Zhaikmunai LLP

Consolidated financial statements

For the year ended December 31, 2013
with Independent auditors' report

CONTENTS

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Independent Auditors' Report

To the participants of Zhaikmunai LLP:

We have audited the accompanying consolidated financial statements of Zhaikmunai LLP and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Zhaikmunai LLP and its subsidiaries as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit Partner

Alexandr Nazarkulov
Auditor

Auditor Qualification Certificate
No. 0000059 dated 6 January 2012

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan:
series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

20 March 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2013

In thousands of US dollars

	Note	December 31, 2013	December 31, 2012
ASSETS			
Non-current assets			
Exploration and evaluation assets	5	**20,434**	–
Property, plant and equipment	6	**1,331,386**	1,222,980
Non-current investments	11	**25,000**	–
Restricted cash	12	**4,217**	3,652
Advances for non-current assets	7	**10,037**	25,278
		1,391,074	1,251,910
Current assets			
Inventories	8	**22,085**	24,963
Trade receivables	9	**66,564**	54,002
Prepayments and other current assets	10	**29,168**	24,070
Income tax prepayment		**5,042**	–
Current investments	11	**25,000**	50,000
Cash and cash equivalents	12	**170,447**	164,979
		318,306	318,014
TOTAL ASSETS		**1,709,380**	1,569,924
EQUITY AND LIABILITIES			
Partnership capital and reserves			
Partnership capital	13	**4**	4
Other reserves		**32,440**	32,637
Retained earnings		**558,877**	340,857
		591,321	373,498
Non-current liabilities			
Long-term borrowings	14	**830,854**	915,776
Abandonment and site restoration provision	15	**13,874**	11,064
Due to Government of Kazakhstan	16	**6,021**	6,122
Deferred tax liability	25	**152,545**	148,932
		1,003,294	1,081,894
Current liabilities			
Current portion of long-term borrowings	14	**7,449**	7,152
Trade payables	17	**56,676**	58,809
Income tax payable		–	11,662
Current portion of due to Government of Kazakhstan	16	**1,031**	1,031
Other current liabilities	18	**49,609**	35,878
		114,765	114,532
TOTAL EQUITY AND LIABILITIES		**1,709,380**	1,569,924

General Director of Zhaikmunai LLP — *Heinz Wendel*

Chief Financial Officer of Zhaikmunai LLP — *Gudrun Wykrota*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 through 31 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2013

In thousands of US dollars

	Note	2013	2012
Revenue			
Revenue from export sales		**765,029**	630,412
Revenue from domestic sales		**129,985**	106,653
	19	**895,014**	737,065
Cost of sales	20	**(286,222)**	(238,224)
Gross profit		**608,792**	498,841
General and administrative expenses	21	**(30,803)**	(44,332)
Selling and transportation expenses	22	**(121,674)**	(103,604)
Finance costs	23	**(64,702)**	(81,566)
Foreign exchange (loss)/gain, net		**(499)**	899
Interest income		**659**	337
Other expenses	24	**(25,593)**	(6,577)
Other income		**4,263**	3,940
Profit before income tax		**370,443**	267,938
Income tax expense	25	**(142,423)**	(120,289)
Profit for the year		**228,020**	147,649
Total comprehensive income for the year		**228,020**	147,649

General Director of Zhaikmunai LLP — *Heinz Wendel*

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

In thousands of US dollars

	Note	2013	2012
Cash flow from operating activities			
Profit before income tax		**370,443**	267,938
Adjustments for:			
Depreciation, depletion and amortization	20, 21	**120,266**	102,622
Finance costs	23	**64,702**	81,566
Interest income		**(659)**	(337)
Loss on disposal of property, plant and equipment		**–**	79
Foreign exchange loss/(gain) on investing and financing activities		**48**	(745)
Operating profit before working capital changes		**554,800**	451,123
Changes in working capital:			
Change in inventories		**2,878**	(10,445)
Change in trade receivables		**(12,562)**	(41,362)
Change in prepayments and other current assets		**(5,557)**	(9,292)
Change in trade payables		**(8,008)**	(1,704)
Change in advances received		**(24)**	(3,093)
Change in other current liabilities		**7,816**	23,522
Change in due to Government of Kazakhstan	16	**(1,031)**	(1,031)
Cash generated from operations		**538,312**	407,718
Income tax paid		**(154,993)**	(94,196)
Net cash flows from operating activities		**383,319**	313,522
Cash flow from investing activities			
Interest received		**659**	337
Purchase of property, plant and equipment		**(201,166)**	(210,196)
Purchase of exploration and evaluation assets	5	**(5,045)**	(10,089)
Placement of bank deposits		**–**	(50,000)
Net cash used in investing activities		**(205,552)**	(269,948)
Cash flow from financing activities			
Issue of notes	14	**–**	560,000
Transaction costs for notes issue		**–**	(8,865)
Finance costs paid		**(71,734)**	(80,583)
Distributions paid	13	**(10,000)**	–
Repayment of borrowings	14	**(90,000)**	–
Repayment of notes	14	**–**	(357,495)
Premium paid for early repayment of notes		**–**	(38,409)
Transfer to restricted cash		**(565)**	(576)
Net cash flows (used in)/from financing activities		**(172,299)**	74,072
Effects of exchange rate changes on cash and cash equivalents		**–**	(204)
Net increase in cash and cash equivalents		**5,468**	117,442
Cash and cash equivalents at the beginning of the year		**164,979**	47,537
Cash and cash equivalents at the end of the year	12	**170,447**	164,979

General Director of Zhaikmunai LLP — *Heinz Wendel*

Chief Financial Officer of Zhaikmunai LLP — *Gudrun Wykrota*

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ЖАИКМУНАЙ

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2013

In thousands of US dollars

	Notes	Partnership capital	Other reserves	Retained earnings	Total
As at January 1, 2012		4	32,637	193,208	225,849
Profit for the year		–	–	147,649	147,649
Total comprehensive income for the year		–	–	147,649	147,649
As at December 31, 2012		4	32,637	340,857	373,498
Profit for the year		**–**	**–**	**228,020**	**228,020**
Total comprehensive income for the year		**–**	**–**	**228,020**	**228,020**
Distributions	13	–	–	**(10,000)**	**(10,000)**
Loss on acquisition of Zhaikmunai International B.V.		–	**(197)**	–	**(197)**
As at December 31, 2013		**4**	**32,440**	**558,877**	**591,321**

General Director of Zhaikmunai LLP — *Heinz Wendel*

Chief Financial Officer of Zhaikmunai LLP — *Gudrun Wykrota*

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

1. GENERAL

Zhaikmunai, a Limited Liability Partnership (the "Partnership" or "Zhaikmunai") was established in Kazakhstan in 1997 for the purpose of exploration and development of Chinarevskoye oil and gas condensate field in the Western Kazakhstan Region. 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 October 31, 1997 between the State Committee of Investments of the Republic of Kazakhstan and Partnership in accordance with the license MG No. 253D for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

On December 29, 2010 the Partnership has acquired in a transaction under common control 18,000 ordinary shares of Zhaikmunai Finance B.V., representing 100% of its charter capital, from Zhaikmunai Netherlands B.V. (formerly known as Frans van der Schoot B.V.), an entity under control of a common parent. Zhaikmunai Finance B.V. was established by Frans van der Schoot B.V. in April 2010 specifically to issue the US$ 450 million senior notes with an October 19, 2015 maturity and a fixed coupon of 10.50% per annum (the "2010 Notes").

The consolidated financial statements include the financial statements of the Partnership and its subsidiaries (jointly the "Group"), Zhaikmunai Finance B.V. and Zhaikmunai International B.V., which was established by Zhaikmunai Netherlands B.V., an entity under control of a common parent, in October 2012 specifically to issue the US$ 560 million senior notes with a November 13, 2019 maturity and fixed coupon of 7.125% per annum (the "2012 Notes"). As at December 31, 2012 Zhaikmunai International B.V. was consolidated as a structured entity of the Partnership.

On August 17, 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 March 1, 2013 the Partnership has 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 Ministry of Oil and Gas (the "MOG") of the Republic of Kazakhstan.

The participants of the Partnership, their shares and changes in the participants' structure are disclosed in Note 13.

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

These consolidated financial statements were authorized for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on March 20, 2014.

Subsoil use rights terms

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 January 12, 2004 and June 23, 2005, respectively. In accordance with the supplement dated June 5, 2008, Tournaisian North reservoir entered into production period as at January 1, 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 May 26, 2011. A further extension to May 26, 2014 was made under the supplement dated October 28, 2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated February 8, 2008 originally included a 3-year exploration period and a 12-year production period. On April 27, 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision to extend the exploration period until February 8, 2015 and the corresponding supplementary agreement between MOG and the Partnership was signed on August 9, 2013.

The contract for exploration and production of hydrocarbons from Darjinskoye field dated July 28, 2006 originally included a 6-year exploration period and a 19-year production period. On October 21, 2008 the exploration period was extended for 6 months so as to expire on January 28, 2013. On April 27, 2009 the exploration period was extended until January 28, 2015. Upon receipt of the ownership rights the Partnership started the process of application for further extension of the exploration period.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated July 28, 2006 originally included a 5-year exploration period and a 20-year production period. On April 27, 2009 the exploration period was extended until July 28, 2012. On July 8, 2011 the exploration period was further extended until July 28, 2014. Upon receipt of the ownership rights the Partnership started the process of application for further extension of the exploration period.

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 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 gross basis.

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The consolidated 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 consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

The preparation of consolidated 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 consolidated financial statements are disclosed in Note 4.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Partnership and its subsidiaries as at December 31, 2013.

The subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies for all Group entities. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and profit distributions are eliminated in full.

Subsidiaries

Subsidiaries are all entities over which the Partnership has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and the effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Partnership controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Partnership and continue to be consolidated until the date that such control ceases.

Purchases of controlling interests in subsidiaries from entities under common control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded at the carrying values reported in the consolidated financial statements of the parent. Any difference between the total book value of net assets and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the controlling entity.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at January 1, 2013:

- IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*;
- IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*;
- IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures*;
- IFRS 12 *Disclosure of Interests in Other Entities*;
- IFRS 13 *Fair Value Measurement*;
- IAS 19 *Employee Benefits* (Revised 2011);
- Improvements to IFRSs – 2009-2011 Cycle:
  - IFRS 1 *Repeat application of IFRS 1*;
  - IFRS 1 *Borrowing Costs*;
  - IAS 1 *Clarification of the requirement for comparative information*;
  - IAS 16 *Classification of servicing equipment*;
  - IAS 32 *Tax effects of distributions to holders of equity instruments*;
  - IAS 34 *Interim financial reporting and segment information for total assets and liabilities*.

The nature and the impact of each new standard and/or amendment are described below:

IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including structured entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Structured Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers.* IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. As the Group does not have JCEs, IFRS 11 had no impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for consolidated financial statements of the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

In addition to the above-mentioned amendments and new standards, IFRS 1 *First-time Adoption of International Financial Reporting Standards* was amended with effect for reporting periods starting on or after January 1, 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

IAS 19 Employee Benefits (Revised 2011)

IAS 19 (revised 2011) includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendment had no impact on the Group's financial position or performance.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment had no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

The opening statement of financial position (known as the "third balance sheet") must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. The amendment did not have an impact on the consolidated financial statements of the Group.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 *Financial Instruments: Presentation* removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the consolidated financial statements of the Group.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Group provides this disclosure as total segment assets were reported to the chief operating decision maker (CODM). The amendment did not have an impact on the disclosures in the interim condensed consolidated financial statements for the Group.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will not have an effect on the classification and measurement of the Group's financial assets and financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Amendments to IFRS 10, IFRS12 and IAS 27 – Investment Entities

These amendments are effective for annual periods beginning on or after January 1, 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact on its future consolidated financial statements.

Amendment to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations if any.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgements, 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 amortization (the "DD&A"). The Partnership estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under 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.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Abandonment and site restoration provision

The Group 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 adjusted for expected inflation and discounted at applicable rate. The Partnership reviews site restoration provisions at each date of financial position and adjusts it to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimate of discount rate and timing of cash flow. The management made its estimate based on the assumption that cash flow will take place at the expected end of the subsoil use rights.

Management of the Partnership believes that the interest rates on its debt financing shall provide best estimates of applicable discount rate. The discount rate shall be applied to the nominal amounts the managements expect to spend on site restoration in the future. The Partnership estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long term inflation and discount rates used to determine the balance sheet obligation at December 31, 2013 and 2012 were 7% and 10%, respectively. Movements in the provision for decommissioning liability are disclosed in Note 15.

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 Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties 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 Group and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Consolidation of a structured entity

In October 2012 Zhaikmunai International B.V. was established by Zhaikmunai Netherlands B.V., an entity under control of a common parent, specifically to issue the 2012 Notes (Note 14). The net proceeds from the 2012 Notes were used to fund the repurchase of part of the 2010 Notes (Note 14) and to fund the costs and expenses of the repurchase of the 2010 Notes and the issue of the 2012 Notes. The remaining part of the net proceeds was intended to be used for general corporate purposes.

Based on these facts and circumstances, management concluded that at December 31, 2012 the Group controlled this entity and, therefore, consolidated the entity in its financial statements as at that date. During the year ended December 31, 2013 the Group acquired 100% ownership in the entity.

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Partnership and each of its subsidiaries 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 Group 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.

Property, plant and equipment

Exploration expenditure

Geological and geophysical exploration costs are charged to profit or loss as incurred. Costs directly associated with exploration wells are capitalized 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. The exploration expenditure expensed to profit or loss during 2013 amounted to US$ 3,810 thousand (2012: Nil).

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.

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 capitalized 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 capitalized 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.

Oil and gas reserves

Proved oil and gas reserves are estimated quantities of commercially viable hydrocarbons which existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs.

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. 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.

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 recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group 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

Impairment of non-financial assets

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Partnership makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss.

Impairment losses of continuing operations, including impairment of inventories, are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Borrowing costs

The Partnership capitalizes borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalization include all assets under construction that are not being depreciated, depleted, or amortized, provided that work is in progress at that time. Qualifying assets mostly include wells and other operations field infrastructure under construction. Capitalized borrowing costs are calculated by applying the capitalization rate to the expenditures on qualifying assets. The capitalization rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period.

Inventories

Inventories are stated at the lower of cost or net realizable 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 realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Provisions

Provisions are recognized when the Group 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.

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, 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. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted at applicable rate. The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding amount equivalent to the provision is also recognized 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.

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:

(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 recognized immediately in the profit or loss; and

(b) if the adjustment results in an addition to the cost of an asset, the Group 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 Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

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 Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. 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 income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

Accounts receivable

Accounts receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as expense (credit) in the period in which they become known.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group 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 reorganization 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current 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 recognized in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized 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

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and borrowings.

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized 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 amortization is included in finance cost in the profit or loss.

Derecognition

A financial liability is derecognized 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 recognized 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in the Note 28.

Derivative financial instruments and hedging

The Group has used hedging contracts for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognized 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.

The fair value of financial instruments is determined by reference to market values for similar instruments. As at December 31, 2013 and 2012 the Group had no open hedging contracts.

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 Group and therefore is not considered highly liquid – for example, cash set aside to cover decommissioning obligations.

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

Taxation

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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized 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.

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 by fixed prices.

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

Revenue is recognized 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 December 31, 2013 the Group had additions of exploration and evaluation assets of US$ 20,434 thousand (year ended December 31, 2012: US$ nil). The additions are mainly represented by the consideration related to acquisition of subsoil use rights of three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye in the amount of US$ 15,835 thousand, including capitalized contingent consideration under acquisition agreement of those oil and gas fields in the amount of US$ 5,300 thousand, respective liabilities for which were recognized as other current liabilities (Note 18). Also additions to exploration and evaluation assets include expenditures on geological and geophysical studies in the amount of US$ 4,599 thousand.

6. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2013 and 2012 property, plant and equipment comprised the following:

In thousands of US dollars	2013	2012
Oil and gas properties	**1,292,556**	1,192,609
Non oil and gas properties	**38,830**	30,371
Total property, plant and equipment	**1,331,386**	1,222,980

Oil and gas properties

The movement of oil and gas properties for the years ended December 31, 2013 and 2012 was as follows:

	Working assets	Construction in progress	Total
Balance at January 1, 2012, net of accumulated depreciation and depletion	903,178	208,174	1,111,352
Additions	5,816	174,705	180,521
Transfers	192,872	(192,872)	–
Disposals	(61)	–	(61)
Disposals depreciation	6	–	6
Depreciation and depletion charge	(99,209)	–	(99,209)
Balance at December 31, 2012, net of accumulated depreciation and depletion	1,002,602	190,007	1,192,609
Additions	**5,108**	**209,998**	**215,106**
Transfers	**197,271**	**(197,271)**	–
Disposals	–	–	–
Depreciation depletion charge	**(115,159)**	–	**(115,159)**
Balance at December 31, 2013, net of accumulated depreciation and depletion	**1,089,822**	**202,734**	**1,292,556**
Cost at December 31, 2012	1,209,373	190,007	1,399,380
Accumulated depreciation and depletion	(206,771)	–	(206,771)
Balance at December 31, 2012, net of accumulated depreciation and depletion	1,002,602	190,007	1,192,609
Cost at December 31, 2013	**1,411,752**	**202,734**	**1,614,486**
Accumulated depreciation and depletion	**(321,930)**	–	**(321,930)**
Balance at December 31, 2013, net of accumulated depreciation and depletion	**1,089,822**	**202,734**	**1,292,556**

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The subcategory "Construction in progress" is represented by the 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 12.14% and 11.96% in 2013 and 2012, respectively.

The Partnership engaged independent petroleum engineers to perform a reserves evaluation as at August 31, 2013. Starting from October 1, 2013 depletion has been calculated using the unit of production method based on these reserves estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group incurred borrowing costs including amortization of arrangement fees. Capitalization rate and capitalized borrowing costs were as follows for the years ended December 31:

In thousands of US dollars	**2013**	2012
Borrowing costs including amortization of arrangement fee	**77,917**	102,225
Capitalization rate	**9.07%**	13.48%
Capitalized borrowing costs	**14,862**	22,447

Non-oil and gas properties

In thousands of US dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at December 31, 2011, net of accumulated depreciation	5,488	2,919	1,106	2,520	1,025	13,058
Additions	609	4,062	378	2,016	13,685	20,750
Transfers	358	1,245	–	11	(1,614)	–
Disposals	–	(143)	–	(201)	–	(344)
Disposals depreciation	–	140	–	180	–	320
Depreciation charge	(848)	(1,727)	(314)	(524)	–	(3,413)
Balance at December 31, 2012, net of accumulated depreciation	5,607	6,496	1,170	4,002	13,096	30,371
Additions	**562**	**3,377**	**560**	**1,584**	**8,901**	**14,984**
Transfers	**21,799**	**–**	**–**	**150**	**(21,949)**	**–**
Disposals	**(35)**	**(1,070)**	**(50)**	**(411)**	**–**	**(1,566)**
Disposals depreciation	**16**	**52**	**49**	**30**	**–**	**147**
Depreciation charge	**(1,653)**	**(2,378)**	**(334)**	**(741)**	**–**	**(5,106)**
Balance at December 31, 2013, net of accumulated depreciation	**26,296**	**6,477**	**1,395**	**4,614**	**48**	**38,830**
Cost at December 31, 2012	8,561	10,977	3,003	5,843	13,096	41,480
Accumulated depreciation	(2,954)	(4,481)	(1,833)	(1,841)	–	(11,109)
Balance at December 31, 2012, net of accumulated depreciation	5,607	6,496	1,170	4,002	13,096	30,371
Cost at December 31, 2013	**30,887**	**13,284**	**3,513**	**7,166**	**48**	**54,898**
Accumulated depreciation	**(4,591)**	**(6,807)**	**(2,118)**	**(2,552)**	**–**	**(16,068)**
Balance at December 31, 2013, net of accumulated depreciation	**26,296**	**6,477**	**1,395**	**4,614**	**48**	**38,830**

As at December 31, 2013 the Partnership's property, plant and equipment of US$ 1,086,250 thousand were pledged as security for the loans due to Zhaikmunai Netherlands B.V. (Note 14) (as at December 31, 2012: US$ 1,086,250 thousand).

7. ADVANCES FOR NON-CURRENT ASSETS

As at December 31, advances for non-current assets comprised the following:

In thousands of US dollars	**2013**	2012
Advances for pipes and construction materials	**6,241**	9,126
Advances for construction services	**3,796**	6,063
Advances for purchase of subsoil use rights	**–**	10,089
	10,037	25,278

8. INVENTORIES

As at December 31, inventories comprised the following:

In thousands of US dollars	**2013**	2012
Materials and supplies	**16,738**	17,126
Gas condensate	**2,986**	4,633
Crude oil	**1,754**	2,750
LPG	**607**	454
	22,085	24,963

As at December 31, 2013 and 2012 inventories are carried at cost.

9. TRADE RECEIVABLES

As at December 31, 2013 and 2012 trade receivables were not interest bearing and were mainly denominated in US dollars, their collection period was less than 30 days and they were not impaired.

As at December 31, 2013 and 2012 the ageing analysis of trade receivables is as follows:

			Past due but not impaired				
In thousands of US dollars	Total	Neither past due nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
2013	**66,564**	**66,560**	**–**	**–**	**–**	**–**	**4**
2012	54,002	53,998	–	–	–	–	4

See Note 28 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

10. PREPAYMENTS AND OTHER CURRENT ASSETS

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

In thousands of US dollars	2013	2012
VAT receivable	**17,192**	10,818
Advances paid	**7,573**	12,318
Other	**4,403**	934
	29,168	24,070

Advances paid consist primarily of prepayments made to service providers.

11. CURRENT AND NON-CURRENT INVESTMENTS

Current investments as at December 31, 2013 were represented by an interest bearing short-term deposit placed on September 30, 2013 for a six-month period. Current investments as at December 31, 2012 were represented by an interest bearing short-term deposit on November 16, 2012 for a six-month period.

Non-current investments were represented by an interest bearing deposit placed on September 30, 2013 for a period of more than one year.

12. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

In thousands of US dollars	2013	2012
Current accounts in US dollars	**140,012**	54,385
Bank deposits with maturity of less than three months	**25,000**	100,000
Current accounts in Tenge	**5,429**	10,567
Current accounts in other currencies	**–**	21
Petty cash	**6**	6
	170,447	164,979

The Partnership has restricted cash accounts which are mainly represented by liquidation fund deposit in the amount of US$ 4,217 thousand with Kazkommertsbank JSC in Kazakhstan (December 31, 2012: US$ 3,652 thousand), which is kept as required by the subsoil use rights for Abandonment and site restoration provision of the Partnership.

Bank deposits with maturity of less than three months as at December 31, 2013, represent an interest bearing short-term deposits placed on December 30, 2013.

13. PARTNERSHIP CAPITAL

The charter capital of the Partnership was contributed in Tenge and amounts to Tenge 600 thousand, equivalent to US$ 4 thousand as at December 31, 2013 (as at December 31, 2012: US$ 4 thousand). The shares of Condensate Holding LLP and Claydon Industrial Ltd in charter capital of the Partnership constitute 55% and 45%, respectively, equivalent to US$ 2.2 thousand and US$ 1.8 thousand, respectively.

Gain on initial recognition of loans received from Zhaikmunai Netherlands B.V. at the below market interest rates as well as loss on its subsequent substantial modification have been recorded in other reserves.

Retained earnings and reserves include foreign currency translation reserve accumulated before 2009, when the functional currency of the Group was Tenge.

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 July 5, 2013 the Partnership made payments of profit distribution in the amount of US$ 10,000 thousand according to the decision made at the Annual General Meeting of Participants of the Partnership on June 28, 2013.

14. BORROWINGS

Borrowings comprise the following as at December 31:

In thousands of US dollars	**2013**	2012
Notes issued in 2012 and maturing in 2019	**534,920**	530,425
Zhaikmunai Netherlands B.V.	**210,186**	300,000
Notes issued in 2010 and maturing in 2015	**93,197**	92,503
	838,303	922,928
Less: amounts due within 12 months	**(7,449)**	(7,152)
Amounts due after 12 months	**830,854**	915,776

2010 Notes

On October 19, 2010 Zhaikmunai Finance B.V. (the "2010 Initial Issuer") issued US$ 450,000 thousand notes (the "2010 Notes").

On February 28, 2011 Zhaikmunai LLP (the "2010 Issuer") replaced the 2010 Initial Issuer of the 2010 Notes, whereupon it assumed all of the obligations of the 2010 Initial Issuer under the 2010 Notes.

The 2010 Notes bear interest at the rate of 10.50% per year. Interest on the 2010 Notes is payable on April 19 and October 19 of each year, beginning on April 19, 2011. Prior to October 19, 2013, the 2010 Issuer could, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2010 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 110.50% 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 2010 Notes (including Additional Notes as defined in the indenture relating to the 2010 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 2010 Notes could have been redeemed, in whole or in part, at any time prior to October 19, 2013 at the option of the 2010 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2010 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2010 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 2010 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2010 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2010 Note at October 19, 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2010 Note through October 19, 2013 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 2010 Note.

The 2010 Notes are jointly and severally guaranteed (the "2010 Guarantees") on a senior basis by Nostrum Oil & Gas LP and all of its subsidiaries other than the 2010 Issuer (the "2010 Guarantors"). The 2010 Notes are the 2010 Issuer's and the 2010 Guarantors' senior obligations and rank equally with all of the 2010 Issuer's and the 2010 Guarantors' other senior indebtedness. The 2010 Notes and the 2010 Guarantees have the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

On October 19, 2012, Zhaikmunai International B.V. commenced a cash tender offer (the "Tender Offer") to purchase any and all of the 2010 Notes. US$ 347,604 thousand aggregate principal amount of the 2010 Notes had been tendered into the Tender Offer, representing approximately 77% of the outstanding 2010 Notes, by the time the Tender Offer for

2010 Notes expired on November 19, 2012. The holders of US$ 200,732 thousand 2010 Notes that accepted the Tender Offer have subscribed to the 2012 Notes of the same amount.

2012 Notes

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

On April 24, 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 May 14 and November 13 of each year, beginning on May 14, 2013. Prior to November 13, 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 November 13, 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 November 13, 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2012 Note through November 13, 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 LP 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 do not have the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

Loans due to Zhaikmunai Netherlands B.V.

On July 1, 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 September 15, 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 December 22, 2010, a portion of this loan amounting to US$ 51,926 thousand was repaid.

On October 19, 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 December 31, 2015.

On January 1, 2013, amendments to the loan agreement were made according to which the interest rate was decreased from 10% to 6.625%.

The outstanding balance of the loan as at December 31, 2013 has an interest rate of 6.625% (December 31, 2012: 10%).

In accordance with the decisions of the Annual General Meeting of the Partnership on June 28, 2013 the Partnership on July 3, 2013 made an early repayment of the part of the loan in the amount of US$ 60,000 thousand to Zhaikmunai Netherlands B.V. On December 23, 2013 the Partnership made another early repayment of US$ 30,000 thousand to Zhaikmunai Netherlands B.V.

15. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in Abandonment and site restoration provision during the years ended December 31, 2013 and 2012 is as follows:

In thousands of US dollars	2013	2012
Abandonment and site restoration provision as at January 1	**11,064**	8,713
Unwinding of discount	**1,034**	847
Additional provision	**2,500**	1,743
Change in estimates	**(724)**	(239)
Abandonment and site restoration provision as at December 31	**13,874**	11,064

The long-term inflation and discount rates used to determine the Abandonment and site restoration provision at December 31, 2013 were 7% and 10%, respectively (December 31, 2012: 7% and 10%).

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 May 26, 2031. The liability was discounted at 13%.

The summary of changes in the amounts due to Government of Kazakhstan during the years ended December 31, 2013 and 2012 is as follows:

In thousands of US dollars	2013	2012
Due to Government of Kazakhstan as at January 1	**7,153**	7,242
Unwinding of discount	**930**	942
Paid during the year	**(1,031)**	(1,031)
	7,052	7,153
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at December 31	**6,021**	6,122

17. TRADE PAYABLES

Trade payables comprise the following as at December 31:

In thousands of US dollars	2013	2012
Tenge denominated trade payables	**42,950**	39,209
US dollar denominated trade payables	**11,898**	17,339
Trade payables denominated in other currencies	**1,828**	2,261
	56,676	58,809

18. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at December 31:

In thousands of US dollars	2013	2012
Taxes payable, other than corporate income tax	**32,101**	24,832
Training obligations	**8,986**	9,257
Due to employees	**1,448**	1,169
Other	**7,074**	620
	49,609	35,878

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. REVENUES

In thousands of US dollars	2013	2012
Oil and gas condensate	**709,107**	587,371
Gas and LPG	**185,907**	149,694
	895,014	737,065

During the year ended December 31, 2013 the revenue from sales to two major customers amounted to US$ 202,945 thousand and US$ 173,440 thousand respectively (2012: three major customers: US$ 200,581 thousand, US$ 118,780 thousand and US$ 53,994 thousand respectively).

20. COST OF SALES

In thousands of US dollars	2013	2012
Depreciation, depletion and amortization	**118,957**	101,374
Repair, maintenance and other services	**52,361**	55,470
Royalties	**39,356**	34,195
Government profit share	**30,747**	7,899
Payroll and related taxes	**17,240**	18,409
Materials and supplies	**12,262**	5,332
Other transportation services	**4,306**	5,350
Management fees	**3,558**	1,880
Well work-over costs	**2,794**	7,639
Change in stock	**2,490**	(3,298)
Environmental levies	**1,029**	1,614
Other	**1,122**	2,360
	286,222	238,224

21. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	2013	2012
Payroll and related taxes	**7,089**	4,637
Professional services	**5,308**	2,034
Management fees	**3,562**	3,898
Sponsorship	**2,919**	721
Training	**2,736**	4,118
Insurance fees	**1,960**	1,302
Depreciation and amortization	**1,309**	1,248
Bank charges	**1,075**	1,034
Communication	**845**	725
Materials and supplies	**664**	602
Business trip	**618**	441
Other taxes	**592**	987
Lease payments	**478**	355
Social program	**300**	21,818
Other	**1,348**	412
	30,803	44,332

22. SELLING AND TRANSPORTATION EXPENSES

In thousands of US dollars	2013	2012
Transportation costs	**72,229**	73,973
Loading and storage costs	**36,991**	21,622
Payroll and related taxes	**2,486**	2,330
Management fees	**701**	1,882
Other	**9,267**	3,797
	121,674	103,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. FINANCE COSTS

In thousands of US dollars	2013	2012
Interest expense on borrowings	**62,738**	79,777
Unwinding of discount on Abandonment and site restoration provision[1]	**1,034**	847
Unwinding of discount on Due to Government[2]	**930**	942
	64,702	81,566

[1] See Note **Ошибка! Источник ссылки не найден.** on **Ошибка! Источник ссылки не найден.**.

[2] See Note 16 on **Ошибка! Источник ссылки не найден.**.

24. OTHER EXPENSES

In thousands of US dollars	2013	2012
Export customs duty	**12,268**	–
Compensation for gas	**6,387**	4,797
Other	**6,938**	1,780
	25,593	6,577

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

25. INCOME TAX

The income tax expense consisted of the following:

In thousands of US dollars	2013	2012
Current income tax expense	**138,810**	118,031
Deferred income tax expense	**3,613**	2,258
Total income tax expense	**142,423**	120,289

The Group has profits assessable 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	2013	2012
Profit before income tax	**370,443**	267,938
Tax rate applicable to the subsoil use rights	**30%**	30%
Expected tax provision	**111,133**	80,381
Non-deductible interest expense on borrowings	**19,084**	26,579
Non-deductible other tax expenses	**2,037**	5,243
Change of the tax base	**2,836**	2,312
Non-deductible social expenditures	**890**	1,589
Non-deductible compensation for gas	**1,711**	1,226
Foreign exchange loss	**1,624**	491
Effect of income taxed at different rate	**31**	26
Non-deductible technological losses	**1,850**	763
Non-deductible training expenditures	**–**	552
Other non-deductible expenses	**1,227**	1,127
Income tax expense reported in the consolidated financial statements	**142,423**	120,289

Deferred tax balances are calculated by applying the Kazakhstani 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In thousands of US dollars	2013	2012
Deferred tax asset		
Accounts payable and provisions	**2,811**	2,868
	2,811	2,868
Deferred tax liability		
Property, plant and equipment	**(155,356)**	(151,800)
	(155,356)	(151,800)
Net deferred tax liability	**(152,545)**	(148,932)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	2013	2012
Balance at January 1	**148,932**	146,674
Current year charge to profit or loss	**3,613**	2,258
Balance at December 31	**152,545**	148,932

26. RELATED PARTY TRANSACTIONS

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

Accounts payable to related parties indirectly controlled by a shareholder with significant influence over the Group and borrowings from related parties under common control with the Group as at December 31 consisted of the following:

In thousands of US dollars	2013	2012
Related party		
Borrowings from related parties under common control		
Zhaikmunai Netherlands B.V	**210,186**	300,000
Trade payables to related parties controlled by a shareholder with significant influence		
Probel Capital Management N.V.	**109**	288
Prolag B.V.B.A.	**240**	298
Amersham Oil LLP	**52**	48

During the years ended December 31, 2013 and 2012 the Partnership had the following transactions with related parties represented by entities indirectly controlled by shareholder with significant influence over the Group:

In thousands of US dollars	2013	2012
Related party		
Interest paid		
Zhaikmunai Netherlands B.V.	**18,371**	30,000
Loan repayment		
Zhaikmunai Netherlands B.V.	**90,000**	-
Management fees and consulting services		
Amersham Oil LLP	**1,506**	1,415
Prolag B.V.B.A.	**1,253**	2,195
Probel Capital Management N.V.	**5,063**	4,049

Management fees are payable in accordance with the Technical Assistance Agreements signed between the Partnership, Amersham Oil LLP, Prolag B.V.B.A. and Probel Capital Management N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services.

Annual remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 634 thousand for year ended December 31, 2013 (year ended December 31, 2012: US$ 624 thousand). Other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management N.V. and whose remuneration forms part of the management fees and consulting services above.

27. 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 December 31, 2013. As at December 31, 2013 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and clean up evolve, the Group 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 Group 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. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Group 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 unfavorable claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Group's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at December 31, 2013 the Group had contractual capital commitments in the amount of US$ 26,842 thousand (December 31, 2012: US$ 23,088 thousand) mainly in respect to the Group's oil field development activities.

Operating lease

The Partnership entered into several 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 7 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 were represented as follows:

In thousands of US dollars	**2013**	2012
No later than 1 year	**12,501**	12,585
Later than 1 year and no later than 5 years	**23,846**	17,112
Later than 5 years	**–**	–

Lease expenses of railway tank wagons for the year ended December 31, 2013 amounted to US$ 12,628 thousand (the year ended December 31, 2012: US$ 10,705 thousand).

Social and education commitments

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

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

(ii) perform repair and reconstruction of state automobile roads for the amount of US$ 12,000 thousand in 2012;

(iii) make an accrual of one percent of the capital expenditure per annum for the purposes of educating Kazakh citizens; and

(iv) 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 fulfillment of several social and other obligations. However, these obligations were amended in the year ended December 31, 2013 (in the case of Rostoshinskoye) or were (as at December 31, 2013) in the process of being amended (in the case of Darjinskoye and Yuzhno-Gremyachinskoye).

The current contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on August 9, 2013) requires the subsurface user to:

(i) spend at least US$ 206 thousand of investments for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 600 thousand to finance social infrastructure of the region during the exploration stage;

(iii) invest at least US$ 20,750 thousand for exploration of the field during the exploration period;

(iv) create a liquidation fund (special deposit account with local bank) equal to US$ 206 thousand.

The contract for exploration and production of hydrocarbons from Darjinskoye field (prior to its amendment on January 23, 2014) required the subsurface user to:

(i) spend at least US$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 18,850 thousand to finance social infrastructure of the region (including US $1,000 thousand for funding of development of Astana city in case of commercial discovery);

(iii) invest at least US$ 20,000 thousand for exploration of the field during the exploration period;

(iv) reimburse historical costs of US$ 6,499 thousand to the Government, including US$ 195 thousand for the right to use geological information; and

(v) create a liquidation fund (special deposit account with local bank) equal to 1% of the capital expenditures during the exploration stage and 0.1% of the operational costs during the production stage.

The current contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (prior to its amendment on January 23, 2014) required the subsurface user to:

(i) spend at least 1% of investments for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 18,950 thousand to finance social infrastructure of the region (including US$ 1,000 thousand for funding of development of Astana city in case of commercial discovery);

(iii) invest at least US$ 23,050 thousand for exploration of the field during the exploration period;

(iv) reimburse historical costs of US$ 3,194 thousand to the Government, including US$ 96 thousand for the right to use geological information; and

(v) create a liquidation fund (special deposit account with local bank) equal to 1% of the capital expenditures during the exploration stage and 0.1% of the operational costs during the production stage.

Domestic oil sales

In accordance with Supplement № 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.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group'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 Group'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 Group's financial instruments are interest rate risk, foreign exchange risk, liquidity risk and credit risk. The Group's management reviews and agrees policies for managing each of these risks which are summarized below.

Interest rate risk

The Group is not exposed to interest rate risk in 2013 and 2012 as the Group had no floating-rate borrowings as at December 31, 2013 and 2012.

Foreign currency risk

As a significant portion of the Group's operation is Tenge denominated, the Group's statement of financial position can be affected significantly by movements in the US dollar/Tenge exchange rates. The Group 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 Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Change in Tenge to US dollar exchange rate	Effect on profit before tax
2013		
US dollar thousand	**+30.00%**	**(3,294)**
US dollar thousand	**+10.00%**	**(1,098)**
2012		
US dollar thousand	+1.57%	(235)
US dollar thousand	-1.57%	235

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

As at December 31, 2013	Tenge	Russian roubles	Euro	Other	Total
Cash and cash equivalents	**5,435**	–	–	–	**5,435**
Trade receivables	**27,619**	–	–	–	**27,619**
Trade payables	**(42,950)**	**(372)**	**(1,456)**	–	**(44,778)**
Other current liabilities	**(257)**	–	–	–	**(257)**
	(10,153)	**(372)**	**(1,456)**	–	**(11,981)**

As at December 31, 2012	Tenge	Russian roubles	Euro	Other	Total
Cash and cash equivalents	10,573	–	–	21	10,594
Trade receivables	13,662	–	–	–	13,662
Trade payables	(39,222)	(10)	(2,250)	–	(41,482)
Other current liabilities	(10,436)	–	–	–	(10,436)
	(25,423)	(10)	(2,250)	21	(27,662)

Liquidity risk

Liquidity risk is the risk that the Group 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 Group 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 Group'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group'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 Group's total outstanding debt consists of two notes: US$ 92.5 million issued in 2010 and maturing in 2015 and US$ 560 million issued in 2012 and maturing in 2019. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

Access to sources of funding is sufficiently available and if there would be debt maturing within twelve months it could be rolled over with existing lenders.

The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2013 and 2012 based on contractual undiscounted payments:

	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
December 31, 2013						
Borrowings	–	3,478	60,047	315,552	818,797	1,197,874
Trade payables	56,676	–	–	–	–	56,676
Other current liabilities	10,434	–	–	–	–	10,434
Due to Government of Kazakhstan	–	258	773	4,124	12,371	17,526
	67,110	3,736	60,820	319,676	831,168	1,282,510

	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
December 31, 2012						
Borrowings	–	7,397	72,216	414,533	969,800	1,463,946
Trade payables	58,809	–	–	–	–	58,809
Other current liabilities	10,426	–	–	–	–	10,426
Due to Government of Kazakhstan	–	258	773	4,124	13,402	18,557
	69,235	7,655	72,989	418,657	983,202	1,551,738

Credit risk

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

The Group places its Tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba2 (stable) from Moody's rating agency and its US dollar denominated cash with BNP Paribas with a credit rating of A2 (stable) and ING with a credit rating of A2 (negative) from Moody's rating agency at December 31, 2013. The Group does not guarantee obligations of other parties.

The Group 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 Group'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 Group'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 Group does not hold collateral as security. The Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Fair values of financial instruments

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

	Carrying amount		Fair value	
(U.S.$ thousands)	**2013**	2012	**2013**	2012
Financial liabilities				
Interest bearing borrowings	**838,303**	922,928	**896,795**	992,828
Total	**838,303**	922,928	**896,795**	992,828

The fair value of the financial assets and liabilities represents the amount at which the instrument 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 categorized as Level 1 within fair value hierarchy. Long-term fixed-rate borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and the risk characteristics of the financed project.

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

Capital management

For the purpose of the Group'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 Group's capital management is to maximize the shareholder value.

In order to achieve this overall objective, the Group'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 borrowers 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 Group 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 Group may adjust the profit distribution to participants, return capital to participants or increase partnership capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 60% and 70%. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits, excluding discontinued operations.

In thousands of US dollars	**2013**	2012
Interest bearing borrowings	**838,303**	922,928
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(195,447)**	(214,979)
Net debt	**642,856**	707,949
Equity	**591,321**	373,498
Total capital	**591,321**	373,498
Capital and net debt	**1,234,177**	1,081,447
Gearing ratio	**52%**	65%

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. EVENTS AFTER THE REPORTING PERIOD

On January 23, 2014, the contract for exploration and production of hydrocarbons from Darjinskoye field was amended so as to require the Partnership to:

(i) spend at least US$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 225 thousand to finance social infrastructure of the region;

(iii) invest at least US$ 20,355 thousand for exploration of the field during the exploration period;

(iv) create a liquidation fund (special deposit account with local bank) equal to US$ 208 thousand.

On January 23, 2014, the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachenskoye field was amended so as to require the Partnership to:

(i) spend at least US$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 1,050 thousand to finance social infrastructure of the region;

(iii) invest at least US$ 19,850 thousand for exploration of the field during the exploration period;

(iv) reimburse historical costs of US$ 96 thousand; and

(v) create a liquidation fund (special deposit account with local bank) equal to US$ 244 thousand.

The remaining contingent consideration (312,168,910 Tenge for Darjinskoye and 487,375,905 Tenge for Yuzhno-Gremyachenskoye, equivalent US$ 2,069 thousand and US$ 3,231 thousand, respectively) was paid to the sellers in January 2014.

On February 11, 2014 the Tenge was devalued against the US dollar and other major currencies. The exchange rates before and after devaluation were 155 Tenge / US dollar and 185 Tenge / US dollar respectively.

On February 14, 2014, Nostrum Oil & Gas Finance B.V., an entity under common control with the Group (established on January 15, 2014), issued US$ 400 million notes at a coupon of 6.325% maturing in 2019. The Notes are jointly and severally guaranteed on a senior basis by Nostrum Oil & Gas LP and all of its subsidiaries (including Zhaikmunai LLP) other than Nostrum Oil & Gas Finance B.V.

On February 28, 2014, Zhaikmunai LLP entered into a deed of sale and transfer with Zhaikmunai Netherlands B.V. for the acquisition of the share capital of Nostrum Oil & Gas Finance B.V.

On March 3, 2014, in accordance with its hedging policy, the Partnership entered, at nil upfront cost, into a new hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through February 29, 2016. The counterparty to the hedging agreement was Citibank. Based on the hedging contract the Partnership bought a put at $85/bbl, which protected it against any fall in the price of oil below $85/bbl. As part of this contract the Partnership also sold a call at $111.5/bbl and bought a call at $117.5/bbl which further allowed the Partnership to benefit from oil prices up to $111.5/bbl and above $117.5/bbl.