

**Zhaikmunai LLP**

**Financial statements**

*For the year ended 31 December 2016*

**CONTENTS**

## Independent auditor's report

**Financial statements**

Statement of financial position .....	1
Statement of comprehensive income .....	2
Statement of cash flows .....	3
Statement of changes in equity .....	4

**Notes to the financial statements**

1. General .....	5
2. Basis of preparation .....	6
3. Changes in accounting policies and disclosures .....	6
4. Summary of significant accounting policies .....	9
5. Exploration and evaluation assets .....	16
6. Property, plant and equipment .....	17
7. Advances for non-current assets .....	19
8. Inventories .....	19
9. Prepayments and other current assets .....	19
10. Trade receivables .....	19
11. Cash and cash equivalents .....	19
12. Partnership capital .....	20
13. Borrowings .....	20
14. Abandonment and site restoration provision .....	22
15. Due to government of Kazakhstan .....	23
16. Trade payables .....	23
17. Other current liabilities .....	23
18. Revenue .....	24
19. Cost of sales .....	24
20. General and administrative expenses .....	24
21. Selling and transportation expenses .....	24
22. Finance costs .....	25
23. Other expenses .....	25
24. Income tax .....	25
25. Derivative financial instruments .....	26
26. Related party transactions .....	27
27. Contingent liabilities and commitments .....	28
28. Financial risk management objectives and policies .....	30



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«Бирнест-энд-Янг» ЖШС  
Ал-Фариди да, 1117  
Абсолют Тауэр Сити  
Алматы, 050060  
Қазақстан Республикасы  
Тел.: +7 727 258 5960  
Факс: +7 727 258 5961  
www.ey.com

ТОО «Бирнест-энд-Янг»  
пр. Аль-Фарида, 1117  
здание «Алматы Тауэр»  
г. Алматы, 050060  
Республика Казахстан  
Тел.: +7 727 258 5960  
Факс: +7 727 258 5961

Ernst & Young LLP  
4100 17th Street  
Denver, Colorado  
80202  
United States of America  
Tel: +1 303 425 5000  
Fax: +1 303 425 5000

## Independent auditor's report

To the Participant and management of Zhaikmunai LLP

### **Opinion**

We have audited the financial statements of Zhaikmunai LLP (the Company), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

► **Estimation of oil and gas reserves and its impact on the impairment testing, depreciation, depletion and amortisation (DD&A) and decommissioning provision**

We considered this matter to be one of the most significant to our audit due to the fact that reserves estimates are subjective in nature and have a pervasive impact on the financial statements through impairment testing, DD&A calculations and decommissioning provision estimate.

The estimation of oil and gas reserves is a significant area of judgement due to the technical uncertainty in assessing reserves quantities. Reserves and resources are also a fundamental indicator of the future potential of the Company's performance.

Management engaged an external specialist to assist in the estimation of reserves volumes. We performed evaluation of management's assumptions including commercial assumptions, in particular we:

- obtained understanding of the Company's internal process and key controls associated with the oil and gas reserves estimation process.
- held discussions with external specialists, engaged by the Company, during the planning and execution of the audit and assessed their competence and objectivity by inquiring of their qualifications, practical experience and independence. We have also assessed the competence of internal management's specialists. We checked the accuracy of the data transfer to the external specialist.
- analysed management's commercial assumptions by comparing them to the publicly available benchmarks as well as actual and prior year data. We compared management's internal assumptions to the latest plans and budgets; we have also assessed management's capabilities to meet such plans by comparing prior periods' planned and actual results.
- validated that the updated reserves estimates were included appropriately in the Company's calculations in respect of impairment, DD&A and decommissioning provision.

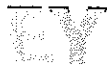
Note 4 and Note 6 to the financial statements describe the details of reserves estimates used to determine DD&A and decommissioning provision.

► **Impairment of exploration licenses, oil & gas development and production fixed assets**

This matter was one of the most significance to our audit due to the significance of the carrying value of the assets being assessed, the current economic environment and the judgement involved in the assessment of the recoverable amount of the Company's Cash Generating Unit ("CGU"), in particular, in respect of future prices of oil, natural gas and related products, both in the short and long-term, the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes.

For exploration licenses we have evaluated management's assessment of each impairment trigger. We have:

- evaluated the Company's rights to explore under the relevant exploration area by obtaining and analyzing supporting documentation such as license agreements and signed supplemental agreements and communication with relevant government agencies.
- inquired management about the intention to carry out exploration and evaluation activity in the relevant exploration area and corroborated these responses by comparing them with the assumptions used in management's cash-flow forecast models.
- assessed the Company's ability to finance any planned future exploration and evaluation activity.
- assessed the competency of management's experts.
- compared the commercial viability of the exploration fields to the cash-flow forecast models.



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For oil & gas development and production fixed assets we involved our valuation specialists and analysed management's impairment assessment by evaluating the key assumptions. We have:

- obtained understanding of the controls designed by the Company relating to the assessment of the carrying value of oil & gas development and production fixed assets.
- tested the integrity of models with the assistance of our own specialists.
- tested price and discount rate assumptions by comparing forecast oil price assumptions to the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts; and benchmarking the discount rate to the risks faced by the Company.
- tested forecast cash flows by comparing the assumptions used within the impairment models to the approved budgets, business plans and other evidence of future intentions. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance.
- compared the inflation and exchange rate assumptions to external market data.
- evaluated sensitivity analysis of oil & gas development and production fixed assets impairment testing in order to assess the potential impact of a range of reasonably possible outcomes.
- evaluated the financial statement disclosures against the requirements of IFRSs.

Note 4 to the financial statements describes the significant accounting policies and Notes 5 and 6 describe the details of oil & gas development and production fixed assets.

#### ***Other information included in the Company's 2016 Annual report***

Other information consists of the information included in the Company's 2016 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

#### ***Responsibilities of management for the financial statements***

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

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



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### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

*Ernst & Young LLP*

Paul Cohn  
Audit Partner

Algerim Nurkenov  
Auditor

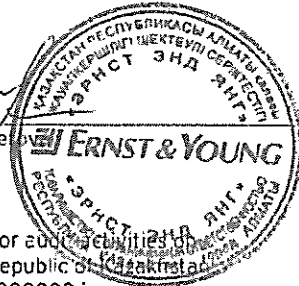
Auditor Qualification Certificate  
No. 0000115 dated 21 September 2012

Address: Kazakhstan 050060, Almaty  
Al-Farabi Ave., 77/7

27 March 2017

Gulmira Turmagambetova  
General Director  
Ernst & Young LLP

State Audit License for audit activities on  
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Kazakhstan on 15 July 2005

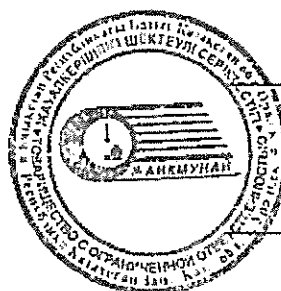


## STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

<i>In thousands of US Dollars</i>	Notes	31 December 2016	31 December 2015
<b>Assets</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	5	44,271	36,917
Property, plant and equipment, net	6	1,809,431	1,605,821
Restricted cash	11	5,980	5,375
Advances for non-current assets	7	28,576	130,660
Derivative financial instruments	25	-	43,005
		<b>1,888,358</b>	<b>1,821,778</b>
<b>Current assets</b>			
Inventories	8	28,326	28,953
Trade receivables	10	29,052	31,337
Prepayments and other current assets	9	19,668	25,519
Derivative financial instruments	25	6,658	54,095
Income tax prepayment		1,062	26,926
Cash and cash equivalents	11	85,498	134,928
		<b>170,264</b>	<b>301,758</b>
<b>Total assets</b>		<b>2,058,622</b>	<b>2,123,536</b>
<b>Equity and liabilities</b>			
<b>Partnership capital and reserves</b>			
Partnership capital	12	4,112	4,112
Other reserves		32,586	32,440
Retained earnings		556,126	622,763
		<b>592,824</b>	<b>659,315</b>
<b>Non-current liabilities</b>			
Long-term borrowings	13	1,003,893	996,666
Abandonment and site restoration provision	14	19,635	15,928
Due to Government of Kazakhstan	15	5,631	5,777
Deferred tax liability	24	344,684	347,767
		<b>1,373,843</b>	<b>1,366,138</b>
<b>Current liabilities</b>			
Current portion of long-term borrowings	13	15,518	15,361
Trade payables	16	43,517	40,678
Advances received		1,810	245
Current portion of due to Government of Kazakhstan	15	1,289	1,031
Other current liabilities	17	29,821	40,768
		<b>91,955</b>	<b>98,083</b>
<b>Total equity and liabilities</b>		<b>2,058,622</b>	<b>2,123,536</b>

General Director of Zhaikmunai LLP



Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 through 33 are an integral part of these financial statements.

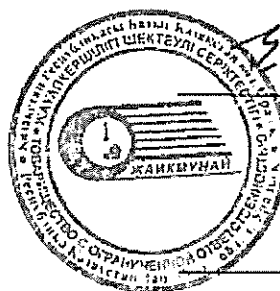


## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

<i>In thousands of US Dollars</i>	Notes	2016	2015
<b>Revenue</b>			
Revenue from export sales		244,586	426,764
Revenue from domestic sales		103,397	22,137
	18	347,983	448,901
<b>Cost of sales</b>	19	(201,785)	(187,816)
<b>Gross profit</b>		146,198	261,085
General and administrative expenses	20	(18,008)	(27,982)
Selling and transportation expenses	21	(75,683)	(92,970)
Finance costs	22	(49,127)	(51,740)
Foreign exchange gain/(loss), net		214	(20,023)
(Loss)/gain on derivative financial instrument	25	(63,244)	37,055
Interest income		423	341
Other income		9,718	11,409
Other expenses	23	(1,545)	(30,495)
<b>(Loss)/profit before Income tax</b>		(51,054)	86,680
Current income tax (expense)		(18,667)	(21,633)
Deferred income tax benefit/(expense)		3,084	(142,469)
<b>Income tax expense</b>	24	(15,583)	(164,102)
<b>Loss for the year</b>		(66,637)	(77,422)
Other comprehensive income for the year		-	-
<b>Total comprehensive loss for the year</b>		(66,637)	(77,422)

General Director of Zhaikmunai LLP



Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

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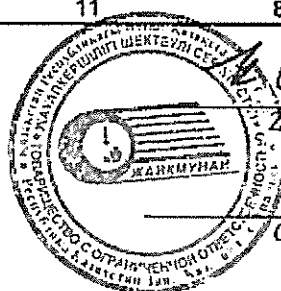
## STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

<i>In thousands of US Dollars</i>	Notes	2016	2015
<b>Cash flow from operating activities:</b>			
(Loss)/profit before income tax		(51,054)	86,680
<i>Adjustments for:</i>			
Depreciation, depletion and amortisation	19, 20	131,960	109,120
Finance costs	22	49,127	51,740
Interest income		(423)	(341)
Foreign exchange gain on investing and financing activities		(1,493)	(3,023)
Loss on disposal of property, plant and equipment		95	39
Proceeds from derivative financial instruments	25	27,198	92,256
Purchase of derivative financial instruments	25	-	(92,000)
Loss/(gain) on derivative financial instruments	25	63,244	(37,055)
<b>Operating profit before working capital changes</b>		<b>218,654</b>	<b>207,416</b>
<i>Changes in working capital</i>			
Change in inventories		710	(3,510)
Change in trade receivables		2,285	(1,227)
Change in prepayments and other current assets		21,419	13,051
Change in trade payables		1,546	7,537
Change in advances received		1,565	(2,425)
Change in due to Government of Kazakhstan		(773)	(1,031)
Change in other current liabilities		(11,630)	(3,562)
<b>Cash generated from operations</b>		<b>233,776</b>	<b>216,249</b>
Income tax paid		(7,087)	(37,146)
<b>Net cash flows from operating activities</b>		<b>226,689</b>	<b>179,103</b>
<b>Cash flow from investing activities</b>			
Interest received		423	341
Purchase of property, plant and equipment		(197,171)	(255,707)
Sale of property, plant and equipment		-	543
Exploration and evaluation works		(7,475)	(12,943)
Redemption of bank deposits		-	25,000
<b>Net cash used in investing activities</b>		<b>(204,223)</b>	<b>(242,766)</b>
<b>Cash flow from financing activities</b>			
Finance costs paid		(71,077)	(70,768)
Payment of finance lease liabilities		(669)	-
Repayment of borrowings	13	-	(45,000)
Transfer to restricted cash		(605)	(352)
Profit distributions paid	12	-	(45,000)
Consideration paid for repurchased interests	12	(494)	-
Consideration received for sold interests	12	640	-
<b>Net cash used in financing activities</b>		<b>(72,205)</b>	<b>(161,120)</b>
Effects of exchange rate changes on cash and cash equivalents		309	(1,639)
<b>Net decrease in cash and cash equivalents</b>		<b>(49,430)</b>	<b>(226,422)</b>
Cash and cash equivalents at the beginning of the year	11	134,928	361,350
<b>Cash and cash equivalents at the end of the year</b>	<b>11</b>	<b>85,498</b>	<b>134,928</b>

General Director of Zhaikmunai LLP

Chief Accountant of Zhaikmunai LLP



Zhomart Darkeev

Olga Shoshinova

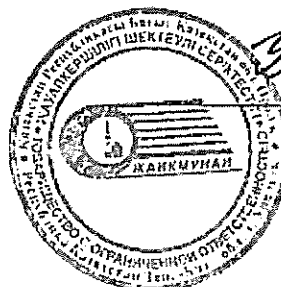
The accounting policies and explanatory notes on pages 5 through 33 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

<i>In thousands of US Dollars</i>	Notes	Partnership capital	Other reserves	Retained earnings	Total
<b>As at 31 December 2014</b>		4,112	32,440	745,185	781,737
Loss for the year		-	-	(77,422)	(77,422)
<b>Total comprehensive loss for the year</b>		-	-	(77,422)	(77,422)
Profit distribution	12	-	-	(45,000)	(45,000)
<b>As at 31 December 2015</b>		4,112	32,440	622,763	659,315
Loss for the year		-	-	(66,637)	(66,637)
<b>Total comprehensive loss for the year</b>		-	-	(66,637)	(66,637)
Surplus on the repurchased and reissued interests	12	-	146	-	146
<b>As at 31 December 2016</b>		4,112	32,586	556,126	592,824

General Director of Zhaikmunai LLP



*Zhomart Durkeev*  
Zhomart Durkeev

Chief Accountant of Zhaikmunai LLP

*Olga Shoshinova*  
Olga Shoshinova

The accounting policies and explanatory notes on pages 5 through 33 are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2016**

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**1. GENERAL****Overview**

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

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

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

The participants of the Partnership, their shares and changes in the participants' structure are disclosed in *Note 12*. The Partnership does not have an ultimate controlling party.

The registered legal address of the Partnership is: 43/1, Aleksandr Karev street, Uralsk, the Republic of Kazakhstan.

These financial statements were authorised for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on 27 March 2017.

**Subsoil use rights terms**

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

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

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. Subsequently on 28 December 2016 the thirteenth supplementary agreement to the Contract was signed extending the exploration period for the Bobrishovskiy reservoir to 26 May 2018.

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. Subsequently, the exploration period was extended until 8 February 2017. The Partnership's application for further extension of the exploration period is under approval by the MOE.

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**Royalty payments**

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

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

**Government "profit share"**

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

**2. BASIS OF PREPARATION****Basis of preparation**

These financial statements for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB"). The financial statements have been prepared based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies (*Note 4*). The financial statements are presented in US Dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

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

**3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES****New standards, interpretations and amendments thereof, adopted by the Partnership**

The accounting policies adopted are consistent with those of the previous financial year, except for the below amendments to IFRS effective as at 1 January 2016. The Partnership has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of each new standard or amendment which is applicable to the Partnership's financials statements is described below:

*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 applied prospectively and do not have any impact on the Partnership given that the Partnership does not use a revenue-based method to depreciate its non-current assets.

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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*IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively. These amendments do not have any impact on the Partnership.

*Amendments to IAS 1 Disclosure Initiative*

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Partnership.

**Standards issued but not yet effective**

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

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: 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. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Partnership plans to adopt the new standard on the required effective date. During 2016, the Partnership performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Partnership in the future. Overall, the Partnership expects no significant impact of IFRS 9 on its balance sheet.

*(a) Classification and measurement*

The Partnership does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It will continue measuring at fair value derivative financial instruments.

Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Partnership expects that these will continue to be measured at amortised cost under IFRS 9.

*(b) Impairment*

IFRS 9 requires the Partnership to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Partnership expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Partnership does not expect a significant impact on its equity due to the average short collection period of trade receivables as well as anticipation of low trade impairment losses on trade receivables based on the historical data, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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*IFRS 15 Revenue from Contracts with Customers*

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

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Partnership plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Partnership performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Partnership is considering the clarification issued by the IASB in April 2016 and will monitor any further developments.

*(a) Sale of goods*

The Partnership's revenue is driven by sale of crude oil, gas condensate and LPG. The goods are sold on their own in separate identified contracts with customers. Therefore, contracts with customers of the sale of goods is generally expected to be the only performance obligation and are not expected to have any impact on the Partnership's profit or loss. The Partnership expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on the delivery of the goods.

*(b) Presentation and disclosure requirements*

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. Many of the disclosure requirements in IFRS 15 are completely new. In 2016 the Partnership started to develop appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

*IFRS 16 Leases*

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

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

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

- a) Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- b) Depreciation of lease assets separately from interest on lease liabilities in the income statement.

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

IFRS 16 is effective from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 *Revenue from Contracts with Customers*. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

In 2017, the Partnership plans to assess the potential effect of IFRS 16 on its financial statements, but in broad terms, the impact will be to recognise a lease liability and a corresponding asset for most of the operating lease commitments disclosed in *Note 27*.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Exploration expenditure**

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

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

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

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

**Property, plant and equipment***Oil and gas properties*

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

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

*Other properties*

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

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

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

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



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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*Significant accounting judgments, estimates and assumptions: oil and gas reserves*

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

The Partnership uses the internal estimates confirmed by independent reserve engineers on an annual basis to assess the oil and gas reserves of its oil and gas fields. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under the SPE methodology, the Partnership uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

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

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A, whereby changes in proved reserves is dealt with prospectively by amortizing the remaining carrying value of the asset over the expected future production. Downward revision of the proved reserves estimates in the future could lead to relative increase in depreciation expense. Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Partnership. Details on carrying values of oil and gas properties and related depreciation, depletion and amortization are shown in *Note 6*.

**Impairment of property, plant and equipment, exploration and evaluation assets**

The Partnership assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; for example, changes in the Partnership's business plans, significant decreases in the market commodity prices, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the Partnership makes an estimate of the asset's recoverable amount. Individual assets are grouped into CGU 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. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The business cash flow internal model, which is approved on an annual basis by senior management, is the primary source of information for the determination of value in use. It contains forecasts for oil and gas production, sales volumes for various types of products, revenues, costs and capital expenditure. As an initial step in the preparation of this model, various assumptions are set by senior management. These assumptions take account of commodity prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. 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 rate.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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*Significant accounting judgments, estimates and assumptions: impairment of property, plant and equipment, exploration and evaluation assets*

Management has determined a single cash-generating unit within the Partnership's non-current assets consisting of all Partnership's assets related to its Chinarevskoye and exploration fields and gas treatment facility.

Determination as to whether, and by how much, the CGU is impaired involves management's best estimates on highly uncertain matters such as future commodity prices, operating expenses and capital expenditures estimates, discount rate, future production volumes and fiscal regimes.

The recoverable amount is determined by calculation of the value-in-use based on the discounted cash flow model as no recent third party transactions exist on which a reliable market-based fair value can be established. The value-in-use calculation model takes into consideration cashflows, which are expected to arise until 2032, i.e. during the license term of the Chinarevskoye field. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers and respective past history of the Partnership's ability to transfer probable reserves into proved.

The key assumptions used in the Group's discounted cash flow model reflecting past experience and taking in account of external factors are subject to periodic review. These assumptions are:

- Oil prices (in real terms): US\$ 55/bbl for 2016-2017 and US\$ 60/bbl for 2018-2032;
- Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;
- Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates and production profiles; and
- Pre-tax discount rate of 14.1% (2015: 14.0%);
- Completion of the third unit for the gas treatment facility in 2017 resulting in gradual increase in the annual production volumes from 40,351 boepd in 2016 to approximately 100,000 boepd by the end of 2019.

These estimates may have a material impact on the value in use and, respective impairment, e.g. low oil prices for an extended period might lead to impairment charges. A 100 basis points increase in the pre-tax rate to 15% would result in no additional impairment charges. None of the reasonably possible changes in other key assumptions causes the cash generating unit's carrying amount to exceed its recoverable amount. More detailed information related to carrying values of oil and gas properties and related depreciation, depletion and amortisation are shown in *Note 6*.

**Taxation**

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

*Current income tax*

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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*Deferred income tax*

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

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

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

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

For more detailed information in current and deferred income tax disclosure as at 31 December 2016 and 2015, please see *Note 24*.

*Significant accounting judgments, estimates and assumptions: 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. 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 2016.

The Partnership is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for taxes for which it is considered probable will be payable, based on professional advice and consideration of the nature of current discussions with the tax authority.

As at 31 December 2016 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax position will be sustained. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information, see *Note 24*.

**Foreign currency translation**

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

*Transactions and balances denominated in foreign currencies*

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

**Advances for non-current assets**

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**Borrowing costs**

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

For more detailed information in relation to capitalisation of borrowing costs, please refer to *Note 13*.

**Inventories**

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

For more information in relation to the breakdown of inventories as at 31 December 2016 and 2015, please see *Note 8*.

**Provisions and contingencies**

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

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

The Partnership does not recognise contingent liabilities but discloses contingent liabilities in *Note 27*, unless the possibility of an outflow of resources embodying economic benefits is remote.

**Decommissioning**

Provision for decommissioning is recognised in full, when the Partnership has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made.

The Partnership estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the obligation at current year prices adjusted for expected long-term inflation rate and discounted at the applicable rate.

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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

Movements in the abandonment and site restoration provision are disclosed in *Note 14*.

*Significant accounting judgments, estimates and assumptions: provisions and contingencies*

Provisions and liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

Significant management judgment is required to evaluate any claims and actions to determine whether a provision relating to a specific litigation should be recognized or revised, or a contingent liability is required to be disclosed, since the outcome of litigation is difficult to predict.

The Partnership holds provision for the future decommissioning of oil and gas properties and site restoration. The estimation of the future dismantlement and site restoration costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimates of future cash outflows timing and discount rate.

Management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights. Therefore, the most decommissioning events are many years in the future and the precise date of wells abandonment and site restoration may change with the relative impact on the cash outflows. 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 provides the best estimates of applicable risk uncorrected discount rate. Any changes in the expected future costs are reflected in both the provision and the asset. Moreover, actual decommissioning costs can differ from estimates because of constantly changing decommissioning technologies as well as changes in environmental laws and regulations and public expectations.

The Partnership believes that the impact of any reasonably foreseeable change to these provisions on the Partnership's results of operations, financial position or liquidity will not be material. For more details on abandonment and site restoration provision please refer to *Note 14*.

**Other current liabilities**

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

**Financial assets***Initial recognition, measurement and derecognition*

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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

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

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

Loans and receivables are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables.

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

*Impairment of financial assets*

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

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

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

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

**Financial liabilities***Initial recognition, measurement and derecognition*

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

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.

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

*Offsetting of financial instruments*

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**Derivative financial instruments and hedging**

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

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

For more detailed information in relation to derivative financial instruments, please refer to *Note 25*.

**Significant accounting judgments, estimates and assumptions: fair value of financial instruments**

The fair value measurement of the Partnership's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible.

The fair value of derivative financial instruments is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange. Significant management judgment is required to estimate expected volatility used in the internal valuation model. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Changes in the key assumptions may have a material impact on the fair value gains and losses on derivatives recognised in the future reporting periods.

The detail information on the derivative financial instruments and their fair value sensitivity to changes in volatilities and oil price assumptions is provided in *Note 28*.

**Cash and short-term deposits**

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

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

For more detailed information in relation to cash and cash equivalents as at 31 December 2016 and 2015, please see *Note 11*.

**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 2016 the Partnership had additions to exploration and evaluation assets of US\$ 7,354 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (2015: US\$ 12,537 thousand). Interest was not capitalised on exploration and evaluation assets.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****6. PROPERTY, PLANT AND EQUIPMENT**

For the year ended 31 December 2016 and 2015 property plant and equipment comprised the following:

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
Oil and gas properties	1,760,592	1,567,334
Other property, plant and equipment	48,839	38,487
	<b>1,809,431</b>	<b>1,605,821</b>

**Oil and gas properties**

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The movement of oil and gas properties for the years ended 31 December 2016 and 2015 was as follows:

<i>In thousands of US Dollars</i>	Working assets	Construction in progress	Total
<b>Balance at 31 December 2014, net of accumulated depreciation and depletion</b>	1,032,888	369,483	1,402,371
Additions	(1,131)	265,676	264,545
Transfers	101,481	(99,369)	2,112
Depreciation and depletion charge	(101,694)	-	(101,694)
<b>Balance at 31 December 2015, net of accumulated depreciation and depletion</b>	1,031,544	535,790	1,567,334
Additions	5,646	312,750	318,396
Transfers	219,673	(220,491)	(818)
Depreciation and depletion charge	(124,320)	-	(124,320)
<b>Balance at 31 December 2016, net of accumulated depreciation and depletion</b>	1,132,543	628,049	1,760,592
<b>As at 31 December 2014</b>			
Cost	1,459,456	369,483	1,828,939
Accumulated depreciation and depletion	(426,568)	-	(426,568)
<b>Balance, net of accumulated depreciation and depletion</b>	1,032,888	369,483	1,402,371
<b>As at 31 December 2015</b>			
Cost	1,559,806	535,790	2,095,596
Accumulated depreciation and depletion	(528,262)	-	(528,262)
<b>Balance, net of accumulated depreciation and depletion</b>	1,031,544	535,790	1,567,334
<b>As at 31 December 2016</b>			
Cost	1,785,125	628,049	2,413,174
Accumulated depreciation and depletion	(652,582)	-	(652,582)
<b>Balance, net of accumulated depreciation and depletion and depletion</b>	1,132,543	628,049	1,760,592

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

The depletion rate for oil and gas working assets was 11.95% and 10.2% in 2016 and 2015, respectively.

The Partnership engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2016. Depletion has been calculated using the unit of production method based on these reserves estimates.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (*Note 14*) in the year ended 31 December 2016 resulted in the increase of the oil and gas properties by US\$ 2,399 thousand (31 December 2015: the decrease of US\$ 5,622 thousand).



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

The Partnership incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2016 and 31 December 2015:

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
Borrowing costs including amortisation of arrangement fee	76,433	77,630
Capitalisation rate	6.99%	7.04%
<b>Capitalised borrowing costs</b>	<b>29,569</b>	<b>27,218</b>

As at 31 December 2016 the Partnership's property, plant and equipment of US\$ 253,570 thousand were pledged as security for the loans due to Nostrum Oil & Gas B.V. (*Note 13*) (31 December 2015: US\$ 283,448).

**Other property, plant and equipment**

<i>In thousands of US Dollars</i>	Buildings	Machinery & equipment	Vehicles	Others	Construc- tion in progress	Total
<b>Balance at 31 December 2014, net of accumulated depreciation</b>	23,767	5,850	1,626	8,272	306	39,821
Additions	1,102	1,698	268	5,698	231	8,997
Transfers	270	912	(6)	(3,071)	(217)	(2,112)
Disposals	-	(24)	(1,933)	(285)	-	(2,242)
Disposals depreciation	-	22	1,370	57	-	1,449
Depreciation	(3,213)	(2,535)	(357)	(1,321)	-	(7,426)
<b>Balance at 31 December 2015, net of accumulated depreciation</b>	21,926	5,923	968	9,350	320	38,487
Additions	14,594	318	388	1,952	111	17,363
Transfers	1,759	216	104	(875)	(386)	818
Disposals	(62)	(97)	(49)	(507)	-	(715)
Disposals depreciation	58	70	31	367	-	526
Depreciation	(3,746)	(2,176)	(233)	(1,485)	-	(7,640)
<b>Balance at 31 December 2016, net of accumulated depreciation</b>	34,529	4,254	1,209	8,802	45	48,839
<b>As at 31 December 2014</b>						
Cost	31,489	15,071	4,028	11,620	306	62,514
Accumulated depreciation	(7,722)	(9,221)	(2,402)	(3,348)	-	(22,693)
<b>Balance, net of accumulated depreciation</b>	23,767	5,850	1,626	8,272	306	39,821
<b>As at 31 December 2015</b>						
Cost	32,861	17,657	2,357	13,962	320	67,157
Accumulated depreciation	(10,935)	(11,734)	(1,389)	(4,612)	-	(28,670)
<b>Balance, net of accumulated depreciation</b>	21,926	5,923	968	9,350	320	38,487
<b>As at 31 December 2016</b>						
Cost	49,159	18,093	2,804	14,530	45	84,631
Accumulated depreciation	(14,630)	(13,839)	(1,595)	(5,728)	-	(35,792)
<b>Balance, net of accumulated depreciation</b>	34,529	4,254	1,209	8,802	45	48,839

**NOTES TO THE FINANCIAL STATEMENTS (continued)****7. ADVANCES FOR NON-CURRENT ASSETS**

Advances for non-current assets mainly comprised prepayments made to suppliers of services and equipment for construction of a third unit for the Partnership's gas treatment facility.

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
Advances for pipes and construction materials	7,875	76,806
Advances for construction services	20,801	53,854
	<b>28,676</b>	<b>130,660</b>

**8. INVENTORIES**

As at 31 December 2016 and 2015 inventories comprised the following:

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
Spare parts and other inventories	21,789	20,369
Gas condensate	4,914	5,684
Crude oil	1,488	2,528
LPG	125	372
Dry Gas	10	-
	<b>28,326</b>	<b>28,953</b>

As at 31 December 2016 and 2015 inventories are carried at cost.

**9. PREPAYMENTS AND OTHER CURRENT ASSETS**

As at 31 December 2016 and 2015 prepayments and other current assets comprised the following:

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
VAT receivable	10,321	18,053
Other taxes receivable	2,312	2,731
Advances paid	6,085	4,040
Other	950	695
	<b>19,668</b>	<b>25,519</b>

Advances paid consist primarily of prepayments made to service providers.

**10. TRADE RECEIVABLES**

As at 31 December 2016 and 2015 trade receivables were not interest bearing and were mainly denominated in US Dollars, their average collection period is 30 days.

As at 31 December 2016 there were neither past due nor impaired trade receivables.

**11. CASH AND CASH EQUIVALENTS**

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
Current accounts in US Dollars	68,489	108,026
Current accounts in Tenge	16,726	1,893
Current accounts in other currencies	267	-
Petty cash	16	9
Bank deposits with maturity less than three months	-	25,000
	<b>85,498</b>	<b>134,928</b>

In addition to the cash and cash equivalents in the table above, the Partnership has restricted cash accounts as liquidation fund deposit in the amount of US\$ 521 thousand with Sberbank in Kazakhstan, US\$ 3,404 thousand with Kazkommertsbank and US\$ 2,055 with Halyk bank (31 December 2015: US\$ 5,375 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Partnership.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****12. PARTNERSHIP CAPITAL**

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

On 23 May 2014, Nostrum Oil & Gas Coöperatief U.A. made a contribution to the charter capital of the Partnership in the amount of 749,400 thousand Tenge, equivalent to US\$ 4,108 thousand.

On 21 April 2016 Zhaikmunai LLP bought back the 0.036% interest in the Partnership formerly held by Claydon Industrial Limited for US\$ 220 thousand and the 0.044% interest formerly held by Nostrum Associated Investments LLP for KZT 92,526 thousand (equivalent to US\$ 274 thousand).

On 30 June 2016 the Partnership sold the repurchased interest of 0.08% to Nostrum Oil & Gas Coöperatief U.A. for US\$ 640 thousand. The surplus on the sale was recorded in other reserves. As the result of the transactions Nostrum Oil & Gas Coöperatief U.A. became the sole participant of the Partnership.

The interests of the partners as at 31 December 2016 and 2015 were as follows:

	31 December 2016		31 December 2015	
	In thousands of Tenge	%	In thousands of Tenge	%
Nostrum Oil & Gas Coöperatief U.A.	750,000	100	749,400	99.920
Nostrum Associated Investments LLP	-	-	330	0.044
Claydon Industrial Limited	-	-	270	0.036

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

Until 30 June 2016 the participants in the Partnership voted based on their participation percentage and were entitled to participate in any distributions on the same basis. From 30 June 2016 decisions of the sole participant of the Partnership replace meetings of the Partnership, and distributions will be made 100% to the sole participant.

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

**13. BORROWINGS**

Borrowings comprise the following as at 31 December 2016 and 2015:

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
Notes issued in 2012 and maturing in 2019	550,518	545,309
Notes issued in 2014 and maturing in 2019	406,715	405,718
Nostrum Oil & Gas B.V.	61,000	61,000
Finance lease liability (Note 27)	1,178	-
	<b>1,019,411</b>	<b>1,012,027</b>
Less amounts due within 12 months	(15,518)	(15,361)
<b>Amounts due after 12 months</b>	<b>1,003,893</b>	<b>996,666</b>

**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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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.

On and after 13 November 2016, the 2012 Issuer shall be entitled at its option to redeem all or a portion of the 2012 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2012 Note), plus accrued and unpaid interest on the 2012 Notes, if any, 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), if redeemed during the twelvemonth period commencing on 13 November of the years set forth below:

Period	Redemption Price
2016	103.56250%
2017	101.78125%
2018 and thereafter	100.00000%

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

**2014 Notes**

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

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

The 2014 Notes bear interest at the rate of 6.375% per annum. Interest on the 2014 Notes is payable on 14 February and 14 August of each year, beginning on 14 August 2014.

On and after 14 February 2017, the 2014 Issuer shall be entitled at its option to redeem all or a portion of the 2014 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2014 Note), plus accrued and unpaid interest on the 2014 Notes, if any, 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), if redeemed during the twelve month period commencing on 14 February of the years set forth below:

Period	Redemption Price
2017	103.1875%
2018 and thereafter	100.0000%

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)****Covenants contained in the 2012 Notes and the 2014 Notes**

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

- (i) incur or guarantee additional indebtedness and issue certain preferred stock;
- (ii) create or incur certain liens;
- (iii) make certain payments, including dividends or other distributions;
- (iv) prepay or redeem subordinated debt or equity;
- (v) make certain investments;
- (vi) create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to Nostrum Oil & Gas plc or any of its restricted subsidiaries;
- (vii) sell, lease or transfer certain assets including shares of restricted subsidiaries;
- (viii) engage in certain transactions with affiliates;
- (ix) enter into unrelated businesses; and
- (x) consolidate or merge with other entities.

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

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

**Loans due to Nostrum Oil & Gas B.V.**

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

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

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

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

The outstanding balance of the loan as at 31 December 2016 has an interest rate of 6.625% (31 December 2015: 6.625%).

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

**14. ABANDONMENT AND SITE RESTORATION PROVISION**

The summary of changes in abandonment and site restoration provision during years ended 31 December 2016 and 2015 is as follows:

<i>In thousands of US Dollars</i>	2016	2015
Abandonment and site restoration provision as at 1 January	15,928	20,877
Unwinding of discount	331	426
Additional provision	977	247
Change in estimates	2,399	(5,622)
<b>Abandonment and site restoration provision as at 31 December</b>	<b>19,635</b>	<b>15,928</b>

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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2016 were 2.5% and 4.28%, respectively (31 December 2015: 2.49% and 5.54%).

The change in the long-term inflation rate and discount rate in the year ended 31 December 2016 resulted in the increase of the abandonment and site restoration provision by US\$ 2,399 thousand (31 December 2015: the decrease by US\$ 5,622 thousand).

**15. DUE TO GOVERNMENT OF KAZAKHSTAN**

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

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

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2016 and 2015 is as follows:

<i>In thousands of US Dollars</i>	2016	2015
Due to Government of Kazakhstan as at 1 January	6,808	6,937
Unwinding of discount	885	902
Paid during the year	(773)	(1,031)
	6,920	6,808
Less: current portion of due to Government of Kazakhstan	(1,289)	(1,031)
<b>Due to Government of Kazakhstan as at 31 December</b>	<b>5,631</b>	<b>5,777</b>

**16. TRADE PAYABLES**

Trade payables comprise the following as at 31 December 2016 and 2015:

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
Tenge denominated trade payables	22,516	22,437
US Dollar denominated trade payables	11,637	13,956
Euro denominated trade payables	8,087	2,437
Russian Rouble denominated trade payables	1,277	1,848
	43,517	40,678

**17. OTHER CURRENT LIABILITIES**

Other current liabilities comprise the following as at 31 December 2016 and 2015:

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
Training obligations accrual	12,018	11,443
Accruals under the subsoil use agreements	6,462	16,902
Taxes payable, other than corporate income tax	6,645	8,941
Due to employees	2,739	2,541
Other current liabilities	1,957	941
	29,821	40,768

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.

The changes in the supplements to the subsoil use agreements and the adjusted work programs led to a reversal of the previous year accrued liability by US\$ 10,698 thousand during the year ended 31 December 2016.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****18. REVENUE**

<i>In thousands of US Dollars</i>	2016	2015
Revenue from oil and gas condensate sales	228,357	297,777
Revenue from gas and LPG sales	121,626	151,124
	347,983	448,901

During the year ended 31 December 2016 the revenue from sales to three major customers amounted to US\$ 109,499 thousand, US\$ 92,885 thousand and US\$ 38,053 thousand respectively (2015: three major customers: US\$ 141,359 thousand, US\$ 104,978 thousand and US\$ 85,954 thousand, respectively).

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

**19. COST OF SALES**

<i>In thousands of US Dollars</i>	2016	2015
Depreciation, depletion and amortisation	130,043	107,690
Repair, maintenance and other services	21,097	26,557
Royalties	11,910	14,364
Payroll and related taxes	11,214	17,160
Other transportation services	6,843	3,049
Materials and supplies	4,649	7,838
Management fees	4,407	3,519
Well workover costs	3,928	5,182
Government profit share	2,582	1,880
Change in stock	2,047	(3,613)
Environmental levies	1,071	1,391
Other	1,994	2,799
	201,785	187,816

**20. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of US Dollars</i>	2016	2015
Payroll and related taxes	5,765	8,523
Management fees	3,511	3,785
Training	2,154	3,000
Depreciation and amortisation	1,917	1,430
Insurance fees	775	1,401
Professional services	701	4,531
Sponsorship	574	1,314
Communication	484	766
Business travel	381	414
Materials and supplies	353	635
Social program	315	302
Bank charges	311	568
Lease payments	192	454
Other taxes	68	267
Other	507	592
	18,008	27,982

**21. SELLING AND TRANSPORTATION EXPENSES**

<i>In thousands of US Dollars</i>	2016	2015
Loading and storage costs	33,220	41,229
Transportation costs	24,862	45,071
Marketing services	14,138	159
Payroll and related taxes	1,234	1,901
Other	2,229	4,610
	75,683	92,970

**NOTES TO THE FINANCIAL STATEMENTS (continued)****22. FINANCE COSTS**

<i>In thousands of US Dollars</i>	2016	2015
Interest expense on borrowings	46,864	50,412
Unwinding of discount on amounts due to Government of Kazakhstan	885	902
Unwinding of discount on abandonment and site restoration provision	327	426
Unwinding of discount on social obligations liability	850	-
Finance charges under finance leases	201	-
	<b>49,127</b>	<b>51,740</b>

**23. OTHER EXPENSES**

<i>In thousands of US Dollars</i>	2016	2015
Export customs duty	5,534	14,669
Accruals under subsoil use agreements (Note 17)	(9,808)	2,156
Compensation	571	2,531
Other expense	5,248	11,139
	<b>1,545</b>	<b>30,495</b>

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

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

**24. INCOME TAX**

The income tax expense consisted of the following:

<i>In thousands of US Dollars</i>	2016	2015
Deferred income tax (benefit)/expense	(3,083)	142,469
Corporate income tax expense	19,994	22,836
Adjustment in respect of the current income tax for the prior periods	(1,328)	(1,203)
<b>Total income tax expense</b>	<b>15,583</b>	<b>164,102</b>

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

<i>In thousands of US Dollars</i>	2016	2015
(Loss)/Profit before income tax	(51,054)	86,680
Tax rate applicable to the subsoil use rights	30%	30%
<b>Expected tax provision</b>	<b>(15,316)</b>	<b>26,004</b>
Effect of exchange rate on the tax base	(2,355)	101,043
Adjustments in respect of current income tax of previous years	(1,327)	(1,203)
Effect of (loss)/income taxed at different rate	7,258	(3,634)
Non-deductible interest expense on borrowings	22,864	20,698
(Reversal)/accrual of non-deductible penalties	(1,343)	3,656
Net foreign exchange loss	2,828	12,019
Non-deductible social expenditures	-	1,021
Non-deductible cost of technological loss	1	141
Non-deductible training expenditures	181	561
Other non-deductible expenses	2,792	3,796
<b>Income tax expenses reported in the financial statement</b>	<b>15,583</b>	<b>164,102</b>



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

The Partnership's effective tax rate for the year ended 31 December 2016 is negative 30.5% (2015: 189.3%). The Partnership's effective tax rate, excluding effect of movements in the US dollar / Tenge exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2016 is 15.2% (2015: 35%).

In addition the effective tax rate was impacted by the effect of losses and gains taxed at different rate mainly including loss and gain on derivative financial instruments taxed at underlying tax rate of 20% which increased effective tax rate by 14.2% for the year ended 31 December 2016 (2015: decreased by 4.2%).

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

<i>In thousands of US Dollars</i>	2016	2015
<b>Deferred tax asset</b>		
Accounts payable and provisions	4,959	4,488
<b>Deferred tax liability</b>		
Property, plant and equipment	(348,311)	(332,835)
Derivative financial instruments	(1,332)	(19,420)
	<b>(344,684)</b>	<b>(347,767)</b>

The movements in the deferred tax liability were as follows:

<i>In thousands of US Dollars</i>	2016	2015
Balance as at 1 January	347,767	205,298
Current period (benefit)/charge to statement of comprehensive income	(3,083)	142,469
Balance as at 31 December	<b>344,684</b>	<b>347,767</b>

**25. DERIVATIVE FINANCIAL INSTRUMENTS**

During the years ended 31 December 2016 and 2015 the movement in the fair value of derivative financial instruments was presented as follows:

<i>In thousands of US Dollars</i>	2016	2015
Derivative financial instruments at fair value as at 1 January	97,100	60,301
Proceeds from hedging contract	(27,198)	(92,256)
Purchase of hedging contract	-	92,000
(Loss)/gain on derivative financial instruments	(63,244)	37,055
Derivative financial instruments	6,658	97,100
Less current portion of derivative financial instruments	6,658	54,095
Long-term derivative financial instruments at fair value as at 31 December	-	43,005

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

On 14 December 2015, the Partnership entered, at cost of US\$ 92,000 thousand, into a long-term hedging contract covering oil sales of 14,674 bbls/day for the first calculation period and 15,000 bbls/day for the subsequent calculation periods or a total of 10,950,000 bbls running through 14 December 2017. The counterparty to the hedging agreement is VTB Capital Plc. Based on the hedging contract the Partnership bought a put, which protects it against any fall in the price of oil below US\$ 49.16/bbl.

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)****26. RELATED PARTY TRANSACTIONS**

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

Accounts receivable from and advances paid to related parties as at 31 December 2016 and 2015 consisted of the following:

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
<b>Trade receivables and advances paid</b>		
With significant influence over Partnership:		
- JSC OGCC KazStroyService	18,063	35,832

Accounts payable to related parties as at 31 December 2016 and 2015 consisted of the following:

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
<b>Borrowings</b>		
Under common control:		
- Nostrum Oil & Gas B.V.	61,000	61,000
<b>Trade payables</b>		
With significant influence over the Partnership:		
- JSC OGCC KazStroyService	6,291	4,144
- Nostrum Services N.V.	1,250	217
- Nostrum Services Central Asia LLP	201	73

During the years ended 31 December 2016 and 2015 the Partnership had the following transactions with related parties:

<i>In thousands of US Dollars</i>	2016	2015
<b>Repayment of borrowings</b>		
Under common control:		
- Nostrum Oil & Gas B.V.	-	45,000
<b>Interest paid</b>		
Under common control:		
- Nostrum Oil & Gas B.V.	4,490	5,705
<b>Purchases</b>		
With significant influence over the Partnership:		
- JSC OGCC KazStroyService	40,746	29,606
<b>Management fees and consulting services</b>		
Under common control:		
- Nostrum Services Central Asia LLP	1,739	1,787
- Nostrum Services N.V.	9,487	8,009

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

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

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2016 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

Management fees are payable in accordance with the Technical Assistance Agreements signed between the Partnership and Nostrum Services Central Asia LLP and Nostrum Services N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$ 305 thousand for the year ended 31 December 2016 (2015: US\$ 404 thousand). Other key management personnel were employed and paid by Nostrum Services Central Asia LLP and Nostrum Services N.V. and their remuneration forms part of management fees and consulting services above.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****27. CONTINGENT LIABILITIES AND COMMITMENTS****Taxation**

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. 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 2016. As at 31 December 2016 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax position will be sustained.

**Abandonment and site restoration (decommissioning)**

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

**Environmental obligations**

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

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

**Capital commitments**

As at 31 December 2016 the Partnership had contractual capital commitments in the amount of US\$ 96,990 thousand (31 December 2015: US\$ 123,529 thousand) mainly in respect to the Partnership's oil field exploration and development activities.

**Operating lease**

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 lease was represented as follows:

<i>In thousands of US Dollars</i>	31 December 2016	31 December 2015
No later than one year	9,589	12,471
Later than one year and no later than five years	28,795	4,623

Lease expenses of railway tank wagons during the year ended 31 December 2016 amounted to US\$ 12,285 thousand (2015: US\$ 15,690 thousand).

**NOTES TO THE FINANCIAL STATEMENTS (continued)****Finance lease**

On 12 April 2016 the Partnership entered into a finance lease agreement for the main administrative office in Uralsk for a period of 20 years for US\$ 66 thousand per month. As at 31 December 2016 the finance lease prepayment amounted to US\$ 12,151 thousand. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

<i>In thousands of US Dollars</i>	31 December 2016		31 December 2015	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
No later than one year	525	496	-	-
Later than one year and no later than five years	561	349	-	-
Later than five years	2,039	333	-	-
<b>Total minimum lease payments</b>	<b>3,125</b>	<b>1,178</b>	-	-
Less amounts representing finance charges	1,947	-	-	-
<b>Present value of minimum lease payments</b>	<b>1,178</b>	<b>1,178</b>	-	-

**Social and education commitments**

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

- (i) Spend US\$ 300 thousand per annum to finance social infrastructure;
- (ii) Make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and
- (iii) Adhere to a spending schedule on education which lasts until (and including) 2020.

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

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 26 December 2016) require the subsurface user to:

- (i) Spend US\$ 1,000 thousand for funding of development of Astana city;
- (ii) Invest at least US\$ 20,694 thousand for exploration of the field during the exploration period;
- (iii) Reimburse historical costs of US\$ 383 thousand to the Government upon commencement of production stage;
- (iv) Fund liquidation expenses equal to US\$ 147 thousand; and
- (v) Spend US\$ 1,250 thousand to finance social infrastructure.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 26 December 2016) require the subsurface user to:

- (i) Invest at least US\$ 21,770 thousand for exploration of the field during the exploration period;
- (ii) Fund liquidation expenses equal to US\$ 209 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 26 December 2016) require the subsurface user to:

- (i) Invest at least US\$ 27,910 thousand for exploration of the field during the exploration period;
- (ii) Fund liquidation expenses equal to US\$ 271 thousand.

**Domestic oil sales**

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)****28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

**Commodity price risk**

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

**Interest rate risk**

The Partnership is not exposed to interest rate risk in 2016 and 2015 as the Partnership had no financial instruments with floating-rate as at years ended 31 December 2016 and 2015.

**Foreign currency risk**

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

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

	Change in Tenge to US Dollar exchange rate	Effect on profit before tax
<b>2016</b>		
US Dollar thousand	20.00%	570
US Dollar thousand	(20.00%)	(570)
<b>2015</b>		
US Dollar thousand	60.00%	18,350
US Dollar thousand	20.00%	(6,117)

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

As at 31 December 2016	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	16,742	209	59	--	17,010
Trade receivables	11,540	--	1,668	--	13,208
Trade payables	(22,516)	(1,278)	(8,087)	--	(31,881)
Other current liabilities	(8,614)	--	--	--	(8,614)
	(2,848)	(1,069)	(6,360)	--	(10,277)
As at 31 December 2015	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	1,902	--	--	--	1,902
Trade receivables	1,455	--	--	--	1,455
Trade payables	(22,436)	(1,849)	(2,437)	--	(26,722)
Other current liabilities	(11,505)	--	--	--	(11,505)
	(30,584)	(1,849)	(2,437)	--	(34,870)

**NOTES TO THE FINANCIAL STATEMENTS (continued)****Liquidity risk**

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

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

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

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

The table below summarizes the maturity profile of the Partnership's financial liabilities at 31 December 2016 and 2015 based on contractual undiscounted payments:

As at 31 December 2016	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	-	17,509	52,256	1,132,627	2,039	1,204,431
Trade payables	35,156	-	8,361	-	-	43,517
Other current liabilities	14,757	-	-	-	-	14,757
Due to Government of Kazakhstan	-	258	773	4,124	9,536	14,691
	49,913	17,767	61,390	1,136,751	11,575	1,277,396

As at 31 December 2015	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 Government of Kazakhstan	-	258	773	4,124	11,340	16,495
	58,953	18,364	72,964	221,392	1,145,005	1,516,678

**Credit risk**

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)****Fair values of financial instruments**

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

<i>In thousands of US Dollars</i>	Carrying amount		Fair value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Financial assets measured at fair value				
Derivative financial instruments	6,658	97,100	6,658	97,100
Financial liabilities measured at amortised cost				
Interest bearing borrowings	(1,018,233)	(1,012,027)	(1,017,418)	(871,161)
Finance lease liability	(1,178)	-	(1,799)	-
<b>Total</b>	<b>(1,012,753)</b>	<b>(914,927)</b>	<b>(1,012,559)</b>	<b>(774,061)</b>

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

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

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 31 December 2016 and 2015:

	31 December 2016	31 December 2015
Future price at the reporting date (US\$)	56.82-58.84	37.19-48.75
Expected volatility (%)	27.33	30.31
Risk-free interest rate (%)	0.84	0.32-0.69
Maturity (months)	1-11	1-23

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

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

	Increase in the assumption	Decrease in the assumption
(Increase)/decrease in gain on derivative financial instruments due to change in oil price assumption (+/-US\$ 2/bbl)	(1,523)	1,976
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	1,203	(1,143)

Movement in the derivative financial instruments is disclosed in *Note 25*.

During the years ended 31 December 2016 and 2015 there were no transfers between the levels of fair value hierarchy of the Partnership's financial instruments.

**Capital management**

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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

<i>In thousands of US Dollars</i>	2016	2015
Borrowings	1,019,411	1,050,165
Less: cash and cash equivalents, restricted cash and current and non-current investments	(91,478)	(140,303)
<b>Net debt</b>	<b>927,933</b>	<b>909,862</b>
Equity	592,824	659,315
<b>Total capital</b>	<b>592,824</b>	<b>659,315</b>
<b>Capital and net debt</b>	<b>1,520,757</b>	<b>1,569,177</b>
Gearing ratio	61%	58%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.