Zhaikmunai LLP

Consolidated financial statements

For the year ended 31 December 2014
with Independent auditors' report

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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 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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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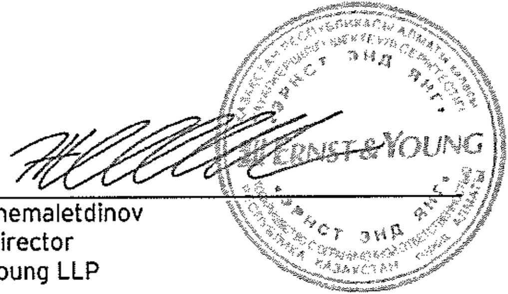
Opinion

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 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP



Alexandr Nazarkulov
Auditor

Auditor qualification certificate
No. 0000059 dated 6 January 2012

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

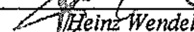
State audit license for audit activities on the territory of the Republic of Kazakhstan:
series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan
on 15 July 2005

31 March 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

In thousands of US dollars	Notes	31 December 2014	31 December 2013
Assets			
Non-current assets			
Exploration and evaluation assets	5	**24,380**	20,434
Property, plant and equipment	6	**1,442,192**	1,331,386
Restricted cash	12	**5,023**	4,217
Advances for non-current assets	7	**134,355**	10,037
Derivative financial instruments	26	**60,301**	–
Non-current investments	11	**–**	25,000
		1,666,251	1,391,074
Current assets			
Inventories	8	**25,443**	22,085
Trade receivables	9	**30,110**	66,564
Prepayments and other current assets	10	**38,570**	29,168
Income tax prepayment		**13,925**	5,042
Current investments	11	**25,000**	25,000
Cash and cash equivalents	12	**361,350**	170,447
		494,398	318,306
Total assets		**2,160,649**	1,709,380
Equity and liabilities			
Partnership capital and reserves			
Partnership capital	13	**4,112**	4
Other reserves		**32,440**	32,440
Retained earnings		**745,185**	558,877
		781,737	591,321
Non-current liabilities			
Long-term borrowings	14	**1,035,141**	830,854
Abandonment and site restoration provision	15	**20,877**	13,874
Due to Government of Kazakhstan	16	**5,906**	6,021
Deferred tax liability	25	**205,298**	152,545
		1,267,222	1,003,294
Current liabilities			
Current portion of long-term borrowings	14	**15,024**	7,449
Trade payables	17	**48,634**	56,676
Advances received		**2,670**	37
Current portion of Due to Government of Kazakhstan	16	**1,031**	1,031
Other current liabilities	18	**44,331**	49,572
		111,690	114,765
Total equity and liabilities		**2,160,649**	1,709,380

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 6 through 37 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

In thousands of US dollars	Notes	2014	2013
Revenue			
Revenue from export sales		**676,064**	765,029
Revenue from domestic sales		**105,814**	129,985
	19	**781,878**	895,014
Cost of sales	20	**(222,649)**	(286,222)
Gross profit		**559,229**	608,792
General and administrative expenses	21	**(33,341)**	(30,803)
Selling and transportation expenses	22	**(122,254)**	(121,674)
Finance costs	23	**(72,098)**	(64,702)
Foreign exchange loss, net		**(3,401)**	(499)
Gain on derivative financial instrument	26	**60,301**	–
Interest income		**812**	659
Other expenses	24	**(50,276)**	(25,593)
Other income		**9,301**	4,263
Profit before income tax		**348,273**	370,443
Income tax expense	25	**(161,965)**	(142,423)
Profit for the year		**186,308**	228,020
Other comprehensive income		**–**	–
Total comprehensive income for the year		**186,308**	228,020

General Director of Zhaikmunai LLP — *Heinz Wendel*

Chief Financial Officer of Zhaikmunai LLP — *Gudrun Wykrota*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

In thousands of US dollars	Notes	2014	2013
Cash flow from operating activities			
Profit before income tax		**348,273**	370,443
Adjustments for:			
Depreciation, depletion and amortisation	20, 21	**111,774**	120,266
Finance costs	23	**72,098**	64,702
Interest income		**(812)**	(659)
Foreign exchange (gain)/loss on investing and financing activities		**(565)**	48
Loss on disposal of property, plant and equipment		**514**	–
Gain on derivative financial instruments	26	**(60,301)**	–
Operating profit before working capital changes		**470,981**	554,800
Changes in working capital:			
Change in inventories		**(3,358)**	2,878
Change in trade receivables		**36,454**	(12,562)
Change in prepayments and other current assets		**(9,402)**	(5,557)
Change in trade payables		**(4,272)**	(8,008)
Change in advances received		**2,633**	(24)
Change in Due to Government of Kazakhstan		**(1,032)**	(1,031)
Change in other current liabilities		**20**	7,816
Cash generated from operations		**492,024**	538,312
Income tax paid		**(116,616)**	(154,993)
Net cash flows from operating activities		**375,408**	383,319
Cash flow from investing activities			
Interest received		**812**	659
Purchase of property, plant and equipment		**(325,522)**	(201,166)
Purchase of exploration and evaluation assets		**(10,445)**	(5,045)
Redemption of bank deposits		**25,000**	–
Net cash used in investing activities		**(310,155)**	(205,552)
Cash flow from financing activities			
Finance costs paid		**(73,153)**	(71,734)
Issue of Notes	14	**400,000**	–
Fees paid on arrangement of notes	14	**(6,525)**	–
Repayment of notes		**(92,505)**	–
Disposal of subsidiaries, net of cash disposed		**39**	–
Transfer to restricted cash		**(806)**	(565)
Contributions to the partnership capital	13	**4,108**	–
Distributions paid		**–**	(10,000)
Repayment of borrowings		**(104,000)**	(90,000)
Net cash from/(used in) financing activities		**127,158**	(172,299)
Effects of exchange rate changes on cash and cash equivalents		**(1,508)**	–
Net increase in cash and cash equivalents		**190,903**	5,468
Cash and cash equivalents at the beginning of the year	12	**170,447**	164,979
Cash and cash equivalents at the end of the year	12	**361,350**	170,447

The accounting policies and explanatory notes on pages 6 through 37 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

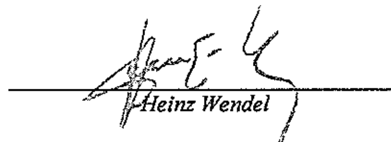
NON-CASH TRANSACTIONS

The following non-cash transaction has been excluded from the consolidated statement of cash flows:

Offset of Corporate Income Tax with Value Added Tax

During the year ended December 31, 2014, the Partnership offset tax liabilities for the non-cash amount of US$ 9,426 thousand, including Corporate Income Tax liability of US$ 2,480 thousand with Value Added Tax Receivables.

General Director of Zhaikmunai LLP



Heinz Wendel

Chief Financial Officer of Zhaikmunai LLP

Gudrun Wykrota

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

In thousands of US dollars	Notes	Partnership capital	Other reserves	Retained earnings	Total
As at 1 January 2013		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
Profit distribution	15	–	–	(10,000)	(10,000)
Loss on acquisition of Zhaikmunai International B.V.		–	(197)	–	(197)
As at 31 December 2013		4	32,440	558,877	591,321
Profit for the year		–	–	**186,308**	**186,308**
Total comprehensive income for the year		–	–	**186,308**	**186,308**
Increase of the partnership capital (*Note 13*)	15	**4,108**		–	**4,108**
As at 31 December 2014		**4,112**	**32,440**	**745,185**	**781,737**

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 6 through 37 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. GENERAL

Overview

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

On 28 February 2014 the Partnership acquired in a transaction under common control 1,000 ordinary shares of Nostrum Oil & Gas Finance B.V., representing 100% of its charter capital, from Zhaikmunai Netherlands B.V. (formerly known as Frans van der Schoot B.V.), an entity under control of a common parent. In 2014 the Partnership sold 100% interest in its dormant subsidiaries Zhaikmunai Finance B.V., Zhaikmunai International B.V. and Nostrum Oil & Gas Finance B.V. to Zhaikmunai Netherlands B.V.

The consolidated financial statements include the financial statements of the Partnership and its subsidiaries up to the date of derecognition (jointly the "Group").

The Group's operations comprise of a single operating segment and 3 (three) additional exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

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

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

These consolidated financial statements were authorised for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on 31 March 2015.

Subsoil use rights terms

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

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

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

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 27 April 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision to extend the exploration period until 8 February 2015 and the corresponding supplementary agreement between MOG and the Partnership was signed on 9 August 2013. On 11 March 2015 the Partnership received the written permission on extension of the exploration period to 8 February 2017, however, the supplementary agreement is expected to be signed soon.

The contract for exploration and production of hydrocarbons from Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. On 21 October 2008 the exploration period was extended for 6 months so as to expire on 28 January 2013. On 27 April 2009 the exploration period was extended until 28 January 2015. On 23 January 2014 the exploration period was further extended until 31 December 2015.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. On 27 April 2009 the exploration period was extended until 28 July 2012. On 8 July 2011 the exploration period was further extended until 28 July 2014. On 23 January 2014 the exploration period was further extended until 31 December 2015.

Royalty payments

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

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

Government "profit share"

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

Change in estimates

The volumes of hydrocarbons extracted and the sales prices of the products form the basis of the royalty and government profit share calculations. During the year ended 31 December 2014 the Partnership changed the calculation of the coefficient of natural gas equivalent from density ratio used in the prior periods to compression ratio based on newly received researches on the conversion coefficient conducted by independent consultants.

As a result the Partnership revised the calculations of the royalty and government profit share for the prior periods. This change in estimate was applied prospectively since updated information on composition of the natural gas became available only in 2014.

Also during the year ended 31 December 2014 the Partnership reassessed the government profit share for 2013 following the revision of the work program for the Chinarevskoye oil and gas condensate field operations.

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These consolidated financial statements for the year ended 31 December 2014 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 Group'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 31 December 2014.Control is achieved when the Group 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. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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 1 January 2014:

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

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies 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 and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

Disclosures on Recoverable Amount for Non-financial Assets – Amendments to IAS 36

These amendments eliminate unintended consequences of IFRS 13 *Fair Value Measurement* in part of information disclosure according to IAS 36 *Asset Impairment.* Besides, these amendments require disclosing the recoverable amount of assets or cash generation unit ("CGU") on which the impairment loss was recognised or recovered during the reporting period. These amendments had no impact on the consolidated financial statements of the Group.

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 and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

IFRIC 21 Levies

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. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of *IFRIC 21* in prior years.

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

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard does not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

It is not expected that this amendment would have impact on the Group's future consolidated financial statements, since none of the entities within the Group have share-based payment instruments.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). It is not expected that this amendment would have any impact on the Group's future consolidated financial statements.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

These amendments are not expected to have any impact on the Group's financial position or performance.

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

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. These amendments are not expected to have any impact on the Group's future consolidated financial statements considering that the Group's property, plant and equipment are stated at historical cost.

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

These amendments are not expected to have impact on the Group's future consolidated financial statements, since the Group has no joint arrangements.

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

These amendments are not expected to have any impact on the Group.

IFRS 15 Revenue from Contracts with Customers

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

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

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

Oil and gas reserves

Oil and gas reserves are a material factor in the Partnership's computation of depreciation, depletion and amortisation (the "DD&A"). 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. The estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Partnership.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated 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 (*Note 29*).

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 long-term interest rates on the Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan shall provide best estimates of applicable risk uncorrected discount rate. The discount rate shall be applied to the nominal risk adjusted amounts the management expects 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.

Due to fact that cash outflows related to abandonment and site restoration cost are mainly denominated in USD, during the year ended 31 December 2014 the Partnership revisited the assumptions used, including abandonment cost, US$ inflation rate and discount rates. All these changes resulted in increase of abandonment and site restoration provision and respective asset in the amount of US$ 4,306 thousand. These changes were accounted for prospectively.

The long term inflation and discount rates used to determine the balance sheet obligation at 31 December 2014 were 3.75% and 4.88%, 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 31 December 2012 the Group controlled this entity and, therefore, consolidated the entity in its financial statements as at that date. During the year ended 31 December 2013 the Group acquired 100% ownership in the entity, which was sold during the year ended 31 December 2014.

Foreign currency translation

The functional currency of the entity 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

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

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. The exploration expenditure expensed to profit or loss during 2014 amounted to nil (2013: US$ 3,810 thousand).

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

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

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.

Advances for non-current assets

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

Other properties

All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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 flows 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 recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised in the profit or loss.

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.

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.

Borrowing costs

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

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 recognised 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 recognised 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 recognised as part of the cost of the related oil and gas properties. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit-of-production basis.

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 recognised 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.

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 and 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 consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs.

Accounts receivable

Accounts receivables are recognised 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 derecognised 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 recognised 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 reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised 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, recognised 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 recognised 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 realised 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 recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Financial liabilities

Initial recognition and measurement

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 recognised 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 amortised cost using EIR. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to 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 29.*

Derivative financial instruments and hedging

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

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

The fair value of financial instruments is determined by reference to market values for similar instruments.

Cash and cash equivalents

Cash and cash equivalents in the consolidated 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

Current income tax

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

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

Deferred income tax

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

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

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

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

Revenue recognition

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

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

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

5. EXPLORATION AND EVALUATION ASSETS

During the year ended 31 December 2014 the Group had additions to exploration and evaluation assets of US$ 3,946 thousand which includes capitalised expenditures on geological and geophysical studies (year ended 31 December 2013: US$ 20,434 thousand, mainly represented by capitalised consideration under the acquisition agreements for the Darjinskoye, Rostoshinskoye and Yuzhno-Gremyachinskoye oilfields). Interest was not capitalised in exploration and evaluation assets. During the year ended 31 December 2014 the Group repaid capitalised contingent consideration under the acquisition agreements for the Darjinskoye and Yuzhno-Gremyachinskoye oil and gas fields in the amount of US$ 5,300 thousand.

6. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2014 and 2013 property, plant and equipment comprised the following:

In thousands of US dollars	**31 December 2014**	31 December 2013
Oil and gas properties	**1,402,371**	1,292,556
Other property, plant and equipment	**39,821**	38,830
Total property, plant and equipment	**1,442,192**	1,331,386

Oil and gas properties

The movement of oil and gas properties for the years ended 31 December 2014 and 2013 was as follows:

In thousands of US dollars	Working assets	Construction in progress	Total
Balance at 1 January 2013, 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)	–
Depreciation and depletion charge	(115,159)	–	(115,159)
Balance at 31 December 2013, net of accumulated depreciation and depletion	1,089,822	202,734	1,292,556
Additions	**9,730**	**205,194**	**214,924**
Transfers	**38,640**	**(38,445)**	**195**
Disposals	**(666)**	**–**	**(666)**
Disposals depreciation	**214**	**–**	**214**
Depreciation and depletion charge	**(104,852)**	**–**	**(104,852)**
Balance at 31 December 2014, net of accumulated depreciation and depletion	**1,032,888**	**369,483**	**1,402,371**
As at 31 December 2012			
Cost	1,209,373	190,007	1,399,380
Accumulated depreciation	(206,771)	–	(206,771)
Balance, net of accumulated depreciation and depletion	1,002,602	190,007	1,192,609
As at 31 December 2013			
Cost	1,411,752	202,734	1,614,486
Accumulated depreciation	(321,930)	–	(321,930)
Balance, net of accumulated depreciation and depletion	1,089,822	202,734	1,292,556
As at 31 December 2014			
Cost	**1,459,456**	**369,483**	**1,828,939**
Accumulated depreciation	**(426,568)**	**–**	**(426,568)**
Balance, net of accumulated depreciation and depletion	**1,032,888**	**369,483**	**1,402,371**

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

The depletion rate for oil and gas working assets was 10.02% and 12.14% in 2014 and 2013, respectively.

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

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

The Group incurred borrowing costs including amortization of arrangement fees. Capitalization rate and capitalised borrowing costs were as follows as at 31 December 2014 and 2013:

In thousands of US dollars	2014	2013
Borrowing costs including amortization of arrangement fee	**88,044**	77,917
Capitalization rate	**8.19%**	9.07%
Capitalised borrowing costs	**17,061**	14,862

As at 31 December 2014 the Partnership's property, plant and equipment of US$ 309,133 thousand were pledged as security for the loans due to Zhaikmunai Netherlands B.V. (*Note 14*) (31 December 2013: US$ 1,086,250).

Other property, plant and equipment

In thousands of US dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2013, 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	(1,653)	(2,378)	(334)	(741)	–	(5,106)
Balance at 31 December 2013, net of accumulated depreciation	26,296	6,477	1,395	4,614	48	38,830
Additions	**584**	**1,502**	**188**	**5,638**	**258**	**8,170**
Transfers	**24**	**309**	**412**	**(940)**	–	**(195)**
Disposals	**(6)**	**(24)**	**(85)**	**(244)**	–	**(359)**
Disposals depreciation	**5**	**16**	**83**	**193**	–	**297**
Depreciation	**(3,136)**	**(2,430)**	**(367)**	**(989)**	–	**(6,922)**
Balance at 31 December 2014, net of accumulated depreciation	**23,767**	**5,850**	**1,626**	**8,272**	**306**	**39,821**
As at 31 December 2012						
Cost	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, net of accumulated depreciation	5,607	6,496	1,170	4,002	13,096	30,371
As at 31 December 2013						
Cost	30,887	13,284	3,513	7,166	48	54,898
Accumulated depreciation	(4,591)	(6,807)	(2,118)	(2,552)	–	(16,068)
Balance, net of accumulated depreciation	26,296	6,477	1,395	4,614	48	38,830
As at 31 December 2014						
Cost	**31,489**	**15,071**	**4,028**	**11,620**	**306**	**62,514**
Accumulated depreciation	**(7,722)**	**(9,221)**	**(2,402)**	**(3,348)**	–	**(22,693)**
Balance, net of accumulated depreciation	**23,767**	**5,850**	**1,626**	**8,272**	**306**	**39,821**

7. ADVANCES FOR NON-CURRENT ASSETS

As at 31 December 2014 and 2013, advances for non-current assets comprised the following:

In thousands of US dollars	2014	2013
Advances for pipes and construction materials	**67,465**	6,241
Advances for construction services	**66,884**	3,796
Advances for purchase of software licenses	**6**	–
	134,355	10,037

The Partnership made significant advances for construction services and related materials for the construction of the third unit of the Partnership's gas treatment facility.

8. INVENTORIES

As at 31 December 2014 and 2013 inventories comprised the following:

In thousands of US dollars	2014	2013
Materials and supplies	**20,472**	16,738
Gas condensate	**3,383**	2,986
Crude oil	**1,262**	1,754
LPG	**326**	607
	25,443	22,085

As at 31 December 2014 and 2013 inventories are carried at cost.

9. TRADE RECEIVABLES

As at 31 December 2014 and 2013 trade receivables were not interest bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 31 December 2014 and 2013 the ageing analysis of trade receivables is as follows:

		Neither past due nor	Past due but not impaired			
In thousands of US dollars	Total	impaired	<30 days	60-90 days	90-120 days	>120 days
2014	**30,110**	**30,110**	–	–	–	–
2013	66,564	66,560	–	–	–	4

See *Note 29* 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 31 December 2014 and 2013 prepayments and other current assets comprised the following:

In thousands of US dollars	2014	2013
VAT receivable	**27,970**	17,192
Advances paid	**9,068**	7,573
Other	**1,532**	4,403
	38,570	29,168

Advances paid consist primarily of prepayments made to service providers.

11. CURRENT AND NON-CURRENT INVESTMENTS

Current investments as at 31 December 2014 were represented by an interest bearing deposit placed on 30 September 2014 for a six-month period with an interest rate of 0.24% per annum. As at 31 December 2014 no non-current investments were placed by the Group.

Current investments as at 31 December 2013 were represented by an interest bearing short-term deposit placed on 30 September 2013 for a six-month period with interest rate of 0.31% per annum. Non-current investments as at 31 December 2013 were represented by an interest bearing deposit placed on 30 September 2013 for a period of more than one year and an interest bearing deposit placed on 4 March 2013 for a two-year period, which was terminated on 23 April 2014.

12. CASH AND CASH EQUIVALENTS

In thousands of US dollars	2014	2013
Current accounts in US dollars	**353,159**	140,012
Current accounts in tenge	**8,054**	5,429
Current accounts in other currencies	**132**	–
Petty cash	**5**	6
Bank deposits with maturity less than three months	**–**	25,000
	361,350	170,447

The Group has restricted cash accounts as liquidation fund deposit in the amount of US$ 5,023 thousand with Kazkommertsbank JSC and Sberbank in Kazakhstan (31 December 2013: US$ 4,217 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

13. PARTNERSHIP CAPITAL

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

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

	In thousands of Tenge	%
Nostrum Oil Coöperatief U.A.	**749,400**	**99.920**
Condensate Holding LLP	**330**	**0.044**
Claydon Industrial Ltd	**270**	**0.036**

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.

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 5 July 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 28 June 2013.

14. BORROWINGS

Borrowings comprise the following as at 31 December 2014 and 2013:

In thousands of US dollars	**2014**	2013
Notes issued in 2012 and maturing in 2019	**540,115**	534,920
Notes issued in 2014 and maturing in 2019	**404,050**	–
Zhaikmunai Netherlands B.V.	**106,000**	210,186
Notes issued in 2010 and maturing in 2015	**–**	93,197
	1,050,165	838,303
Less amounts due within 12 months	**(15,024)**	(7,449)
Amounts due after 12 months	**1,035,141**	830,854

2010 Notes

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

On 28 February 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 bore interest at the rate of 10.50% per year. Interest on the 2010 Notes was payable on 19 April and 19 October of each year, beginning on 19 April 2011. Prior to 19 October 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 19 October 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 19 October 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2010 Note through 19 October 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 were 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 were 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 had the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

On 19 October 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 19 November 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.

On 14 March 2014 the Group submitted a notice of early redemption on 14 April 2014 of the principal amount of the 2010 Notes plus accrued interest and premium. As at that date the outstanding principal amount of US$ 92,505 thousand was reclassified to the current portion of long-term borrowings and the related unamortised transaction costs were expensed to profit and loss. The Group has also accrued related early redemption premium in the amount of US$ 4,857 thousand. On 14 April 2014 the Partnership repaid the outstanding 2010 Notes including interest and premium.

2012 Notes

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

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

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

The 2012 Notes are jointly and severally guaranteed (the "2012 Guarantees") on a senior basis by Nostrum Oil & Gas plc and all of its subsidiaries other than the 2012 Issuer (the "2012 Guarantors"). The 2012 Notes are the 2012 Issuer's and the 2012 Guarantors' senior obligations and rank equally with all of the 2012 Issuer's and the 2012 Guarantors' other senior indebtedness. The 2012 Notes and the 2012 Guarantees do not have the benefit of first priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

2014 Notes

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

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

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

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

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

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

Covenants contained in the 2010 Notes, the 2012 Notes and the 2014 Notes

The indentures governing the 2010 Notes, the 2012 Notes and the 2014 Notes contain a number of covenants that, among other things, restrict, subject to certain exceptions:

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

(ii) create or incur certain liens;

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

(iv) prepay or redeem subordinated debt or equity;

(v) make certain investments;

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

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

(viii) engage in certain transactions with affiliates;

(ix) enter into unrelated businesses; and

(x) consolidate or merge with other entities.

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

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

Loans due to Zhaikmunai Netherlands B.V.

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

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

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

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

The outstanding balance of the loan as at 31 December 2014 has an interest rate of 6.625% (31 December 2013: 6.625%).

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

15. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in abandonment and site restoration provision during years ended 31 December 2014 and 2013 is as follows:

In thousands of US dollars	2014	2013
Abandonment and site restoration provision as at 1 January	**13,874**	11,064
Unwinding of discount	**197**	1,034
Additional provision	**2,500**	2,500
Change in estimates	**4,306**	(724)
Abandonment and site restoration provision as at 31 December	**20,877**	13,874

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

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2014 were 3.75 % and 4.88 %, respectively (31 December 2013: 7 % and 10 %). Change in the discount rate resulted in the increase of the provision by US$ 19,068 thousand which was offset by a decrease of the provision by US$14,762 thousand due to change in the inflation rate and other assumptions.

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 Group 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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2014 and 2013 is as follows:

In thousands of US dollars	2014	2013
Due to Government of Kazakhstan as at 1 January	**7,052**	7,153
Unwinding of discount	**917**	930
Paid during the year	**(1,032)**	(1,031)
	6,937	7,052
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,906**	6,021

17. TRADE PAYABLES

Trade payables comprise the following as at 31 December 2014 and 2013:

In thousands of US dollars	2014	2013
Tenge denominated trade payables	**27,107**	42,950
US dollar denominated trade payables	**17,676**	11,898
Trade payables denominated in other currencies	**3,851**	1,828
	48,634	56,676

18. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 31 December 2014 and 2013:

In thousands of US dollars	2014	2013
Taxes payable, other than corporate income tax	**17,223**	32,101
Accruals under subsoil use agreements	**14,435**	–
Training obligations accrual	**9,686**	8,986
Due to employees	**2,157**	1,448
Other current liabilities	**830**	7,037
	44,331	49,572

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

19. REVENUE

In thousands of US dollars	2014	2013
Oil and gas condensate	**620,165**	709,107
Gas and LPG	**161,713**	185,907
	781,878	895,014

The Group's exports are mainly represented by deliveries to Finland and the Black Sea ports of Russia.

During the year ended 31 December 2014 the revenue from sales to three major customers amounted to US$321,755 thousand, US$ 124,823 thousand and US$ 77,113 thousand, respectively (2013: two major customers: US$ 202,945 thousand and US$ 173,440 thousand, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. COST OF SALES

In thousands of US dollars	2014	2013
Depreciation, depletion and amortization	**110,460**	118,957
Repair, maintenance and other services	**35,818**	52,361
Royalties	**24,330**	39,356
Payroll and related taxes	**18,447**	17,240
Materials and supplies	**10,929**	12,262
Well workover costs	**6,296**	2,794
Management fees	**4,920**	3,558
Government profit share	**4,594**	30,747
Other transportation services	**2,929**	4,306
Environmental levies	**1,098**	1,029
Change in stock	**376**	2,490
Other	**2,452**	1,122
	222,649	286,222

The Partnership revised the estimates related to the government profit share and royalties in accordance with the recent supplement to the Chinarevskoye subsoil use rights and change in the coefficient of natural gas equivalent (*Note 1*), which resulted in the total reversal of the government profit share in the amount of US$ 17,846 thousand and in the total reversal of the royalties in the amount of US$ 5,451 thousand related to prior periods.

21. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	2014	2013
Payroll and related taxes	**8,957**	7,089
Professional services	**8,207**	5,308
Management fees	**3,802**	3,562
Training	**2,521**	2,736
Sponsorship	**1,826**	2,919
Insurance fees	**1,513**	1,960
Depreciation and amortization	**1,314**	1,309
Other taxes	**914**	592
Communication	**829**	845
Bank charges	**773**	1,075
Materials and supplies	**626**	664
Business travel	**588**	618
Lease payments	**500**	478
Social program	**300**	300
Other	**671**	1,348
	33,341	30,803

22. SELLING AND TRANSPORTATION EXPENSES

In thousands of US dollars	2014	2013
Loading and storage costs	**56,351**	36,991
Transportation costs	**54,878**	72,229
Payroll and related taxes	**2,211**	2,486
Management fees	**183**	701
Other	**8,631**	9,267
	122,254	121,674

The transportation costs for the year ended 31 December 2013 also included certain loading and storage costs provided by the transportation companies, which are included in loading and storage costs for the year ended 31 December 2014.

23. FINANCE COSTS

In thousands of US dollars	2014	2013
Interest expense on borrowings	**70,984**	62,738
Unwinding of discount on amounts Due to Government of Kazakhstan	**917**	930
Unwinding of discount on Abandonment and site restoration liabilities	**197**	1,034
	72,098	64,702

24. OTHER EXPENSES

In thousands of US dollars	2014	2013
Export customs duty	**19,733**	12,268
Accruals under subsoil use agreements	**16,083**	–
Compensation	**10,116**	6,387
Other	**4,344**	6,938
	50,276	25,593

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

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

25. INCOME TAX

The income tax expense consisted of the following:

In thousands of US dollars	2014	2013
Current income tax expenses	**115,997**	138,810
Adjustment in respect of the current income tax for the prior periods	**(6,785)**	–
Deferred income tax expense	**52,753**	3,613
Total income tax expense	**161,965**	142,423

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

In thousands of US dollars	2014	2013
Profit before income tax	**348,273**	370,443
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**104,482**	111,133
Effect of exchange rate on the tax base	**34,533**	2,836
Non-deductible interest expense on borrowings	**23,390**	19,084
Effect of income taxed at different rate	**(5,997)**	31
Adjustment in respect of current income tax of previous years	**(6,785)**	–
Non-deductible penalties	**4,556**	2,037
Non-deductible compensation for gas	**2,813**	1,711
Net foreign exchange loss	**1,020**	1,624
Non-deductible social expenditures	**886**	890
Non-deductible technological losses	**192**	1,850
Other non-deductible expenses	**2,875**	1,227
Income tax expenses reported in the consolidated financial statements	**161,965**	142,423

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

In thousands of US dollars	2014	2013
Deferred tax asset		
Accounts payable and provisions	**3,617**	2,811
Deferred tax liability		
Property, plant and equipment	**(196,855)**	(155,356)
Derivative financial instruments	**(12,060)**	–
Net deferred tax liability	**(205,298)**	(152,545)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	2014	2013
Balance at 1 January	**152,545**	148,932
Current period charge to the consolidated statement of comprehensive income	**52,753**	3,613
Balance at 31 December	**205,298**	152,545

26. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended 31 December 2014 and 2013 the movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US dollars	2014	2013
Derivative financial instruments at fair value at 1 January	–	–
Gain on derivative financial instruments	**60,301**	–
Derivative financial instruments at fair value at 31 December	**60,301**	–

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

On 3 March 2014, in accordance with its hedging policy, the Group entered, at nil upfront cost, into a long-term complex hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through 29 February 2016. The counterparty to the hedging agreement is Citibank. Based on the hedging contract the Group bought a put at $85/bbl, which protects it against any fall in the price of oil below $85/bbl, i.e. Citibank will compensate the difference in price below $85/bbl. As part of this contract the Group also sold a call at $111.5/bbl and bought a call at $117.5/bbl, under which Zhaikmunai LLP is obliged to compensate the difference in price above $111.5/bbl with an upper limit of $117.5/bbl, i.e up to $6/bbl. If the spot price goes above $117.5/bbl, then Zhaikmunai LLP will be obliged to pay $6/bbl to Citibank.

27. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties as at 31 December 2014 and 2013 consisted of the following:

In thousands of US dollars	2014	2013
Trade receivables and advances paid		
With significant influence over Group:		
KazStroyService JSC	**36,915**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Accounts payable to related parties as at 31 December 2014 and 2013 consisted of the following:

In thousands of US dollars	**2014**	2013
Borrowings		
Under common control:		
Zhaikmunai Netherlands B.V.	**106,000**	210,186
Trade payables		
With significant influence over Group:		
KazStroyService JSC	**2,753**	50
Under common control:		
Probel Capital Management N.V.	**46**	109
Prolag B.V.B.A	**–**	240
Amersham Oil LLP	**76**	52

During the years ended 31 December 2014 and 2013 the Group had the following transactions with related parties represented by entities under common control and entity with significant influence over the Group:

Management fees are payable in accordance with the Technical Assistance Agreements signed between members of the Group and Amersham Oil LLP, Prolag BVBA and Probel Capital Management N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 549 thousand for the year ended 31 December 2014 (31 December 2013: US$ 634 thousand). Other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management N.V. and their remuneration forms part of management fees and consulting services above.

On 28 July 2014 the Partnership entered into a contract with JSC "OGCC KazStroyService" (the "Contractor") for the construction of the third unit of the Partnership's gas treatment facility for a consideration of US$150 million.

The Contractor is an affiliate of KazStroyService Global B.V., which as at 31 December 2014 owned approximately 26.6% of the ordinary shares of Nostrum Oil & Gas PLC.

In thousands of US dollars	**2014**	2013
Repayment of borrowing		
Under common control:		
Zhaikmunai Netherlands B.V.	**104,000**	90,000
Interest paid		
Under common control:		
Zhaikmunai Netherlands B.V.	**10,737**	18,371
Purchases		
With significant influence over Group:		
KazStroyService JSC	**6,538**	–
Management fees and consulting services		
Under common control:		
Probel Capital Management N.V.	**8,176**	5,063
Amersham Oil LLP	**1,564**	1,506
Prolag B.V.B.A	**–**	1,253

28. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2014. As at 31 December 2014 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 Partnership may incur future costs, the amount of which is currently indeterminable. Such costs, when known, will be provided for as new information, legislation and estimates evolve.

Environmental obligations

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

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

Capital commitments

As at 31 December 2014 the Group had contractual capital commitments in the amount of US$ 248,644 thousand (31 December 2013: US$ 26,842 thousand) mainly in respect to the Partnership's oil field development activities.

Operating lease

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

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

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

In thousands of US dollars	**31 December 2014**	31 December 2013
No later than one year	**14,788**	12,501
Later than one year and no later than five years	**17,671**	23,846
Later than five years	**–**	–

Lease expenses of railway tank wagons for the year ended 31 December 2014 amounted to US$ 14,622 thousand (year ended 31 December 2013: US$ 12,628 thousand).

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement #9), the Group is obliged to:

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

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

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

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

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 9 August 2013) require the subsurface user to:

(i) spend US$ 1,196 thousand to finance social infrastructure of the region during the exploration stage (including US$ 1,000 thousand for funding of development of Astana city in case of commercial discovery);

(ii) invest at least US$ 16,820 thousand for exploration of the field during the exploration period;

(iii) reimburse historical costs of US$ 372 thousand to the Government of Kazakhstan upon commencement of production stage;

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

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 23 January 2014) require the subsurface user to:

(i) spend at least US$ 52 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 73 thousand to finance social infrastructure of the region;

(iii) invest at least US$ 19,392 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.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 23 January 2014) require the subsurface user to:

(i) spend at least US$ 101 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 74 thousand to finance social infrastructure of the region;

(iii) invest at least US$ 32,298 thousand for exploration of the field during the exploration period;

(iv) create a liquidation fund (special deposit account with local bank) equal to US$ 342 thousand.

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.

29. 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, credit risk and commodity price risk. The Group's management reviews and agrees policies for managing each of these risks, which are summarised below.

Commodity price risk

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

Interest rate risk

The Group is not exposed to interest rate risk in 2014 and 2013 as the Group had no financial instruments with floating-rate as at years ended 31 December 2014 and 2013.

Foreign currency risk

The Group's statement of financial position can be affected 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. The impact on equity is the same as the impact on profit before tax.

	Change in Tenge to US dollar exchange rate	Effect on profit before tax
2014		
US dollar thousand	**+ 17.37%**	**(1,168)**
US dollar thousand	**- 17.37%**	**1,168**
2013		
US dollar thousand	+ 30.00%	(3,294)
US dollar thousand	+ 10.00%	(1,098)

During the year ended 31 December 2014 a significant drop in the oil prices and some other non-economical reasons was observed which caused increase in volatility of Tenge exchange rates and overall markets volatility. This process continues in 2015, hence statistics for the year ended 31 December 2014 reflects expected behaviour of market in 2015. The ranges of reasonably possible changes in market risk variables were estimated by analysing annual standard deviations based on the historical market data for the year ended 31 December 2014.

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

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

As at 31 December 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)

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 US$ 106 million of loan due to Zhaikmunai Netherlands B.V. and two notes: US$ 560 million issued in 2012 and maturing in 2019 and US$ 400 million issued in 2014 and maturing in 2019. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2014 and 2013 based on contractual undiscounted payments:

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

As at 31 December 2013	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
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 the government of Kazakhstan	–	258	773	4,124	12,371	17,526
	67,110	3,736	60,820	319,676	831,168	1,282,510

Credit risk

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

The Group places its Tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba3 (stable) from Moody's rating agency and its US dollar denominated cash with BNP Paribas with a credit rating of A1 (negative) and ING with a credit rating of A2 (negative) from Moody's rating agency at 31 December 2014. The Group does not guarantee obligations of other parties.

The Group sells its products and makes advance payments only to recognised, 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.

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In thousands of US dollars	Carrying amount 2014	Carrying amount 2013	Fair value 2014	Fair value 2013
Financial instruments measured at fair value				
Derivative financial instruments	**60,301**	–	**60,301**	–
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**(1,050,165)**	(838,303)	**(1,050,165)**	(896,795)
Total	**(989,864)**	(838,303)	**(989,864)**	(896,795)

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.

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until March 2016.

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 31 December 2014 and 2013:

	2014	2013
Future oil price/bbl at the reporting date (US$)	**59.2-67.9**	–
Historical volatility (%)	**16.02-17.73**	–
Risk-free interest rate (%)	**0.25-0.67**	–
Maturity (months)	**3-15**	–

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

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

	Increase in the assumption	Decrease in the assumption
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl)	(4,959)	5,165
Increase/(decrease) in gain on derivative financial instruments due to change in discount rate assumption (+/-2%)	808	(664)

During the years ended 31 December 2014 and 2013 there were no transfers between the levels of fair value hierarchy of the Group's financial 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 maximise 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 lenders to immediately call borrowings. There have been no breaches in the financial covenants of the notes in the current period nor the prior period.

The 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 distribution payment 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 20% and 40%. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

In thousands of US dollars	**2014**	2013
Interest bearing borrowings	**1,050,165**	838,303
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(391,373)**	(224,664)
Net debt	**658,792**	613,639
Equity	**781,737**	591,321
Total capital	**781,737**	591,321
Capital and net debt	**1,440,529**	1,204,960
Gearing ratio	**46%**	51%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

30. EVENTS AFTER THE REPORTING PERIOD

On 11 March 2015 the Group received the written permission on extension of the exploration period for the Rostoshinskoye field to 8 February 2017. The supplementary agreement is expected to be signed soon.

The contracts for exploration and production of hydrocarbons from the Darjinskoye field and the Yuzhno-Gremyachinskoye field were both amended on 24 February 2015 to reduce the commitments referred to in Note 28 above in relation to those fields.