NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL

Overview

Zhaikmunai, a Limited Liability Partnership (the "Partnership" or "Zhaikmunai LLP") was established under the laws of the Republic of Kazakhstan in 1997.

On 28 February 2014 the Partnership acquired in a transaction under common control 1,000 ordinary shares of Nostrum Oil & Gas Finance B.V., representing 100% of its charter capital, from Nostrum Oil & Gas B.V. (formerly known as Zhaikmunai Netherlands B.V.), an entity under control of a common parent. In 2014 the Partnership sold 100% interest in its dormant subsidiaries Zhaikmunai Finance B.V., Zhaikmunai International B.V. and Nostrum Oil & Gas Finance B.V. to Nostrum Oil & Gas B.V. The Partnership prepared consolidated financial statements for the year ended 31 December 2014 that included the financial statements of the Partnership and its subsidiaries up to the date of derecognition.

The Partnership's operations comprise of a single operating segment and 3 (three) additional exploration concessions located in Kazakhstan.

The participants of the Partnership, their shares and changes in the participants' structure are disclosed in *Note 13*. The Partnership does not have an ultimate controlling party.

The registered legal address of the Partnership is: 59/2, Prospect Eurasia, Uralsk, the Republic of Kazakhstan.

These financial statements were authorised for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on 24 March 2016.

Subsoil use rights terms

The Partnership carries out its activities in accordance with the Contract for Additional Exploration, Production and Production-Sharing of Crude Hydrocarbons in the Chinarevskoye oil and gas condensate field (the "Contract") dated 31 October 1997 between the State Committee of Investments of the Republic of Kazakhstan and the Partnership in accordance with the license MG No. 253D for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

On 17 August 2012 the Partnership signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye – all located in the Western Kazakhstan region. On 1 March 2013 the Partnership acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the authority now known as the Ministry of Energy (the "MOE") of the Republic of Kazakhstan.

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated 12 January 2004 and 23 June 2005, respectively. In accordance with the supplement dated 5 June 2008, Tournaisian North reservoir entered into production period as at 1 January 2007. Following additional commercial discoveries during 2008, the exploration period under the Chinarevskoye subsoil use rights, other than for the Tournaisian horizons, was extended for an additional 3-year period, which expired on 26 May 2011. A further extension to 26 May 2014 was made under the supplement dated 28 October 2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031. On 28 July 2015 the eleventh supplementary agreement to the Contract was signed extending the exploration period to 26 May 2016. The Partnership's application for further extension of the Chinarevskoye exploration period is under approval at the MOE.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 27 April 2009 the exploration period was extended so as to have a total duration of 6 years. Subsequently, the exploration period was extended until 8 February 2017.

The contract for exploration and production of hydrocarbons from Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2017.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. Subsequently, the exploration period was extended until 31 December 2017.

Royalty payments

The Partnership is required to make monthly royalty payments throughout the entire production period, at the rates specified in the Contract.

Royalty rates depend on hydrocarbons recovery levels and the phase of production and can vary from 3% to 7% of produced crude oil and from 4% to 9% of produced natural gas. Royalty is accounted on a gross basis.

Government "profit share"

The Partnership makes payments to the Government of its "profit share" as determined in the Contract. The "profit share" depends on hydrocarbon production levels and varies from 10% to 40% of production after deducting royalties and reimbursable expenditures. Reimbursable expenditures include operating expenses, costs of additional exploration and development costs. Government "profit share" is expensed as incurred and paid in cash. Government profit share is accounted on a gross basis.

2. BASIS OF PREPARATION

Basis of preparation

These financial statements for the year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB"). The financial statements have been prepared based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies *(Note 4)*. The financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires from management to exercise its judgment in the process of applying the Partnership's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in *Note 4*.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New standards, interpretations and amendments thereof, adopted by the Partnership

The accounting policies adopted are consistent with those of the previous financial year, except for the below amendments to IFRS effective as at 1 January 2015. The nature and the impact of each new standard or amendment which is applicable to the Partnership's financials statements is described below:

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact on the financial statements of the Partnership considering that the Partnership's property, plant and equipment are stated at historical cost.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. These amendments did not have impact on the Partnership's future financial statements, since the Partnership always disclosed the companies providing management services as related parties.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The amendment did not have material effect on the Partnership's financial position or performance.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Standards issued but not yet effective

The standards and interpretations applicable to the Partnership's financial statements that are issued, but not yet effective, up to the date of issuance of the Partnership's financial statements are disclosed below. The Partnership intends to adopt these standards, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 is not expected to have an effect on the classification and measurement of the Partnership's financial assets and the Partnership's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalizes their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Partnership is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Partnership given that the Partnership does not plan to use a revenue-based method to depreciate its non-current assets.

IFRS 7 Financial Instruments: Disclosures

Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Partnership will apply those amendments from the effective date.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor').

All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing.

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and

b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 is effective from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 *Revenue from Contracts with Customers*.

IFRS 16 replaces the previous leases Standard, IAS 17 *Leases*, and related Interpretations.

The amendments are not yet endorsed for use in the EU, expected endorsement is not yet determined. The Partnership is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material change to the carrying amounts of assets and liabilities are discussed below.

Oil and gas reserves

Oil and gas reserves are a material factor in the Partnership's computation of depreciation, depletion and amortisation (the "DD&A"). These reserve quantities are used for calculating the unit of production depletion rate as it reflects the expected pattern of consumption of future economic benefits by the Partnership.

The Partnership uses the reserve estimates provided by an independent appraiser on an annual basis to assess the oil and gas reserves of its oil and gas fields. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under the SPE methodology, the Partnership uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term

nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually.

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A. Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Partnership.

Fair value of financial instruments

The fair value measurement of the Partnership's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: quoted prices in active markets for identical items (unadjusted).
- Level 2: observable direct or indirect inputs other than Level 1 inputs.
- Level 3: unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The financial statements for the years ended 31 December 2015 and 2014 include derivative financial instruments recognised at fair value. For more detailed information in relation to the derivative financial instruments, please refer to *Note 26.*

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 29.*

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognised in full, when the Partnership has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimates of timing of cash flow and discount rate. The management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights.

The Partnership estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the obligation at current year prices adjusted for expected long-term inflation rate and discounted at the applicable rate. The management of the Partnership believes that the long-term interest rates on the Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan provide the best estimates of applicable risk uncorrected discount rate.

The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas properties. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit-of-production basis.

The Partnership reviews site restoration provisions at each financial reporting date and adjusts them to reflect current best estimates in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities.*

Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes to the discount rate:

NOTES TO THE FINANCIAL STATEMENTS (continued)

(a) are added to, or deducted from, the cost of the related asset in the current period. If deducted from the cost of the asset the amount deducted shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognised immediately in the profit or loss; and

(b) if the adjustment results in an addition to the cost of an asset, the Partnership considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Partnership tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Movements in the provision for decommissioning liabilities are disclosed in *Note 15.*

Other current liabilities

The Partnership makes accruals for liabilities related to the underperformance and or adjustments of work programs under subsoil use agreements (the "SUA") on a regular basis. When evaluating the adequacy of an accrual, management bases its estimates on the latest work program included in the SUA and relevant signed supplements and potential future changes in payment terms (including the currency in which these liabilities are to be settled). Future changes in the work programs may require adjustments to the accrual recorded in the financial statements.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax bases of income and expense already recorded. The Partnership establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authority of the country in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Partnership and the tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the domicile of the Partnership.

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that apply to the relevant taxable income.

Current income tax relating to items recognised directly in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

For more detailed information in current and deferred income tax disclosure as at 31 December 2015 and 2014, please see *Note 25.*

Property, plant and equipment

Exploration expenditure

Costs directly associated with exploration wells are capitalised within exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration and materials and fuel used, rig costs and payments made to contractors and asset retirement obligation fees. If hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Subsoil use rights acquisition costs are initially capitalised in exploration and evaluation assets. Subsoil use rights acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the subsoil use rights have been relinquished or has expired, the carrying value of the subsoil use rights acquisition costs is written off through profit or loss. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

For more detailed information in relation to exploration and evaluation assets, please see *Note 5.*

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalised within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

All capitalised costs of oil and gas properties are depleted using the unit-of-production method based on estimated proved developed reserves of the field, except the Partnership depreciates its oil pipeline and oil loading terminal on a straight line basis over the life of the relevant subsoil use rights. In the case of assets that have a useful life shorter than the lifetime of the field the straight line method is applied.

Other properties

All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Partnership and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings and constructions	7-15
Vehicles	8
Machinery and equipment	3-13
Other	3-10

For more detailed information in relation to property plant and equipment, please refer to *Note 6.*

Foreign currency translation

The functional currency of the Partnership is the United States dollar (the "US dollar" or "US$").

Transactions and balances denominated in foreign currencies

Transactions in foreign currencies are initially recorded by the Partnership at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Advances for non-current assets

Advances paid for capital investments/acquisition of non-current assets are qualified as advances for non-current assets regardless of the period of supplies of relevant assets or the supply of work or services to close advances. Advances paid for the purchase of non-current assets are recognised by the Partnership as non-current assets and are not discounted.

For more detailed information in relation to advances for non-current assets, please refer to *Note 7*.

Borrowing costs

The Partnership capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalisation include all assets under construction that are not being depreciated, depleted, or amortised, provided that work is in progress at that time. Qualifying assets mostly include wells and other operations field infrastructure under construction. Capitalised borrowing costs are calculated by applying the capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the Partnership's borrowings that are outstanding during the period. All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

For more detailed information in relation to capitalisation of borrowing costs, please refer to *Note 6*.

Inventories

Inventories are stated at the lower of cost or net realisable value ("NRV"). Cost of oil, gas condensate and liquefied petroleum gas ("LPG") is determined on the weighted-average method based on the production cost including the relevant expenses on depreciation, depletion and impairment and overhead costs based on production volume. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

For more information in relation to the breakdown of inventories as at 31 December 2015 and 2014, please see *Note 9*.

Provisions

Provisions are recognised when the Partnership has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed by the Partnership at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Contingent liabilities

The Partnership classifies as contingent liabilities those possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise and the present obligations that arise from past events but are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Partnership does not recognise contingent liabilities but discloses contingent liabilities in *Note 28*, unless the possibility of an outflow of resources embodying economic benefits is remote.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Partnership determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Partnership commits to purchase or sell the asset.

The Partnership's financial assets include cash, long-term and short-term deposits, trade and other receivables.

Loans and receivables

Loans and receivables are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

Derecognition

Financial assets are de-recognised when the rights to receive cash flows from the asset have expired.

Impairment of financial assets

The Partnership assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Partnership assesses individually whether objective evidence of impairment exists. If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recorded initially at fair value. The Partnership's financial liabilities include trade and other payables and borrowings.

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using EIR. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedging

The Partnership uses hedging contracts for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

For more detailed information in relation to derivative financial instruments, please refer to *Note 26.*

Cash and short-term deposits

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the Partnership and therefore is not considered highly liquid – for example, cash set aside to cover decommissioning obligations.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

For more detailed information in relation to cash and cash equivalents as at 31 December 2015 and 2014, please see *Note 12.*

Revenue recognition

The Partnership sells crude oil, gas condensate and LPG under agreements priced by reference to Platt's and/or Argus' index quotations and adjusted for freight, insurance and quality differentials where applicable. The Partnership sells gas under agreements at fixed prices.

Revenue from the sale of crude oil, gas condensate, gas and LPG is recognised when delivery has taken place and risks and rewards of ownership have passed to the customer.

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Partnership and the amount of revenue can be reliably measured.

5. EXPLORATION AND EVALUATION ASSETS

During the year ended 31 December 2015 the Partnership had additions to exploration and evaluation assets of US$ 12,537 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (2014: US$ 3,946 thousand). Interest was not capitalised on exploration and evaluation assets. During the year ended 31 December 2014 the Partnership repaid capitalised contingent consideration under the acquisition agreements for the Darjinskoye and Yuzhno-Gremyachinskoye oil and gas fields in the amount of US$ 5,300 thousand.

6. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2015 and 2014 property plant and equipment comprised the following:

In thousands of US dollars	**31 December 2015**	31 December 2014
Oil and gas properties	**1,567,334**	1,402,371
Other property, plant and equipment	**38,487**	39,821
	1,605,821	1,442,192

Oil and gas properties

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The movement of oil and gas properties for the years ended 31 December 2015 and 2014 was as follows:

In thousands of US dollars	Working assets	Construction in progress	Total
Balance at 1 January 2014, net of accumulated depreciation and depletion	1,089,822	202,734	1,292,556
Additions	9,730	205,194	214,924
Transfers	38,640	(38,445)	195
Disposals	(666)	–	(666)
Disposals depreciation	214	–	214
Depreciation and depletion charge	(104,852)	–	(104,852)
Balance at 31 December 2014, net of accumulated depreciation and depletion	1,032,888	369,483	1,402,371
Additions	**(1,131)**	**265,676**	**264,545**
Transfers	**101,481**	**(99,369)**	**2,112**
Depreciation and depletion charge	**(101,694)**	**–**	**(101,694)**
Balance at 31 December 2015, net of accumulated depreciation and depletion	**1,031,544**	**535,790**	**1,567,334**
As at 31 December 2013			
Cost	1,411,752	202,734	1,614,486
Accumulated depreciation and depletion	(321,930)	–	(321,930)
Balance, net of accumulated depreciation and depletion	1,089,822	202,734	1,292,556
As at 31 December 2014			
Cost	1,459,456	369,483	1,828,939
Accumulated depreciation and depletion	(426,568)	–	(426,568)
Balance, net of accumulated depreciation and depletion	1,032,888	369,483	1,402,371
As at 31 December 2015			
Cost	**1,559,806**	**535,790**	**2,095,596**
Accumulated depreciation and depletion	**(528,262)**	**–**	**(528,262)**
Balance, net of accumulated depreciation and depletion and depletion	**1,031,544**	**535,790**	**1,567,334**

The category "Construction in progress" is represented by employee remuneration, materials and fuel used, rig costs, payments made to contractors, and asset retirement obligation fees directly associated with development of wells until the drilling of the well is complete and results have been evaluated.

The depletion rate for oil and gas working assets was 10.2% and 10.02% in 2015 and 2014, respectively.

The Partnership engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2014 and 2015. Starting from 1 October 2014 to 1 October 2015, depletion has been calculated using the unit of production method based on reserves estimates as at 31 December 2014, and from 1 October 2015 to 31 December 2015 on reserves estimates as at 31 December 2015.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision *(Note 15)* in the year ended 31 December 2015 resulted in the decrease of the oil and gas properties by US$ 5,622 thousand (31 December 2014: an increase of US$ 4,306 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Partnership incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2015 and 2014:

In thousands of US dollars	**31 December 2015**	31 December 2014
Borrowing costs including amortisation of arrangement fee	**77,630**	88,044
Capitalisation rate	**7.04%**	8.19%
Capitalised borrowing costs	**27,218**	17,061

As at 31 December 2015 the Partnership's property, plant and equipment of US$ 283,448 thousand were pledged as security for the loans due to Nostrum Oil & Gas B.V *(Note 14)* (31 December 2014: US$ 309,133).

Other property, plant and equipment

In thousands of US dollars	Buildings	Machinery & equip-ment	Vehicles	Others	Constructi on in progress	Total
Balance at 1 January 2014, net of accumulated depreciation	26,296	6,477	1,395	4,614	48	38,830
Additions	584	1,502	188	5,638	258	8,170
Transfers	24	309	412	(940)	–	(195)
Disposals	(6)	(24)	(85)	(244)	–	(359)
Disposals depreciation	5	16	83	193	–	297
Depreciation	(3,136)	(2,430)	(367)	(989)	–	(6,922)
Balance at 31 December 2014, net of accumulated depreciation	23,767	5,850	1,626	8,272	306	39,821
Additions	**1,102**	**1,698**	**268**	**5,698**	**231**	**8,997**
Transfers	**270**	**912**	**(6)**	**(3,071)**	**(217)**	**(2,112)**
Disposals	**–**	**(24)**	**(1,933)**	**(285)**	**–**	**(2,242)**
Disposals depreciation	**–**	**22**	**1,370**	**57**	**–**	**1,449**
Depreciation	**(3,213)**	**(2,535)**	**(357)**	**(1,321)**	**–**	**(7,426)**
Balance at 31 December 2015, net of accumulated depreciation	**21,926**	**5,923**	**968**	**9,350**	**320**	**38,487**
As at 31 December 2013						
Cost	30,887	13,284	3,513	7,166	48	54,898
Accumulated depreciation	(4,591)	(6,807)	(2,118)	(2,552)	–	(16,068)
Balance, net of accumulated depreciation	26,296	6,477	1,395	4,614	48	38,830
As at 31 December 2014						
Cost	31,489	15,071	4,028	11,620	306	62,514
Accumulated depreciation	(7,722)	(9,221)	(2,402)	(3,348)	–	(22,693)
Balance, net of accumulated depreciation	23,767	5,850	1,626	8,272	306	39,821
As at 31 December 2015						
Cost	**32,861**	**17,657**	**2,357**	**13,962**	**320**	**67,157**
Accumulated depreciation	**(10,935)**	**(11,734)**	**(1,389)**	**(4,612)**	**–**	**(28,670)**
Balance, net of accumulated depreciation	**21,926**	**5,923**	**968**	**9,350**	**320**	**38,487**

7. ADVANCES FOR NON-CURRENT ASSETS

In thousands of US dollars	**31 December 2015**	31 December 2014
Advances for pipes and construction materials	**76,806**	67,465
Advances for construction services	**53,854**	66,884
Advances for purchase of software licenses	**–**	6
	130,660	134,355

Increase in the advances for non-current assets is mainly driven by an increase in prepayments made to suppliers of services and equipment for construction of a third unit for the Partnership's gas treatment facility.

8. CURRENT INVESTMENTS

Current investments as at 31 December 2014 were represented by an interest bearing short-term deposit placed on 30 September 2014 for a six-month period with interest rate of 0.24% per annum.

9. INVENTORIES

As at 31 December 2015 and 2014 inventories comprised the following:

In thousands of US dollars	**31 December 2015**	31 December 2014
Materials and supplies	**20,369**	20,472
Gas condensate	**5,684**	3,383
Crude oil	**2,528**	1,262
LPG	**372**	326
	28,953	25,443

As at 31 December 2015 and 2014 inventories are carried at cost.

10. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 31 December 2015 and 2014 prepayments and other current assets comprised the following:

In thousands of US dollars	**31 December 2015**	31 December 2014
VAT receivable	**18,053**	22,050
Advances paid	**4,040**	9,068
Other taxes receivable	**2,731**	5,920
Other	**695**	1,532
	25,519	38,570

Advances paid consist primarily of prepayments made to service providers.

11. TRADE RECEIVABLES

As at 31 December 2015 and 2014 trade receivables were not interest bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 31 December 2015 and 2014, there were neither past due nor impaired trade receivables.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. CASH AND CASH EQUIVALENTS

In thousands of US dollars	**31 December 2015**	31 December 2014
Current accounts in US dollars	**108,026**	353,159
Current accounts in tenge	**1,893**	8,054
Current accounts in other currencies	**–**	132
Petty cash	**9**	5
Bank deposits with maturity less than three months	**25,000**	–
	134,928	361,350

Bank deposits were represented by an interest bearing deposit placed on 30 December 2015 for a one-month period with an interest rate 0.25% per annum.

In addition to the cash and cash equivalents in the table above, the Partnership has restricted cash accounts as liquidation fund deposit in the amount of US$ 5,375 thousand with Sberbank in Kazakhstan (31 December 2014: US$ 5,023 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Partnership.

13. PARTNERSHIP CAPITAL

The charter capital of the Partnership was formed in tenge and amounted to tenge 600 thousand, equivalent to US$ 4 thousand as at 31 December 2013. As at 31 December 2013, the shares of Nostrum Associated Investments LLP (formerly known as Condensate Holding LLP) and Claydon Industrial Ltd in the charter capital of the Partnership constituted 55% and 45%, respectively, equivalent to US$ 2.2 thousand and US$ 1.8 thousand, respectively.

On 23 May 2014, Nostrum Oil & Gas Coöperatief U.A. (formerly known as Nostrum Oil Coöperatief U.A.) made a contribution to the charter capital of the Partnership in the amount of 749,400 thousand tenge, equivalent to US$ 4,108 thousand so that the interests of the partners were changed to the following:

	In thousands of tenge	**%**
Nostrum Oil & Gas Coöperatief U.A.	749,400	99.920
Nostrum Associated Investments LLP	330	0.044
Claydon Industrial Ltd	270	0.036

Gain on initial recognition of loans received from Nostrum Oil & Gas B.V. in 2008 and 2009 at the below market interest rates as well as loss on its subsequent substantial modification were recorded in other reserves.

Partners in the Partnership are allowed to vote based on their participation percentage and are also entitled to participate in any distributions on the same basis.

On 26 May 2015 the Partnership made payments of profit distribution in the amount of US$ 45,000 thousand according to the decision made at the Annual General Meeting of Participants of the Partnership on 24 April 2015.

14. BORROWINGS

Borrowings comprise the following as at 31 December 2015 and 2014:

In thousands of US dollars	**31 December 2015**	31 December 2014
Notes issued in 2012 and maturing in 2019	**545,309**	540,115
Noies issued in 2014 and maturing in 2019	**405,718**	404,050
Nostrum Oil & Gas B.V.	**61,000**	106,000
	1,012,027	1,050,165
Less amounts due within 12 months	**(15,361)**	(15,024)
Amounts due after 12 months	**996,666**	1,035,141

2012 Notes

On 13 November 2012, Zhaikmunai International B.V. (the "2012 Initial Issuer") issued US$ 560,000 thousand notes (the "2012 Notes").

On 24 April 2013 Zhaikmunai LLP (the "2012 Issuer") replaced the 2012 Initial Issuer of the 2012 Notes, whereupon it assumed all of the obligations of the 2012 Initial Issuer under the 2012 Notes.

The 2012 Notes bear interest at the rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013. Prior to 13 November 2016, the 2012 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2012 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2012 Notes (including Additional Notes as defined in the indenture relating to the 2012 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering. In addition, the 2012 Notes may be redeemed, in whole or in part, at any time prior to 13 November 2016 at the option of the 2012 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2012 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2012 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2012 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2012 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2012 Note at 13 November 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2012 Note through 13 November 2016 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2012 Note.

The 2012 Notes are jointly and severally guaranteed (the "2012 Guarantees") on a senior basis by Nostrum Oil & Gas plc and all of its subsidiaries other than the 2012 Issuer (the "2012 Guarantors"). The 2012 Notes are the 2012 Issuer's and the 2012 Guarantors' senior obligations and rank equally with all of the 2012 Issuer's and the 2012 Guarantors' other senior indebtedness. The 2012 Notes and the 2012 Guarantees are unsecured. Claims of secured creditors of the 2012 Issuer or the 2012 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2012 Notes.

2014 Notes

On 14 February 2014, Nostrum Oil & Gas Finance B.V. (the "2014 Initial Issuer") issued US$ 400,000 thousand notes (the "2014 Notes").

On 6 May 2014, Zhaikmunai LLP (the "2014 Issuer") replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes, whereupon it assumed all of the obligations of the 2014 Initial Issuer under the 2014 Notes.

The 2014 Notes bear interest at the rate of 6.375% per annum. Interest on the 2014 Notes is payable on 14 February and 14 August of each year, beginning on 14 August 2014. Prior to 14 February 2017, the 2014 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2014 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 106.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2014 Notes (including Additional Notes as defined in the indenture relating to the 2014 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2014 Notes may be redeemed, in whole or in part, at any time prior to 14 February 2017 at the option of the 2014 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2014 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2014 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2014 Notes on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2014 Notes; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2014 Notes at 14 February 2017 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2014 Notes through 14 February 2017 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2014 Notes.

The 2014 Notes are jointly and severally guaranteed (the "2014 Guarantees") on a senior basis by Nostrum Oil & Gas plc and all of its subsidiaries other than the 2014 Issuer (the "2014 Guarantors"). The 2014 Notes are the 2014 Issuer's and the 2014 Guarantors' senior obligations and rank equally with all of the 2014 Issuer's and the 2014 Guarantors' other senior indebtedness. The 2014 Notes and the 2014 Guarantees are unsecured. Claims of secured creditors of the 2014 Issuer or the 2014 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2014 Notes.

Costs directly attributable to the 2014 Notes arrangement amounted to US$ 6,525 thousand.

Covenants contained in the 2012 Notes and the 2014 Notes

The indentures governing the 2012 Notes and the 2014 Notes contain a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of the Issuer, the 2012 Guarantors and the 2014 Guarantors to:

(i) incur or guarantee additional indebtedness and issue certain preferred stock;

(ii) create or incur certain liens;

(iii) make certain payments, including dividends or other distributions;

(iv) prepay or redeem subordinated debt or equity;

(v) make certain investments;

(vi) create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to Nostrum Oil & Gas PLC or any of its restricted subsidiaries;

(vii) sell, lease or transfer certain assets including shares of restricted subsidiaries;

(viii) engage in certain transactions with affiliates;

(ix) enter into unrelated businesses; and

(x) consolidate or merge with other entities.

Each of these covenants is subject to certain exceptions and qualifications.

In addition, the indentures impose certain requirements as to future subsidiary guarantors, and certain customary information covenants and events of default.

Loans due to Nostrum Oil & Gas B.V.

On 1 July 2008 the Partnership signed a loan agreement with Frans van der Schoot B.V. under which the latter provided the Partnership with a US$ 90,276 thousand loan at an annual interest rate of two times LIBOR.

On 15 September 2009 Frans van der Schoot B.V. provided an additional loan of US$ 261,650 thousand at then prevailing interest rate of 2.6% per year. On 22 December 2010, a portion of this loan amounting to US$ 51,926 thousand was repaid.

On 19 October 2010, amendments to the loan agreement were made according to which the interest rate was increased from 2.6% to 10% and the maturity date was moved to 31 December 2015.

On 1 January 2013, amendments to the loan agreement were made according to which the interest rate was decreased from 10% to 6.625% and the maturity date was moved to 31 December 2019.

The outstanding balance of the loan as at 31 December 2015 has an interest rate of 6.625% (31 December 2014: 6.625%).

In accordance with the decisions of the Annual General Meeting of the Partnership on 28 June 2013 the Partnership on 3 July 2013 made an early repayment of the part of the loan in the amount of US$ 60,000 thousand to Nostrum Oil & Gas B.V. On 23 December 2013 the Partnership made another early repayment of US$ 30,000 thousand to Nostrum Oil & Gas B.V. On 19 May 2014 the Partnership made an early repayment of US$ 104,000 thousand. On 13 May 2015 the Partnership made an early repayment of US$ 45,000 thousand.

15. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in abandonment and site restoration provision during years ended 31 December 2015 and 2014 is as follows:

In thousands of US dollars	2015	2014
Abandonment and site restoration provision as at 1 January	**20,877**	13,874
Unwinding of discount	**426**	197
Additional provision	**247**	2,500
Change in estimates	**(5,622)**	4,306
Abandonment and site restoration provision as at 31 December	**15,928**	20,877

The management made its estimate based on the assumption that cash flow will take place at the expected end of the subsoil use rights in 2033. There are uncertainties in estimation of future costs as Kazakh laws and regulations concerning site restoration evolve.

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2015 were 2.49% and 5.54%, respectively (31 December 2014: 3.75% and 4.88%).

The change in the long-term inflation rate, discount rate and liquidation cost estimates in the year ended 31 December 2015 resulted in the decrease of the abandonment and site restoration provision by US$ 5,622 thousand (31 December 2014: the increase by US$ 4,306 thousand).

16. DUE TO GOVERNMENT OF KAZAKHSTAN

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of a liability in relation to the expenditures made by the Government in the time period prior to signing the Contract that were related to exploration of the Contract territory and the construction of surface facilities in fields discovered therein and that are reimbursable by the Partnership to the Government during the production period. The total amount of liability due to Government as stipulated by the Contract is US$ 25,000 thousand.

Repayment of this liability commenced in 2008 with the first payment of US$ 1,030 thousand in March 2008 and with further payments by equal quarterly instalments of US$ 258 thousand until 26 May 2031. The liability was discounted at 13%.

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2015 and 2014 is as follows:

In thousands of US dollars	2015	2014
Due to Government of Kazakhstan as at 1 January	6,937	7,052
Unwinding of discount	902	917
Paid during the year	(1,031)	(1,032)
	6,808	6,937
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,777**	5,906

17. TRADE PAYABLES

Trade payables comprise the following as at 31 December 2015 and 2014:

In thousands of US dollars	31 December 2015	31 December 2014
Tenge denominated trade payables	**22,437**	27,107
US dollar denominated trade payables	**13,956**	17,676
Euro denominated trade payables	**2,437**	2,886
Russian roubles denominated trade payables	**1,848**	965
	40,678	48,634

18. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 31 December 2015 and 2014:

In thousands of US dollars	**31 December 2015**	31 December 2014
Accruals under the subsoil use agreements	**16,902**	14,435
Training obligations accrual	**11,443**	9,686
Taxes payable, other than corporate income tax	**8,941**	17,223
Due to employees	**2,541**	2,157
Other current liabilities	**941**	830
	40,768	44,331

Accruals under subsoil use agreements mainly include amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields. Taking into account performance to date under the work programs and the progress made with the MOE as regards future amendments, the changes made in 2015 to the subsoil use agreements led to a net increase in the accrued liabilities of US$ 2,467 thousand compared to the previous year.

19. REVENUE

In thousands of US dollars	**2015**	2014
Oil and gas condensate	**297,777**	620,165
Gas and LPG	**151,124**	161,713
	448,901	781,878

During the year ended 31 December 2015 the revenue from sales to three major customers amounted to US$ 141,359 thousand, US$ 104,978 thousand and US$ 85,954 thousand respectively (year ended 31 December 2014: three major customers: US$ 321,755 thousand, US$ 124,823 thousand and US$ 77,113 thousand, respectively).

The Partnership's exports are mainly represented by deliveries to Finland, the Black Sea ports of Russia and the United Arab Emirates.

20. COST OF SALES

In thousands of US dollars	**2015**	2014
Depreciation, depletion and amortisation	**107,690**	110,460
Repair, maintenance and other services	**26,557**	35,818
Payroll and related taxes	**17,160**	18,447
Royalties	**14,364**	24,330
Materials and supplies	**7,838**	10,929
Well workover costs	**5,182**	6,296
Management fees	**3,519**	4,920
Other transportation services	**3,049**	2,929
Government profit share	**1,880**	4,594
Environmental levies	**1,391**	1,098
Change in stock	**(3,613)**	376
Other	**2,799**	2,452
	187,816	222,649

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	2015	2014
Payroll and related taxes	**8,523**	8,957
Professional services	**4,531**	8,207
Management fees	**3,785**	3,802
Training	**3,000**	2,521
Depreciation and amortisation	**1,430**	1,314
Insurance fees	**1,401**	1,513
Sponsorship	**1,314**	1,826
Communication	**766**	829
Materials and supplies	**635**	626
Bank charges	**568**	773
Lease payments	**454**	500
Business travel	**414**	588
Social program	**302**	300
Other taxes	**267**	914
Other	**592**	671
	27,982	33,341

22. SELLING AND TRANSPORTATION EXPENSES

In thousands of US dollars	2015	2014
Transportation costs	**45,071**	54,878
Loading and storage costs	**41,229**	56,351
Payroll and related taxes	**1,901**	2,211
Management fees	**159**	183
Other	**4,610**	8,631
	92,970	122,254

23. FINANCE COSTS

In thousands of US dollars	2015	2014
Interest expense on borrowings	**50,412**	70,984
Unwinding of discount on amounts due to Government of Kazakhstan	**902**	917
Unwinding of discount on abandonment and site restoration provision	**426**	197
	51,740	72,098

24. OTHER EXPENSES

In thousands of US dollars	2015	2014
Export customs duty	**14,669**	19,733
Accruals under subsoil use agreements	**2,156**	16,083
Compensation	**2,531**	10,116
Other expense	**11,139**	4,344
	30,495	50,276

Export customs duty is comprised of customs duties for export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc. Based on their interpretation of CIS free-trade legislation the Kazakhstan customs authorities imposed customs duties on oil exports from Kazakhstan to Ukraine starting from December 2012.

Accruals under subsoil use agreements mainly include net amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

25. INCOME TAX

The income tax expense consisted of the following:

In thousands of US dollars	2015	2014
Deferred income tax expense	**142,469**	52,753
Corporate income tax	**22,836**	115,997
Adjustment in respect of the current income tax for the prior periods	**(1,203)**	(6,785)
Total income tax expense	**164,102**	161,965

The Partnership's profits are assessed for income taxes only in the Republic of Kazakhstan. A reconciliation between tax expense and the product of accounting profit multiplied by the Kazakhstani tax rate applicable to the Chinarevskoye subsoil use rights is as follows:

In thousands of US dollars	2015	2014
Profit before income tax	**86,680**	348,273
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**26,004**	104,482
Effect of exchange rate on the tax base	**101,043**	34,533
Adjustments in respect of current income tax of previous years	**(1,203)**	(6,785)
Effect of income taxed at different rate	**(3,634)**	(5,997)
Non-deductible interest expense on borrowings	**20,698**	23,390
Non-deductible penalties	**3,656**	4,556
Non-deductible compensation for gas	**–**	2,813
Net foreign exchange loss	**12,019**	1,020
Non-deductible social expenditures	**1,021**	886
Non-deductible cost of technological loss	**141**	192
Non-deductible training expenditures	**561**	–
Other non-deductible expenses	**3,796**	2,875
Income tax expenses reported in the financial statement	**164,102**	161,965

Deferred tax balances are calculated by applying the Kazakhstani statutory tax rate applicable to the Chinarevskoye subsoil use rights to the temporary differences between the tax amounts and the amounts reported in the consolidated financial statements and are comprised of the following:

In thousands of US dollars	2015	2014
Deferred tax asset		
Accounts payable and provisions	**4,488**	3,617
Deferred tax liability		
Property, plant and equipment	**(332,835)**	(196,855)
Derivative financial instruments	**(19,420)**	(12,060)
	(347,767)	(205,298)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	2015	2014
Balance as at 1 January	**205,298**	152,545
Current period charge to statement of comprehensive income	**142,469**	52,753
Balance as at 31 December	**347,767**	205,298

26. DERIVATIVE FINANCIAL INSTRUMENTS

During the years ended 31 December 2015 and 2014 the movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US dollars	2015	2014
Derivative financial instruments at fair value at 1 January	**60,301**	–
Proceeds from sale of hedging contract	**(92,256)**	–
Purchase of hedging contract	**92,000**	–
Gain on derivative financial instruments	**37,055**	60,301
Derivative financial instruments	**97,100**	60,301
Less current portion of derivative financial instruments	**54,095**	
Derivative financial instruments at fair value as at 31 December	**43,005**	60,301

On 3 March 2014, the Partnership entered, at nil upfront cost, into a long-term hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls through 29 February 2016, which was sold for US$ 92,256 thousand before expiration on 14 December 2015.

On 14 December 2015, the Partnership entered, at cost of US$ 92,000 thousand, into a long-term hedging contract covering oil sales of 14,674 bbls/day for the first calculation period and 15,000 bbls/day for the subsequent calculation periods or a total of 10,950,000 bbls running through 14 December 2017. The counterparty to the hedging agreement is VTB Capital Plc. Based on the hedging contract the Partnership bought a put, which protects it against any fall in the price of oil below US$ 49,16/bbl.

Gain and losses on the derivative financial instruments, which do not qualify for hedge accounting are taken directly to profit or loss.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 29*.

27. RELATED PARTY TRANSACTIONS

For the purpose of these financial statements transactions with related parties mainly comprise transactions between the Partnership and the participants and/or their subsidiaries or associated companies.

Accounts receivable from and advances paid to related parties as at 31 December 2015 and 2014 consisted of the following:

In thousands of US dollars	31 December 2015	31 December 2014
Trade receivables and advances paid		
With significant influence over Partnership:		
KazStroyService JSC	**35,832**	36,915

Accounts payable to related parties as at 31 December 2015 and 2014 consisted of the following:

In thousands of US dollars	31 December 2015	31 December 2014
Borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**61,000**	106,000
Trade payables		
With significant influence over the Partnership:		
KazStroyService JSC	**4,144**	2,753
Nostrum Services N.V.	**217**	46
Nostrum Services Central Asia LLP	**73**	76

During the years ended 31 December 2015 and 2014 the Partnership had the following transactions with related parties:

In thousands of US dollars	**2015**	2014
Repayment of borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**45,000**	104,000
Interest paid		
Under common control:		
Nostrum Oil & Gas B.V.	**5,705**	10,737
Purchases		
With significant influence over the Partnership:		
KazStroyService JSC	**29,906**	6,538
Management fees and consulting services		
Under common control:		
Nostrum Services Central Asia LLP	**1,787**	1,564
Nostrum Services N.V.	**8,009**	8,176

On 28 July 2014 the Partnership entered into a contract with JSC "OGCC KazStroyService" (the "Contractor") for the construction of the third unit of the Partnership's gas treatment facility for a consideration of US$ 150 million, which was amended with effect from 10 August 2015 by a supplementary agreement increasing that consideration to US$ 160 million.

With effect from 1 August 2015 the Partnership entered into a technical support and service agreement with the Contractor for an initial term ending on 31 December 2015 and an initial consideration of US$ 3,375 thousand.

With effect from 10 September 2015 the Partnership entered into a service agreement with the Contractor valid until 31 March 2016 for the provision of engineering staff for an aggregate consideration of US$ 245 thousand.

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2015 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

Management fees are payable in accordance with the Technical Assistance Agreements signed between the Partnership and Nostrum Services Central Asia LLP and Nostrum Services N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 518 thousand for the year ended 31 December 2015 (year ended 31 December 2014: US$ 549 thousand). Other key management personnel were employed and paid by Nostrum Services Central Asia LLP and Nostrum Services N.V. and their remuneration forms part of management fees and consulting services above.

28. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2015. As at 31 December 2015 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax position will be sustained.

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and clean-up evolve, the Partnership may incur future costs, the amount of which is currently indeterminable. Such costs, when known, will be provided for as new information, legislation and estimates evolve.

Environmental obligations

The Partnership may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. Kazakhstan's environmental legislation and regulations are subject to ongoing changes and varying interpretations. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Partnership may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation.

However, depending on any unfavourable court decisions with respect to any claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Partnership's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at 31 December 2015 the Partnership had contractual capital commitments in the amount of US$ 123,529 thousand (31 December 2014: US$ 248,644 thousand) mainly in respect to the Partnership's oil field exploration and development activities.

Operating lease

The Partnership entered into a cancellable lease agreement for the main administrative office in Uralsk in October 2007 for a period of 20 years for US$ 15 thousand per month.

In 2010 the Partnership entered into several agreements on lease of 650 railway tank wagons for transportation of hydrocarbon products for a period of up to seven years for KZT 6,989 (equivalent of US$ 47) per day per one wagon. The lease agreements may be early terminated either upon mutual agreement of the parties, or unilaterally by one of the parties if the other party does not fulfil its obligations under the contract.

The total of future minimum lease payments under non-cancellable operating leases was represented as follows:

In thousands of US dollars	**31 December 2015**	31 December 2014
No later than one year	**12,471**	14,788
Later than one year and no later than five years	**4,623**	17,671
Later than five years	**–**	–

Lease expenses of railway tank wagons for the year ended 31 December 2015 amounted to US$ 15,690 thousand year ended 31 December 2014: US$ 14,622 thousand).

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement No. 9), the Partnership is obliged to:

(i) spend US$ 300 thousand per annum to finance social infrastructure;

(ii) make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and

(iii) adhere to a spending schedule on education which lasts until (and including) 2020.

The contracts for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno Gremyachinskoye fields require fulfilment of several social and other obligations.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 3 July 2015) require the subsurface user to:

(i) spend US$ 1,000 thousand for funding of development of Astana city in case of commercial discovery;

(ii) invest at least US$ 5,888 thousand for exploration of the field during the exploration period;

(iii) reimburse historical costs of US$ 383 thousand to the Government upon commencement of production stage; and

(iv) fund liquidation expenses equal to US$ 35 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 30 December 2015) require the subsurface user to:

(i) invest at least US$ 18,976 thousand for exploration of the field during the exploration period;

(ii) fund liquidation expenses equal to US$ 130 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 30 December 2015) require the subsurface user to:

(i) invest at least US$ 30,453 thousand for exploration of the field during the exploration period;

(ii) fund liquidation expenses equal to US$ 154 thousand.

Domestic oil sales

In accordance with Supplement No. 7 to the Contract, the Partnership is required to deliver at least 15% of produced oil to the domestic market on a monthly basis for which prices are materially lower than export prices.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Partnership's principal financial liabilities comprise borrowings, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations as well as exploration of the three new oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye. The Partnership's financial assets consist of trade and other receivables, non-current investments, current investments and cash and cash equivalents.

The main risks arising from the Partnership's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, credit risk and commodity price risk. The Partnership's management reviews and agrees policies for managing each of these risks, which are summarized below.

Commodity price risk

The Partnership is exposed to the effect of fluctuations in price of crude oil, which is quoted in US dollars on the international markets. The Partnership prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Interest rate risk

The Partnership is not exposed to interest rate risk in 2015 and 2014 as the Partnership had no financial instruments with floating-rate as at years ended 31 December 2015 and 2014.

Foreign currency risk

The Partnership's statement of financial position can be affected by movements in the US dollar / tenge exchange rates. The Partnership mitigates the effect of its structural currency exposure by borrowing in US dollars and denominating sales in US dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollars exchange rate, with all other variables held constant, of the Partnership's profit before tax. The impact on equity is the same as the impact on profit before tax.

	Change in tenge to US dollar exchange rate	Effect on profit before tax
2015		
US dollar thousand	**60.00%**	**18,350**
US dollar thousand	**(20.00)%**	**(6,117)**
2014		
US dollar thousand	17.37%	(1,168)
US dollar thousand	(17.37)%	1,168

The Partnership's foreign currency denominated monetary assets and liabilities were as follows:

	Tenge	Russian Roubles	Euro	Other	Total
As at 31 December 2015					
Cash and cash equivalents	1,902	–	–	–	1,902
Trade receivables	1,455	–	–	–	1,455
Trade payables	(22,436)	(1,849)	(2,437)	–	(26,722)
Other current liabilities	(11,505)	–	–	–	(11,505)
	(30,584)	(1,849)	(2,437)	–	(34,870)

	Tenge	Russian Roubles	Euro	Other	Total
As at 31 December 2014					
Cash and cash equivalents	8,059	–	132	–	8,191
Trade receivables	12,331	–	–	–	12,331
Trade payables	(27,107)	(965)	(2,886)	–	(30,958)
Other current liabilities	(20,042)	–	–	–	(20,042)
	(26,759)	(965)	(2,754)	–	(30,478)

Liquidity risk

Liquidity risk is the risk that the Partnership will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Partnership monitors its risk to a shortage of funds using a liquidity planning tool. The tool allows selecting severe stress test scenarios. To ensure an adequate level of liquidity a minimum cash balance has been defined as a cushion of liquid assets. The Partnership's objective is to maintain a balance between continuity of funding and flexibility through the use of notes, loans, hedges, export financing and financial leases.

The Partnership's policy is that, while it has an investment program on-going: a) not more than 25% of borrowings should mature in the next twelve-month period and b) a minimum balance of US$ 50 million is retained on the balance sheet post repayment or refinancing of any debt due in the next twelve-month period.

The Partnership's total outstanding debt consists of US$ 61 million of loan due to Nostrum Oil & Gas B.V. and two notes: US$ 560 million issued in 2012 and maturing in 2019 and US$ 400 million issued in 2014 and maturing in 2019. The Partnership assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below summarizes the maturity profile of the Partnership's financial liabilities at 31 December 2015 and 2014 based on contractual undiscounted payments:

	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
As at 31 December 2015						
Borrowings	–	17,310	51,931	1,201,307	–	1,270,548
Trade payables	37,149	–	3,529	–	–	40,678
Other current liabilities	13,984	–	–	–	–	13,984
Due to Government of Kazakhstan	–	258	773	4,124	10,567	15,722
	51,133	17,568	56,233	1,205,431	10,567	1,340,932

	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
As at 31 December 2014						
Borrowings	–	18,106	70,667	217,268	1,133,665	1,439,706
Trade payables	47,110	–	1,524	–	–	48,634
Other current liabilities	11,843	–	–	–	–	11,843
Due to Government of Kazakhstan	–	258	773	4,124	11,340	16,495
	58,953	18,364	72,964	221,392	1,145,005	1,516,678

Credit risk

Financial instruments, which potentially subject the Partnership to credit risk, consist primarily of derivative financial instruments, accounts receivable and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Partnership considers that its maximum exposure is reflected by the amount of trade accounts receivable, cash and cash equivalents and derivative financial instruments.

The Partnership places its tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba3 (stable) from Moody's rating agency and ING with a credit rating of A1 (stable) from Moody's rating agency at 31 December 2015. The Partnership does not guarantee obligations of other parties.

The Partnership sells its products and makes advance payments only to recognized, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Partnership 's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low.

Customer credit risk is managed by each business unit subject to the Partnership's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are regularly monitored.

An impairment analysis is performed at each reporting date on an individual basis for major clients. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Partnership does not hold collateral as security. The Partnership evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Fair values of financial instruments

Set out below, is a comparison by class of the carrying amounts and fair value of the Partnerships financial instruments, other than those with carrying amounts reasonably approximating their fair values:

	Carrying amount		Fair value	
In thousands of US dollars	**31 December 2015**	31 December 2014	**31 December 2015**	**31 December 2014**
Derivative financial instruments	**97,100**	60,301	**97,100**	60,301
Interest bearing borrowings	**(1,012,027)**	(1,050,165)	**(871,161)**	(1,050,165)
Total	**(914,927)**	(989,864)	**(774,061)**	(989,864)

The management assessed that cash and cash equivalents, current investments, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until December 2017.

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 31 December 2015 and 2014:

	31 December 2015	31 December 2014
Future price at the reporting date (US$)	**37.19-48.75**	59.2-67.9
Historical volatility (%)	**30.31**	16.02-17.73
Risk-free interest rate (%)	**0.32-0.69**	0.25-0.67
Maturity (months)	**1-23**	3-15

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The following table reflects the results of the changes in volatilities and oil price assumptions on the fair value of the derivative financial instrument:

	Increase in the assumption	Decrease in the assumption
(Increase)/decrease in gain on derivative financial instruments due to change in oil price assumption (+/-US$ 2/bbl)	(12,857)	15,521
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	3,590	(3,561)

Movement in the derivative financial instruments is disclosed in *Note 26.*

During the years ended 31 December 2015 and 2014 there were no transfers between the levels of fair value hierarchy of the Partnership's financial instruments.

Capital management

For the purpose of the Partnership's capital management, capital includes issued capital, additional paid-in capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Partnership's capital management is to maximise the shareholder value.

In order to achieve this overall objective, the Partnership's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the notes that define capital structure requirements. Breaches in meeting the financial covenants would permit the lenders to immediately call borrowings. There have been no breaches in the financial covenants of the notes in the current period nor the prior period.

The Partnership manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Partnership may adjust the distribution payment to participants, return capital to participants or increase partnership capital. The Partnership monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Partnership's policy is to keep the gearing ratio between 20% and 40%. The Partnership includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

In thousands of US dollars	**2015**	2014
Interest bearing borrowings	**1,012,027**	1,050,165
Less: cash and cash equivalents, restricted cash and current and n on-current investments	**(140,303)**	(391,373)
Net debt	**871,724**	658,792
Equity	**659,315**	781,737
Total capital	**659,315**	781,737
Capital and net debt	**1,531,039**	1,440,529
Gearing ratio	**57%**	46%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. EVENTS AFTER THE REPORTING DATE

The technical support and service agreement with the Contractor that was originally valid until 31 December 2015 was extended on 24 February 2016 until 30 June 2016.

With effect from 1 January 2016 Kazakhstan reduced export duties for crude oil from US$ 60 to US$ 40 per tonne. With effect from 1 February 2016 Kazakhstan introduced floating rates of export duties for crude oil based on average market prices.