

STATEMENT FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS



Dear Investors, Shareholders, Colleagues and Partners,

I am pleased to report that the continued effort and commitment of our management team and employees delivered positive results in 2019. We successfully met many of our important objectives and achieved positive operating and financial results. This underpins the steady growth of our Company and increases shareholder value. It was achieved by strengthening our financial position and by maintaining stable production levels at both our own assets, as well as joint projects.

STRATEGY

During the year, we continued to work towards our strategic goals and we successfully achieved the Company's key 2019 financial and operational goals and objectives. Our operational results in 2019 confirmed KMG's role as the vertically integrated market leader in the country's oil and gas sector.

In order to deliver on KMG's strategic objective of growing our reserves, we signed two exploration and production contracts with major international oil companies: Eni and LUKOIL. These contracts are in regard to the Abay and Zhenis offshore projects. Additionally, a heads of agreement for the I-P-2 project was signed with LUKOIL, as well as several other agreements and memoranda with BP, Equinor, LUKOIL, Tatneft, and Socar. We anticipate further progress on joint ventures and collaborations in 2020.

We continue to follow our 10-year strategy, approved in 2018, while also regularly reviewing it to ensure it remains relevant and fit for purpose. When implementing our strategy and KPI framework in 2019, we focused on updating the high-level initiatives for our gas segment. Currently we are working on a more detailed gas strategy, which is likely to shift the Group's production mix from predominantly crude oil to a more balanced gas and liquid production mix.

To help reduce our financial and non-financial commitments, we accelerated our payment schedule for crude oil and liquefied petroleum gas supplies under the Tengizchevroil prepayment facility. In total, we paid down 2.25 bln USD in 2019 for the settlement of TCO prepayment facilities. Within the last two years we have also extended our debt maturity profile by converting short-term debt into long-term debt and aligning the covenant packages of our Eurobonds. This prompted

Fitch Ratings in March 2019 and Moody's in August 2019 to upgrade KMG's standalone credit rating. Both agencies have us at investment grade and one rating at two notches below the sovereign rating of the Republic of Kazakhstan.

During our recent capital-intensive period, we maintained strong capital discipline and kept our debt leverage to an appropriate level. Although our 2019 capex was \$1.3 bln, we had free cash flow of about \$1.5 bln and a stable balance sheet. Looking forward we expect to commercialize the benefits of our well-vested asset portfolio.

During the last two years we have worked on analyzing and prioritizing investment projects and we plan to adopt an increasingly regimented portfolio management approach based on the criteria of each project's profitability index, how it fits with our strategy and its cost.

With respect to a possible IPO of the Company, you will be aware that KMG is a part of the government's privatisation programme. A final decision on any IPO will be made by our major shareholders and will depend on various factors.

CORPORATE GOVERNANCE

The Board of Directors accords corporate governance a high priority and seeks continuous improvement.

KMG's Board is currently composed of four independent directors, four directors nominated by the major shareholder (of whom three are non-executive directors), and the Chairman. The Chairman of the Board and all Committee Chairmen are independent directors, which brings a unique and professional perspective to all important issues related to the Company's operations. The Board's composition is aligned with our skill and expertise matrix.

In 2019, Mr Luís Maria Viana Palha da Silva was appointed to the Board as an Independent Director and was elected as the Chairman of the Nomination and Remuneration Committee. Luís has experience in oil refining and petrochemicals, which will greatly benefit the Company as we ramp up production at our upgraded refineries.

I would also like to welcome Mr Anthony Espina, as a new non-executive Director, nominated by our major shareholder. He has considerable experience in equity markets and is an invaluable asset to KMG as we continue to improve our financial stability and evaluate IPO options with our majority shareholder.

In 2019, the Board of Directors expanded the range of issues that it has asked committees to oversee and review in depth. These measures were aimed at allowing the Board to focus on key strategic issues without compromising the quality and effectiveness of Board oversight.

SUSTAINABILITY

We have a strong commitment to sustainability and improving the transparency of our ESG performance. For the last 4 years, we have significantly enhanced our environmental and safety performance with major improvements in key indicators. Lost Time Injury Rate decreased by 37%, Fatal Accident Rate fell by 72%, CO2 emissions dropped by 12% and APG flaring intensity was lowered by 75%. Notwithstanding these improvements, I would like to stress that zero injuries and fatalities in the workplace are the only acceptable results and we will continue to strive to meet these targets. In 2019, we published our Sustainability Report in line with GRI Standards and we became the first oil and gas company in Kazakhstan to publish a verified report on greenhouse gas emissions (Scope 1, 2 and 3) under the Carbon Disclosure Project. This discloses the Company's performance and development plans for global climate change adaptation. The CDP Report also allows us and our stakeholders to benchmark our environmental progress against peers and other companies.

In line with our commitment to follow the United Nations Sustainable Development Goals, in 2020 we will incorporate key goals into our strategy, business plans and operations. In 2020 we also intend to obtain an international ESG rating and include a Water Disclosure Project in our Sustainability Report.

I am particularly proud that 2019 saw the launch of the Health, Safety, Environment and Sustainable Development Committee under the Board of Directors. This demonstrates the Board's commitment to best practice, and contributes to our improved performance in this area.

STAKEHOLDER ENGAGEMENT

I believe it is important to maintain regular dialogue with all stakeholders, investors, partners, and our employees. During 2019, in line with monitoring the implementation of strategic initiatives our independent directors visited a number of KMG production sites, including JV Kazgermunai, PetroKazakhstan Oil Products, and Shymkent Refinery. I intend to continue this practice by visiting several production sites this year. In addition, my fellow directors and I hold regular meetings with the Company's top and middle management. I also participated in meetings with Eurobond holders and investors as part of the roadshows.

KazMunayGas looks to the future with confidence and is committed to maintaining the highest international standards and corporate best practices.

2019 was a successful year for the Company, driven by the strong leadership of Mr Alik Aidarbayev, in his first full year as Chairman of the Management Board. KMG continues to become a stronger, safer and more financially robust business, which benefits our shareholders, our employees and the Republic of Kazakhstan.

Chris Walton,
Chairman of the Board of Directors of "NC KazMunayGas" JSC