

TENGIZCHEVROIL LLP

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2020
AND INDEPENDENT AUDITOR'S REPORT**

**Prepared in accordance with
the Partnership Agreements**

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

These consolidated financial statements contain forward-looking statements relating to the Partnership's operations that are based on management's current expectations, estimates and projections. Words such as "anticipates," "expects," "intends," "plans," "projects," "believes," "estimates," and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond the Partnership's control and are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The reader should not place undue reliance on these forward-looking statements.

Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are crude oil, natural gas, liquefied petroleum gas and sulfur prices; availability and pricing of transportation for the Partnership's production; actions of competitors or regulators; timing of exploration and capital expenses, if any; timing of liftings; the results of operations and financial condition of the partners; the inability or failure of the Partnership's participants to fund their share of operations and development activities; the potential failure to achieve expected production from existing and future projects; potential delays in the development, construction or startup of planned projects; the potential disruption or interruption of the Partnership's production, processing or delivery / transportation networks due to war, accidents, political events, civil unrest, severe weather, operational events, commercial disputes, intergovernmental disputes; existing or future legal or regulatory requirements or litigation; the potential liability resulting from pending or future litigation, administrative proceedings or regulatory action; changes in the business, regulatory or legal environment; changes in the general domestic and international economic and political conditions; political risk, including the risk of contract repudiation, nationalization or confiscation of assets; foreign currency movements; among others. Other unpredictable or unknown factors not listed above could also have material adverse effects on forward-looking statements.



Independent Auditor's Report

To the Partners of Tengizchevroil LLP:

Our opinion

In our opinion, the consolidated financial statements of Tengizchevroil LLP and its subsidiaries (together – the “Group”) for the year ended 31 December 2020, are prepared, in all material respects, in accordance with the Partnership Accounting Procedures as included in Tengizchevroil LLP's Formation Agreement.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of income for the year then ended;
- the consolidated cash flows statement for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Emphasis of matter – Basis of accounting

We draw attention to Note 2 to the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared to assist the Group in complying with the Accounting Procedures as included in Tengizchevroil LLP's Formation Agreement. As a result, the consolidated financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.



Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the Partnership Accounting Procedures as included in Tengizchevroil LLP's Formation Agreement, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Almaty, Kazakhstan
11 February 2021

Approved and signed by



Dana Inkarbekova
Managing Director of PricewaterhouseCoopers LLP
(General State License of the Ministry of Finance
of the Republic of Kazakhstan №0000005
dated 21 October 1999)
(Qualified Auditor's Certificate №0000492 dated
18 January 2000)

Tengizchevroil LLP
Consolidated Balance Sheet
(in thousands of US dollars)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Assets			
Current assets:			
Cash and cash equivalents	120,188	117,954	530,620
Accounts and Other receivables <i>(Note 6)</i>	832,980	1,391,801	1,007,200
Crude oil and product inventory <i>(Note 7)</i>	19,332	23,288	55,294
Prepaid and other expenses <i>(Note 8)</i>	<u>526,422</u>	<u>519,529</u>	<u>739,692</u>
Total current assets	<u>1,498,922</u>	<u>2,052,572</u>	<u>2,332,806</u>
Long term receivables	35,538	40,483	38,639
Fixed assets:			
Fixed assets at cost	62,052,531	56,535,794	46,671,876
Less: depreciation and amortization	<u>(22,054,154)</u>	<u>(20,320,519)</u>	<u>(18,874,560)</u>
Net fixed assets <i>(Note 9)</i>	<u>39,998,377</u>	<u>36,215,275</u>	<u>27,797,316</u>
Total Assets	<u>41,532,837</u>	<u>38,308,330</u>	<u>30,168,761</u>
Liabilities and Partners' Surplus			
Current liabilities:			
Accounts payable	374,243	632,239	491,752
Accrued liabilities <i>(Note 10)</i>	1,146,590	2,413,745	2,903,500
Interest payable	<u>165,256</u>	<u>116,996</u>	<u>95,444</u>
Total current liabilities	<u>1,686,089</u>	<u>3,162,980</u>	<u>3,490,696</u>
Long term debt <i>(Note 11)</i>	9,650,000	6,700,000	4,000,000
Total liabilities	<u>11,336,089</u>	<u>9,862,980</u>	<u>7,490,696</u>
Partners' surplus <i>(Note 12)</i>			
Charter fund	50,000	50,000	50,000
Retained earnings, beginning of year	28,395,350	22,628,065	16,888,211
Distributions of retained earnings	-	-	(1,100,000)
Current year income	<u>1,751,398</u>	<u>5,767,285</u>	<u>6,839,854</u>
Retained earnings, end of year	<u>30,146,748</u>	<u>28,395,350</u>	<u>22,628,065</u>
Total partners' surplus	<u>30,196,748</u>	<u>28,445,350</u>	<u>22,678,065</u>
Total Liabilities and Partners' Surplus	<u>41,532,837</u>	<u>38,308,330</u>	<u>30,168,761</u>

The accompanying Notes to the Consolidated Financial Statements on pp. 7-24 are an integral part of these statements. Independent Auditor's Report is on pp. 1-3.

Tengizchevroil LLP
Consolidated Statement of Income
(in thousands of US dollars)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenue:			
Crude oil revenue <i>(Note 3)</i>	8,460,501	15,356,263	16,165,065
Other products revenue <i>(Note 3)</i>	733,516	924,478	1,095,318
Interest income	9,580	24,674	56,428
Other revenue/(expenses)	<u>9,356</u>	<u>3,716</u>	<u>(1,283)</u>
Total Revenue	<u>9,212,953</u>	<u>16,309,131</u>	<u>17,315,528</u>
Expenses:			
Operating expenses	955,134	1,001,982	960,297
Project related expenses	27,685	43,840	49,090
Inventory change – crude oil & product	3,956	32,006	12,131
Marketing and transportation expenses <i>(Note 4)</i>	1,841,394	2,104,215	1,886,730
Depreciation and amortization <i>(Note 9)</i>	1,754,333	1,490,255	1,429,906
Base Royalty	1,278,967	3,006,312	3,330,571
Incremental Royalty	304,796	36,405	(415,868)
Interest and Debt Expense <i>(Note 11)</i>	<u>544,693</u>	<u>355,137</u>	<u>291,451</u>
Total Expenses	<u>6,710,958</u>	<u>8,070,152</u>	<u>7,544,308</u>
Income Before Tax	2,501,995	8,238,979	9,771,220
Income Tax <i>(Note 5)</i>	<u>(750,597)</u>	<u>(2,471,694)</u>	<u>(2,931,366)</u>
Income After Tax	<u>1,751,398</u>	<u>5,767,285</u>	<u>6,839,854</u>

The accompanying Notes to the Consolidated Financial Statements on pp. 7-24 are an integral part of these statements. Independent Auditor's Report is on pp.1-3.

Tengizchevroil LLP
Consolidated Cash Flow Statement
(in thousands of US dollars)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash From Operating Activities			
Income After Tax	1,751,398	5,767,285	6,839,854
Adjustments to reconcile income after tax to net cash provided by operating activities			
Depreciation and amortization <i>(Note 9)</i>	1,754,333	1,490,255	1,429,906
Disposals/Other Transfers <i>(Note 9)</i>	103,014	5,222	29,650
Interest and Debt expense <i>(Note 11)</i>	544,693	355,137	291,451
	<u>4,153,438</u>	<u>7,617,899</u>	<u>8,590,861</u>
Changes in Assets and Liabilities			
Decrease in crude oil and product inventory	3,956	32,006	12,130
Decrease/(Increase) in accounts and other receivables, prepaid and other expenses	551,928	(164,439)	52,909
Decrease/(Increase) in long term receivables	4,945	(1,844)	12,403
(Decrease)/Increase in accounts payable	(11,427)	140,486	64,786
(Decrease)/Increase in accrued liabilities	(736,130)	(169,445)	345,077
	<u>3,966,710</u>	<u>7,454,663</u>	<u>9,078,166</u>
Net Cash Provided By Operating Activities			
	<u>3,966,710</u>	<u>7,454,663</u>	<u>9,078,166</u>
Cash From Investing Activities			
Capital expenditures	(6,428,727)	(10,242,867)	(9,198,445)
	<u>(6,428,727)</u>	<u>(10,242,867)</u>	<u>(9,198,445)</u>
Net Cash Used In Investing Activities			
	<u>(6,428,727)</u>	<u>(10,242,867)</u>	<u>(9,198,445)</u>
Cash From Financing Activities			
Finance costs paid	(422,159)	(324,462)	(291,451)
Proceeds from borrowings <i>(Note 11)</i>	7,786,410	2,700,000	-
Principal paid	(4,900,000)	-	-
Distribution of retained earnings to partners <i>(Note 12)</i>	-	-	(1,310,000)
	<u>-</u>	<u>-</u>	<u>(1,310,000)</u>
Net Cash Provided by/(Used In) Financing Activities			
	<u>2,464,251</u>	<u>2,375,538</u>	<u>(1,601,451)</u>
Net Increase/(Decrease) In Cash and Cash Equivalents	2,234	(412,666)	(1,721,730)
Cash and Cash Equivalents at Beginning of Year	117,954	530,620	2,252,350
	<u>117,954</u>	<u>530,620</u>	<u>2,252,350</u>
Cash and Cash Equivalents at End of Year	<u>120,188</u>	<u>117,954</u>	<u>530,620</u>

The accompanying Notes to the Consolidated Financial Statements on pp. 7-24 are an integral part of these statements. Independent Auditor's Report is on pp.1-3.

Tengizchevroil LLP
Notes to the Consolidated Financial Statements

1. General

Partnership Structure

Tengizchevroil, a limited liability partnership (“Tengizchevroil” or the “Partnership”), was formed on April 6, 1993, under the laws of the Republic of Kazakhstan (“Republic” or “RoK”), as an equal partnership between Tengizneftegaz (subsequently “Tengizmunaigaz”) and Chevron Overseas Company (“Chevron Overseas”). At that time, Tengizmunaigaz was a directly owned enterprise of the Republic. Chevron Overseas is incorporated in the United States of America and is a wholly owned subsidiary of Chevron Corporation. The formation of the Partnership and the management and operational framework within which it must conduct its activities were dictated by certain agreements (the “Partnership Agreements”) between the Republic, Tengizmunaigaz and Chevron Overseas and certain of its affiliates. The term of the Partnership is 40 years and can be extended by agreement among the partners. The Partnership may be terminated under certain conditions, including by mutual agreement among the partners.

On formation, Tengizneftegaz and Chevron Overseas each contributed US \$25 million to the Charter Fund in the form of fixed and intangible assets. Subsequently, each partner contributed 50% of the asset value of the Tengiz development project at April 6, 1993, the consideration for which was in the form of two equal, interest-bearing loans with a total combined value of US \$1,640 million.

In 1996, Tengizmunaigaz concluded the sale of 50% of its share in the Partnership to Mobil Corporation. In 1997, Chevron Overseas sold 10% of its share in the Partnership to LUKARCO B.V. (“LUKARCO”). In April 1997, Tengizmunaigaz’s share was transferred to the National Oil Company KazakhOil (“KazakhOil”). Amendment and Joinder Agreement and supporting Loan Agreements and Guarantees were executed on January 22, 1999, converting Mobil and LUKARCO’s beneficial interests to direct participatory interests, and recognizing the assignment of the Republic’s participatory interest from Tengizmunaigaz to KazakhOil. On November 30, 1999, Mobil Corporation merged with Exxon Corporation. Effective December 14, 2000, Mobil Kazakhstan Ventures Inc. was changed into ExxonMobil Kazakhstan Ventures Inc. (“ExxonMobil Kazakhstan”). Effective January 9, 2001, Chevron Overseas completed the purchase of 20% of KazakhOil’s share in the Partnership. On October 9, 2001, Chevron Corporation and Texaco Corporation merged to form ChevronTexaco Corporation, the parent of Chevron Overseas Company. In May 2005, ChevronTexaco Corporation changed its name to Chevron Corporation. Pursuant to the Republic Resolution dated June 29, 2002 that granted National Company KazMunaiGas (“KMG” or “KazMunaiGas”) powers to represent the Republic in all oil and gas operations, Tengizchevroil was considering KazMunaiGas as nominated agent of the Republic in 20% participatory interest in Tengizchevroil.

On October 13, 2004, partners, certain of their affiliates, and the Republic entered into the Third Amendment and Joinder Agreement of the Tengizchevroil’s documents, which formally amends the Partnership Agreements to (a) reflect the assignment and transfer by KazakhOil to KazMunaiGas of its debts, rights and obligations, including KazMunaiGas’s participatory interest in the Partnership; (b) ratify any Partnership Council votes and other actions taken by the Partnership Council, and by KazakhOil, Kazakhstan or KazMunaiGas on behalf of KazakhOil with respect to the Partnership’s operations from August 9, 2001; (c) reconcile certain drafting inconsistencies between previous amendments; and (d) acknowledge certain corporate name changes of the partners. The accession of KazMunaiGas was affected through the Edict No. 811 of February 20, 2002 of the President of the Republic and the Decree No. 248 of February 25, 2002, of the Government of the Republic, the Accession Agreement and the Transfer Act, both dated May 20, 2002 between KazakhOil and KazMunaiGas, and the Order of the Department of Justice of the City of Astana No. 2384-pr of July 15, 2002 registering the foundation documents of KazMunaiGas. The amendment to the Partnership Charter reflecting these changes was approved by the Partnership Council on October 18, 2004 and has been properly registered.

Tengizchevroil LLP

Notes to the Consolidated Financial Statements (continued)

1. General (continued)

Partnership Structure (continued)

The resulting participatory interests are Chevron Overseas (50%), KazMunaiGas (20%), ExxonMobil Kazakhstan (25%), and LUKARCO (5%).

Principal Activity

The principal objective of Tengizchevroil is to effectively and profitably develop hydrocarbon resources and in doing so to explore for, appraise, develop, produce, process (excluding the refining of crude oil and other naturally occurring hydrocarbons into products), store, transport, export and sell for a profit, economically commercial hydrocarbons, hydrocarbon products, and sulfur.

Subsidiaries

The principal activities of the Partnership's subsidiaries as at December 31, 2020 are as follows:

Subsidiary	Place of incorporation	% held	Principal activity	Date of formation
Tengizchevroil International Bermuda Limited	Bermuda Islands	100	Representation of the Partnership's interest in Caspian Pipeline Consortium quality bank settlement process	September 25, 1997
Tengizchevroil Finance Company International Ltd	Bermuda Islands	100	Special purpose company for bonds issue	May 12, 2014

2. Accounting Policy

Basis of Presentation and Disclosure

The consolidated financial statements have been prepared in accordance with the accounting policies and procedures that are specified in Schedule 2 (the "Accounting Procedure") to the Formation Agreement, one of the Partnership Agreements, which are referred herein as "Partnership Accounting Procedures." The intent of the Partnership Accounting Procedures is to provide equitable methods and rules of accounting for the Partnership activities and to determine taxable profits for purposes of computing the Republic of Kazakhstan tax on profits and distributable profits. The Partnership Project Agreement is used to determine the taxable base for the calculation of royalties. Accordingly, these financial statements are prepared exclusively for the purposes set out in the Formation and Project Agreements and not for any other purpose, including, without limiting the generality of the foregoing, for the purpose of the fair presentation of the financial statements in accordance with United States Generally Accepted Accounting Principles or IASB International Financial Reporting Standards.

The Partnership Accounting Procedures provide that Tengizchevroil shall keep its books and records electronically in US dollars and prepare them on an accrual basis of accounting in accordance with specific provisions contained in the Partnership Accounting Procedures. The Partnership Accounting Procedures do not have requirements as to the form and content of the notes to the consolidated financial statements, and, therefore, for these purposes the Partnership used accounting principles generally used by the international petroleum industry. However, the Partnership's use of accounting principles generally used by the international petroleum industry should not be construed as necessitating compliance, in full or part, with any laws or regulations of a foreign jurisdiction or with the regulations of any stock exchange.

Tengizchevroil LLP

Notes to the Consolidated Financial Statements (continued)

2. Accounting Policy (continued)

Basis of Presentation and Disclosure

The preparation of the consolidated financial statements on an accrual basis of accounting requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty in making those estimates, actual results reported in future periods may be based on amounts that differ from those estimates.

Significant accounting principles and policies, either specifically prescribed by the Partnership Accounting Procedures or adopted by Tengizchevroil pursuant to the general principles of the Partnership Accounting Procedures, are as follows:

Consolidation

The consolidated financial statements incorporate the financial statements of Tengizchevroil and other entities, where the Partnership, directly or indirectly, exercises control. Control is achieved where the Partnership has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All significant intercompany transactions, balances and unrealized gains and/or losses on transactions are eliminated on consolidation.

Revenue and Expense Recognition

In accordance with the Partnership Accounting Procedures, revenue is recognized in the period in which hydrocarbons, hydrocarbon products, and sulfur are delivered, and title therein is transferred, to the purchaser and when the Partnership first has a right to any item of revenue, irrespective of the period when proceeds from such activities are received.

Expenses are recognized in the period incurred or when can first be reliably estimated, irrespective of when they are paid.

The Partnership Accounting Procedures provide for certain cost items to be expensed on issue from warehouse stock or when incurred. These include operating expenses, depreciation, low cost (less than US \$1,000) and short life items. The Partnership Accounting Procedures also provide that certain allocated or distributed costs attributable to capital or development activities may be capitalized together with the direct cost of that capital or development project. Tengizchevroil determines the portion of costs to be allocated to capital projects based upon an assessment of the relative effort involved in capital and development activities.

Project Related Expenses

Project related expenses include project definition and assessment costs, startup costs and other costs, which are budgeted as part of the Capital and Exploratory budget, but are not included in the capitalized cost of constructed or acquired assets in accordance with generally accepted accounting principles used in the international petroleum industry.

Foreign Currency

Transactions arising in currencies other than US dollars are translated into US dollars at exchange rates in effect at the date transactions are recorded in the consolidated financial accounts.

Cash and other monetary assets and liabilities held in currencies other than US dollars are translated to US dollars at the rates of exchange in effect at the consolidated balance sheet date. Realized exchange gains and losses arising from non-US dollar currency transactions and unrealized gains and losses arising from translation of non-US dollar amounts at the consolidated balance sheet date are recognized as an increase or decrease in income for the period and are reported as Other Revenue on the consolidated statement of income.

Tengizchevroil LLP

Notes to the Consolidated Financial Statements (continued)

2. Accounting Policy (continued)

Royalties

Royalties are payable to the Republic in accordance with the Partnership Agreements. Royalties are charged to profits or losses in the period in which they are incurred.

For 2020, 2019 and 2018 Base Royalty was calculated at the rate of 25% on the Dollar Value Equivalent, which is defined as revenue from crude oil and other product sales after deducting transportation and marketing expenses, all non-well operating costs and depreciation of non-well facilities using a five-year straight-line depreciation method. For 2020, 2019 and 2018 Incremental Royalty was calculated at the rate of 15% on the Net Cash Position.

In accordance with the Partnership Agreements, Net VAT (as defined in the Partnership Agreements) and certain taxes, fees, duties and government exactions in excess of the amounts prescribed in the Partnership Agreements (known as Applicable Taxes) are offset against Royalty Payable and can also be offset against Income Tax, if necessary.

Taxes

The Partnership Agreements contain provisions which allow for the tax rates and procedures associated with calculation and payment of taxes and royalties to be fixed for the life of the Partnership. When not in conflict with these provisions, Tengizchevroil is also required to pay taxes in accordance with the Republic of Kazakhstan tax law.

The Formation Agreement defines one of the purposes of the Partnership Accounting Procedures as determining taxable income for computing the Republic of Kazakhstan tax on profits of Tengizchevroil. Therefore, all expenses recorded in Tengizchevroil's consolidated statements of income under the Partnership Accounting Procedures are tax deductible for the Republic of Kazakhstan corporate income tax purposes.

Cash and Cash Equivalents

Cash and cash equivalents include cash amounts in banks as well as highly liquid time deposits.

Accounts Receivable

Accounts receivable are stated at their net realizable value after deducting provisions for uncollectible amounts. Such provisions reflect either specific cases or estimates based on evidence of collectability. Tengizchevroil considers that the carrying amount of accounts receivable approximates their fair value.

Fixed Assets

Costs exceeding US \$1,000 incurred to acquire or construct property, plant and equipment (PP&E) with the expected useful life exceeding one year are capitalized as prescribed by the Partnership Accounting Procedures. Intangible assets are capitalized if they are expected to provide a flow of future economic benefits.

Fixed and intangible assets are amortized to expense from the date when assets are placed in service and in accordance with the provisions of the Partnership Accounting Procedures.

Expenditures for maintenance, repairs and minor renewals to maintain facilities in operating condition are expensed as incurred. Major replacements and renewals are capitalized.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of income.

Tengizchevroil LLP

Notes to the Consolidated Financial Statements (continued)

2. Accounting Policy (continued)

Crude Oil and Product Inventory

Crude Oil and Liquefied Petroleum Gas (“LPG”) inventory is valued at the lower of cost or market value. Cost includes direct production expenses and overhead incurred in bringing the inventories to salable condition. Crude Oil and LPG inventory includes volumes at Tengiz, third party storage facilities, linefill, and in-transit pipeline, rail and marine terminal. Natural gas is not stored and therefore not valued.

Accounting for Crude Oil and LPG inventory volumes is based on the last-in-first-out method of accounting for inventory (“LIFO”), in accordance with generally accepted accounting principles used in the international petroleum industry. Under this method, the first years’ inventory is recorded using the then-current cost and the initial “base layer”. In subsequent years, net increases in inventory volumes, determined on an annual basis, are recorded at those years’ applicable costs and create a new “layer”. If in any subsequent year inventory volumes are reduced from prior years, costs of sales are recorded using the historical cost associated with the volumes in the liquidated layers utilizing most recent layer first.

Employee Benefits

In accordance with the Partnership Accounting Procedures, costs associated with employee benefits are expensed as incurred.

Oil and Gas Activities

Depreciation

Tengizchevroil has several elections available to compute depreciation of oil and gas properties. Effective January 1, 2002, and continuing through 2020, the straight-line method of depreciation, over a five-year life, was applied.

Abandonment and decommissioning costs

As discussed in Note 14 Tengizchevroil records costs for abandonment and decommissioning of wells and related facilities as expense in the period incurred.

Exploration wells

In accordance with the Partnership Accounting Procedures, Tengizchevroil records the costs of unsuccessful exploratory wells as expense in the period when such wells are determined to be unsuccessful.

Development costs

In accordance with the Partnership Accounting Procedures, Tengizchevroil records the costs of unsuccessful development wells as expense in the period in which they are determined to be unsuccessful. The costs of successful development wells are capitalized.

Borrowing Costs

In accordance with the Partnership Accounting Procedures, Tengizchevroil records borrowing costs as expense in the period incurred.

Other Provisions

Except as otherwise indicated in these financial statements or as otherwise provided in the Partnership Accounting Procedures, other provisions are recognized when Tengizchevroil has a present obligation as a result of a past event to incur such costs and when a reliable estimate can be made of the amount of these costs.

Tengizchevroil LLP

Notes to the Consolidated Financial Statements (continued)

3. Crude Oil and Other Products Revenue

	2020 US \$000	2019 US \$000	2018 US \$000
Crude Oil			
Pipeline	8,460,501	15,356,263	16,165,065
Total Crude Oil Revenue	8,460,501	15,356,263	16,165,065
Other Products			
LPG	425,971	435,125	555,312
Natural Gas	188,722	315,237	271,352
Sulfur	118,823	174,116	268,654
Total Other Products Revenue	733,516	924,478	1,095,318
Total Crude Oil and Other Products Revenue	9,194,017	16,280,741	17,260,383

4. Marketing and Transportation Expenses

	2020 US \$000	2019 US \$000	2018 US \$000
Crude Oil			
Pipeline	1,372,293	1,641,851	1,435,956
Rail	18,623	15,767	16,939
Total Crude Oil Transportation Expenses	1,390,916	1,657,618	1,452,895
Other Products			
LPG	182,368	158,915	183,730
Natural Gas	63,063	95,484	66,967
Sulfur	195,615	183,436	174,778
Total Crude Oil and Other Products Transportation Expenses	1,831,962	2,095,453	1,878,370
Marketing Expenses	9,432	8,762	8,360
Total Marketing and Transportation Expenses	1,841,394	2,104,215	1,886,730

5. Income Tax

Income before tax in the consolidated statement of income is the Partnership's taxable profit in the Republic of Kazakhstan. The income tax rate in 2020, 2019 and 2018 was 30% in accordance with the Partnership Agreements. Income tax paid in 2020, 2019 and 2018 was US \$605,643 thousand, US \$2,280,915 thousand, and US \$2,430,628 thousand, respectively. Royalty receivable offsets against Income Tax Payable were US \$350,372 thousand in 2020, US \$133,733 thousand in 2019 and US \$509,738 thousand in 2018.

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Notes to the Consolidated Financial Statements (continued)

6. Accounts and Other Receivables

	December 31, 2020 US \$000	December 31, 2019 US \$000	December 31, 2018 US \$000
Trade receivables	826,165	1,414,597	1,018,017
Other receivables	38,228	102,017	113,676
	864,393	1,516,614	1,131,693
Less: Provision for doubtful accounts	(31,413)	(124,813)	(124,493)
Total Accounts and Other Receivables	832,980	1,391,801	1,007,200

Provision for doubtful accounts primarily includes Caspian Pipeline Consortium port expenses (US \$29,743 thousand) incurred since January 2015 through May 2020, which are in dispute. The abovementioned provision and corresponding receivable amounts were reduced by US \$87,551 thousand in order to reflect amount potentially recoverable under applicable laws.

7. Crude Oil and Product Inventory

The following represents the reconciliation between the inventory valuation at the consolidated balance sheet dates and corresponding market valuation.

	Carrying value US \$000	Market Value US \$000
As at December 31, 2020	19,332	259,311
As at December 31, 2019	23,288	404,053
As at December 31, 2018	55,294	519,087

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Notes to the Consolidated Financial Statements (continued)

8. Prepaid and Other Expenses

	December 31, 2020 US \$000	December 31, 2019 US \$000	December 31, 2018 US \$000
Cash restricted on Debt Service Reserve Account	255,000	192,000	146,000
Interest on Export Customs Duty <i>(Note 10, 13)</i>	538	1,635	3,193
RoK Government Assessments <i>(Note 13)</i>	368,504	364,764	364,764
RoK Government Assessments – Provision <i>(Note 13)</i>	(368,504)	(364,764)	(364,764)
Prepaid Fabrication – FGP/WPMP	-	-	203,472
Prepaid Transportation and Deferred Costs	150,403	158,388	188,221
Other Prepaid Expenses	120,481	167,506	198,806
Total Prepaid and Other Expenses	526,422	519,529	739,692

In accordance with the Tengizchevroil Future Growth Project/Wellhead Pressure Management Project (“FGP/WPMP”) financing agreements, a Debt Service Reserve Account was established and funded with Tengizchevroil’s principal banker in the amount equal to the Partnership next scheduled payment of interest and commitment fee on the Series A, B, C Bonds, Partner Senior Pari Passu Loans and Commercial Bank Facility (see Note 11). As of December 31, 2020, this account is fully funded with six months of interest and commitment fee payable totaling US \$255,000 thousand.

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Notes to the Consolidated Financial Statements (continued)

9. Fixed Assets

2020:

	January 1, 2020 US \$000	Direct Additions/ (Net Charges) US \$000	Transfers From WIP US \$000	Disposals US \$000	December 31, 2020 US \$000
Fixed Assets At Cost					
PP&E:					
Wells and related facilities	11,961,312	-	500,378	(52,953)	12,408,737
Process plants	7,909,693	-	30,673	(620)	7,939,746
Buildings and land improvements	2,846,972	-	711,888	(41)	3,558,819
Other	1,857,442	-	105,762	(4,290)	1,958,914
Total PP&E	24,575,419	-	1,348,701	(57,904)	25,866,216
Intangible assets	58,888	-	-	-	58,888
WIP	31,464,160	5,459,483	(1,348,701)	(65,808)	35,509,134
M&S inventory, net	437,327	180,966	-	-	618,293
Subtotal WIP, incl. M&S Inv.	31,901,487	5,640,449	(1,348,701)	(65,808)	36,127,427
Total Fixed Assets At Cost	56,535,794	5,640,449	-	(123,712)	62,052,531
Depreciation & Amortization					
PP&E:					
Wells and related facilities	(9,362,910)	(951,668)	-	15,767	(10,298,811)
Process plants	(7,374,033)	(221,851)	-	620	(7,595,264)
Buildings and land improvements	(2,256,434)	(373,839)	-	41	(2,630,232)
Other	(1,268,254)	(206,975)	-	4,270	(1,470,959)
Total PP&E	(20,261,631)	(1,754,333)	-	20,698	(21,995,266)
Intangible assets	(58,888)	-	-	-	(58,888)
Total Depreciation & Amortization	(20,320,519)	(1,754,333)	-	20,698	(22,054,154)
Net Fixed Assets	36,215,275	3,886,116	-	(103,014)	39,998,377

Transfers from WIP included US \$524,897 thousand associated with Future Growth Project/Wellhead Pressure Management Project.

As of December 31, 2020 Materials and Supplies (M&S) Inventory valued at US \$618,293 thousand (2019: US \$437,327 thousand, 2018: US \$362,902 thousand) is included in Work-in-Progress.

At December 31, 2020, Tengizchevroil had fully depreciated PP&E with the historical costs of US \$17,886,333 thousand (2019: US \$16,599,379 thousand; 2018: US \$15,574,516 thousand).

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Notes to the Consolidated Financial Statements (continued)

9. Fixed Assets (continued)

2019:

	January 1, 2019 US \$000	Direct Additions/ (Net Charges) US \$000	Transfers From WIP US \$000	Disposals US \$000	December 31, 2019 US \$000
Fixed Assets At Cost					
PP&E:					
Wells and related facilities	10,791,778	-	1,171,216	(1,682)	11,961,312
Process plants	7,754,796	-	174,273	(19,376)	7,909,693
Buildings and land improvements	2,710,690	-	136,586	(304)	2,846,972
Other	1,517,633	-	363,424	(23,615)	1,857,442
Total PP&E	22,774,897	-	1,845,499	(44,977)	24,575,419
Intangible assets	58,888	-	-	-	58,888
WIP	23,475,189	9,839,011	(1,845,499)	(4,541)	31,464,160
M&S inventory, net	362,902	74,425	-	-	437,327
Subtotal WIP, incl. M&S Inv.	23,838,091	9,913,436	(1,845,499)	(4,541)	31,901,487
Total Fixed Assets At Cost	46,671,876	9,913,436	-	(49,518)	56,535,794
Depreciation & Amortization					
PP&E:					
Wells and related facilities	(8,551,651)	(812,708)	-	1,449	(9,362,910)
Process plants	(7,139,909)	(253,357)	-	19,233	(7,374,033)
Buildings and land improvements	(2,022,010)	(234,704)	-	280	(2,256,434)
Other	(1,102,102)	(189,486)	-	23,334	(1,268,254)
Total PP&E	(18,815,672)	(1,490,255)	-	44,296	(20,261,631)
Intangible assets	(58,888)	-	-	-	(58,888)
Total Depreciation & Amortization	(18,874,560)	(1,490,255)	-	44,296	(20,320,519)
Net Fixed Assets	27,797,316	8,423,181	-	(5,222)	36,215,275

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Notes to the Consolidated Financial Statements (continued)

9. Fixed Assets (continued)

2018:

	January 1, 2018 US \$000	Direct Additions/ (Net Charges) US \$000	Transfers From WIP US \$000	Disposals US \$000	December 31, 2018 US \$000
Fixed Assets At Cost					
PP&E:					
Wells and related facilities	9,658,027	-	1,134,687	(936)	10,791,778
Process plants	7,576,515	-	184,227	(5,946)	7,754,796
Buildings and land improvements	2,119,004	-	592,041	(355)	2,710,690
Other	1,303,617	-	223,165	(9,149)	1,517,633
Total PP&E	20,657,163	-	2,134,120	(16,386)	22,774,897
Intangible assets	58,888	-	-	-	58,888
WIP	16,008,980	9,629,164	(2,134,120)	(28,835)	23,475,189
M&S inventory, net	428,645	(65,743)	-	-	362,902
Subtotal WIP, incl. M&S Inv.	16,437,625	9,563,421	(2,134,120)	(28,835)	23,838,091
Total Fixed Assets At Cost	37,153,676	9,563,421	-	(45,221)	46,671,876
Depreciation & Amortization					
PP&E:					
Wells and related facilities	(7,829,166)	(723,379)	-	894	(8,551,651)
Process plants	(6,876,432)	(269,304)	-	5,827	(7,139,909)
Buildings and land improvements	(1,739,966)	(282,396)	-	352	(2,022,010)
Other	(955,773)	(154,827)	-	8,498	(1,102,102)
Total PP&E	(17,401,337)	(1,429,906)	-	15,571	(18,815,672)
Intangible assets	(58,888)	-	-	-	(58,888)
Total Depreciation & Amortization	(17,460,225)	(1,429,906)	-	15,571	(18,874,560)
Net Fixed Assets	19,693,451	8,133,515	-	(29,650)	27,797,316

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Notes to the Consolidated Financial Statements (continued)

10. Accrued Liabilities

	December 31, 2020 US \$000	December 31, 2019 US \$000	December 31, 2018 US \$000
Customer prepayments	31,510	371,822	538,268
Income Tax Payable	80,707	286,112	229,046
Royalty Payable (offset by VAT and Applicable Taxes)	25,765	115,772	206,445
Withholding Tax Payable	41,314	32,982	23,861
FGP Accrued Liabilities for Services and Materials	596,083	1,177,667	1,524,751
Other Accrued Liabilities	371,211	429,390	381,129
Total Accrued Liabilities	1,146,590	2,413,745	2,903,500

Royalty is paid quarterly based on a forecast, with the adjustment to actual in the following quarter. Among the more significant Applicable Taxes are payments of export customs duty, which the Republic started levying on Tengizchevroil's crude exports in 2010. Tengizchevroil has been making such payments under protest and with full reservation of all rights under the Partnership Agreements. Tengizchevroil has offset these payments plus interest (see Note 8) at market rates (based on Tengizchevroil Bond yield) in accordance with the provisions of the Partnership Agreements.

11. Long Term Debt

For the purposes of funding FGP/WPMP Tengizchevroil raised the Secured Debt Obligations in July 2016, whereby Tengizchevroil Finance Company International Ltd ("TFCI") acts as a Borrower. The Senior Secured Debt Obligations incurred by TFCI Ltd are guaranteed on senior secured basis by Tengizchevroil.

On July 7, 2016 TFCI Ltd established US \$3,000,000 thousand Commercial Bank Facility from a syndicate of commercial banks ("Commercial Bank Facility"), US \$6,000,000 thousand pari passu loan facility from Chevron mirroring the terms of the Commercial Bank Facility and US \$3,000,000 thousand pari passu loan facility from ExxonMobil mirroring the terms of the Commercial Bank Facility. Above-mentioned three amounts totaling US \$12,000,000 thousand are referred to as "CBF". TFCI Ltd must pay a fee computed at the rate of (a) for so long as the principal amount outstanding under the CBF is less than US \$6,000,000 thousand, 0.6 percent, and (b) for so long as the principal amount outstanding under the CBF is US \$6,000,000 thousand or more, 0.675 percent. In addition, each loan on the CBF bears an interest at 2% margin plus LIBOR. The accrued commitment fee is payable on the last day of each successive period of six months starting on January 9, 2017 and, if cancelled in full, on the cancelled amount of the relevant Original Lender's commitment at the time the cancellation is effective. CBF matures on July 7, 2021, but it is extendable at Tengizchevroil's discretion by a year with total available amount decreasing to US \$8,000,000 thousand with an option of further extension by a year with total amount decreasing to US \$4,000,000. In line with the finance plan and subject to market conditions, Tengizchevroil intends to exercise the extension of the CBF. Therefore, the outstanding loan balances under the CBF are classified as Long Term Debt. As of December 31, 2020, total amount of outstanding loans under the CBF equals US \$650,000 thousand, as \$4,900,000 thousand out of \$5,550,000 thousand was refinanced via Series B and C Bonds issued in July 2020. In 2020, Tengizchevroil accrued interest and commitment fee totaling US \$167,203 thousand (including 20% Kazakh withholding tax) (2019: US \$154,974 thousand, 2018: US \$91,250 thousand).

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Notes to the Consolidated Financial Statements (continued)

11. Long Term Debt (continued)

On July 27, 2016 TFCI Ltd issued US \$1,000,000 thousand of 4% Series A Bonds to international institutional investors (“Series A Bonds”), also taking out pari passu senior secured loans of US \$2,000,000 thousand and US \$1,000,000 thousand from Chevron and ExxonMobil, respectively, mirroring the terms of Series A Bonds. These Bonds and Loans mature on August 15, 2026 and bear interest rate of 4% per annum, payable semi-annually in arrears on February 15 and August 15, beginning on February 15, 2017. Principal on the Bonds and Loans is payable in two installments on February 15, 2026 and August 15, 2026. Cash proceeds from the Bonds and Loans were further lent by TFCI Ltd to Tengizchevroil with the same maturity and repayment schedule as described above. Interest payable by Tengizchevroil on this loan is 5% per annum. In 2020 Tengizchevroil accrued interest totaling to US \$200,000 thousand (including 20% Kazakh withholding tax), (2019: US \$200,000 thousand, 2018: US \$200,000 thousand).

On July 23, 2020 TFCI Ltd issued US \$500,000 thousand of 2.625% Series B Bonds to international institutional investors (“Series B Bonds”), also taking out pari passu senior secured loans of US \$1,000,000 thousand and US \$500,000 thousand from Chevron and ExxonMobil, respectively, mirroring the terms of Series B Bonds. These Bonds and Loans mature on August 15, 2025 and bear interest rate of 2.625% per annum, payable semi-annually in arrears on February 15 and August 15, beginning on February 15, 2021. Principal on the Bonds and Loans is payable on August 15, 2025. Cash proceeds from the Bonds and Loans were further lent by TFCI Ltd to Tengizchevroil with the same maturity and repayment schedule as described above. Interest payable by Tengizchevroil on this loan is 3.281% per annum. In 2020 Tengizchevroil accrued interest totaling to US \$28,802 thousand (including 20% Kazakh withholding tax).

On July 23, 2020 TFCI Ltd issued US \$750,000 thousand of 3.25% Series C Bonds to international institutional investors (“Series C Bonds”), also taking out pari passu senior secured loans of US \$1,500,000 thousand and US \$750,000 thousand from Chevron and ExxonMobil, respectively, mirroring the terms of Series B Bonds. These Bonds and Loans mature on August 15, 2030 and bear interest rate of 3.25% per annum, payable semi-annually in arrears on February 15 and August 15, beginning on February 15, 2021. Principal on the Bonds and Loans is payable on August 15, 2030. Cash proceeds from the Bonds and Loans were further lent by TFCI Ltd to Tengizchevroil with the same maturity and repayment schedule as described above. Interest payable by Tengizchevroil on this loan is 4.063% per annum. In 2020 Tengizchevroil accrued interest totaling to US \$53,490 thousand (including 20% Kazakh withholding tax).

Total long-term debt composition:

	December 31, 2020 US \$000	December 31, 2019 US \$000	December 31, 2018 US \$000
Series A Bonds	1,000,000	1,000,000	1,000,000
Series B Bonds	500,000	-	-
Series C Bonds	750,000	-	-
Chevron Loan (Series A, B, C)	4,500,000	2,000,000	2,000,000
Exxon Mobil Loan (Series A, B, C)	2,250,000	1,000,000	1,000,000
CBF	650,000	2,700,000	-
Total Long-Term Debt	9,650,000	6,700,000	4,000,000

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Notes to the Consolidated Financial Statements (continued)

11. Long Term Debt (continued)

Interest and debt expense composition:

	2020 US \$000	2019 US \$000	2018 US \$000
Interest expense – Bonds Series A	200,000	200,000	200,000
Interest expense – Bonds Series B	28,802	-	-
Interest expense – Bonds Series C	53,490	-	-
Interest expense & Commitment fee – Commercial Bank Facility	167,203	154,974	91,250
Financing & Transaction fees	95,198	163	201
Total Interest and Debt Expense	544,693	355,137	291,451

12. Partners' Surplus

Partners' Surplus, comprising the Charter Fund and Retained Earnings, is attributable to the four partners as follows:

	December 31, 2020 US \$000					Dec 31, 2019 US \$000	Dec 31, 2018 US \$000
	<u>KazMunai</u> <u>Gas</u>	<u>Chevron</u> <u>Overseas</u>	<u>ExxonMobil</u> <u>Kazakhstan</u>	<u>LUKARCO</u>	<u>Total</u>		
Charter fund	10,000	25,000	12,500	2,500	50,000	50,000	50,000
Retained earnings	6,029,350	15,073,374	7,536,687	1,507,337	30,146,748	28,395,350	22,628,065
Total	6,039,350	15,098,374	7,549,187	1,509,837	30,196,748	28,445,350	22,678,065

Tengizchevroil did not make distribution of retained earnings in 2020 and 2019. Distributions of retained earnings to the partners in the amount of US \$1,100,000 were made in 2018 based on respective participatory interest.

Through a combination of required budgetary approvals and cash call procedures outlined in the Partnership Agreements, subject to the terms and conditions set forth therein, in certain circumstances, to the extent it does not have sufficient cash available, Tengizchevroil has right to require the partners (as discussed in Note 1) to provide the cash deficiency required to conduct its activities in accordance with approved work programs and budgets.

13. Contingencies

General Operating Environment

The Partnership's principal business activities occur within the RoK. Laws and regulations affecting businesses operating in the RoK are subject to frequent changes, and the Partnership assets and operations could be adversely impacted by changes in the business, regulatory, political or legal environment. Noncompliance with RoK laws and regulations can lead to imposition of substantial penalties and interest. The Partnership Agreements provide the Partnership with some protections against legislative and regulatory changes through the fiscal stabilization clause, which allows offset of Applicable Taxes against royalty and other payments to the RoK, and other clauses that may exempt the Partnership from certain legislative and regulatory actions that could impact it. The Partnership has reviewed current business environment challenges and is taking the actions deemed necessary to succeed.

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Notes to the Consolidated Financial Statements (continued)

13. Contingencies (continued)

Abandonment

The Partnership is liable for costs to be incurred during the life of the Partnership for abandonment and reclamation of the Partnership property, including costs required by governmental or other regulatory authorities. Where these regulations require the Partnership to take actions currently, the costs of these actions are properly accounted for and reported in the financial records and statements. Notably, Partnership is reviewing and discussing with the relevant government authorities to clarify whether the requirement under the new Subsoil Use Code of RoK dated December 27, 2017 to establish and maintain an abandonment fund by June 2021 is applicable to the Partnership in light of the terms of the Partnership Agreements.

Additionally, in accordance with the Partnership Accounting Procedures, costs are only recorded when incurred. Consequently, no provision has been included in the consolidated financial results as of the reporting date for future costs for abandonment and reclamation.

Taxation, Royalties, and other Exactions

On February 6, 2013, RoK Tax authorities commenced a Complex audit of Tengizchevroil's tax liabilities for 2008-2010, which was later suspended. On October 11, 2018, Tengizchevroil received the final Complex audit act and a tax notification challenging Tengizchevroil's right to treat certain payments as deductible expenses for royalty calculation purposes. The overall claim amount is US \$15,000 thousand. On November 21, 2018, Tengizchevroil appealed the Complex audit act and the notification to the Appeals Commission of the Ministry of Finance. The consideration of Tengizchevroil's appeal is suspended pending the results of thematic audit on royalties which was started on 9 July 2019. The Appeals Commission has such right to conduct a new thematic audit if there is insufficient clarity and incompleteness of the data as well as new questions arise regarding the appeal case. As of 31 December 2020, the thematic audit is suspended pending the results of study case initiated by Tengizchevroil to look at the gas flaring claims made against Tengizchevroil as compared to the rest of the country as well as internationally to help provide further insight into Tengizchevroil's position and arguments.

Should the Partnership be forced to pay the claim as a result of the thematic audit, Tengizchevroil will exercise available rights and remedies under the Partnership Agreements to uphold the fiscal stability of the project.

Environmental and Other Compliance Matters

During 2008-2020 Tengizchevroil was assessed with and paid US \$368,504 thousand related to certain gas flaring events. Adequate allowances against those paid amounts were recorded and made without prejudice to Tengizchevroil's right to assert that the charges constitute exactions subject to offset against royalties and other payments to the RoK pursuant to the terms of the fiscal stabilization clause in the Partnership Agreements with the RoK (see Note 8).

In February 2020, the Department of Industrial Safety initiated administrative proceedings against Tengizchevroil for violation of industrial safety provisions, set out in the RoK Order No 358 requiring hydrostatic testing of pressure vessels every eight years. The proceedings resulted in an immaterial penalty paid during 2020. Since 1999 Tengizchevroil has been using Pressure Vessel Integrity Programme that is a Risk Based Inspection (RBI) program based on API standards widely used by other industry players. Tengizchevroil has been liaising with the regulatory authorities explaining the need for amending the legislation to introduce RBI as a method alternative to hydrotesting, which conforms to industry standards. Tengizchevroil uses numerous pressure vessels at production facilities which facilities will have to be shut down for the period when the pressure vessels are tested, if the RBI is not recognized as a permissible alternative method.

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Notes to the Consolidated Financial Statements (continued)

13. Contingencies (continued)

Legal Matters

Export Customs Duty

In July 2010, the RoK passed a resolution imposing a duty on Tengizchevroil's crude exports. While Tengizchevroil's position has been that it is exempt from these types of duties under Partnership Agreements with the RoK, in order to avoid a disruption of its exports Tengizchevroil has been paying the duty under protest, reserving its rights under the Partnership Agreements. Tengizchevroil has been offsetting the payments and interest against royalties due to the RoK, in accordance with the provisions of the Partnership Agreements.

New EcoCode and Associated Legislation

The new RoK Ecological Code (EcoCode) and changes to associated legislation were passed in December 2020. The EcoCode will enter into force on July 1, 2021. The EcoCode is more stringent than the previous Ecological Code and will possibly require additional operating and capital expenditures for Tengizchevroil to be in compliance with the new requirements. Some of the major changes that might impact Tengizchevroil's operations include introduction of a concept of "economic benefit" as a new type of sanction for non-compliance with environmental regulations, integrated environmental permits and best-available technologies, changes to the regulations of sulfur storage, waste management and emissions permit issuance, increase in the rates of administrative fines and emissions fees. Moreover, the regulatory mechanisms and guidance required for the implementation of new measures in line with the EcoCode requirements are currently lacking or are not widely understood by the industry and regulatory bodies. This increases the risk of potential non-compliance. In addition, corresponding sub-legislative acts, methodologies and rules are yet to be released by RoK. Overall, these changes in the EcoCode and associated legislation in substantive parts have been assessed by industry experts as largely inconsistent with the Organization for Economic Cooperation and Development (OECD) Standards.

Other Contingencies

Management believes that the resolution of all environmental and tax matters will not have a material impact on Tengizchevroil's consolidated financial position or operating results because of the Partnership's long-standing history of amicably resolving all major disputes with the RoK based on the letter and spirit of the Partnership Agreements, with formal dispute resolution mechanisms remaining in place.

The Partnership is subject to scheduled and unscheduled inspections and audits and to investigations and administrative proceedings by regulatory agencies and government bodies of the RoK on an ongoing basis, which may result in claims being filed against the Partnership. Additionally, the Partnership receives claims from and submits claims (including claims resulting from Tengizchevroil audits) to customers, contractors, suppliers, former employees, regulatory bodies, the RoK, and other third parties. Amounts of these claims, individually and in the aggregate, may be significant. Ultimate outcome and costs of the above claims and other future potential claims are not currently determinable and, therefore, these claims have not been provided for in these consolidated financial statements.

Social Commitments

Tengizchevroil's Collective Bargaining Agreement signed on June 18, 2020 replaced the previous Collective Bargaining Agreement dated December 9, 2016. The Agreement recognizes social partnership and supports commitments to employees in providing comprehensive social package including health care allowance paid in conjunction with annual vacation and other various benefits related to health and well-being of Tengizchevroil employees, along with specific benefits for eligible family members.

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Notes to the Consolidated Financial Statements (continued)

13. Contingencies (continued)

COVID-19

We have considered the outbreak of the COVID-19 (Coronavirus) pandemic and its current and future potential effects on the Company. Following the first cases of COVID-19 in Kazakhstan and the declaration of the state of emergency in March 2020, the Partnership Crisis and Emergency Management Teams were activated and have been working to address the company's response to the pandemic and promote the health and safety of the Partnership workforce. These teams announced the Tengiz and Atyrau Protection Plans, which aimed at reducing the risk of exposure to COVID-19 and ensuring a sustainable workforce is in place to maintain safe and reliable operations and critical path FGP/WPMP construction activities.

Among significant measures undertaken within the frame of Tengiz and Atyrau Protection Plans:

- Reduction of non-critical activities resulting in safe and controlled demobilization of personnel. This reduction has allowed for greater social distancing for those remaining in Tengiz to support critical production operations, FGP/WPMP critical path construction and other preservation activities.
- Shift in major turnaround schedule by one year. This decision helped address the risk of turnaround delays and cost overruns in case of logistical issues due to the outbreak.
- Arrangements in support of remote work enabling critical business continuity. To date, major part of office-based and functional support workforce has been successfully working on a remote basis. This allowed commercial, supply chain and other business functions focus on key priorities.
- Payments to contractors compensating contractor workforce who have been demobilized from the worksites and are not able to work remotely for as long as the restrictive measures at such worksites remain in effect. As of December 31, 2020, Tengizchevroil continued making those payments.
- Moreover, Tengizchevroil had been helping the community to fight COVID-19 and had donated vehicles, medical equipment and materials to the local authorities, as well sponsored the construction of the Kulsary Infectious Diseases Hospital.
- Safe and controlled remobilization activities introduced in fall 2020 and continued to date.

As of the date of the issuance of these financial statements there has not been any significant effect from the outbreak on the Company's revenues and deliveries. However, the situation is still developing, and the future effect is difficult to predict. Management will continue to monitor the potential effect of the above events and will take all necessary actions to prevent negative consequences for the business.

Production Curtailment

On April 12, 2020, members of OPEC+, including Kazakhstan, agreed to reduce crude oil production by 9.7 million barrels per day in May and June 2020, with diminishing reductions thereafter. To implement this agreement, on May 6, 2020, the RoK issued a resolution temporarily limiting the use of subsoil blocks for hydrocarbon exploration and production operations for May and June 2020. Tengizchevroil was included on the list of subsoil users affected by the resolution and its aggregate May and June 2020 production volumes have been limited to a total of 4,018 thousand tonnes. On June 6, 2020, members of OPEC+, including Kazakhstan, agreed to further reductions from July 2020. To implement this agreement, on June 24, 2020, the RoK issued an additional decree that limited Tengizchevroil's production for the second half of 2020 to 12,184 thousand tonnes.

The RoK further extended the OPEC+ related production limitations to 2021 by its 29 December 2020 resolution, which restricts Tengizchevroil's annual production to 25,260.6 thousand tons.

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Notes to the Consolidated Financial Statements (continued)

13. Contingencies (continued)

While the Partnership disagrees with the action the RoK Government has taken, the Partnership, as a law-abiding legal entity, was compelled to comply with the production limitations imposed by the resolution, while having fully reserved on its own behalf and on behalf of the Partners all rights in relation to this matter, including all rights under the Partnership Agreements entered into by and between the Republic of Kazakhstan, the Partnership, and its Partners, and under any applicable laws and international treaties. This action does not in any way reflect or prejudice the Partnership's positions or rights with respect to the validity or application of any of the Subsoil Use Code provisions to the Partnership's operations.

Concentrations

As of December 31, 2020, there was no significant concentration of business transacted with particular customer, supplier or lender that could, if suddenly eliminated, severely impact Tengizchevroil's operations, except as discussed below. There also was no concentration of available sources of labor, services or other rights that could, if suddenly eliminated, severely impact Tengizchevroil's operations except as discussed below. The Caspian Pipeline Consortium (CPC) is a primary transportation route for exporting Tengizchevroil's crude oil to overseas markets. Each of the partners has an ownership interest in the CPC pipeline or is an affiliate of an entity that has such an ownership interest. Total Partnership sales through the CPC pipeline were US \$8,460,501 thousand in 2020, or 92% of total crude and product sales. In addition, line-fill and crude-in-transit inventory placed by Tengizchevroil into the CPC pipeline was 542 thousand metric tons or 85% of total crude inventory as of December 31, 2020.