 December 2019. The total debt increased primarily due to the increase of the of KZT-to-USD exchange rate and the related revaluation of foreign currency loans. However, KMG Group's total debt in USD has reduced over the above period.

The net loan outflow was KZT 130.4 billion. In the reporting period, loans were repaid to the total amount of KZT 807.4 billion, including: partial early repayment of Eurobonds by KTG, refinancing of currency debt of KTG to a syndicate of foreign banks (raised from VTB Bank), early repayment of Eurobond debt by KTG (as part of refinancing measures), partial early repayment of loan by AR to Exim Bank and JSC "Halyk Bank of Kazakhstan", partial early repayment of loan by PPCP to JSC "Kazakhstan Development Bank" as well as partial early repayments by KMTF and JSC "AstanaGas KMG". Planned fulfilment of obligations by PPCP, ICA, JSC "KazTransGas Aimak", Beineu-Shymkent Gas Pipeline, KMTF, and AR has been achieved.

In the reporting period, KMG Group's total raised loans amounted to KZT 677.0 billion, including: issue of KMG Eurobonds (as part of refinancing measures), amounts spent by AR as part of DBK and KNB credit lines, refinancing of currency debt of KTG to a syndicate of foreign banks by raising a loan in Russian roubles from VTB Bank, as well as amounts spent by KMG as part of short-term overdrafts and trade financing.

The Group's net debt amounted to KZT 2,594 billion as of 31 December 2020 as compared with KZT 2,361 billion as of 31 December 2019. The total debt increased primarily due to the increase of the of KZT-to-USD exchange rate and the related revaluation of foreign currency loans.

KZT million	As of 31.12.2020	As of 31.12.2019
Non-current portion	3,716,892	3,584,076
Current portion	361,556	253,428
Total debt	4,078,448	3,837,504
Cash and cash equivalents	1,145,864	1,064,452
Short-term bank deposits and part of long-term bank deposits	339,000	412,030
Net debt (Total debt - Cash - Current financial assets)	2,593,584	2,361,022

Liquidity

The Group's cash position increased, in KZT equivalent, by 0.6% over the reporting period from KZT 1,476.5 billion (as of 31 December 2019) to KZT 1,485.0 billion (as of 31 December 2020). However, taking into account that KMG cash share in USD is about 80%, the actual reduction in KMG Group's cash is 8.9% or USD 340 million. The main reason for the decline in the Group's cash position in the reporting period was the fulfilment of debt obligations by LLP "Atyrau Refinery" to its creditors (Kazakhstan Development Bank, Exim Bank of China), payment of dividends by KMG to its shareholder, payment of KMG's Eurobond coupons, and early repayment of Eurobonds. The liquidity of KMG Group was also affected by reduction of oil prices and general reduction of business activity due to Covid-19 pandemic.

Liquidity and trend outlooks

The Company expects that under the current oil prices the forecast consolidated liquidity will reduce during 2021. However, given the measures taken to optimize the KMG Development Plan, the Group's liquidity will remain adequate to cover current expenses and liabilities.

Capital expenditures

The Group's capital expenditures include investment projects, expenditures to ensure the current level of production and other expenditures (administrative and social). In 2020, capital expenditures amounted to KZT 454 billion, which is 10% or KZT 51 billion more than in the same period of 2019.

Capital expenditures (accrued) broken down by key business areas:

KZT million	For 12 months ended 31.12.2020	For 12 months ended 31.12.2019	Δ, (+/-)	Δ, %
Oil and gas exploration and production	167,609	256,725	-89,116	-35%
Oil transportation	48,900	44,926	3,974	9%
Gas sale and transportation	125,608	91,744	33,864	37%
Crude oil and oil products processing and sales	84,649	79,492	5,157	6%
Other	27,398	32,421	-5,023	-15%
Total	454,164	505,308	-51,144	-10%

In 2020, capital expenditures for Oil and Gas Exploration and Production amounted to KZT 167.6 billion, which is KZT 89.1 billion less than in 2019. A decrease in expenses is mostly due to a lower amount of appraisal, exploration and development drilling works by KTG and KMG-Karachaganak as well as smaller purchases of PP&E by OMG due to the Covid-19 pandemic. Capital expenses for Oil Transportation in the reporting period amounted to KZT 48.9 billion, which is KZT 4 billion more than the actual expenses of the past year. Growth of expenses is due to a large amount of works related to maintaining serviceability of plant assets in 2020 as compared with 2019 conditioned by differences in the requirements and list of works.

Capital expenses for Gas Sales and Transportation amounted to KZT 125.6 billion in the reporting period, which is KZT 33.9 billion more than the actual figures of 2019. The increase is due to completion of construction of 1 A Compressor Station in the current year as part of the investment project "Construction of three compressor stations at BBSH".

Over 2020, capital expenditures for Crude Oil and Oil Products Processing and Sales amounted to KZT 84.6 billion, which is KZT 5.1 billion more than in the same period of 2019. The increase is mostly at KMGI due to the general turnaround of the refinery, which is conducted every 4 years, and replacement of catalysts in the reporting period. For AR, it is due to the carryover scopes from 2019.

Other capital expenditures in 2020 amounted to KZT 27.4 billion, which is KZT 5 billion less than the actual figures of 2019. Reduction of expenses due to optimisation, saving and carry over of costs conditioned by the Covid-19 pandemic.

GLOSSARY

KMG – KMG International N.V., an integrated Romanian oil and gas company
 CASPI BITUM – LLP “JV “CASPI BITUM”
 AGP – Asia Gas Pipeline (trunk gas pipeline for transportation of the Central Asian gas to China)
 AR – LLP “Atyrau Refinery”
 BBS – Beineu-Bozoy-Shymkent trunk gas pipeline
 BSGP – LLP “Beineu-Shymkent Gas Pipeline”
 Group – JSC “National Company “KazMunayGas” and legal entities where fifty or more percent of the voting shares (interest) are directly or indirectly owned or beneficially owned by KMG, as well as legal entities whose operations KMG is entitled to control.
 SDE – subsidiary dependent entity
 SGI/SGP – Sour Gas Injection/Second Generation Plant
 ICA – Intergas Central Asia Joint Stock Company
 PRC – People's Republic of China
 KMG, the Company – Joint-Stock Company “National Company “KazMunayGas”
 KMG-Aero – LLP “KazMunayGas-Aero”
 KMG Karachaganak – LLP “KMG Karachaganak”
 KMG O – LLP “KMG-Onimderi”
 KMTF – LLP “NMSK “Kazmotransflot”
 AHPP – Aromatic Hydrocarbons Production Plant
 KPIs – key performance indicators
 KOA – LLP “KazakhOil Aktobe”
 KRG – LLP “KazRosGas”
 KTG – JSC “KazTransGas”
 CPC – Caspian Pipeline Consortium (trunk oil pipeline for oil transportation from the Tengiz field to the Novorossiysk port on the Black Sea)
 KTM – LLP “Kazakhturkmunai”
 KTO – JSC “KazTransOil”
 KMG CC – JSC NC “KazMunayGas” Corporate Centre, head office
 TGP – trunk gas pipeline
 MMG – LLP “Mangistaumunaigas”
 TOP – trunk oil pipeline
 RoK MoE – Ministry of Energy of the Republic of Kazakhstan
 MET – mineral extraction tax
 OPEs – oil producing entities
 Refineries – oil refineries
 EPT – Excess Profit Tax
 OMG – JSC “Ozenmunaigas”
 SUC – start-up complex
 PKOP – JSC “PetroKazakhstan Oil Products”, owner of Shymkent Refinery
 POCR – LLP “Pavlodar Oil Chemistry Refinery”
 DED – design and estimate documentation
 WPMP/FGP – well-head pressure management project / future growth project at the Tengiz field
 EP KMG – JSC “Exploration Production “KazMunayGas”
 JCE – jointly controlled entity
 NCP – North-Caspian Project
 CAWs – construction and assembly works
 JV – joint venture
 JUDR – jack-up self-elevating drilling rig
 PSA – production sharing agreement
 TCO – LLP “Tengizchevroil”
 HC – hydrocarbons
 HCC – hydrocarbon crude
 Fund – JSC “Sovereign Wealth Fund “Samruk-Kazyna”
 EMG – JSC “Embamunaigas”
 ECD – Export customs duty