Zhaikmunai LLP
Annual Report 2017

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An Introduction to Zhaikmunai

Background

Zhaikmunai LLP, a Kazakhstan-registered limited liability partnership was set up in March 1997 to explore, produce and sell hydrocarbons from the Chinarevskoye field in north-western Kazakhstan.

Our operations are concentrated on optimising the value of four prime licence areas which are advantageously located within a 120km radius of our own substantial oil & gas processing and export infrastructure.

We have so far appraised and explored only one third of the Chinarevskoye field, while our neighbouring three licences exhibit additional growth potential.

When completed, our third gas treatment unit will double our production capacity to over 100,000 boepd. We aim to fully utilise our infrastructure beyond 2021.

Zhaikmunai LLP is a wholly-owned indirect subsidiary of Nostrum Oil & Gas PLC (Nostrum). Nostrum is the parent company of the Nostrum Oil & Gas group (the Group). Zhaikmunai LLP is the main operating subsidiary of the Group.

Subsidiaries

Following the corporate restructuring of the Group in 2014, Zhaikmunai LLP itself has no subsidiaries. Prior to the corporate restructuring, the three subsidiaries of Zhaikmunai LLP were dormant.

References to “we”, “us” or “our” in this Annual Report are references to Zhaikmunai LLP.

Group Structure and affiliates

There are currently a number of intermediary companies between Zhaikmunai LLP and its parent, Nostrum. The corporate structure of the Group is continually reviewed and simplifications to the structure are made from time to time, if considered in the best interests of the Group. The structure of the Group as at 31 December 2017 can be found on page 61.

Who we are

Zhaikmunai is an independent oil and gas company engaging in the production, development and exploration of oil and gas in the pre-Caspian Basin with a highly-attractive portfolio of assets.

Our vision is to become one of the leading independent oil and gas exploration and production companies in the FSU. In order to achieve this vision we recognise our performance must be focused upon our operational, financial and social output.

We have diligently navigated challenging market conditions and maintained a stable cash position, all while making significant investments in our infrastructure, people and production capabilities. We are now ready to execute the next phase of our growth strategy and maximise returns from our growing reserve base.

Our Investment Case

WE HAVE A HIGHLY ATTRACTIVE PORTFOLIO OF ASSETS...

Strategically located in the pre-Caspian basin

Our operations are concentrated on optimising the value of four prime licence areas which are advantageously located within a 120km radius of our own substantial oil & gas processing and export infrastructure.

488

million barrels
of independently
reviewed 2P reserves

With substantial reserves and significant potential

We have so far appraised and explored only one third of the Chinarevskoye field, while our neighbouring three licences exhibit additional growth potential.

WE HAVE UNIQUE INFRASTRUCTURE

For value creation

We have invested over US$2 billion during the past decade to create a substantial infrastructure hub in North-West Kazakhstan which is ideally positioned to monetise the substantial resources in the region.

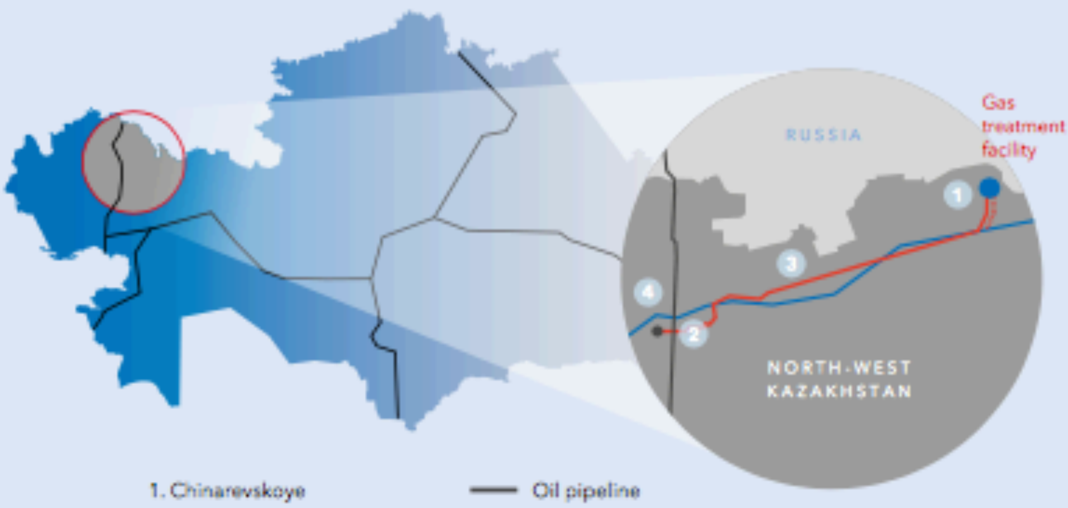
KTO Pipeline connection cost

US$7m

Crude oil transportation costs reduced as a result

50%

PIPELINES AND FIELDS



1. Chinarevskoye
2. Rostoshinskoye
3. Darjinskoye
4. Yuzhno-Gremyachinskoye

Oil pipeline
Nostrum oil pipeline
Gas pipeline
Nostrum gas pipeline

Key performance Indicators
A solid performance

Financial KPIs

Zhaikmunai has a clear path to executing its growth strategy after the completion of GTU3 supported by highly attractive assets, steady levels of production and material upside potential. Zhaikmunai is uniquely positioned to realise the value of surrounding resources and prudent financial management has resulted in sustained cash flow generation.

Revenue – US$406 million: +16.5% from 2016
2013 – 895
2014 – 782
2015 – 449
2016 – 348

EBITDA (Zhaikmunai LLP) – US$244 million
2013 – 577
2014 – 515
2015 – 249
2016 – 184

Net income (loss) – US$17 million
2013 – 228
2014 – 186
2015 – (77)
2016 – (68)

Operating cash flow – US$208 million
2013 – 383
2014 – 375
2015 – 179
2016 – 222

Investing cash outflow – US$(192) million
2013 – (239)
2014 – (305)
2015 – (245)
2016 – (200)

Operating costs – US$57 million
2013 – 97
2014 – 83
2015 – 63
2016 – 53

Non-financial KPIs

We recognise that the sustainability and success of our business is dependent not only on our financial performance, but also our operational excellence and social output. We are committed to these areas and believe that targeting non-financial KPIs is the best way to monitor our achievements in relation to them.

Sales volumes – 37,844 boepd
2013 – 44,731
2014 – 43,181
2015 – 38,576
2016 – 39,043

1P reserves – 124 mmboe
2013 – 199
2014 – 192
2015 – 147
2016 – 147

GHG emissions intensity ratio – 17,821 mtCO_2e/mmboe:
2013 – 13,144
2014 – 16,624
2015 – 15,467
2016 – 14,193

Key macroeconomic and microeconomic trends

1 Low oil prices

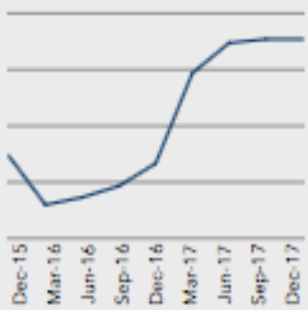
Market drivers

Oil prices continued to be volatile throughout 2017, hitting a low of US$47/bbl in mid-June before recovering to a two-year high of US$66/bbl in early November. Despite this volatility, consensus views of long-term prices at around US$50-60/bbl have remained broadly consistent. The 'lower for longer' paradigm which has prevailed since US shale's emergence as a global force in oil markets looks set to continue for the foreseeable future.

What it means for us

With no debt maturities until 2022, over US$100 million of cash on our balance sheet and 9,000 boepd of 2018 production hedged at US$60/bbl the Group is well positioned to weather near term fluctuations in the oil price. Nostrum continues to focus on reducing its operating cost base as we look to deliver material production growth and free cash flow in a long-term oil price environment above US$50/bbl.

2 Kazakhstan economy



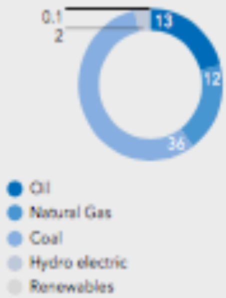
Market drivers

During 2017 Kazakhstan's economy started to recover from the crisis caused by the fall of global oil prices with real GDP growing by 4.3% year-on-year during 2017 (2016 = 1.1%). Economic growth remains heavily dependent on Kazakhstan's oil industry so the increase in oil prices and activity in the sector played a significant role. The KZT/USD average exchange rate remained broadly flat year-on-year at 326 Tenge to USD (2016: 342) and inflationary pressures were subdued with core inflation at 6.5% (2016 = 8.8%).[4]

What it means for us

The prominence of the oil industry in Kazakhstan meant that the downturn in oil prices during and after 2014 had a material impact on the country's economy. Although long-term broader structural reforms are required to address this imbalance, in the near-term the government has been extremely supportive of the industry as it seeks to foster growth, development and investment. The government's decision to unpeg the KZT/USD exchange rate has had a meaningful effect on the operating cost bases of producers as prices have recovered and inflation has remained subdued.

3 Evolving energy demand (million tonnes of oil equivalent)



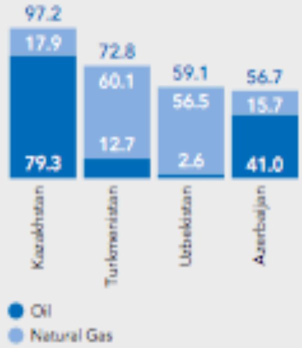
Market drivers

Kazakhstan is a substantial net exporter of oil and gas with domestic consumption only being 26% of overall production.[5] Although a majority of the natural gas produced in Kazakhstan is re-injected into oil fields to aid production, Kazakhstan's marketed natural gas production has grown for several years and was 22.0bcm in 2016 (2015 = 21.1bcm). The majority of Kazakhstan's oil and gas exports are achieved through Russian pipeline and transmission networks which bisect the north-west of the country.

What it means for us

Nostrum is situated in the heart of the export corridor that exists between Russia and multiple markets to the west of the Caspian. Through its mix of liquids and gas sales products Nostrum has the ability to satisfy multiple sources of demand in export and domestic markets to maximise overall realisations. As gas production in the region increases to stabilise and increase liquid recovery in maturing fields, Nostrum has a unique opportunity to capitalise on its position as the only raw gas processing capacity in North-western Kazakhstan.

4 Competitive environment (million tonnes of oil equivalent)



Market drivers

Kazakhstan and Azerbaijan are the two significant oil producing countries in the Caspian region, producing 1.7m bopd and 0.8m bopd in 2016 respectively. It is expected these countries will continue to lead the region in oil production. Turkmenistan and Uzbekistan are the predominant gas producers in the region, producing 66.8 bcm and 62.8 bcm in 2016 respectively. Russia plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea, although this part of Russia is not a substantial source of crude.

What it means for us

Vast distances between Central Asian markets, long established trading relationships and in-place infrastructure promote co-dependence between FSU exporters. Kazakhstan naturally benefits from its geo-strategic position between Russia and China.

Sources: BP Statistical Review of World Energy, The Ministry of Energy of the Republic of Kazakhstan, S&P Global Platts, The World Bank Group, Trading economics, CEIC

Transportation of our products

Crude

Sent through our own 120km pipeline from the field site to our own rail loading terminal in Uralsk. From here it is loaded onto railcars and sent to off-takers at various destinations.

From Q2 2017 all exported crude oil volumes have been delivered into the KTO pipeline through an extension to our existing 120km pipeline. 85% of crude is exported in accordance with the PSA and 15% is sold domestically.

Condensate

Sent through our own 120km pipeline from the field site to our own rail loading terminal
in Uralsk. From here it is loaded onto railcars and sent to various destinations. 100% of condensate is exported.

LPG

Loaded onto LPG trucks from the field site to our rail loading terminal in Uralsk. From here it is loaded onto railcars and sold to third parties. 80% of LPG is exported.

Gas

Sent through our own 17km pipeline from the field site to the connection point with the Intergas Central Asia gas pipeline. Sold at the connection point and 100% of gas is sold domestically.

Message from the management
Ensuring stability and continuity

Vision

In 2018, we aim to ensure we establish the solid foundations on which Nostrum can build future growth, realising its goal to fully utilise its significant raw gas reserves and processing infrastructure in North-western Kazakhstan to deliver sustainable value to its shareholders. We are on target to complete our third Gas Treatment Unit ("GTU3") in 2018, which will give Zhaikmunai the capacity to process over 4 billion cubic metres of raw gas per annum. Our mid-term aim is to fill our facilities to maximum capacity. To achieve this, we need to combine expansion through organic growth of our existing asset base alongside carefully considered acquisitions, while maintaining our high level of capital discipline.

From a social responsibility perspective, we will continue to invest in the local community and maintain our employee training programme to adapt to new technologies and industry standards. We are absolutely committed to improving our safety standards both for our own employees and third party contractors. From an environmental standpoint, we are constantly seeking to minimise the environmental footprint of our business, while also re-investing our cash to help create a cleaner environment in all the areas where we operate, to ensure we are a business designed for the future. This investment in our people, standards and infrastructure leaves us well placed to grow in a scalable and sustainable way.

Operational Performance

2017 has been a challenging year operationally. We experienced drilling results that were below our expectations, but we also achieved some unexpected successes. The biggest challenge we faced was a higher decline in production than we had anticipated. This was primarily due to the loss of two producing wells and the inability to bring on new production wells in time to replace this lost production. A priority for 2018 is to learn from this experience, and to recover our planned growth path. We will also be working hard to complete the construction of GTU3 once we are through the winter months. As a result of the 2017 production decline, we will focus first on drilling four production wells in the first half of 2018. The second half of the year will depend on the results we achieve from existing wells under test production and new production wells. 2018 is an opportunity for us to demonstrate that we can extract the significant hydrocarbon potential of the Chinarevskoye field economically. In the Rostoshinskoye field, we also achieved some success which could lead to a material upgrade in our expectations from this field. We will further analyse the potential of this field and the other two Trident fields once we have stabilised production at Chinarevskoye.

Financial Performance

Our 2017 financial performance was impacted by our operations and the continued oil price volatility. However, we continued to reduce costs and will aim to maintain this control through 2018. We have continued to enhance the stability of our balance sheet. We successfully refinanced almost two thirds of our debt during 2017 and completed the final part in the first quarter of 2018. As a result, we have no debt maturities coming due until July of 2022 and this provides a solid foundation from which to focus on the operational side of the business and increasing production over the next four years. To ensure that we are not over-exposed to oil price volatility during 2018, the Group entered into a hedge on 9,000 boepd with a floor price of US$60 per barrel for the rest of the year. This reaffirms that we are able to fully finance GTU3 completion under any oil price scenario.

Governance

The Group attaches great importance to achieving best practice corporate governance standards. Atul Gupta took over the Chairmanship of the Board of Nostrum in April 2017 under challenging circumstances following the departure of the Executive Chairman, Frank Monstrey. Mr Monstrey had resigned from the Board as a consequence of a freezing order and charging order obtained by BTA Bank on Nostrum shares held by two companies owned by him. Such freezing order and charging order were subsequently lifted in June 2017 pursuant to a settlement between Mr Monstrey and BTA Bank, as a result of which BTA Bank became a shareholder in Nostrum. Nostrum was not a party to any legal proceedings between BTA Bank and Mr Monstrey or his companies. However, as a result of these developments the Board deemed it essential to stabilise Nostrum's position going forward and took the following steps during 2017 in order to do so. First, Nostrum improved its governance structure and independence. Nostrum welcomed Martin Cocker as a non-executive director and established, for the first time in Nostrum's history, an equal balance of four independent to four non-independent directors. In addition, the Board welcomed Michael Calvey, who represents Baring Vostok's 17% stake in Nostrum. Baring Vostok increased their holding in Nostrum from 15% to 17% during the fourth quarter of 2017. Baring Vostok has been an investor since 2009 and, alongside Mayfair, brings a wealth of experience investing in the former Soviet Union. Second, Nostrum entered into a mutual waiver of claims with BTA in January 2018, which removes any risk of Nostrum being made party to any of the claims made by BTA. Nostrum believes it has an excellent Board with a broad range of expertise and experience that was able to navigate the Group through some difficult periods in 2017.

Corporate and Social Responsibility

CSR is a central tenet of Zhaikmunai's business ethic. We recognise that we need to ensure that high standards of QHSE are established and maintained. We are also cognisant that, due to the nature of the Oil & Gas industry, our business must operate with the right safeguards to prevent damage to the environment and danger to our employees.

During 2017, we saw our Lost Time Injury Frequency increase to 2.48 and we will be focusing on this acutely during 2018 to ensure the safety of our employees and contractors is constantly assessed and improved. In relation to emissions and environmental impact, the Board is pleased to note that an independent environmental audit found Zhaikmunai complied with all relevant regulatory and legislative requirements in relation to environmental monitoring. While Zhaikmunai did see an increase in our GHG emissions intensity ratio, this was primarily a result of commissioning a gas turbine power station, which we anticipate will help reduce our environmental impact in the future. We remain focused on reducing our GHG emissions, and also developing a better understanding of and response to climate change risks in 2018.

Our people

Zhaikmunai has a strong team with a wealth of experience on the Chinarevskoye field who have demonstrated their commitment to tackling Zhaikmunai's financial and operational issues over the last 12 months. In order to achieve the objectives we have set ourselves for 2018 and beyond, we will strive to ensure that Zhaikmunai continues to be an attractive place to work. We place a high level of importance on developing the skills of our local employees through training and sponsorship, with 947 out of 989 staff employed by the Group based in Kazakhstan. In addition, we seek to ensure we can retain our key talent while also being able to attract new staff. The quality and commitment of our people will be critical to us achieving our goals for 2018.

Future Growth

2018 promises to be a very exciting year for Zhaikmunai. We look forward to bringing Zhaikmunai's processing capacity to over 100,000 boepd and we are seeking to build a low cost base from which to realise the full value of the licences we own. This requires us to focus on stabilising production in the first half of the year, before looking at expanding production in the second half through advancing our drilling campaigns, while preserving our disciplined approach to capital. We have now completed all our refinancing, allowing us to focus purely on the critical operational targets for 2018.

CSR priorities for 2018

- Reducing health & safety incidents
- Continuing to finance local social infrastructure projects
- Targeting a reduction in our emissions intensity ratio
- Developing a better understanding of and response to climate change risks

Our Growth Potential

Production

A clear path to doubling production capacity

Completion of our third Gas Treatment Unit ("GTU3") is scheduled for 2018 and progress continues to be made toward completion. When the GTU3 project is finalised it will more than double our raw gas processing capacity to 4.2 bcm per annum allowing Zhaikmunai to have a processing capacity in excess of 100,000 boepd at full capacity.

Zhaikmunai has invested over US$2 billion over more than 10 years to create a world-class infrastructure hub in north-west Kazakhstan to unlock the value of the region's substantial resources. In addition to its advantageous geographical position, Zhaikmunai has extensive storage and transportation infrastructure to accommodate a future material increase in Zhaikmunai's production volumes.

Reserves

Underpinning our strong growth potential

Zhaikmunai has a substantial asset base in north-west Kazakhstan with an independently audited 2P reserve base of 488 million barrels of oil equivalent (Ryder Scott 2018). During 2017 the Chinarevskoye asset averaged daily sales volumes of 37,844 boepd. With a 1P reserve base of 124 million barrels of oil equivalent, the core asset base at Chinarevskoye will be utilised to reach Zhaikmunai's average daily processing capacity target of over 100,000 boepd.

Having appraised, developed and produced both crude oil and gas condensate in North-western Kazakhstan for over a decade, Zhaikmunai has accumulated a considerable amount of knowledge of both the Chinarevskoye asset and also the surrounding regional geology. Zhaikmunai seeks to leverage this competitive advantage to pursue value accretive transactions which enhance our commercial reserve base and prolong Zhaikmunai's average daily production plateau above 100,000 boepd until the end of the Chinarevskoye licence period in 2031-2033 (1).

During 2013, Zhaikmunai acquired 87 million barrels of 2P reserves adjacent to the Chinarevskoye licence area (the Trident fields) for a consideration of US$16 million.

Our Business Model

Business model

Sustainable growth platform

We leverage our strengths

Financial

Deploying capital generated from operations or obtained through financing to create value for our stakeholders.

Cash reserves

US$127 million

Engineering

Investing capital to create a world-class hydrocarbon processing and transportation infrastructure hub to realise the value of the material resources in North-western Kazakhstan.

Investment in infrastructure

US$2 billion

Management

Leveraging extensive senior management experience in exploring, appraising and developing hydrocarbon assets in Kazakhstan with a unique understanding of the regional geology and what is required to realise its potential.

Geological

Developing a highly attractive asset base with multiple routes to export markets.

Reserves

488 million boe 2P

Human

We have 989 employees in five countries and pride ourselves on investing to develop their competencies, abilities and talent.

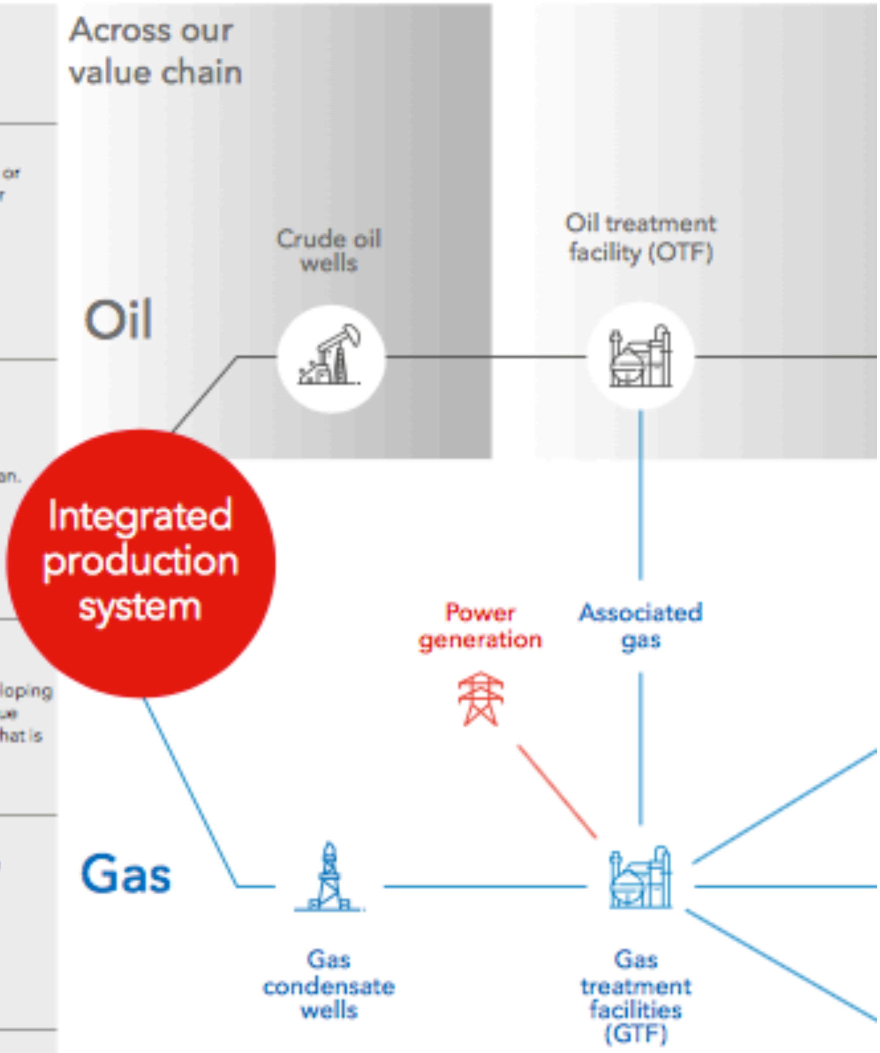
Highly skilled workforce

989 employees

Social and relationship

We have established an excellent reputation in Kazakhstan through operating in a responsible and socially conscious manner for over a decade to create value for our stakeholders and the local community.

Across our value chain



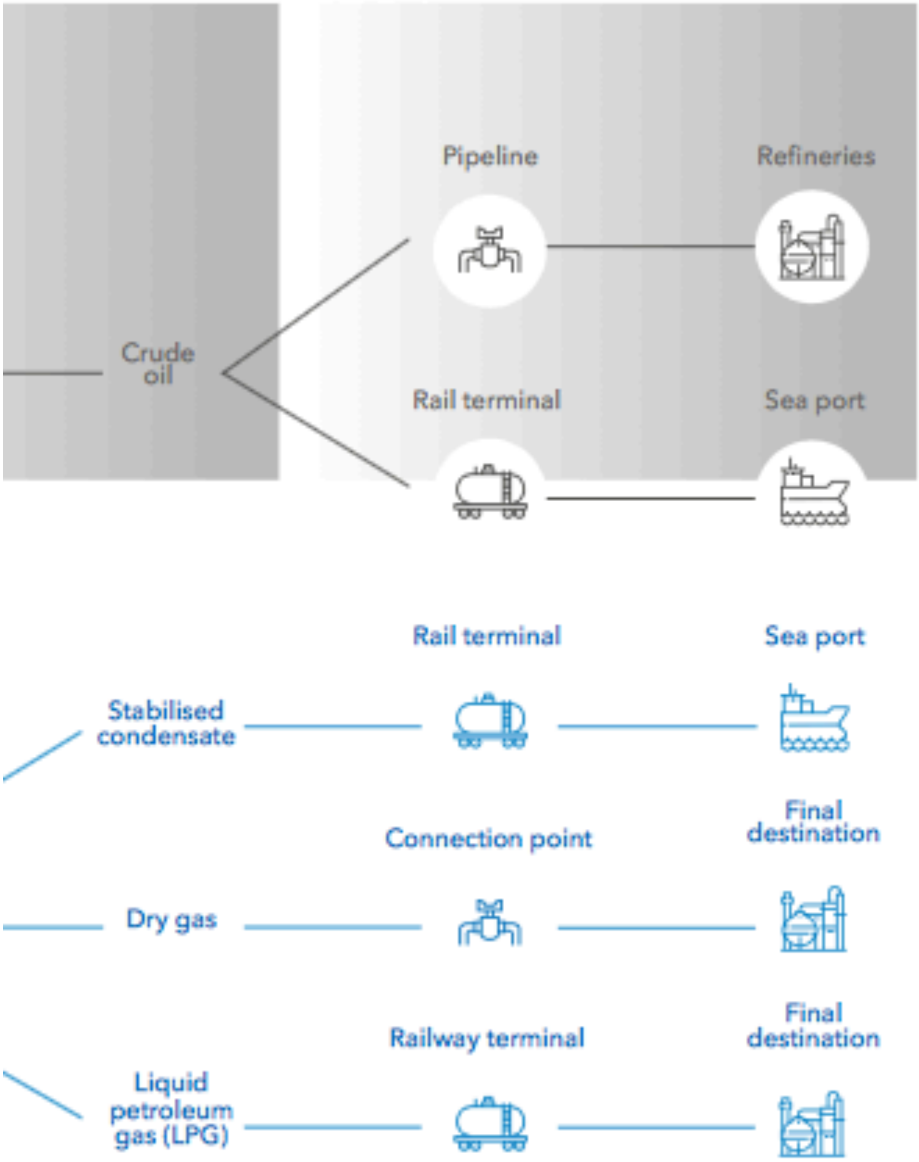
Exploration

Maximise our extensive geological expertise and regional knowledge to execute high-impact exploration and appraisal programmes in Kazakhstan.

Production

Our main facilities are located at the 274 square kilometre Chinarevskoye field in North-western Kazakhstan. We have three additional licences all within a 120 kilometre radius of this location. This advantageous location is central to our business case, allowing us to leverage existing infrastructure and experienced operating and development teams to drive production growth.

Underpinned by a strong governance



Transportation

We have substantial storage, loading and transport infrastructure capabilities which allow us to access multiple export markets for our sales products.

framework and our exemplary CSR programme

To deliver value to our stakeholders

Shareholders

Value creation for our stakeholders and the Republic of Kazakhstan.

EBITDA

US$244 million

Customers

Delivering a reliable stream of valuable energy resources to regional communities and export markets.

Sales volumes:

37,844 boepd

People

Employment, social investment and opportunities for local communities.

Training days:

12,956 training days

Number of employees benefiting from training

721 employees

Society

Safe and sustainable operations which actively seek to minimise adverse environmental and social impacts.

2017 liquidation fund contribution

US$683,000

2018 Lost Time Injury Frequency target:

2.00 LTI per 1 million man hours worked

Our Business Strategy

Our strategy for future growth

Main goals and objectives for 2018		KPIs	Risks	Forecasts, objectives and prospects for 2018-2020
Stabilising production	• Focus drilling capex on production wells and growing proven reserves • Successfully implement low pressure system and commission GTU3 to increase liquid production	Produce plant products in excess of 37,000 boepd Completion of GTU3 in 2018	• Drilling can be subject to cost overruns and technical issues preventing successful outcome of wells • GTU3 development and low pressure system subject to risks related to delay, non-completion and cost overruns	• Grow production to reach full capacity of our treatment facilities • Prolong life of existing wells to maximise extraction of 2P reserves
Continue to recognise cost savings	• Target reductions in G&A and opex against 2017 figures • Focus on bringing drilling costs and related capex as low as possible	Opex, transport and G&A expenses below US$11/bbl Drilling capex below US$90 million	• Higher oil prices can drive cost inflation • Cutting costs too aggressively can lead to poor production results	• Reduce costs by 20% on a boe basis by 2020
2P reserve growth through M&A	• Continuously monitor M&A opportunities in and around the Chinarevskoye field where stranded gas reserves could be produced through Nostrum infrastructure	Grow 2P Reserves (boe) in North-western Kazakhstan	• Any acquisitions come with geological risk such that expected reserve figures can prove to be lower following further appraisal	• Grow reserves and raw gas processing to allow for 100% utilisation of gas plants for many years beyond 2020
Linking corporate responsibility to the growth of the Company	• Increased presence in local communities and reported on wellbeing of employees and working environment	Number of man hours without loss of working hours (millions)	• Legal framework for environmental protection and operational safety still being developed in Kazakhstan	• Focus on expanding QHSE policies to include initiatives such as contractor QHSE management, environmental reporting and developing GHG reduction strategies
Focus on delivering shareholder value	• Post GTU3 completion, start to generate positive post-tax free cash flow	Target free cash flow post-tax for 2018	• Free cash flow will be impacted if production falls or costs rise	• Generate significant post-tax free cash flow beyond 2020

The Oil & Gas Market in Kazakhstan

Kazakhstan's oil reserves - 3.0 billion MT
Kazakhstan's gas reserves - 1.0 trillion m3
National oil exports - 80% of production value
Average Brent price - US$54.74

Kazakhstan is among the world's top countries by size of oil and gas reserves and is the second largest oil producer in the FSU after Russia. Production has grown significantly over time with the majority of oil production being delivered to international markets via pipelines which run through Russia to shipping points on the Black Sea. Since 2005, production in Kazakhstan has increased substantially with oil and gas volumes growing at an annualised rate of 2.7% and 4.0% respectively.[1] The country produced 79 million tonnes of oil during 2016 and, according to Ministry of Energy forecasts, is expected to produce over 85 million tonnes during 2017, rising to 88 million tonnes by 2020.

More than half of Kazakhstan's production comes from three supergiant fields situated in the north-west of the country (Tengiz, Karachaganak and Kashagan fields). The resumption of full scale production at the Kashagan field during 2017 has been a significant contributor to overall production growth in the country with crude oil and condensate output expected to increase to 370,000 boepd by the middle of 2018, from around 250,000 boepd at the end of 2017 and less than 100,000 boepd in 2016.[3] Expansion projects at the Tengiz and Karachaganak fields are currently being developed to increase liquid recovery volumes as the fields mature.

What it means for us

Zhaikmunai's assets are all located in the oil-rich Pre-Caspian Basin close to the Russian border and in close proximity to some of the most significant hydrocarbon resources in the FSU. In addition to Zhaikmunai's own processing, storage and transportation infrastructure Zhaikmunai's advantageous location means that the Group has access to multiple export markets and additional resources to support its operations.

Benchmarking of our business against our peers

Strengths

- Advantageous location gives access to multiple transportation routes
- Investment in infrastructure gives Zhaikmunai complete control of its liquids transportation
- Investment in gas plant allows Zhaikmunai to produce raw gas in north-west Kazakhstan where there is a shortage of processing capacity
- High quality, light, sweet crude

Weaknesses

- Zhaikmunai is subject to fluctuations in the market prices for its products, however, we do have hedges in place
- Unavoidable geological risks
- Seasonal temperature fluctuations in a harsh operating environment
- Lack of significant population reduces the size of the skilled workforce locally

1. BP Statistical Review of World Energy, The Ministry of Energy of the Republic of Kazakhstan, S&P Global Platts, The World Bank Group, Trading economics, CEIC.

Performance Review

The Chinarevskoye Field

World-class assets
Zhaikmunai's current producing asset is the Chinarevskoye field – a 274km^2 licence located to the north of Uralsk, near to the Russian border. The Chinarevskoye licence is comprised of a 185km^2 production and 89km^2 exploration licence.

16 Reservoirs
22 Crude oil production wells*
21 Gas condensate production wells*

*Producing as at 31 December 2017

2P reserve breakdown for the Chinarevskoye field - %
LPG – 15%
Crude oil and condensate – 38%
Dry gas – 47%

Annual 2017 production (boe) – 14,307,648 boe
2013 – 16,855,027
2014 – 16,205,641
2015 – 14,742,614
2016 - 14,768,296

Chinarevskoye field

Stable Business Environment

Exploration and production licence

Zhaikmunai was first granted an exploration and production licence for the Chinarevskoye field in May 1997. The current production licence granted in 2008 covers 185 square kilometres, with validity to 2031 for the north-eastern Tournaisian reservoir, and until 2033 for all other oil and gas bearing reservoirs and horizons.

Production Sharing Agreement (PSA)

A grandfathered PSA exists between Zhaikmunai and the Government of Kazakhstan, which specifies the exploration and development boundaries of the Chinarevskoye field. The PSA also addresses the respective royalties, profit share and tax liabilities payable to the government.

Outlook

The licence and PSA are currently valid until 2031 (with respect to the north-eastern Tournaisian reservoir) and 2033 (for the rest of the Chinarevskoye field), and Zhaikmunai must comply with the terms of the exploration permit, the production permit and the development plans during this period. To date, Zhaikmunai has met all of its capital investment obligations under the PSA.

Geology, reserves and drilling

Geology

The Chinarevskoye field is a multi-layer structure with 16 reservoirs and 52 compartments spread over three areas. Commercial hydrocarbons have been found in the Lower Permian, Bashkirian, Bobrikovski, Tournaisian, Mullinski, Ardatovski, and Biyski-Afoninski reservoirs.

Reserves

Based on the Ryder Scott report dated 1 January 2018, the proved and probable reserves for the Chinarevskoye field amount to 358 mmboe (2016: 379 mmboe). Proven reserves amount to 124 mmboe (2016: 147 mmboe) and probable reserves to 234 mmboe (2016: 232 mmboe). Oil and condensate amount to 135 mmbbl of proven and probable reserves (2016: 144 mmbbl), LPG to 54 mmbbl (2016: 56 mmbbl) and gas to 168 mmboe (2016: 179 mmboe).

Drilling

Initial hydrocarbon discoveries at the Chinarevskoye field were made during drilling exploration conducted during the Soviet era. Subsequent to this discovery, there have been 95 wells and side-tracks drilled under the PSA between 2004-2017.

Our 2017 drilling programme was successfully completed with 22 oil wells and 21 gas condensate production wells in operation at the Chinarevskoye field as at 31 December 2017. Three new production wells were brought online in 2017.

Zhaikmunai plans to prioritise the drilling of four new production wells at Chinarevskoye as part of our 2018 drilling programme. When the results of these wells are known Zhaikmunai will be able to decide how best to proceed with the programme for the remainder of the year.

On-site facilities

Location

Our facilities are located in advantageous geographical positions which encourages flexible transportation links for the off-takers of our products. The proximity to major international railway lines and oil and gas pipelines allows for convenient transport to markets in Central Asia and Eastern Europe. In 2017 Zhaikmunai completed a short pipeline to provide access to the KazTransOil ("KTO") pipeline for its exported crude oil transportation. This pipeline was completed under budget at a total cost of US$7 million and has reduced crude oil transportation costs by 50%.

Oil and stabilised condensate pipeline and railway loading terminal

Since its completion in 2008 and commissioning in 2009, our 120 kilometre liquids pipeline and railway loading terminal located at Rostoshi near Uralsk has been used for the transportation of our crude oil and stabilised condensate. It travels through the pipeline from the Chinarevskoye field site to the railway loading terminal, where it is first stored and then transported by railcar to final off-takers. The separation between our stabilised liquid condensate and crude oil occurs during transportation through the same pipeline using a "PIG" system. This ensures quality is not compromised as it would be in a multi-purpose pipeline and allows for higher export prices. The maximum throughput of our oil pipeline is 3 million tonnes per year. The rail loading terminal, which receives the crude oil and condensate, has a capacity of 3-4 million tonnes per year.

Additional infrastructure in use also includes crude oil storage tanks on site and at the rail terminal, condensate tanks on site and at the terminal, and a railcar loading facility at the railway terminal. This terminal allows for 32 railcars to be loaded simultaneously. The first vapour recovery unit in Kazakhstan's history can also be found at the facility. Forecasted increases in throughput, in line with our strategy to double production, will be accommodated by our existing infrastructure.

Advancing our growth prospects
Rostoshinskoye, Darjinskoye & Yuzhno-Gremyachinskoye fields

Value accretive acquisitions form part of our strategy to grow. In 2013, we acquired three additional fields within 120km of Chinarevskoye to add additional reserves to our portfolio.

Subsoil rights acquisition completed

Zhaikmunai has rights to 100% of the subsoil use related to three oil and gas fields in the pre-Caspian Basin to the north-west of Uralsk, acquired under an asset purchase agreement in 2013. The Ministry of Oil & Gas signed supplementary agreements relating to those rights, which became effective from 1 March 2013.

Geology

Decades of successful exploration activities have shown that the three fields contain hydrocarbons suitable for commercial production. The bulk of the hydrocarbons are located in the Bashkirian stage of the Carboniferous, with reservoirs of Permo-Carboniferous age. Prior to development there will be significant appraisal required to explore existing accumulations and deeper intervals.

Appraisal programme

During 2016, we drilled an appraisal well at Rostoshinskoye. The results of this appraisal well which were received in 2017 changed the geological model of the Rostoshinskoye field and also increased the reserves potential of the Bashkirian section of the adjacent Darjinskoye field.

Total combined reserves

Zhaikmunai has an outstanding track record of converting reserves. An independent reserve report by Ryder Scott dated 1 January 2018 has shown Zhaikmunai has 488 mmboe of proved and probable reserves, 131 mmboe of which are contained in the Trident fields. In line with our strategy, we will continue to look to increase our reserve base and secure production growth.

Contingent resources

In addition to the estimated 2P reserves, contingent resources have been identified in the Chinarevskoye, Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye licence areas. The 1C+2C contingent resources estimated as of 1 January 2018 for the Chinarevskoye area amount to 105.4 million barrels of liquids and 419.5 billion cubic feet of sales gas. For the three additional licences the contingent resources amount to 12.7 million barrels of liquids and 202.5 billion cubic feet of sales gas.

Products, Processes and Infrastructure

Competitive advantage

Products and processes

Products	Quality	Sales	Pricing	Transportation
Crude Oil	• Density – 0.815g/cm3. • API – 42-43 degrees. • Average Sulphur – 0.4%. • Superior in quality to other primary benchmark crude oils produced in Kazakhstan.	• 85% exported in accordance with the PSA. • 15% sold domestically. • From Q2 2017 all exported crude oil volumes were sold through the KTO pipeline • During 2017 Zhaikmunai exported approximately 50% of its crude oil production. Zhaikmunai expects to resume exporting volumes in accordance with its PSA entitlement of 85% during 2018	• Brent-based pricing for railcar exports. • Urals-based pricing for pipeline exports. • Domestic sales at c.50% discount.	• Sent through our own 120km pipeline from the field site to our own rail loading terminal in Uralsk • From here it is loaded onto railcars and sent to off-takers at various destinations. • From Q2 2017 all exported crude oil volumes have been delivered into the KTO pipeline through an extension to our existing 120km pipeline.

Stabilised Condensate	• Density – 0.750-0.790 g/cm3. • API – 56 degrees • Average sulphur – <0.2%	• 100% exported.	• Brent-based pricing.	• Sent through our own 120km pipeline from the field site to our own rail loading terminal in Uralsk • From here it is loaded onto railcars and sent to various destinations.
LPG	• Field grade quality. • No olefins and low sulphur content.	• 80% exported.	• International Mediterranean LPG price Sonatrach for Black Sea deliveries. • Brest quotation for Eastern European deliveries. • Domestic sales at c.50% discount.	• Loaded onto LPG trucks from the field site to our rail loading terminal in Uralsk • From here it is loaded onto railcars and sold to third parties.
Dry Gas		• 100% sold domestically.	• Price agreed annually.	• Sent through our own 17km pipeline from the field site to the connection point with the Intergas Central Asia gas pipeline • Sold at the connection point.

Market share, sales and pricing policy
We closely monitor the production, marketing and transportation of our liquids as this makes up the largest proportion of our revenues. We are able to achieve a relatively high netback for our export production due to the transportation of our products through our own infrastructure and the resulting quality guarantees this ensures.

Dry gas sales provide additional revenue as a by-product from the processing facilities. Dry gas production is also the feedstock for our power generation facilities which in turn provide electricity and power for the field site.

Marketing and sales
Our dedicated sales and marketing department employs experienced traders. The team is constantly working towards negotiating new off-take contracts and identifying efficient transportation options for our products.

Infrastructure
Oil treatment unit
Zhaikmunai completed the construction of an oil treatment facility in 2006 ("OTF"). Currently the OTF has a maximum annual throughput capacity of 400 million tonnes per annum.

Raw gas processing infrastructure
The gas treatment facility ("GTF") uses a gas utilisation concept, and was designed to treat raw gas from gas condensate reservoirs (and the associated gas coming from the OTF) into three separate products – stabilised condensate, LPG and dry gas. The GTF associated infrastructure includes a power generation station, an LPG storage tank farm, an LPG loading facility at the rail terminal, LPG railcars and a 17km dry gas pipeline.

GTU1 & 2
The GTF currently includes two gas treatment units, each with the capacity to treat approximately 850 million cubic metres of raw gas per annum. The GTF is currently operating close to nameplate capacity.

GTU3
The third treatment unit of the GTF will add 2.5 billion cubic metres of additional raw gas processing capacity, bringing the combined capacity to 4.2 billion cubic metres per annum – more than doubling existing production capacity. GTU3 is in the final stages of construction and is due to be completed in 2018.

Power generation plant
The gas-fired power generation plant is linked to the gas treatment facility with an output of 15 megawatts. The generation capacity from the plant is sufficient to meet

the existing and anticipated energy needs of the field site and associated operations as Zhaikmunai grows production towards the 100,000 boepd target.

Gas pipeline
Zhaikmunai has its own 17km gas pipeline which was completed in 2011 and is linked to the Orenburg-Novopskov gas pipeline. The maximum annual throughput of this pipeline is several billion cubic metres.

Liquids pipeline
Zhaikmunai has its own 120km liquids pipeline that was completed in 2008. The pipeline runs from the field site to Zhaikmunai's rail loading terminal in Uralsk. The pipeline has a maximum annual throughput capacity of over three million tonnes.

Rail loading terminal
Zhaikmunai commissioned its own automated rail loading terminal in the city of Uralsk in 2008. The rail loading terminal currently receives all domestic crude oil and export condensate produced by Zhaikmunai and has a capacity of approximately four million tonnes of crude oil and condensate per annum.

Storage facilities
Zhaikmunai has over 30,000 cubic metres of storage capacity for liquids at its field site and rail loading terminal.

KTO pipeline connection
During 2017 Zhaikmunai completed the construction of a secondary crude oil pipeline to enable export sales via the Atyrau-Samara international export pipeline operated by KazTransOil. The KTO pipeline substantially reduced Zhaikmunai's crude oil transportation costs by more than 50% and has enhanced Zhaikmunai's ability to manage crude oil netbacks through the commodity cycle. The total completion cost of the KTO pipeline was under US$7 million and the project was completed on time and under the projected budget of US$10 million.

Operational Structure
The Group has a simple and effective operating structure. The Group has Directors and a Senior Management Team led by the CEO. The Senior Management Team manages all major units involved in operations according to interaction charts and key management principles. The team has a breadth of expertise as well as deep sector experience, which has led to the successful oversight of the Group's operations throughout the challenging operating environment seen over the last year.

Key Historical Developments

First phase of development 2004-2013

2004 – Zhaikmunai LLP is acquired
2007 – GTU1&2 project commenced
2009 – 120km crude oil and stabilised condensate pipeline completed between the Chinarevskoye field and the rail terminal, near Uralsk
2011 – 17km dry gas pipeline completed
2011 – Gas Treatment Facility completed
2013 – GTU3 project commenced

Second phase of development 2014-2018

2014 – Completion of 3D seismic on three additional licences
2016 – Realised target depth on Zhaikmunai's first appraisal well at Rostoshinskoye
2017 – Connection to the KazTransOil pipeline completed
2017 – Successful testing of first appraisal well at Rostoshinskoye
2018 – Tie-in and commissioning of GTU3 to be completed

2017 Milestones and Goals for 2018

Main factors contributing to the variance between forecast and actual results

Principal developments in the reporting period

During 2017 Zhaikmunai successfully achieved key strategic, financial and operational targets in line with our strategy for progression.

Strategic

GTU3
Notwithstanding delays to the completion of GTU3, Zhaikmunai made significant progress with the project during 2017 with the commissioning of the facility expected to take place during 2018.

KazTransOil pipeline connection
During 2017 Zhaikmunai successfully completed the construction and commissioning of a secondary crude oil pipeline to enable export sales via the Atyrau-Samara international export pipeline. The KTO pipeline has substantially reduced Zhaikmunai's crude oil transportation costs and will ensure Zhaikmunai can manage its crude oil netbacks more efficiently through the commodity cycle.

Financial

Stability and maturity of financing
In July 2017 Zhaikmunai's parent company Nostrum successfully issued a new US$725 million bond with a five year maturity and a fixed coupon of 8.000% in order

to refinance the majority of its outstanding debt due in 2019. In February 2018, Nostrum successfully issued a new US$400 million bond with a seven year maturity and a fixed coupon of 7.000% in order to refinance the remainder of its outstanding debt due in 2019. Following the transactions, Nostrum has no debt maturities until 2022.

Operational

Growing the reserve base
Zhaikmunai's substantial reserve base was reaffirmed in this year's Independent Reserve report with 2P reserves of 488 million barrels of oil equivalent.

Successful GTU1 & 2 maintenance
The redacted shutdown maintenance schedule for 2017 was successfully completed within the expected timeframe without the need for a total shutdown of the treatment facilities. Zhaikmunai expects to have an extended shutdown of the plant during 2018 which will coincide with the tie-in of GTU3.

Corporate Social Responsibility, QHSE and HR Management
A sustainable business

At the core of Zhaikmunai's approach to Corporate Social Responsibility is a desire to make a positive long-term impact on all of our stakeholders through our business activities. Since first beginning operations over 20 years ago, Zhaikmunai has sought to be a responsible and transparent company which places the public interest at the core of all decision-making processes. We have a deep understanding of and respect for the social, environmental and economic needs of the communities in which we operate.

The Board and Senior Management Team are committed to creating a benefit for both Kazakhstan and Nostrum's shareholders by upholding the strongest principles of
good governance. The success and sustainability of our business is therefore rooted in the active and ethical management of our people, our communities and our environment.

QHSE
Policy and priorities
QHSE at Zhaikmunai focuses on improving the management and mitigation of risks relating to quality, health, safety and the environment, preventing any injury or ill health to employees. This is achieved through the provision of comprehensive rules and guidelines based on a series of well-defined strategic objectives.

Organisation
The organisation and responsibilities for the management of QHSE issues are defined and documented

People, Competency & Behaviour
All people will be selected, trained and developed to carry out their duties competently and under safe working conditions

Leadership & Commitment
Management will provide visible and active leadership in developing and maintaining QHSE culture

Hazards & Effects
Hazards are identified, the risks are assessed and appropriate controls are implemented

Engineering
Facilities are being engineered to meet codes of practice and specifications, operational requirements and statutory regulations, safe practices and environmental protection

Operations
All operations involving exploration, development, production and transportation of hydrocarbons will have safe systems of work defined

Contractor Management
A control system for suppliers and contractors is developed and implemented to ensure their compliance with RoK legal requirements and company QHSE standards

Planning & Performance Monitoring
Objectives are planned in accordance with the established key performance indicators to measure the implementation of QHSE activities

Emergency & Crisis Control
Four main priorities in emergency management are: People, Environment, Asset and Reputation. Organisational arrangements, facilities and training are being provided to effectively respond to an emergency or crisis

Stakeholder Dialogue & Documentation
An active dialogue is established with stakeholders and communities to ensure confidence in the integrity of our activities

Audit & Review
An independent audit and review system is implemented to assess the effectiveness of QHSE management and to identify areas for improvement

HR Management
Our people

Zhaikmunai is proud to engage a diverse workforce spanning many ages, nationalities and genders. All employees and contractors are protected by a Code of Conduct, which states they should never be subjected to illegal discrimination on the basis of race, religion, national origin, age, gender, disability, sexual orientation or political opinion.

Our skilled workforce

The number of employees working at Zhaikmunai LLP currently totals 947. This makes us one of the largest employers in Western Kazakhstan. We are proud to employ a diverse workforce and believe that this contributes to the success and sustainability of our business.

Location	2012	2013	2014	2015	2016	2017
Chinarevskoye Field	631	633	686	710	612	696
Uralsk	207	274	268	305	322	250
Other	46	56	51	6	4	1
Total	884	963	1,005	1021	938	947

Zhaikmunai LLP nationality diversity

Nationality	Quantity	%%
KAZAKHSTAN	864	91.2%
RUSSIA	45	4.8%
GERMANY	22	2.3%
UNITED KINGDOM	4	0.4%
AZERBAIJAN	2	0.2%
OTHER COUNTRIES	10	1.1%

Zhaikmunai LLP age diversity

Age range	Quantity	%
under 30	143	15.1%
30-39	405	42.8%
40-49	229	24.2%
50-59	135	14.3%
over 60	35	3.7%

Zhaikmunai LLP gender diversity

Gender	Quantity	%%
Female	192	20.3%
Male	755	79.7%

A strong management team

At the helm of the business is a dedicated and experienced Senior Management Team, which brings diversity through age and nationality. It includes:

- Kai-Uwe Kessel, Chief Executive Officer
- Thomas Richardson, Chief Financial Officer
- Thomas Hartnett, Chief Legal Officer and Company Secretary
- Arkadi Epifanov, Chief Commercial Officer
- Sergey Khafizov, Chief Business Development Officer
- Heinz Wendel, Chief Operations Officer

We are encouraged by the gender diversity in the newly created team of 20 functional heads who account for each of the distinct divisions within Zhaikmunai's business and who report to the Senior Management Team. We hope that this will support ambitions for greater gender diversity within the Senior Management Team which at this time is all male.

Remuneration and growth rate in salary

Zhaikmunai is an integral community partner and offers competitive remuneration packages to all staff, including our locally- engaged employees, in compliance with all regulatory bodies, guidelines and requirements. In 2017 the average monthly salary of locally-engaged employees decreased 2% as a result of staff turnover and the departure of high earning staff.
In addition to remuneration, Nostrum also offers personnel benefits in relation to:

- Social security
- Pension funds
- Medical assistance and care
- Insurance plans

	2012	2013	2014	2015	2016	2017
Average number of full-time equivalent employees in Kazakhstan	838	907	961	1021	938	947
Change in average monthly salary of employees in Kazakhstan %	28%	6%	21%	12%	26%	-1.97

Training
We are focused on building skills within the local community. Under the terms of our PSA, we are required to adhere to an accrual of 1% per annum of the field development cost relative to the Chinarevskoye field. We also adhere to training obligations under subsoil use agreements for the Rostoshinskoye, Darjinskoye and Yuzhno- Gremyachinskoye fields. In 2017, Zhaikmunai supported 721 employees to benefit from education and training programmes.

Our employees and their children are eligible for educational grants and financial support to assist with university and college expenses. Higher educational assistance is available on a preferential basis to students who have demonstrated academic success and those who have successfully gained entry into educational institutions. Educational fellowships may also be awarded on a discretionary basis.

KPIs
- Total number of training days in 2017: 12,956 days
- Total training costs in 2017: $2,502,761
- Number of employees benefitting from education and training programmes in 2017: 721 individuals

Code of Conduct and Human Rights
The Group is committed to maintaining a Group-wide culture that recognises international standards of human rights. Meeting our responsibility to respect human rights is critical to the growth and sustainability of the Group. The Group Code of Conduct sets out certain principles that guide business conduct and provide a non-exhaustive outline of what the Group considers permissible conduct by its employees. These principles include provisions relating to human rights and diversity in the workplace. Violations of this Code of Conduct may result in disciplinary action, including dismissal from employment, or criminal prosecution.

A copy of our Code of Conduct is available on the Group's intranet in both Russian and English and can be downloaded from our website: www.nog.co.uk

Modern Slavery Act

Following the coming into force of the Modern Slavery Act 2015, we conducted a review of the terms of our operational supply contracts entered into by the Group and updated them to include a provision requiring all suppliers to comply with the Code. All such suppliers are provided with a copy of the Code when entering into any supply agreement with the Group. The updated terms of supply also oblige any supplier to the Group to ensure that any person associated with them who is performing services or providing goods in connection with their contract with the Group to do so only on the basis of a written contract which imposes on and secures from such person terms equivalent to those imposed in the Group's standard supply contracts. The aim of this provision is to mitigate the risks of slavery and human trafficking occurring further down the supply chain. Additionally, the updated terms of supply also oblige suppliers to annually certify, in writing, their compliance with the Code and to provide any supporting evidence of compliance that the Group may request. A copy of our Modern Slavery and Transparency Statement is available on our website: www.nog.co.uk

Whistleblowing Policy

We have a Whistleblowing Policy which takes into account the Whistle-blowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work and which applies to all individuals working for the Group at all levels and grades. The Whistleblowing Policy sets out details of three compliance liaison officers who speak a variety of languages for the purposes of reporting any concerns. The Whistleblowing Policy is also mentioned in the Code and a person who reports any matter in good faith will be protected against any sanctions. A copy of the Whistleblowing Policy is available on the Group's intranet in both Russian and English and on our website: www.nostrumoilandgas.com/en/corporate-governance

At the time of writing we have received no reports under our whistle-blowing policy of forced/involuntary labour or human trafficking in relation to our business or supply chains.
For further details please see our website: www.nog.co.uk

Payment to governments

Zhaikmunai is committed to transparency in its business activities and payments to governments. In 2017 a total of US$12,337,323 was paid to governments by Zhaikmunai and its subsidiary undertakings. We will report on 2017 payments to governments in the first half of 2018. For more detail please see our website: www.nostrumoilandgas.com/en/transparency.

Anti-corruption and bribery policy

For more information on the Group's Anti-corruption and bribery policy please see page 57.

Introduction to health & safety
The safety and wellbeing of our personnel is of utmost importance to Zhaikmunai. QHSE management is a priority and is key to the sustainability and success of our business. Zhaikmunai continually strives to improve quality, safety and environmental performance.

Our QHSE programmes are focused on minimising accidents and injuries as a result of our operations and are subject to constant monitoring to ensure their relevancy and efficacy. Zhaikmunai's management play a leading role in promoting QHSE best practice and employees and contractors are equipped with the appropriate knowledge and application of health and safety requirements. All personnel share the responsibility for a safe working environment and are strongly and openly encouraged to intervene and report unsafe acts or conditions.

QHSE Reporting
In 2017 Zhaikmunai developed a simple system for employees to report hazards and unsafe behaviour to management. Healthy, Safety and Environment ("HSE") reporting cards are available to all employees in Kazakh, Russian and English and are designed to encourage the timely reporting of safety incidents and suggestions on improvements to HSE practices. This system allows for data to be collected centrally and for follow-up action to be coordinated efficiently. Appropriate action can then be taken by management to prevent injury to personnel, or damage to assets or the environment. Employees and contractors are required to report all safety incidents, which are then recorded, investigated and classified by an Incident Investigation Team managed by the QHSE Department.

In 2017 our Total Recordable Injury Frequency (TRIF)[1] was 3.92 and Lost Time Injury Frequency (LTIF)[2] was 2.48. In 2018 we will target an LTIF of 2.00 and actively analyse the reasons for the frequency increases and how we can ensure the continuing safety of all employees and contractors. The 2017 increase was primarily due to contractor incidents during GTU3 construction, as well as contractor road traffic incidents. The total 2017 LTIF for our Operations Function excluding GTU3 contractors was 1.44, below our 2.00 target. This demonstrates a need to implement further safety procedures amongst all contractors, with a particular focus upon the transportation companies we engage, to ensure that our safety standards are met. This is part of an overall push to improve contractor management practices within Zhaikmunai in 2018.

The 2018 HSE Competency Programme will be split into both theoretical and practical components involving training, roll-outs, workshops and on-site audits. Contract owners will partner with the QHSE Department to co-ordinate HSE initiatives and participate in joint inspections of contractor sites. External providers will deliver HSE leadership training in the form of a 'Train the Trainer' system which seeks to ensure every supervisor receives training that will allow them to inform colleagues and contracting personnel of relevant HSE requirements. Competency KPI targets will be set for all operational managers and supervisors and these will be monitored and reported regularly. The 2018 HSE Competency Programme is a component of Zhaikmunai's ISO 140001 Environmental MS and ISO 45001 Occupational Health & Safety certifications.

Risk Management
Zhaikmunai's risk management system is designed to manage, monitor and report risks which may impact the achievement of Zhaikmunai's strategic objectives or interfere with regulatory requirements. Thorough risk assessments are undertaken without exception prior to the start of all projects in order to identify hazards, associated risks and control measures. Work activities will not commence on site until all risk reduction measures are fully implemented.

Contractor HSE Management
A control system has been developed and implemented to ensure suppliers and contractors comply with RoK legal requirements and Zhaikmunai HSE standards. Contractor audits and inspections help to ensure contractor performance without injury, lost working time or environmental impact. In addition to routine worksite HSE Inspections we conducted seven Contractor HSE Management System Audits in 2017. Following the audit results areas for HSE improvement have been identified and corrective action plans have been developed to improve Zhaikmunai's health and safety performance.

Health and safety	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Number of man-hours without loss of working hours (millions)	1.66	1.83	1.89	1.91	1.71	1.73

Heath and safety	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Total Recordable Injury Frequency	N/A	N/A	3.09	4.0	2.59	3.92

[1.] Lost Time Injury Frequency (LTIF) is the number of lost time injuries (fatalities and lost injury time) for the last 12 months per 1 million man-hours worked.

[2.] Total Recordable Injury Frequency (TRIF) is the number of total recordable injuries (fatalities, lost injury time, medical treatment cases, restricted workday cases) per million man-hours worked.

Our Community

Approach to our community

Zhaikmunai supports additional social infrastructure and charitable projects for the benefit of local communities and under the terms of our PSA. Key initiatives in 2017 included:

- The funding of local schools and educational projects in the West Kazakhstan region.
- Sponsorship of the WestKazInvest investment forum in Western Kazakhstan. The main theme of WKI 2017 was oil and gas sector development and the forum was attended by manufacturers, representatives of the oil and gas sector, government agencies, students, and public and ecological associations.
- Sponsorship of sporting events, including the West Kazakhstan Volleyball Federation, providing up to 75 players with sporting equipment and uniforms. The Federation also held ten sporting championships in 2017 and Zhaikmunai's sponsorship allowed players, including those with a disability, to compete at a regional and national level.
- Financing the costs of events honouring city day by the "Zhas Kanat" Youth Public Association.
- Financing of festive events and social contributions during the year in Yanvartsevo, Beles and Sulukol Akimats.

Liquidation fund contribution

Under the terms of the PSA and the subsoil use agreements for Rostoshinskoye, Yuzhno-Gremyachinskoye and Darjinskoye, Zhaikmunai is building up a liquidation fund of US$23 million to provide funds for the removal of oil and property at the end of the PSA. US$6.66 million is held on restricted cash accounts as a liquidation fund deposit (2016: US$5.98 million): www.nostrumoilandgas.com/en/transparency

Our Environment

We recognise the importance of minimising our impact in the areas
in which we operate to prevent harm to the natural environment. Our approach to environmental protection follows a structured commitment to a series of yearly environmental objectives.

These key priorities are in line with strategic, regulatory and communication imperatives and are structured in accordance with Kazakh regulations. We manage our environmental footprint through a site monitoring programme, which has thorough controls in relation to:

- Air pollution;
- Water resources protection and rational
- use;
- Land protection;
- Control and sustainable subsurface use;
- Flora and fauna protection;
- Radiological, biological and chemical
- safety;
- Ecological education and information;

- Research and development, exploration
- development and other works.

In addition to its monitoring capacity, our site monitoring programme identifies any potential operational environmental impact and enable us to take prompt corrective measures in case of any incident.

Programme aims:
- Obtaining relevant information for environmental policy decision-making, including environment quality target values and information on regulatory instruments applicable to environmental impact of production processes;
- Ensuring full compliance with the environmental legislation of the Republic of Kazakhstan;
- Reducing the impact of production processes on the environment;
- Increasing the efficiency of natural and energy resource use;
- Developing a pre-emptive operational emergency response;
- Increasing environmental awareness and responsibility among managers and employees;
- Reporting on environmental activities and community health risks;
- Increasing compliance with environmental requirements;
- Increasing the efficiency of the QHSE management system; and
- Taking account of environmental risks in investment and finance decisions.

Programme methods and controls:

Compliance with legislation
Zhaikmunai engages an independent auditor to measure and evaluate our environmental impact. AMEC first undertook a “Health, Safety and Environmental Compliance Audit” for Zhaikmunai in 2007, and since 2011 they have continued to produce a comprehensive document detailing the content, methodology and results of the environmental efforts at Zhaikmunai annually. Our 2017 AMEC report showed all environmental monitoring programme activities were carried out according to the established scope and ensures reliable control of process requirements.

AMEC’s main conclusions based on the 2017 audit were as follows:
- Despite emerging negative trends in the global oil market, Zhaikmunai continues to invest in programmes to ensure sustainable production and product treatment.
- Zhaikmunai complies with all required procedures needed for the substantiation of atmospheric emissions, and measures are being taken to minimise impacts on atmospheric air. Monitoring results for the past eight years show evidence of a pollutant concentration decrease in atmospheric air.
- Zhaikmunai complies with all necessary procedures related to substantiation generation, removal, utilisation and disposal of production and consumption waste.
- The status of Zhaikmunai’s land and water resources is stable due to company environmental protection initiatives. These findings are supported by long-term monitoring of environmental conditions.
- As part of Zhaikmunai’s environmental control programme accurate monitoring of air, soil surface and sub-surface waters is conducted on a

regular basis. Zhaikmunai is fully committed to continuing this work in order to ensure compliance with sanitary and epidemiological requirements, as well as specific environmental protection requirements of the Republic of Kazakhstan and to prevent environmental incidents.

Air

The impact of Zhaikmunai's operational activities are defined by volume of emissions (chemical pollution) and by physical factors (noise, vibration, radiation and ambient temperature), all of which are monitored. Emissions were identified as a significant risk area and emission monitoring is used to check compliance with defined emission limits using instrumentation and calculation methodologies.

A number of activities were undertaken to reduce emissions, including:

- Selecting equipment to reduce emissions during the design of oil storage tanks at the oil treatment unit loading terminal, reducing pollutant emissions by 71.5%;
- Replacing diesel fuel used for preheaters with gas, reducing pollutant emissions by 64%;
- Electrification of drilling works through use of power received at the new gas turbine power station, reducing pollutant emissions by 28%;
- Dust-catching to reduce dust discharge on field roads, reducing pollutant emissions by 30%.

No violations were identified in 2017 and a radiation survey confirmed that 2017 radiation exposure did not exceed allowable levels.

Water management

Measures to prevent surface water contamination are taken due to Zhaikmunai's field facility area being located proximate to the Embulatovka River. This area is the subject of strict environmental impact monitoring. In 2017 a sanitary and ecological campaign was undertaken at the river to prevent auto washing and illegal water discharge as part of water impact minimisation activities. Surface water quality control sample testing and monitoring revealed no non-compliance with maximum permissible concentration
levels of pollutants.

Soil

Zhaikmunai complies with all current RoK legislation with regard to industrial waste management and contaminated soil reclamation. Soil surveys are performed to identify any exceedance of maximum permissible concentration of oil and metal, in addition to annual impact assessments of drilling works on land resources conducted by the Field research team.

Waste neutralisation methods and no-pit drilling techniques have been implemented in order to minimise the environmental impact of drilling activities. Main drilling waste is transferred to a specialised organisation for further treatment, after which time it is processed into mineral construction material and used in civil works at the field site. 77% of drilling waste was recycled in 2017, with the remaining 23% stored for further specialised treatment. 2017 soil survey results found no evidence of non-compliance with any soil regulation.

Our greenhouse gas (GHG) reporting

Since 2011 Zhaikmunai has been monitoring and reporting on its GHG emissions in accordance with Kazakh regulatory requirements. From 2013 UK company law requirements regarding GHG reporting have also been followed. GHG data is reported from all emission sources, as required under the Companies Act 2006 (Strategic Report and Directors' Report) – Regulations 2013. Zhaikmunai's GHG reporting period is aligned with the period in respect of which the Directors' Report is prepared. No responsibility is taken for any emission sources which are not included in the consolidated financial statements. The results of the GHG emissions inventory are presented in the format recommended by the GHG Protocol.

Direct GHG emissions (Scope 1)

The baseline in the GHG emissions allocation plan was set as the mean value of the total emissions for the years 2013-2014 (in carbon dioxide emissions equivalent). According to the established limit, GHG emissions for 2017 should not exceed the baseline.

The following direct GHG emissions (Scope 1) sources have been identified: flares, heaters, incinerators, boilers, gas turbine plants, electric power stations, compressors and fugitive emissions.

Total direct GHG emissions (Scope 1) subdivided by gas types and by source types are summarised in Tables 1 and 2.

Table 1: Scope 1 GHG emissions subdivided by gas types (tCO_2e)	**2017**	**2016**	**2015**	**2014**	**2013**
Carbon dioxide	242,275.6	195,453.3	208,466.2	236,556.0	188,604.0
Methane	10,723.4	10,817.0	13,919.8	27,424.8	28,693.6
Nitrous oxide	1,305.4	1,045.7	126.2	124.3	165.7
Hydrofluorocarbons	27.6	33.6	34.0	16.1	16.1
Total	254,332.0	207,349.6	222,546.2	264,121.2	217,479.4

GHG emission structure is shown in Table 1. The composition of the GHG emissions predominantly consisted of carbon dioxide and methane.

Table 2: Scope 1 GHG emissions subdivided by source types (tCO_2e)	**2017**	**2016**	**2015**	**2014**	**2013**
Stationary combustion	243,001.1	195,576.1	205,701.9	260,124.4	212,612.3
Mobile combustion	434.9	757.9	1,498.2	2,135.2	2,876.3
Fugitive sources	10,896.0	11,015.6	15,346.1	1,861.6	1,990.8
Total	254,332.0	207,349.6	222,546.2	264,121.2	217,479.4

Stationary combustion sources formed the major portion of emitted GHG's. The reduction in emissions from mobile combustion is related to the fact that the majority of vehicles were transferred to a transport services company.

Indirect GHG emissions (Scope 2)

Zhaikmunai does not use purchased steam, heating or cooling. Electrical power is the only such purchased power related to indirect GHG emissions, and it is supplied to Zhaikmunai facilities via the Zelenovskaya distribution network (ZapKazREK JSC), through its subsidiary Batys Energoresursy LLC. The regional emission factor (0.27086 tCO2/MWh) was calculated using Methodological Guidelines for the Calculation of GHG Emissions from Electrical Power Stations and Boiler Houses (Astana, 2010) and regional net thermal efficiency of Urals Natural Gas Fired Power Plants (73.3%).

Total direct and indirect GHG emissions (Scope 1 and Scope 2) and total GHG emissions are summarised in Table 3.

Table 3: Scope 1, Scope 2 and total GHG emissions (tCO_2e)

	2017	2016	2015	2014	2013
Direct energy (Scope 1)	254,332.0	207,349.6	222,546.2	264,121.2	217,479.4
Indirect energy (Scope 2)	640.3	2,262.9	5,482.3	5,278.6	4,058.4
Total	254,972.3	209,613	228,029	269,400	221,538

Emissions intensity ratio

Tonnes of CO_2 per tonne of output is a recommended intensity ratio for the oil and gas sector, as per Appendix F of the Defra Environmental Reporting Guidelines (2013). Taking into account the variety of Zhaikmunai's products – crude oil, stabilised condensate, LPG and dry gas – the chosen intensity ratio is a expressed in metric tonnes of CO_2e (mtCO_2e) per tonne of oil equivalent (mmboe).

Table 4 shows intensity ratios for total (Scope1 and Scope 2) emissions in the period 2013-2017.

Table 4: Emissions Intensity Ratios for Total GHG Emissions

Production - Intensity Ratio	2013	2014	2015	2016	2017
Production, toe	2,460,833.9	2,366,023.6	2,152,421.6	2,156,171.2	2,088,917.0
tCO_2e/toe	0.090	0.114	0.106	0.097	0.122
Production, mmboe	16.86	16.2	14.7	14.8	14.3
tCO_2e/mmboe	13143.7	16,623.8	15,467.3	14,193.4	17,820.7

As per National Plans for GHG Quotas Distribution for 2016–2020 (pursuant to RoK Government Resolution No. 1138 dated 30 December 2015) the established base year level is equal to 212,580 tonnes CO2 (2013–2014 average of reported emissions). The total quota for 2016–2020 is 1,062,900 tonnes CO2. It should be noted that due to changes in the Environmental Code of the RoK related to suspension of positions related to quotas utilisation the excessive quotas for GHG emissions cannot be utilised until 1 January 2018. Reportedly, the Ministry of Energy of the RoK is, in cooperation with the World Bank, developing an electronic GHG reporting platform. The electronic reporting will be used in the deployment of a national GHG quota trading system in the future.

Developing a GHG reduction capacity.

Zhaikmunai recognises that hydrocarbon exploration and production is a major contributor to GHG emissions and consequently we have a responsibility to work to address climate change. One of our key CSR goals in 2018 is to better understand and respond to this challenge.

Zhaikmunai and its subsidiaries comply with all applicable environmental legislation and regulations and Zhaikmunai has been reporting on GHG emissions since 2011. We actively target a reduction in our emissions intensity ratio and this continues to be a key commitment in our approach to environmental protection.

Zhaikmunai management are committed and ready to minimise their environmental footprint through a yearly GHG emissions reduction strategy which allows us to plan for the subsequent introduction of energy and resource saving measures. To meet these ambitious targets, we have secured the commitments of our managers and contractors to provide effective assistance in improving energy efficiency and reducing GHG emissions. Initiatives include the development of a waste heat recovery system for GTU3 which will utilise waste heat recovered from sales gas compression units, refrigeration compression units and stabiliser compressor units for process and building heating, resulting in total recovered energy of up to 274.8 Mwh/day. The transfer of well heating furnaces from diesel fuel to gas has resulted in an average GHG reduction of 59%. Additionally, the commissioning of a 26 MW gas turbine power station has further reduced the environmental burden by electrifying the drilling process and, accordingly, reduced GHG emissions by 39%.

Our 2018 reduction targets include:

- Maintain total GHG emission levels up to 250,000 tCO_2e
- Conversion of three further heating ovens from diesel to gas
- Planting of 200 trees

We do acknowledge that climate change has the potential to affect our business, including through:

- Physical disruption to operations due to changing weather conditions
- The impact of legislative and policy responses to address climate change
- Technology to help reduce emissions
- Changing energy market demands into the future

However, we must also balance our climate change responsibilities with our commitments to Nostrum's shareholders and other stakeholders. We believe in the sustainability of our business and see a continuing demand for Zhaikmunai's products into the foreseeable future. We do not believe that a fundamental change in business strategy would be in the best interest of Zhaikmunai or our stakeholders, particularly given the economic importance of our activities in the communities in which we operate.

Throughout 2018 we will continue to actively consider our approach to climate change to ensure we maintain the highest standards of practice in relation to our environmental and risk management.

Risk Management

The Group continuously develops its risk management system in order to ensure it remains in line with best practice in achieving the primary purpose of managing, monitoring and reporting on the risks that may impact achievement of the Group's strategic objectives, whilst maintaining compliance with respective regulatory requirements.

Risk management framework

Under the UK Corporate Governance Code, the Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain a sound system of risk management and internal control systems.

Therefore, the Board, supported by the Audit Committee and senior management, has the ultimate responsibility for risk management and internal control, including responsibility for the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives and for ensuring that an appropriate risk-awareness culture has been embedded throughout the Group.

The Group is in the process of formalising risk management roles and duties according to "The Three Lines of Defence" model as further described in the diagram below, whereby the Board and senior management are the primary stakeholders served by the three lines of defence as follows:

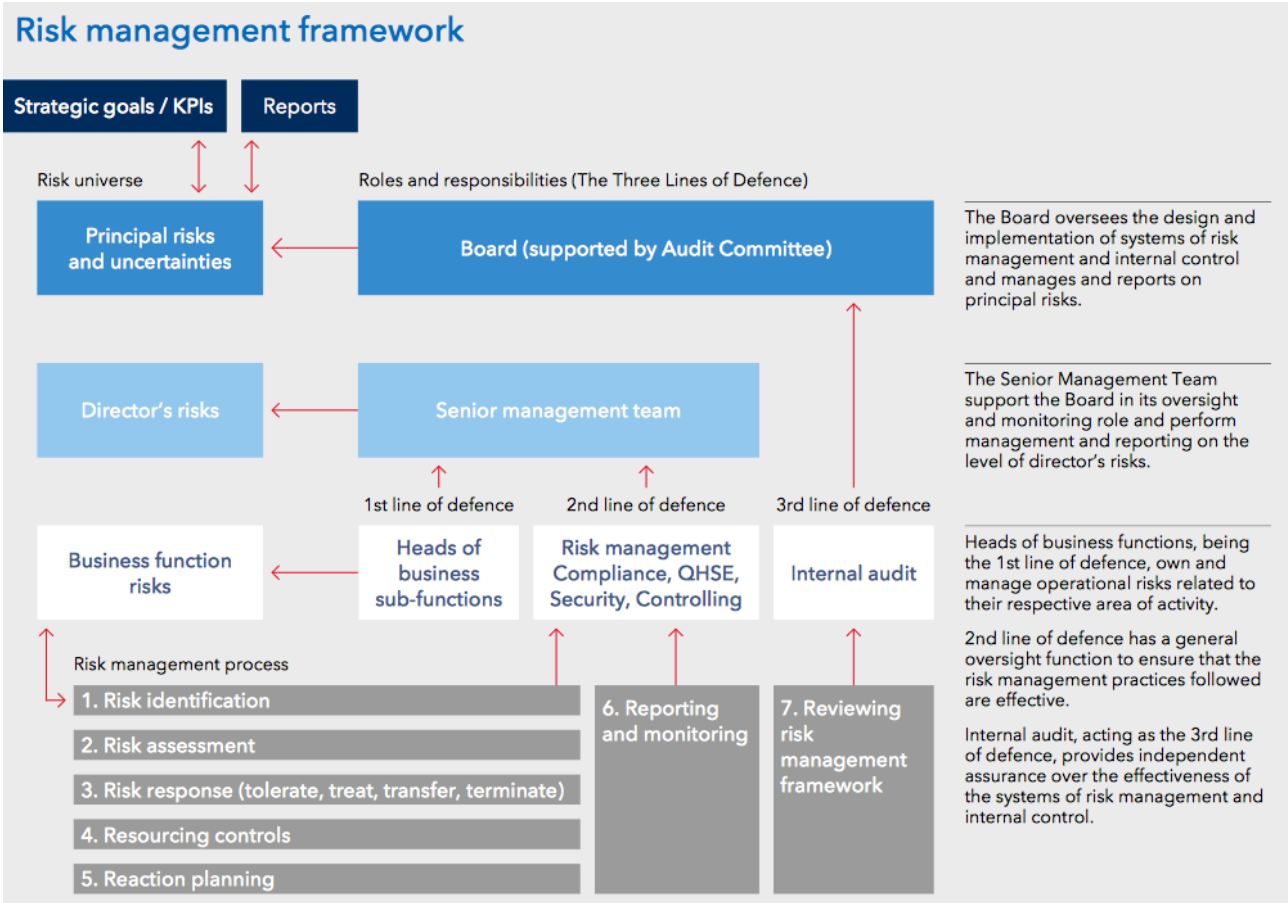
1. Heads of business functions;
2. Risk control and compliance oversight functions;
3. The internal audit function.

The risk management process goes through a set of coordinated activities starting with risk identification and ending with a review of the risk management framework as shown in the diagram below.

The principal risks and uncertainties, which are managed and monitored at Board level, are supported by the directors' risks, which are identified, managed and reported by senior management. Risks are inherent in the various business functions within the Group and have therefore been categorised as business function risks.

The members of the Senior Management Team have overall responsibility for managing the business function risk(s) relevant to their functional responsibility but delegate such responsibilities to various heads of business sub-functions. The identified risks are then aggregated and categorised into the following risk categories: strategic, operational, financial, compliance and other.

Based on these risk registers, related analysis and discussions senior management and the Board periodically review previously identified significant risks, update their likelihood of occurrence and potential impact and identify potential new significant risks emerging as a result of the changing environment. These significant risks are discussed in more detail in the section “Principal risks and uncertainties”.



In 2017, the processes related to risk management and internal control systems were consistent with the UK Corporate Governance Code and FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in April 2016.

Environmental, social and governance (ESG) matters

ESG matters form an integral part of the areas covered by the Group’s systems of risk management and internal controls, and the Board recognises their significance and importance which are assessed consistently in accordance with regulatory requirements and established rules. Identified ESG risks and related responses can be seen within operational and other risks in the “Principal risks and uncertainties” disclosure.

The Board received appropriate information for managing such risks and ensures that systems of risk management and internal controls are in place to effectively manage and monitor them. More elaborate disclosure on the established policies and procedures in these areas can be found in the corporate social responsibility section on page 26.

Changes from prior year risk assessment

In 2017, the principal risks and uncertainties managed and monitored by the Board and senior management remained the same as in 2016 and the related risk assessments did not change significantly.

Description of risk		Risk management
STRATEGIC RISKS		
• **Business and market environment**	•	•
The Group is exposed to various risks related to the market and external business environment, which are out of the Group's control. Such risks include: the volatility of commodity prices on the markets; the geopolitical situation affecting the Group's areas of operations; the changes in currency exchange rates. Given that the Group's sales prices of crude oil and condensate are based on market prices, the Group's future earnings are exposed to adverse impact by changes in the market price of crude oil. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. The Group could also be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which the Group could otherwise achieve. The Group's strategy and business model are not directly influenced by any significant risk resulting from Brexit.		The Group uses financial instruments to manage commodity price risks and liquidity risks. See note 26 Derivative Financial Instruments in the financial statements for details of the nature and extent of such position(s), and for qualitative and quantitative disclosures of these instruments. In addition, the Group is exporting the majority of its dry gas under contract referencing export prices which are usually substantially higher than domestic prices. In 2017 the Group expanded its transportation options as it completed a connection to an oil pipeline. It can now transport its crude oil either via rail tank car or pipeline. To mitigate the geopolitical and customer risks, the Group has been strengthening customer relationships through establishing long-term off-take agreements while also looking at possibilities to geographically diversify its customer portfolio. Also, senior management constantly monitors the Group's exposure to foreign currency exchange rate changes and plans for necessary measures.
• **Strategic development initiatives**	•	•
The Group's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue, which puts the Group at a significant risk of not meeting Nostrum shareholder expectations in the event of natural disaster, facilities damage from accidents, crisis and other political influences. Diversification of its activity areas is considered by the Group as a way of minimising this risk while also providing the Group with an opportunity to gain from expanding the use of available capacities, technological resources and human capital. The Group's strategic initiatives towards diversification of its activity areas including M&A activities and further development projects such as the GTU3 construction project and the well drilling programme are subject to customary risks related to delay, non-completion and cost overruns which could impact future production and the Group's performance. In addition, the Group's strategic initiatives, as well as certain other ordinary activities, are subject to the risks that terms of the transactions with related parties may deviate from market terms, as well as associated risks related to the disclosure of such transactions.		The Group has a team of dedicated specialists who assess possible acquisitions of oil and gas fields and assets. In 2013, the Group acquired subsoil use rights for three oil and gas fields near the Chinarevskoye field. For the purpose of GTU3 construction, the Group has formed a dedicated experienced project management team and engaged JSC "OGCC KazStroyService" for construction services and expects to benefit from their technical expertise and significant experience gained during the construction of GTU1 and GTU2. The Group has concluded the majority of the construction process in relation to GTU3 and monitors logistics, engineering, expedition of materials and equipment on an ongoing basis. Senior management and the Board continuously monitor the timing, scope and performance of the drilling programme and takes into account the status of the GTU3 project and current oil prices. A detailed drilling programme is approved by senior management for each well which forms the basis against which the progress of works and costs are reported.

Description of risk		Risk management
OPERATIONAL RISKS		
• **Oil and gas reserves and operations**	•	•
Oil and gas reserves estimation, exploration, development and production are accompanied by typical risks inherent to activities in this industry, which may adversely affect the Group's financial performance and achievement of strategic objectives. Estimation of oil and gas reserves requires exercise of judgement due to the inherent uncertainty in any oil and gas field. There are also uncertainties and risks related to a field's geological structure and choice of development methods to maximise the reservoir performance. Hence, there are a number of risks which may lead to a deviation of production volumes from estimated and projected volumes. Well drilling and workover activities as well as construction, operation and maintenance of surface facilities are also subject to various risks including the availability of adequate services, technologies, expertise, etc., which may adversely affect the fulfilment of the Group's strategic objectives.		The Group has a department of highly skilled geologists who perform periodic assessments of the oil and gas reserves in accordance with international standards on reserve estimations and prepare production forecasting using advanced exploration risk and resource assessment systems. The results of the assessments are reviewed by the Group's independent reserve consultant, Ryder Scott. For well drilling and workover activities the Group engages highly skilled personnel, leading service suppliers as well as operations and cost monitoring systems, based on which the management oversees the work progress. Maintenance of the wells and surface facilities is scheduled in advance in accordance with technical requirements and all necessary preparations are performed in a timely manner and within budget ensuring high quality. In addition, the Group has emergency response and disaster recovery plans in place and periodically conducts necessary training and testing procedures.
• **Health, safety and environment**	•	•
Linking corporate social responsibility (CSR) to growth is one of the strategic priorities of the Group. Relevant health, safety and environmental risks are also considered to be one of the key areas of focus in terms of risk management. The Group faces typical health, safety and environmental risks in the oil and gas industry, including risks related to gas flaring, waste management, environmental pollution, fires and explosions at facilities, and transportation accidents. These risks may have a broad range of results including, but not limited to, injury of employees or local residents, pollution of the local environment and respective regulatory actions, legal liabilities, business interruption and any consequential impact on financial performance. It should also be noted that the legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times.		The Group has a QHSE department of highly skilled and competent specialists. The Group's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Periodic training on the requirements of policies and regulations are held for employees. In addition, at the supplier selection and contracting stage the Group places a high degree of importance on a supplier's resources and ability to comply with the Group's QHSE requirements and, subsequently, the Group's dedicated team in this area conducts supplier audits. Key indicators such as GHG emissions, lost time injuries, waste management, water and soil pollution rates, etc., as well as progress of work are reported to senior management on a monthly basis. The Group is working towards full compliance with ISO 14001 Environmental Management Systems, OHSAS 18001 Occupational Health & Safety Management System and ISO 50001 Energy Management Systems. The Group also regularly engages an independent auditor to conduct HSE audits to monitor its compliance and best practice in this area and takes all necessary measures on the basis of the audit recommendations.

Description of risk		Risk management
COMPLIANCE RISKS		
• **Subsoil use agreements**	•	•
As the Group performs exploration, development and production activities in accordance with related licences for the oil and gas fields, there are related risks that the Group might not be able to obtain extensions when necessary, risks of non-compliance with the licence requirements due to ambiguities, risks of alteration of the licence terms by the authorities and others. These risks may result in the Group's inability to fulfil scheduled activities; fines, penalties, suspension or termination of licences by authorities; and, respectively, significant and adverse impact on the Group's business, financial performance and prospects.		The Group has procedures and processes in place for the timely application for extension of licence periods when it is considered appropriate, however, uncertainty remains in relation to timing and results of decisions of authorities. The Group believes that it is in full compliance with the terms of its PSA for the Chinarevskoye field and maintains an open dialogue with Kazakh governmental authorities regarding all of its subsoil use agreements. In the event of non-compliance with a provision of any such agreement the Group endeavours to have such terms modified and pays any penalties and fines that may apply.
• **Compliance with laws and regulations**	•	•
The Group carries out its activities in a number of jurisdictions and therefore must comply with a range of laws and regulations, which exposes the Group to the respective risks of non-compliance. In addition, the Group must comply with the Listing Rules, the Disclosure Guidance and Transparency Rules, FRC guidance and requirements, as well as KASE and bond indenture requirements, in light of its publicly traded shares and notes. Hence, there are non-compliance risks to which the Group is exposed. The impact of these risks may vary in magnitude and include regulatory actions, fines and penalties by authorities, diversion of management time, and may have an overall adverse effect on the Group's performance and activities towards achieving its strategic objectives.		For the purpose of compliance with laws, regulations and rules the Group has adopted a number of policies including a code of conduct, inside information and disclosure policy, related party transactions policy, code for dealing in securities, anti-corruption and bribery policy and a whistle-blowing policy. The Group also performs periodic updates based on the changes in regulatory requirements, and carries out related communications and training for employees. Necessary communication lines are established with authorities to ensure timely and adequate inbound and outbound flow of information. Management and the Board monitor significant matters related to legal and compliance matters in order to act promptly in response to any actions. The Group continuously monitors its compliance with its policies on the level of authorisations for transactions. In addition, the management maintains an open dialogue with its sponsors in relation to any matter related to non-compliance with Listing Rules and other regulatory requirements.

Description of risk		Risk management
FINANCIAL RISKS		
• **Tax risks and uncertainties**	•	•
The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create risks related to additional tax liabilities from assessments or risks related to recoverability of tax assets. Tax risks and uncertainties may adversely affect the Group's profitability, liquidity and planned growth.		The Group has policies and procedures related to various tax assessments and positions, as well as other control activities to ensure the timely assessment and filing of tax returns, payment of tax obligations and recovery of tax assets. The Group regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, either pursuant to the terms of its subsoil use agreements or applicable law.
• **Liquidity risks**	•	•
Forecasting and maintaining an adequate liquidity position is subject to the risk that inaccurate information or assumptions are used for the forecasts, risks of counterparty delay or failure to meet their contractual obligations due to severe market conditions, etc.		Management and the Board constantly monitor the Group's liquidity position, forecasts and key financial ratios to ensure that sufficient funds are available to meet any commitments as they arise. In addition, the treasury policy provides that the Group should maintain a minimum level of cash of US$50 million.
• **Financing Risks** • The Group's ability to access and source debt or equity capital is also exposed to volatility and uncertainties in global financial markets, which may adversely impact the Group's ability to meet its commitments associated with its financial liabilities, increase the cost of financing and affect the plans towards realisation of its strategic initiatives.		• The Group performs financial reviews, establishes credit limits and engages with reliable financial counterparties. The Group's corporate finance function continuously monitors debt and equity markets and maintains an open dialogue with investors to be able to react quickly to any need for financing.
OTHER RISKS		
• **Other significant risks**	•	•
Other risks are those which are not specifically identified within any of the principal risks and uncertainties but may be related to several such areas or be organisation-wide. These include risks related to: fraudulent activities, cyber security, the Group's supply chains, accounting and reporting management systems; the availability of human resources; and may also significantly impact the Group's financial performance, reputation and achievement of its strategic objectives.		The Group has an anti-bribery and corruption policy and provisions relating to the same are included in the Group's Code of Conduct. Related training and updates are periodically provided for employees in relation to their obligations in this area. The Group has a wide range of internal controls over its supply chains and accounting and reporting processes, including policies, procedures, segregation of duties for authorisation of matters, periodic training for employees, etc. Senior management and the Board stay alert to emerging challenges related to various management systems and related governance matters and when necessary initiate change initiatives to ensure enhancement and integration of certain management systems.

The risks listed above do not comprise all those associated with the Group's business and are not set out in any order of priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the Group's business. The risks listed above are continuously monitored by the management team and assessed when making business decisions.**Financial Review**

Financial Review

Effect of realised profit on the structure of assets, capital, liquidity and liability

The profit realised is appropriated to equity. The Group at all times maintains an adequate level of liquidity and net debt is kept at defined levels. Reference is made to KPI's on page 10.

Results of operations for the years ended 31 December 2017 and 2016

The table below sets forth the line items of the Zhaikmunai's statement of comprehensive income for the years ended 31 December 2017 and 2016 in US Dollars and as a percentage of revenue.

	For the year ended 31 December			
In thousands of US dollars	**2017**	**% of revenue**	**2016**	**% of revenue**
Revenue	**405,533**	100.0%	*347,983*	*100.0%*
Cost of sales	**(180,088)**	44.4%	(184,510)	*53%*
Gross profit	**225,445**	55.6%	163,473	*47%*
General and administrative expenses	**(17,184)**	4.2%	(14,897)	*4.3%*
Selling and transportation expenses	**(66,773)**	16.5%	(75,683)	*21.7%*
Taxes other than income tax	**(19,935)**	4.9%	(20,094)	*5.8%*
Finance costs	**(41,452)**	10.2%	(46,362)	*13.3%*
Foreign exchange loss, net	**(369)**	0.1%	214	*0.1%*
Loss on derivative financial instruments	**(6,658)**	1.6%	*(63,244)*	*18.2%*
Interest income	**277**	0.1%	423	*0.1%*
Other income	**4,298**	1.1%	2,068	*0.6%*
Other expenses	**(12,213)**	3%	2,007	*0.6%*
Profit/(loss) before income tax	**65,436**	16.1%	(52,095)	*15%*
Income tax expense	**(47,986)**	11.8%	(15,657)	*4.5%*
Profit/(loss) for the year	**17,450**	4.3%	(67,752)	*19.5%*
Other comprehensive income/(loss)	**-**	0%	**-**	*0%*
Total comprehensive income/(loss) for the year	**17,450**	4.3%	(67,752)	*19.5%*

General note

For the year ended 31 December 2017 (the "reporting period") total comprehensive income increased by US$85.2 million to US$17.4 million (FY 2016: US$67.7 million). The change is mainly driven by higher revenue, lower loss on derivative financial instruments and a decrease in selling and transportation expenses partially offset by higher income tax.

The Zhaikmunai's revenue increased by 16.5% to US$405.5 million for the reporting period (FY 2016: US$348.0 million). This is mainly explained by the increase in the average Brent crude oil price from 45.1 US$/bbl during 2016 to 54.2 US$/bbl during the reporting period. The pricing all of the Zhaikmunai's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil.

Revenues from sales to Zhaikmunai's largest three customers amounted to US$200.6 million, US$102.8 million and US$30.9 million respectively (FY 2016: US$109.5 million, US$92.9 million and US$38.1 million).

Zhaikmunai's revenue breakdown by products and sales volumes for the reporting period and FY 2016 is presented below:

In thousands of US dollars	For the year ended 31 December 2017	2016	Variance	Variance, %
Oil and gas condensate	**261,069**	226,357	*34,712*	*15.3%*
Gas and LPG	**144,464**	121,626	*22,838*	*18.8%*
Total revenue	**405,533**	347,983	*57,550*	*16.5%*
Sales volumes (boe)	**13,813,060**	14,250,695	*(437,635)*	*(3.1)%*
Average Brent crude oil price (US$/bbl)	**54.7**	45.1		

The following table shows the Zhaikmunai's revenue breakdown by export/domestic sales for the reporting period and FY 2016:

In thousands of US dollars	For the year ended 31 December 2017	2016	Variance	Variance, %
Revenue from export sales	**262,767**	244,586	*18,181*	*7.4%*
Revenue from domestic sales	**142,766**	103,397	*39,369*	*38.1%*
Total	**405,533**	347,983	*57,550*	*16.5%*

Cost of sales

In thousands of US dollars	For the year ended 31 December 2017	2016	Variance	Variance, %
Depreciation, depletion and amortisation	**120,692**	129,446	*(8,754)*	*(6.8)%*
Repair, maintenance and other services	**18,960**	19,284	*(324)*	*(1.7)%*
Payroll and related taxes	**12,481**	11,214	*1,267*	*11.3%*
Other transportation services	**8,335**	6,843	*1,492*	*21.8%*
Management fees	**8,012**	4,407	*3,605*	*81.8%*
Materials and supplies	**6,333**	4,275	*2,058*	*48.1%*
Well workover costs	**4,159**	3,928	*231*	*5.9%*
Environmental levies	**375**	1,071	*(696)*	*(65.0)%*
Change in stock	**296**	2,047	*(1,751)*	*(85.5)%*
Other	**445**	1,995	*(1,550)*	*(77.7)%*
Total	**180,088**	184,510	*(4,422)*	*(2.4)%*

Cost of sales decreased by 2.4% to US$180.1 million for the reporting period (FY 2016: US$184.5 million). The decrease is primarily explained by the decrease in depreciation referred to below, partially offset by increases in management fees, payroll and related taxes, other transportation services and materials and supplies. On a boe basis, cost of sales did not change materially and amounted to US$12.6 for the reporting period (FY 2016: US$12.5) and cost of sales net of depreciation per boe increased marginally by US$0.42, or 11.3%, to US$4.2 (FY 2016: US$3.7).

Depreciation, depletion and amortisation decreased marginally by 6.8% to US$120.7 million for the reporting period (FY 2016: US$129.4 million). Depreciation is calculated applying units of production method. Decrease of depreciation in 2017 in comparison with prior period is a consequence of the ratio change between the volumes produced and the proven developed reserves as well as addition to working O&G assets in the amount of US$8.6 million during reporting period.

Payroll and related taxes increased by 11.3% to 12.5 million for the reporting period (FY 2016: US$11.2 million). This mainly resulted from increase in the headcount across operations.

Other transportation services increased by 21.8% to US$8.3 million for the reporting period (FY 2016: US$6.8 million). Such an increase is explained by the fact that in 2017 Zhaikmunai completed next stage of transfer of services previously provided within Zhaikmunai to outsourcing and the service costs now include, for example, vehicle rental fare.

Materials and supplies increased by 48.1% to US$6.3 million for the reporting period (FY 2016: US$4.3 million). These expenses include spare parts and other materials for repairs and maintenance of the facilities, specifically for the gas treatment facility and wells. These costs fluctuate depending on the timing of the periodic scheduled maintenance works.

Liquidity and capital resources

During the period under review, Zhaikmunai's principal sources of funds were cash from operations. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2012 Notes, 2014 Notes and the loans due to Nostrum Oil & Gas B.V.) and to funding capital expenditures and working capital requirements.

Cash Flows

The following table sets forth Zhaikmunai's cash flow statement data for the reporting period and FY 2016:

	For the year ended 31 December	
In thousands of US dollars	**2017**	2016
Cash and cash equivalents at the beginning of the year	**85,498**	134,928
Net cash flows from operating activities	**208,262**	222,265
Net cash used in investing activities	**(192,006)**	(199,799)
Net cash used in financing activities	**(68,541)**	(72,205)
Effects of exchange rate changes on cash and cash equivalents	**48**	309
Cash and cash equivalents at the end of the year	**33,261**	85,498

1.

<u>*Net cash flows from operating activities*</u>

Net cash flow from operating activities was US$208.3 million for the reporting period (FY 2016: US$222.3 million) and was primarily attributable to:

- profit before income tax for the reporting period of US$65.4 million (FY 2016: loss before income tax of US$52.1 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$122.6 million (FY 2016: US$131.3 million), finance costs of US$41.4 million (FY 2016: US$46.4 million), and loss on derivatives of US$6.7 million (FY 2016: US$63.2million).
- US$19.5 million decrease in working capital (FY 2016: US$15.1 million increase) primarily attributable to an increase in prepayments and other current assets of US$10.2 million (FY 2016: a decrease of US$21.4 million), an increase in trade receivables of US$5.5 million (FY 2016: a decrease of US$2.3 million) and a decrease in trade payables of US$4.1 (FY 2016: an increase of US$1.5 million).
- income tax paid of US$13.4 million (FY 2016: US$7.1 million).

<u>*Net cash used in investing activities*</u>

The substantial portion of cash used in investing activities is related to the drilling programme and the construction of a third unit for the gas treatment facility.

Net cash used in investing activities for the reporting period was US$192.0 million (FY 2016: US$199.8 million) due primarily to costs associated with the drilling of new wells of US$57.5 million for the reporting period FY 2016: US$47.9 million), costs associated with the third gas treatment unit of US$157.5 million (FY 2016: US$123.3 million), and costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US$3.6 million (FY 2016: US$5 million).

<u>*Net cash from/(used) in financing activities*</u>

Net cash used in financing activities during the reporting period made up US$68.5 million, and was mainly represented by the payment of US$69.7 million of the finance costs on Zhaikmunai's 2012 Notes and 2014 Notes and loans due to Nostrum Oil & Gas B.V (FY 2016: US$72.2 million).

Commitments

Liquidity risk is the risk that Zhaikmunai will encounter difficulty raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management seeks to ensure that sufficient funds are available to meet any commitments as they arise. The table below summarises the maturity profile of the Zhaikmunai's financial liabilities as at 31 December 2017 based on contractual undiscounted payments:

As at 31 December 2017	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Borrowings	–	17,437	52,312	1,066,073	1,900	1,137,722
Trade payables	44,262	–	13,262	–	–	57,524
Other current liabilities	19,288	–	–	–	–	19,288
Due to Government of Kazakhstan	–	258	773	4,124	8,505	13,660
	63,550	17,695	66,347	1,070,197	10,405	1,228,194

Capital commitments

During the reporting period, Zhaikmunai's cash used in capital expenditures for purchase of property, plant and equipment (excluding VAT) was approximately US$188.8 million (FY 2016: US$192.8 million). This mainly reflects costs associated with the construction of the third gas treatment unit, drilling costs and other field infrastructure development projects.

Gas Treatment Facility

Following the successful completion of the first phase of the gas treatment facility, consisting of two units, Zhaikmunai is constructing a third unit for it. The construction of GTU3 is important for implementing the Zhaikmunai's strategy to increase operating capacity and as a result increase production and processing of liquid hydrocarbons. Management estimates, based on the production profile of both proved and probable reserves reported in the 2017 Ryder Scott Report and assuming the successful completion of the second phase of the gas treatment facility in 2018, that Zhaikmunai's annual production will gradually increase from 2017 onwards. The remaining costs for the completion of GTU3 are estimated at US$64 million.

Drilling

Drilling expenditures amounted to US$57.5million for the reporting period (FY 2016 US$47.9 million). After the completion of GTU3, is expected that the drilling expenditure will become the primary driver of Zhaikmunai's investing activities.

Taxes other than income tax

In thousands of US dollars	For the year ended 31 December **2017**	**2016**	**Variance**	**Variance, %**
Royalties	**15,724**	11,910	*3,814*	*32.0%*
Export customs duty	**3,864**	5,534	*(1,670)*	*(30.2)%*
Government profit share	**248**	2,582	*(2,334)*	*(90.4)%*
Other taxes	**99**	68	*31*	*45.6%*
Total	**19,935**	20,094	*(159)*	*(0.8)%*

Royalties, which are calculated based on production and market prices for the different products, increased by 32.0% to US$15.7 million for the reporting period (FY 2016: US$11.9 million), which is largely due to the increase in the hydrocarbon prices.

Export customs duty on crude oil decreased by 30.2% to US$3.9 million for the reporting period (FY 2016: US$5.5 million), mainly due to the decrease of export sales and the increase of domestic sales which are not subject to export duties.

Government profit share decreased by 90.4% to US$0.2 million for the reporting period (FY 2016: US$2.6 million).

General and administrative expenses

In thousands of US dollars	For the year ended 31 December **2017**	**2016**	**Variance**	**Variance, %**
Payroll and related taxes	**5,990**	5,765	*225*	*3.9%*
Management fees	**4,025**	3,511	*514*	*14.6%*
Depreciation and amortisation	**1,950**	1,917	*33*	*1.7%*
Professional services	**1,628**	701	*927*	*132.2%*
Insurance fees	**1,236**	775	*461*	*59.5%*
Communication	**411**	484	*(73)*	*(15.1)%*
Business travel	**407**	381	*26*	*6.8%*
Materials and supplies	**363**	353	*10*	*2.8%*
Transportation services	**242**	153	*89*	*58.2%*
Bank charges	**169**	311	*(142)*	*(45.7)%*
Lease payments	**30**	192	*(162)*	*(84.4)%*
Other	**733**	354	*379*	*107.1%*
Total	**17,184**	14,897	*2,287*	*15.4%*

General and administrative expenses increased by 15.4% to US$17.2 million for the reporting period (FY 2016: US$14.9 million). This was mainly driven by increase in professional services, management fees and insurance fees..

Selling and transportation expenses

In thousands of US dollars	For the year ended 31 December **2017**	**2016**	**Variance**	**Variance, %**
Loading and storage costs	**26,940**	33,220	*-6,280*	*(18.9)%*
Transportation costs	**20,160**	24,862	*-4,702*	*(18.9)%*

Marketing services	**15,158**	14,138	*1,020*	*7.2%*
Payroll and related taxes	**1,570**	1,234	*336*	*27.2%*
Other	**2,945**	2,229	*716*	*32.1%*
Total	**66,773**	75,683	*-8,910*	*(11.8)%*

Selling and transportation expenses decreased by 11.8% to US$66.8 million for the reporting period (FY 2016: US$75.7 million), due primarily to decrease in oil transportation costs resulting from successful connection to the KTO pipeline.

Finance costs

	For the year ended 31 December			
In thousands of US dollars	**2017**	**2016**	**Variance**	**Variance, %**
Interest expense on borrowings	**40,163**	44,099	*(3,936)*	*(8.9)%*
Unwinding of discount on amounts due to Government of Kazakhstan	**866**	885	*(19)*	*(2.1)%*
Unwinding of discount on abandonment and site restoration provision	**225**	327	*(102)*	*(31.2)%*
Unwinding of discount on social obligations liability	**40**	850	*(810)*	*(95.3)%*
Finance charges under finance leases	**158**	201	*(43)*	*(21.4)%*
Total	**41,452**	46,362	*(3,936)*	*(8.9)%*

Finance costs decreased by 8.9% to US$41.4 million for the reporting period (FY 2016: US$46.4 million) mainly due to decrease in interest expenses on borrowings.

Other

Loss on derivative financial instruments amounted to US$6.7 million in the reporting period and relates to fair value of the hedging contract covering oil sales. Based on the contract Zhaikmunai has bought a put, which protects it against any fall in the price of oil below US$49.16/bbl. Movement in fair value of financial derivative instruments is disclosed in Note 26 of the financial statements included in this report.

Other expenses increased to US$12.2 million for the reporting period (FY 2016: income US$2.0 million). Such a significant increase in other expenses is explained mainly by reversal in 2016 of the accruals under subsoil use agreements by US$9.8 million based on the changes in the supplements to the subsoil use agreements and the adjusted work programs.

Income tax expense increased by US$32.3 million to US$48.0 million for the reporting period (FY 2016: US$15.7 million). The increase in income tax expense was primarily driven by higher deferred tax expenses in the current period, because of accelerated tax depreciation of oil & gas assets for tax purposes.

Corporate Governance Framework and Principles

Zhaikmunai LLP is a wholly-owned independent subsidiary of Nostrum, which in 2014 became premium listed on the London Stock Exchange. All members of the Group, including Zhaikmunai LLP, promote high standards of corporate governance as a key component of their activities.

Group Policies

Since 1 January 2017, Nostrum has been subject to the provisions of the April 2016 version of the UK Corporate Governance Code (the "2016 Code"). The 2016 Code is publicly available on the website of the UK Financial Reporting Council (www.frc.co.uk).

Policies

Following the coming into force of MAR in July 2016, Nostrum updated its share dealing code which applies to the directors, senior management and other relevant employees of the Group, and its inside information and disclosure policy which applies to all entities within the Group and all of their employees. The Nostrum also implemented a new market sounding policy to take account of the new market sounding regime implemented by MAR. The market sounding policy applies to any employee that is authorised by the chairman to conduct market soundings on behalf of Nostrum.

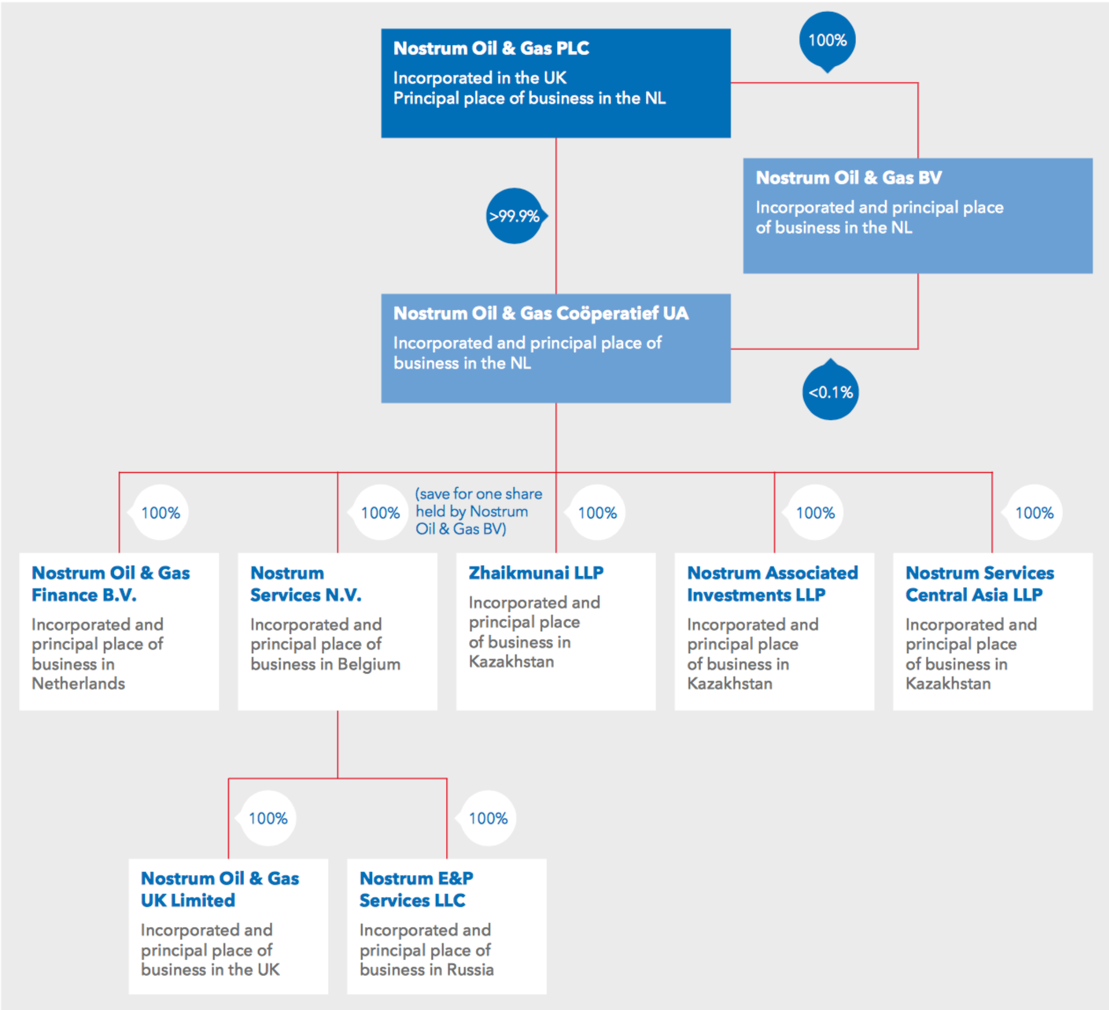
In 2016, Nostrum also updated its code of conduct to include provisions regarding slavery and human trafficking for the purposes of the Modern Slavery Act 2015. Further information regarding the steps Nostrum has taken to ensure there is no slavery or human trafficking in its supply chains can be found in our statement on slavery and human trafficking which is available on our website WWW.NOG.CO.UK

Bribery and corruption are significant risks in the oil and gas industry and as such Nostrum operates a Group-wide anti-corruption and bribery policy, which applies to all Group employees and contractor staff. The policy requires annual bribery and corruption risk assessments; risk-based due diligence on all parties with whom the Group does business; appropriate anti-bribery and corruption clauses in contracts; and the training of personnel in anti-bribery and corruption measures. In addition, the Group's code of conduct requires that employees or others working on behalf of the Group do not engage in bribery or corruption in any form.

To assist with compliance with the related party roles contained in Chapter 11 of the Listing Rules, the Group has implemented a related party transaction policy that applies whenever a Group entity is involved in a transaction wth Group directors or substantial shareholders and / or their associates. The policy sets out the procedural steps that must be followed before the Group can enter into a related party transaction. The overall aim of the policy is to prevent such related parties from taking advantage of their position when involved in transactions with the Group.

Major transactions in Zhaikmunai LLP's authorised capital and changes to Zhaikmunai LLP's ownership structure in the reporting period

Nostrum Group Structure Chart
as at 31 December 2017



Zhaikmunai LLP's participatory interests are held by Nostrum Cooperatief Oil & Gas U.A. ("Coop") (100.00%).

Zhaikmunai LLP Management

Zhaikmunai LLP executive management team

The executive management of Zhaikmunai LLP comprises the General Director. There is no supervisory board of Zhaikmunai LLP. There are no board committees of Zhaikmunai LLP.

Zhomart Darkeyev
• General Director, Zhaikmunai LLP
• Date of Birth: 01.01.1966
• Nationality: Kazakh
• Positions held (chronological order), spheres of activity:
• Appointed as Administrative Director of Zhaikmunai LLP on 1 March 2008 and as General Director of Zhaikmunai LLP on 14 November 2016

Skills and experience:
Previously worked for Derkl Oil & Gas drilling as assistant driller and for Kazakhgas State Holding Company as a leading reservoir engineer.

At Zhaikmunai LLP, Mr Darkeyev has held the positions of Assistant General Director, Chief Administrative Manager, Engineer Manager and Deputy General Manager. Graduate of Furmanov Secondary School with further education completed at the Ivano-Frankivsk Institute of Oil and Gas with a specialisation in drilling of oil and gas wells.

Mr Darkeyev holds no shares or other interests in Zhaikmunai LLP or Nostrum Oil & Gas PLC.

Information on executive management remuneration
Mr Darkeyev's total compensation for 2017 was KZT 19 731 541,19 (comprising his basic compensation). No performance related bonuses were paid in 2017.

Returns to holders of our participatory interests

We are a subsidiary within the Group, and the main operating subsidiary within the Group.

We therefore make period distributions of profits to the holders of our participatory interests, while ensuring our financial position remains stable.
Our parent company, Nostrum, has its dividend policy reviewed annually by the Board.

Our profit distributions to the holders of our participatory interests for the last three years were US$45 million in 2015 and nil in 2016 and 2017.

Zhaikmunai LLP

Financial statements

For the year ended 31 December 2017

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Independent auditor's report

To the Board of directors and Participant 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 2017, 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 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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.

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Key audit matter	How our audit addressed the key audit matter
Estimation of oil and gas reserves and its impact on the impairment testing, depreciation, depletion and amortization (DD&A) and decommissioning provision	
We considered this matter to be one of the most significance in 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. Note 5 and Note 6 to the financial statements describe the details of reserves estimates used to determine DD&A and decommissioning provision.	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. • analyzed 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. • compared the updated reserves estimates to input data in the Company's calculations in respect of impairment, DD&A and decommissioning provision.
Impairment of exploration licenses, oil & gas development and production fixed assets	
This matter was one of the most significance in 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

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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.

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.

For oil & gas development and production fixed assets we involved our valuation specialists and analyzed 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.

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working world

Other information included in the Company's 2017 Annual report

Other information consists of the information included in the Company's 2017 Annual report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2017 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 do 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 and the Board of directors of the Participant 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.

The Board of directors of the Participant is responsible for overseeing the Company's financial reporting process.

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.

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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 the Board of directors of the Participant 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 the Board of directors of the Participant 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.

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From the matters communicated with the Board of directors of the Participant, 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

Aigerim Nurkenova
Auditor

Auditor Qualification Certificate
No. 0000115 dated 21 September 2012

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

27 March 2018

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

In thousands of US Dollars	Notes	31 December 2017	31 December 2016 (Restated*)
Assets			
Non-current assets			
Exploration and evaluation assets	5	**47,828**	44,271
Property, plant and equipment, net	6	**1,943,986**	1,810,186
Restricted cash	11	**6,663**	5,980
Advances for non-current assets	7	**14,598**	28,676
		2,013,075	**1,889,113**
Current assets			
Inventories	8	**29,746**	28,326
Trade receivables	10	**34,520**	29,052
Prepayments and other current assets	9	**25,969**	19,668
Derivative financial instruments	26	**–**	6,658
Income tax prepayment		**3,376**	1,062
Cash and cash equivalents	11	**33,261**	85,498
		126,872	170,264
Total assets		**2,139,947**	2,059,377
Equity and liabilities			
Partnership capital and reserves			
Partnership capital	12	**4,112**	4,112
Other reserves		**32,586**	32,586
Retained earnings		**568,236**	555,963
		604,934	592,661
Non-current liabilities			
Long-term borrowings	13	**1,012,913**	1,003,893
Long-term finance guarantee	13	**3,616**	–
Abandonment and site restoration provision	14	**23,590**	19,635
Due to Government of Kazakhstan	15	**5,466**	5,631
Deferred tax liability	25	**381,590**	345,602
		1,427,175	1,374,761
Current liabilities			
Current portion of long-term borrowings	13	**15,173**	15,518
Current portion of finance guarantee	13	**1,212**	–
Trade payables	16	**57,524**	43,517
Advances received		**1,279**	1,810
Current portion of due to Government of Kazakhstan	15	**1,031**	1,289
Other current liabilities	17	**31,619**	29,821
		107,838	91,955
Total equity and liabilities		**2,139,947**	2,059,377

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, please refer to Note 3 for more details.

Acting General Director of Zhaikmunai LLP

Askhat Seitkazin

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 through 38 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

In thousands of US Dollars	**Notes**	**2017**	2016 (Restated*)
Revenue			
Revenue from export sales		**262,767**	244,586
Revenue from domestic sales		**142,766**	103,397
	18	**405,533**	347,983
Cost of sales	19	**(180,088)**	(184,510)
Gross profit		**225,445**	163,473
General and administrative expenses	20	**(17,184)**	(14,897)
Selling and transportation expenses	21	**(66,773)**	(75,683)
Finance costs	22	**(41,452)**	(46,362)
Taxes other than income tax	23	**(19,935)**	(20,094)
Foreign exchange (loss)/gain, net		**(369)**	214
Loss on derivative financial instruments	26	**(6,658)**	(63,244)
Interest income		**277**	423
Other income		**4,298**	2,068
Other expenses	24	**(12,213)**	2,007
Profit/(loss) before income tax		**65,436**	(52,095)
Current income tax expense		**(11,998)**	(18,666)
Deferred income tax (loss)/benefit		**(35,988)**	3,009
Income tax expense	25	**(47,986)**	(15,657)
Profit/(loss) for the year		**17,450**	(67,752)
Other comprehensive income for the year		**–**	–
Total comprehensive income/(loss) for the year		**17,450**	(67,752)

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, please refer to Note 3 for more details.

Acting General Director of Zhaikmunai LLP

Askhat Seitkazin

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 through 38 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

In thousands of US Dollars	Notes	2017	2016 (Restated*)
Cash flow from operating activities:			
Profit/(loss) before income tax		**65,436**	(52,095)
Adjustments for:			
Depreciation, depletion and amortisation	19, 20	**122,642**	131,342
Finance costs	22	**41,452**	46,362
Interest income		**(277)**	(423)
Other income		**(349)**	–
Foreign exchange gain on investing and financing activities		**(873)**	(1,493)
Loss on disposal of property, plant and equipment		**1,285**	95
Proceeds from derivative financial instruments		**–**	27,198
Loss on derivative financial instruments	26	**6,658**	63,244
Provision for doubtful debts		**1,756**	–
Accrued liabilities		**3,458**	–
Operating profit before working capital changes		**241,188**	214,230
Changes in working capital:			
Change in inventories		**1,561**	710
Change in trade receivables		**(5,468)**	2,285
Change in prepayments and other current assets		**(10,159)**	21,419
Change in trade payables		**(4,082)**	1,546
Change in advances received		**(531)**	1,565
Change in due to Government of Kazakhstan		**(1,289)**	(773)
Change in other current liabilities		**420**	(11,630)
Cash generated from operations		**221,640**	229,352
Income tax paid		**(13,378)**	(7,087)
Net cash flows from operating activities		**208,262**	222,265
Cash flow from investing activities:			
Interest received		**277**	423
Purchase of property, plant and equipment		**(188,801)**	(192,747)
Exploration and evaluation works		**(3,482)**	(7,475)
Net cash used in investing activities		**(192,006)**	(199,799)
Cash flow from financing activities:			
Finance costs paid	13	**(69,682)**	(71,077)
Payment of finance lease liabilities	13	**(676)**	(669)
Repayment of borrowings	13	**(7,500)**	–
Transfer to restricted cash		**(683)**	(605)
Proceeds from borrowings	13	**10,000**	–
Consideration paid for repurchased interests		**–**	(494)
Consideration received for sold interests		**–**	640
Net cash used in financing activities		**(68,541)**	(72,205)
Effects of exchange rate changes on cash and cash equivalents		**48**	309
Net decrease in cash and cash equivalents		**(52,237)**	(49,430)
Cash and cash equivalents at the beginning of the year		**85,498**	134,928
Cash and cash equivalents at the end of the year	11	**33,261**	85,498

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, please refer to Note 3 for more details.

Acting General Director of Zhaikmunai LLP — *Askhat Seitkazin*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 through 38 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

In thousands of US Dollars	Notes	Partnership capital	Other reserves	Retained earnings	Total
As at 31 December 2015 (restated*)	3	4,112	32,440	623,715	660,267
Loss for the year		–	–	(67,752)	(67,752)
Total comprehensive loss for the year		–	–	(67,752)	(67,752)
Surplus on the repurchased and reissued interests		–	146	–	146
As at 31 December 2016 (restated*)	3	4,112	32,586	555,963	592,661
Profit for the year		**–**	**–**	**17,450**	**17,450**
Total comprehensive income for the year		**–**	**–**	**17,450**	**17,450**
Issue of finance guarantee	13	**–**		**(5,177)**	**(5,177)**
As at 31 December 2017		**4,112**	**32,586**	**568,236**	**604,934**

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, please refer to Note 3 for more details.

Acting General Director of Zhaikmunai LLP — *Askhat Seitkazin*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 through 38 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 and Chief Accountant on 26 March 2018.

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. On 1 November 2017 the fourteenth supplementary agreement to the Contract was signed, which contains updates and adjustments to the work programme.

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 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 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. The Partnership's application for further extension of the exploration period is under approval by the MOE.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB"). The financial statements have been prepared based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies (*Note 4*). The financial statements are presented in US Dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The accounting policies adopted are consistent with those of the previous financial year, except for the below amendments to IFRS effective as at 1 January 2017. 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 the amendment which is applicable to the Partnership's financials statements is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Partnership has provided the information for both the current and the comparative period in *Note 13*.

Standards issued but not yet effective

The standards and interpretations applicable to the Partnership's financial statements that are issued, but not yet effective as of 31 December 2017 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 2017, the Partnership performed a detail impact assessment of all three aspects of IFRS 9. This 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 2018 when the Partnership will adopt IFRS 9. Overall, the Partnership expects no significant impact of IFRS 9 on its balance sheet and equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(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 derivative financial instruments at fair value.

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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a 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 modified retrospective application. During the year ended 31 December 2017, the Partnership performed an assessment of impact of IFRS 15 on the financial statements of the Partnership.

(a) Sale of goods

The Partnership is in the business of production and sale of oil and gas products. All goods are sold in separate identified contracts with customers. For such contracts with customers in which the sale of goods is the only performance obligation, adoption of IFRS 15 will not have any significant impact on the Partnership’s revenue and 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, which stays the same as under the current IFRS. Therefore, there is no change in timing recognition of revenue under IFRS 15.

(b) Variable consideration

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

The Partnership recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Currently the Partnership recognises revenue only when it is highly probable that there will not be a subsequent significant reversal in the amount of revenue recognised at the point at which uncertainty over the amount of variable consideration is resolved. Historically, the goods sold by the Partnership were not returned by customers, neither there were material volume rebates in contracts. Therefore, the Partnership does not expect that application of IFRS 15 will result in different amount of revenue being recognised than under current IFRS.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(c) Advances received from customers

Under IFRS 15, the Partnership must determine whether there is a significant financing component in its contracts. However, the Partnership decided to use the practical expedient provided in IFRS 15, and will not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the Partnership expects, at contract inception, that the period between the Partnership transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short- term advances, the Partnership will not account for a financing component even if it is significant.

The Partnership receives only short-term advances from its customers. However, the Partnership may receive from customers long-term advances in the future. Therefore, close monitoring of the advances from customers will be made to reveal any significant financing component because of the length of time.

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 chose 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.

The Partnership has started an initial assessment of the potential impact on its financial statements. So far, the most significant impact identified is that the Partnership will recognise new assets and liabilities for its operating leases of cars, railway tanks and pumping stations.

The Partnership has not yet quantified the impact on its reported assets and liabilities of the adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Partnership uses the practical expedients and recognition exemptions, and any additional leases that the Partnership enters into. The Partnership expects to disclose its transition approach and quantitative information before adoption.

Correction of an error and changes in presentation

In 2017, the Partnership carried out a detailed review of the expenditures on construction of its facilities and drilling of wells. As part of the review, it was discovered that there was an error in application of effective interest rate method for capitalization of borrowing costs resulting in understatement of construction in progress and respective overstatement of finance costs.

On the other hand, the Partnership has been providing catering and accommodation services to its providers of construction, drilling and operational services on which income has been recognized, and at the same time respective expenditures of the suppliers were recharged to the Partnership and accordingly either capitalized as part of construction in progress or expensed as cost of sales or other expenses, leading to overstatement of these accounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the purpose of the financial statements for the year ended 31 December 2017 and going forward, the Partnership presents "training", "sponsorship" and "social program" expenses within Other expenses in the Statement of Comprehensive Income. Previously, the Partnership presented these expenses within General and administrative expenses in the Statement of Comprehensive Income.

For the purpose of the financial statements for the year ended 31 December 2017 and going forward, the Partnership also presents Taxes other than income tax, a new line item in the Statement of Comprehensive Income which includes "royalties" and "government profit share" previously presented within Cost of Sales, "export customs duties" previously presented in Other expenses and "other taxes" previously presented within General and administrative expenses.

These corrections and changes in presentation have been reflected by restating each of the affected financial statement line items for the prior periods, as follows:

Statement of financial position at 1 January 2016

	As previously reported	**Interest capitalization correction**	**Catering and accomodation correction**	Reclas-sifications	As adjusted
Property, plant and equipment	1,605,821	4,845	(3,049)	–	1,607,617
Total non-current assets	**1,821,778**	**4,845**	**(3,049)**	**–**	**1,823,574**
Total assets	**2,123,536**	**4,845**	**(3,049)**	**–**	**2,125,332**
Retained earnings	622,763	3,391	(2,439)	–	623,715
Total equity	**659,315**	**3,391**	**(2,439)**	**–**	**660,267**
Deferred tax liabilities	347,767	1,454	(610)	–	348,611
Total non-current liabilities	**1,366,138**	**1,454**	**(610)**	**–**	**1,366,982**
Total equity and liabilities	**2,123,536**	**4,845**	**(3,049)**	**–**	**2,125,332**

Statement of financial position at 31 December 2016

	As previously reported	**Interest capitalization correction**	**Catering and accomodation correction**	Reclas-sifications	As adjusted
Property, plant and equipment	1,809,431	7,663	(6,908)	–	1,810,186
Total non-current assets	**1,888,358**	**7,663**	**(6,908)**	**–**	**1,889,113**
Total assets	**2,058,622**	**7,663**	**(6,908)**	**–**	**2,059,377**
Retained earnings	556,126	5,364	(5,527)	–	555,963
Total equity	**592,824**	**5,364**	**(5,527)**	**–**	**592,661**
Deferred tax liabilities	344,684	2,299	(1,381)	–	345,602
Total non-current liabilities	**1,373,843**	**2,299**	**(1,381)**	**–**	**1,374,761**
Total equity and liabilities	**2,058,622**	**7,663**	**(6,908)**	**–**	**2,059,377**

NOTES TO THE FINANCIAL STATEMENTS (continued)

Statement of comprehensive income for the year ended 31 December 2016

	As previously reported	**Interest capitalization correction**	**Catering and accomodation correction**	Reclas-sifications	As adjusted
Cost of sales	(201,785)	53	2,730	14,492	(184,510)
Gross profit	**146,198**	**53**	**2,730**	**14,492**	**163,473**
General and administrative expenses	(18,008)	–	–	3,111	(14,897)
Taxes other than income tax	–	–	–	(20,094)	(20,094)
Finance costs	(49,127)	2,765	–	–	(46,362)
Other income	9,718	–	(7,650)	–	2,068
Other expenses	(1,545)	–	1,061	2,491	2,007
Loss before income tax	**(51,054)**	**2,818**	**(3,859)**	**–**	**(52,095)**
Income tax expense	(15,583)	(845)	771	–	(15,657)
Total comprehensive loss for the year	**(66,637)**	**1,973**	**(3,088)**	**–**	**(67,752)**

Statement of cash flows for the year ended 31 December 2016

	As previously reported	**Interest capitalization correction**	**Catering and accomodation correction**	Reclas-sifications	As adjusted
(Loss) before tax	**(51,054)**	**2,818**	**(3,859)**	**–**	**(52,095)**
Depreciation, depletion and amortisation	131,960	(53)	(565)	–	131,342
Finance costs	49,127	(2,765)	–	–	46,362
Net cash flows from operating activities	**226,689**	**–**	**(4,424)**	**–**	**222,265**
Purchase of property, plant and equipment	(197,171)	–	4,424	–	(192,747)
Net cash flows used in investing activities	**(204,223)**	**–**	**4,424**	**–**	**(199,799)**
Net decrease in cash and cash equivalents	(49,430)	–	–	–	(49,430)
Cash and cash equivalents at the beginning of the year	134,928	–	–	–	134,928
Cash and cash equivalents at the end of the year	**85,498**	**–**	**–**	**–**	**85,498**

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.

Significant estimates and assumptions: Exploration expenditure

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, which is subject to estimation uncertainties. 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

The Partnership owns licenses in the Western Kazakhstan region, including the Rostoshinskoye, Yuzhno-Gremyachinskoye and Darjinskoye fields where the exploration periods will expire or have expired (respectively on 8 February 2018, 31 December 2017 and 31 December 2017). The Partnership's applications for extension of these exploration periods are under approval by the MOE. The Partnership remains committed to developing its exploration assets and based on the past history of the Partnership's ability to obtain extension, therefore, continues to carry the capitalized costs on its balance sheet. For more detailed information in relation to the subsoil use rights terms, please see Note 1.

Significant accounting judgements: Exploration expenditure

Judgement is also required when determining the appropriate grouping of the exploration assets into a CGU when assessing their recoverable amounts. The management has determined all three exploration fields as a single cash generating unit.

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.*

NOTES TO THE FINANCIAL STATEMENTS (continued)

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*.

Significant accounting judgments: 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.

Significant estimates and assumptions: oil and gas reserves

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 are 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.

Significant accounting judgment: identification of cash-generating unit

Judgement is required to identify cash-generating units for the purpose of testing the assets for impairment. 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.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

(a) Oil prices (in real terms): US$60/bbl for 2018-2032;

(b) Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;

(c) Production profiles based on Partnership's internal estimates confirmed by independent reserve engineers;

(d) All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;

(e) Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates and production profiles; and

(f) Pre-tax discount rate of 14.7% (2016: 14.1%);

(g) Completion of the third unit for the gas treatment facility in 2018 resulting in gradual increase in the annual production volumes.

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. Short-term fluctuations in the oil prices are not considered to be indicative taking into account the long-lived nature of the Partnership's assets.

A 100 basis points increase in the pre-tax discount rate to 15% would result in no additional impairment charges. Even though reasonably possible changes in key assumptions may lead to material changes in recoverable amount of the cash generating unit, none of such changes causes the carrying amount to exceed the cash generating unit's 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.

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 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 2017 and 2016, please see *Note 25*.

Significant accounting estimation uncertainty: 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 2017.

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 2017 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 25*.

Foreign currency translation

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

Transactions and balances denominated in foreign currencies

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

Advances for non-current assets

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

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

Borrowing costs

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 2017 and 2016, 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 28*, 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*.

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*.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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 contingent liability is 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.

The 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. The management of the Partnership believes that the long-term interest rates on the Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan 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. As a result, there could be significant adjustments to the provisions established which would affect future financial results. 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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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)

Derivative financial instruments and hedging

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

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

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

Cash and short-term deposits

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

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

For more detailed information in relation to cash and cash equivalents as at 31 December 2017 and 2016, 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. EXPLORATION AND EVALUATION ASSETS

During the year ended 31 December 2017 the Partnership had additions to exploration and evaluation assets of US$ 3,557 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (2016: US$ 7,354 thousand). Interest was not capitalised on exploration and evaluation assets.

6. PROPERTY, PLANT AND EQUIPMENT

31 December 2017 and 2016 property plant and equipment comprised the following:

In thousands of US Dollars	**31 December 2017**	31 December 2016
Oil and gas properties	**1,898,711**	1,761,348
Other property, plant and equipment	**45,275**	48,838
	1,943,986	1,810,186

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 2017 and 2016 was as follows:

In thousands of US Dollars	**Working assets**	**Construction in progress**	**Total**
Balance at 1 January 2016, net of accumulated depreciation and depletion	1,031,957	537,173	1,569,130
Additions	5,646	311,636	317,282
Transfers	219,340	(220,158)	(818)
Depreciation and depletion charge	(124,246)	–	(124,246)
Balance at 31 December 2016, net of accumulated depreciation and depletion	1,132,697	628,651	1,761,348
Additions	**8,588**	**245,662**	**254,250**
Transfers	**104,997**	**(104,712)**	**285**
Disposals	**(16)**	**(1,275)**	**(1,291)**
Disposals depreciation	**8**	**–**	**8**
Depreciation and depletion charge	**(115,889)**	**–**	**(115,889)**
Balance at 31 December 2017, net of accumulated depreciation and depletion	**1,130,385**	**768,326**	**1,898,711**
As at 1 January 2016			
Cost	1,559,806	537,173	2,096,979
Accumulated depreciation and depletion	(527,849)	–	(527,849)
Balance, net of accumulated depreciation and depletion	1,031,957	537,173	1,569,130
As at 31 December 2016			
Cost	1,784,792	628,651	2,413,443
Accumulated depreciation and depletion	(652,095)	–	(652,095)
Balance, net of accumulated depreciation and depletion	1,132,697	628,651	1,761,348
As at 31 December 2017			
Cost	**1,898,361**	**768,326**	**2,666,687**
Accumulated depreciation and depletion	**(767,976)**	**–**	**(767,976)**
Balance, net of accumulated depreciation and depletion and depletion	**1,130,385**	**768,326**	**1,898,711**

NOTES TO THE FINANCIAL STATEMENTS (continued)

Oil and gas properties (continued)

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

The depletion rate for oil and gas working assets was 10.89% and 11.95% in 2017 and 2016, respectively.

The Partnership engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2017 and 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 2017 resulted in the increase of the oil and gas properties by US$ 1,391 thousand (31 December 2016: the increase of US$ 2,399 thousand).

The Partnership incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2017 and 31 December 2016:

In thousands of US Dollars	**31 December 2017**	31 December 2016
Borrowing costs including amortisation of arrangement fee	**76,167**	76,433
Capitalisation rate	**7.58%**	7.64%
Capitalised borrowing costs	**36,004**	32,334

As at 31 December 2017 the Partnership's property, plant and equipment of US$ 230,490 thousand were pledged as security for the loans due to Nostrum Oil & Gas B.V. (*Note 13*) (31 December 2016: US$ 253,570).

NOTES TO THE FINANCIAL STATEMENTS (continued)

Other property, plant and equipment

In thousands of US Dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2016, net of accumulated depreciation	21,926	5,923	968	9,350	320	38,48
Additions	14,594	318	388	1,952	111	17,36
Transfers	1,759	216	104	(875)	(387)	81
Disposals	(62)	(97)	(49)	(507)	–	(715
Disposals depreciation	58	70	31	367	–	52
Depreciation	(3,746)	(2,176)	(233)	(1,485)	–	(7,640
Balance at 31 December 2016, net of accumulated depreciation and depletion	34,529	4,254	1,209	8,802	44	48,83
Additions	**1,040**	**2,530**	**–**	**983**		**4,55**
Transfers	**67**	**22**	**–**	**(374)**	**–**	**(285**
Disposals	**(8)**	**(452)**	**(1,198)**	**(468)**	**–**	**(2,126**
Disposals depreciation	**7**	**360**	**956**	**276**	**–**	**1,59**
Depreciation	**(4,070)**	**(1,550)**	**(191)**	**(1,493)**	**–**	**(7,304**
Balance at 31 December 2017, net of accumulated depreciation	**31,565**	**5,164**	**776**	**7,726**	**44**	**45,27**
As at 1 January 2016						
Cost	32,861	17,657	2,357	13,962	320	67,15
Accumulated depreciation	(10,935)	(11,734)	(1,389)	(4,612)	–	(28,670
Balance, net of accumulated depreciation	21,926	5,923	968	9,350	320	38,48
As at 31 December 2016						
Cost	49,152	18,094	2,800	14,532	44	84,62
Accumulated depreciation	(14,623)	(13,840)	(1,591)	(5,730)	–	(35,784
Balance, net of accumulated depreciation	34,529	4,254	1,209	8,802	44	48,83
As at 31 December 2017						
Cost	**50,251**	**20,194**	**1,602**	**14,673**	**44**	**86,76**
Accumulated depreciation	**(18,686)**	**(15,030)**	**(826)**	**(6,947)**	**–**	**(41,489**
Balance, net of accumulated depreciation	**31,565**	**5,164**	**776**	**7,726**	**44**	**45,27**

7. ADVANCES FOR NON-CURRENT ASSETS

In thousands of US Dollars	**31 December 2017**	31 December 2016
Advances for construction services	**9,512**	20,801
Advances for pipes and construction materials	**5,086**	7,875
	14,598	28,676

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. INVENTORIES

As at 31 December 2017 and 2016 inventories comprised the following:

In thousands of US Dollars	**31 December 2017**	31 December 2016
Spare parts and other inventories	**23,505**	21,789
Gas condensate	**4,064**	4,914
Crude oil	**1,968**	1,488
LPG	**189**	125
Dry Gas	**20**	10
	29,746	28,326

As at 31 December 2017 and 2016 inventories are carried at cost.

9. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 31 December 2017 and 31 December 2016 prepayments and other current assets comprised the following:

In thousands of US Dollars	**31 December 2017**	31 December 2016
VAT receivable	**14,728**	10,321
Other taxes receivable	**4,261**	2,312
Advances paid	**6,306**	6,085
Other	**674**	950
	25,969	19,668

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2017, advances paid for legal services in the amount of US$ 1,756 thousand were impaired and fully provided for. Below table provides the movements in the provision for impairment of advances paid:

In thousands of US dollars	Individually impaired
As at 1 January 2016	–
Charge for the year	–
As at 31 December 2016	–
Charge for the year	1,756
As at 31 December 2017	**1,756**

10. TRADE RECEIVABLES

As at 31 December 2017 and 31 December 2016 trade receivables were not interest bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 31 December 2017 and 31 December 2016 there were neither past due nor impaired trade receivables.

11. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**31 December 2017**	31 December 2016
Current accounts in tenge	**16,859**	16,726
Current accounts in US dollars	**16,389**	68,489
Petty cash	**8**	16
Current accounts in other currencies	**5**	267
	33,261	85,498

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$ 752 thousand with Sberbank in Kazakhstan and US$ 5,911 thousand with Halyk bank (31 December 2016: US$ 5,980 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.

13. BORROWINGS

Borrowings comprise the following as at 31 December 2017 and 31 December 2016:

In thousands of US Dollars	**31 December 2017**	31 December 2016
Notes issued in 2012 and maturing in 2019	**555,713**	550,518
Notes issued in 2014 and maturing in 2019	**408,045**	406,715
Nostrum Oil & Gas B.V.	**63,518**	61,000
Finance lease liability (Note 28)	**810**	1,178
	1,028,086	1,019,411
Less amounts due within 12 months	**(15,173)**	(15,518)
Amounts due after 12 months	**1,012,913**	1,003,893

2012 Notes

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

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

The 2012 Notes bear interest at the rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013.

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 twelve month 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

Guarantee of 2017 Notes

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V., indirect wholly-owned subsidiary of Nostrum Oil & Gas plc, (the "2017 Issuer") issued USD 725,000 thousand notes (the "2017 Notes").

The 2017 Notes are jointly and severally guaranteed (the "2017 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2017 Guarantors").

The 2017 Notes are the 2017 Issuer's and the 2017 Guarantor's senior obligations and rank equally with all of the 2017 Issuer's and the 2017 Guarantor's other senior indebtedness.

As at 25 July 2017, the Partnership recognised the granted guarantee at fair value of USD 5,177 thousand, which is present value of the guarantee premium estimated based on the assessment of credit risk of the 2017 Issuer. The present value of the estimated guarantee premium is discounted by 2017 Bonds' interest rate. During 2017, the Partnership recognized guarantee gain in the amount USD 349 thousand and the outstanding balance as at 31 December 2017 of guarantee both current and non-current totaled to USD 4,828 thousand.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Covenants contained in the 2012 Notes and the 2014 Notes

The indentures governing the 2012 Notes, the 2014 Notes and the 2017 Notes contain a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of the Issuer, the 2012 Guarantors, the 2014 Guarantors and the 2017 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 2017 has an interest rate of 6.625% (31 December 2016: 6.625%).

For the period running from 3 July 2013 to 30 September 2017, the Partnership made early repayments of US$ 246,500 thousand.

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. On 13 July 2017 the Partnership made an early repayment of US$ 7,500 thousand. On 14 December 2017 the Partnership received an additional loan in the amount of US$ 10,000 thousand.

Changes in borrowings arising from financing activities are as follows:

	1 January 2017	Finance charges under finance leases	Cash flows	Borrowing costs including amortisation of arrangement fees	Other	31 December 2017
Long-term borrowings	1,003,893	–	2,500	6,520	–	**1,012,913**
Current portion of long-term borrowings	15,518	158	(70,358)	69,647	208	**15,173**
	1,019,411	**158**	**(67,858)**	**76,167**	**208**	**1,028,086**

14. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in abandonment and site restoration provision during years ended 31 December 2017 and 2016 is as follows:

In thousands of US Dollars	**2017**	2016
Abandonment and site restoration provision as at 1 January	**19,635**	15,928
Unwinding of discount	**225**	331
Additional provision	**2,430**	977
Provision used	**(91)**	–
Change in estimates	**1,391**	2,399
Abandonment and site restoration provision as at 31 December	**23,590**	19,635

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

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2017 were 2.5 % and 3.63 %, respectively (31 December 2016: 2.50 % and 4.28 %).

The change in the discount rate in the year ended 31 December 2017 resulted in the increase of the abandonment and site restoration provision by US$ 780 thousand (31 December 2016: the increase by US$ 2,399 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 2017 and 2016 is as follows:

In thousands of US Dollars	**2017**	2016
Due to Government of Kazakhstan as at 1 January	**6,920**	6,808
Unwinding of discount	**866**	885
Paid during the year	**(1,289)**	(773)
	6,497	6,920
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,289)
Due to Government of Kazakhstan as at 31 December	**5,466**	5,631

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. TRADE PAYABLES

Trade payables comprise the following as at 31 December 2017 and 31 December 2016:

In thousands of US Dollars	**31 December 2017**	31 December 2016
Tenge denominated trade payables	**27,219**	22,516
US Dollar denominated trade payables	**22,848**	11,637
Euro denominated trade payables	**6,417**	8,087
Russian Rouble denominated trade payables	**1,040**	1,277
	57,524	43,517

17. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 31 December 2017 and 2016:

In thousands of US Dollars	**31 December 2017**	31 December 2016
Training obligations accrual	**11,592**	12,018
Accruals under the subsoil use agreements	**6,484**	6,462
Taxes payable, other than corporate income tax	**5,710**	6,645
Due to employees	**2,532**	2,739
Other current liabilities	**5,301**	1,957
	31,619	29,821

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.

18. REVENUE

The pricing for all of the Partnership's crude oil, condensate and LPG is directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price during the year ended 31 December 2017 was US$54.74 (2016: US$45.1).

In thousands of US Dollars	**2017**	2016
Revenue from oil and gas condensate sales	**261,069**	226,357
Revenue from gas and LPG sales	**144,464**	121,626
	405,533	347,983

During the year ended 31 December 2017 the revenue from sales to three major customers amounted to US$ 200,438 thousand, US$ 102,813 thousand and US$ 30,052 thousand, respectively (2016: three major customers: US$ 109,499 thousand, US$ 92,885 thousand and US$ 38,053 thousand, respectively).

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. COST OF SALES

In thousands of US Dollars	**2017**	2016
Depreciation, depletion and amortisation	**120,692**	129,446
Repair, maintenance and other services	**18,960**	19,284
Payroll and related taxes	**12,481**	11,214
Transportation services	**8,335**	6,843
Management fees	**8,012**	4,407
Materials and supplies	**6,333**	4,275
Well workover costs	**4,159**	3,928
Environmental levies	**375**	1,071
Change in stock	**296**	2,047
Other	**445**	1,995
	180,088	184,510

20. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	**2017**	2016
Payroll and related taxes	**5,990**	5,765
Management fees	**4,025**	3,511
Depreciation and amortisation	**1,950**	1,917
Professional services	**1,628**	701
Insurance fees	**1,236**	775
Communication	**411**	484
Business travel	**407**	381
Materials and supplies	**363**	353
Transportation services	**242**	153
Bank charges	**169**	311
Lease payments	**30**	192
Other	**733**	354
	17,184	14,897

21. SELLING AND TRANSPORTATION EXPENSES

In thousands of US Dollars	**2017**	2016
Loading and storage costs	**26,940**	33,220
Transportation costs	**20,160**	24,862
Marketing services	**15,158**	14,138
Payroll and related taxes	**1,570**	1,234
Other	**2,945**	2,229
	66,773	75,683

22. FINANCE COSTS

In thousands of US Dollars	**2017**	2016
Interest expense on borrowings	**40,163**	44,099
Unwinding of discount on amounts due to Government of Kazakhstan	**866**	885
Unwinding of discount on abandonment and site restoration provision	**225**	327
Unwinding of discount on social obligations liability	**40**	850
Finance charges under finance leases	**158**	201
	41,452	46,362

23. TAXES OTHER THAN INCOME TAX

In thousands of US Dollars	**2017**	2016
Royalties	**15,724**	11,910
Export customs duty	**3,864**	5,534
Government profit share	**248**	2,582
Other taxes	**99**	68
	19,935	20,094

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.

24. OTHER EXPENSES

In thousands of US Dollars	**2017**	2016
Training	**2,675**	2,154
Loss on disposal of property, plant and equipment	**1,810**	189
Accruals under subsoil use agreements	**587**	(9,808)
Social program	**316**	315
Sponsorship	**256**	574
Compensation	**–**	571
Other accruals	**3,024**	–
Other	**3,545**	3,998
	12,213	(2,007)

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

25. INCOME TAX

The income tax expense consisted of the following:

In thousands of US Dollars	**2017**	2016
Deferred income tax expense / (benefit)	**35,988**	(3,009)
Corporate income tax expense	**11,651**	19,993
Adjustment in respect of the current income tax for the prior periods	**347**	(1,327)
Total income tax expense	**47,986**	15,657

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

In thousands of US Dollars	**2017**	2016
Profit before income tax	**65,436**	(52,095)
Tax rate applicable to the subsoil use rights	**30%**	30%
Expected tax provision	**19,631**	(15,629)
Effect of exchange rate on the tax base	**(390)**	(2,355)
Adjustments in respect of current income tax of previous years	**347**	(1,327)
Effect of income taxed at different rate [1]	**666**	7,258
Non-deductible interest expense on borrowings	**19,755**	22,864
Non-deductible penalties	**3,222**	(1,343)
Net foreign exchange loss	**588**	2,828
Non-deductible provision for impairment of advances paid	**527**	–
Non-deductible social expenditures	**256**	–
Non-deductible cost of technological loss	**225**	1
Non-deductible training expenditures	**282**	181
Other non-deductible expenses	**2,877**	3,179
Income tax expenses reported in the financial statement	**47,986**	**15,657**

NOTES TO THE FINANCIAL STATEMENTS (continued)

[1] Activities not related to the Contract are subject to the applicable statutory tax rate of 20%.

The Partnership's effective tax rate for the year ended 31 December 2017 is 73.3% (2016: negative 30.1%). The Partnership's effective tax rate, excluding effect of movements in exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2017 is 43.7% (2016: 15.2%).

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:

In thousands of US Dollars	**2017**	2016
Deferred tax asset		
Accounts payable and provisions	**4,969**	4,958
Deferred tax liability		
Property, plant and equipment	**(386,559)**	(349,228)
Derivative financial instruments	**–**	(1,332)
	(381,590)	(345,602)

The movements in the deferred tax liability were as follows:

In thousands of US Dollars	**2017**	2016
Balance as at 1 January	**345,602**	348,611
Current period charge to statement of comprehensive income	**35,988**	(3,009)
Balance as at 31 December	**381,590**	345,602

26. DERIVATIVE FINANCIAL INSTRUMENTS

During the years ended 31 December 2017 and 31 December 2016 the movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US Dollars	**31 December 2017**	31 December 2016
Derivative financial instruments at fair value as at 1 January	**6,658**	97,100
Proceeds from derivative financial instruments	**–**	(27,198)
Loss on derivative financial instruments	**(6,658)**	(63,244)
Derivative financial instruments	**–**	6,658

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 to 14 December 2017. The counterparty to the hedging agreement is VTB Capital Plc. Based on the hedging contract the Partnership bought a put, which protects it against any fall in the price of oil below US$ 49,16/bbl.

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

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

27. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties as at 31 December 2017 and 31 December 2016 consisted of the following:

In thousands of US Dollars	**31 December 2017**	31 December 2016
Trade receivables and advances paid		
With significant influence over Partnership:		
JSC OGCC KazStroyService	**7,573**	18,063

NOTES TO THE FINANCIAL STATEMENTS (continued)

Accounts payable to related parties as at 31 December 2017 and 31 December 2016 consisted of the following:

In thousands of US Dollars	**31 December 2017**	31 December 2016
Borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**63,500**	61,000
Trade payables		
With significant influence over the Partnership:		
JSC OGCC KazStroyService	**10,063**	6,291
Nostrum Services N.V.	**1,737**	1,250
Nostrum Services Central Asia LLP	**66**	201

During the years ended 31 December 2017 and 2016 the Partnership had the following transactions with related parties:

In thousands of US Dollars	**2017**	2016
Repayment of borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**7,500**	–
Received borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**10,000**	–
Interest paid		
Under common control:		
Nostrum Oil & Gas B.V.	**4,242**	4,490
Purchases		
With significant influence over the Partnership:		
JSC OGCC KazStroyService	**50,350**	40,746
Management fees and consulting services		
Under common control:		
Nostrum Services Central Asia LLP	**1,503**	1,739
Nostrum Services N.V.	**14,359**	9,487

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 (as amended by seven supplemental agreements since 28 July 2014, the “Construction Contract”).

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2017 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$ 208 thousand for the year ended 31 December 2017 (year ended 31 December 2016: US$ 305 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)

28. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, 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 2017 . As at 31 December 2017 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 2017 the Partnership had contractual capital commitments in the amount of US$ 139,462 thousand (31 December 2016: US$ 96,990 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:

In thousands of US Dollars	**31 December 2017**	31 December 2016
No later than one year	**7,019**	9,589
Later than one year and no later than five years	**14,057**	28,795

Lease expenses of railway tank wagons for the year ended 31 December 2017 amounted to US$ 7,394 thousand (year ended 31 December 2016: US$ 12,285 thousand).

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 2017 the finance lease prepayment amounted to US$ 11,891 thousand (31 December 2016: US$ 12,042 thousand). Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

	31 December 2017		31 December 2016	
In thousands of US Dollars	**Minimum payments**	**Present value of payments**	Minimum payments	Present value of payments
No later than one year	**142**	**131**	525	496
Later than one year and no later than five years	**558**	**345**	561	349
Later than five years	**1,900**	**334**	2,039	333
Total minimum lease payments	**2,600**	**810**	3,125	1,178
Less amounts representing finance charges	**1,790**	**–**	1,947	–
Present value of minimum lease payments	**810**	**810**	1,178	1,178

Social and education commitments

As required by the Contract (after its amendment on 1 November 2017), 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 (after its amendment on 26 December 2016) require the subsurface user to:

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

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

(iii) 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$ 19,413 thousand for exploration of the field during the exploration period;

(ii) fund liquidation expenses equal to US$ 112 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$ 26,142 thousand for exploration of the field during the exploration period;

(ii) fund liquidation expenses equal to US$ 183 thousand.

Domestic oil sales

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Partnership's principal financial liabilities comprise borrowings, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations as well as exploration of the three new oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye. The Partnerhip'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 2017 and 2016 as the Partnership had no financial instruments with floating-rate as at years ended 31 December 2017 and 2016.

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
2017		
US Dollar thousand	**10.00%**	**(1,970)**
US Dollar thousand	**(10.00)%**	**1,970**
2016		
US Dollar thousand	20.00%	570
US Dollar thousand	(20.00)%	(570)

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

As at 31 December 2017	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	**16,867**	**5**	**–**	-	**16,872**
Trade receivables	**9,228**	**–**	**–**	-	**9,228**
Trade payables	**(27,219)**	**(1,040)**	**(6,417)**	-	**(34,676)**
Other current liabilities	**(18,572)**	**–**	**–**	-	**(18,572)**
	(19,696)	**(1,035)**	**(6,417)**	**-**	**(27,148)**

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)

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 2017 and 2016 based on contractual undiscounted payments:

As at 31 December 2017	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Borrowings	**–**	**17,437**	**52,312**	**1,066,073**	**1,900**	**1,137,722**
Trade payables	**44,262**	**–**	**13,262**	**–**	**–**	**57,524**
Other current liabilities	**19,288**	**–**	**–**	**–**	**–**	**19,288**
Due to Government of Kazakhstan	**–**	**258**	**773**	**4,124**	**8,505**	**13,660**
	63,550	**17,695**	**66,347**	**1,070,197**	**10,405**	**1,228,194**

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

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 Aa3 (stable) from Moody's rating agency at 31 December 2017. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Fair values of financial instruments

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

	Carrying amount		**Fair value**	
In thousands of US Dollars	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016
Financial assets measured at fair value				
Derivative financial instruments	**–**	6,658	**–**	6,658
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**(1,027,276)**	(1,018,233)	**(1,018,635)**	(1,017,418)
Finance lease liability	**(810)**	(1,178)	**(1,267)**	(1,799)
Total	**(1,028,086)**	(1,012,753)	**(1,019,902)**	(1,012,559)

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:

	31 December 2016
Future price at the reporting date (US$)	56.82–58.84
Expected volatility (%)	27.33
Risk-free interest rate (%)	0.84
Maturity (months)	1-11

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

During the years ended 31 December 2017 and 2016 there were no transfers between the levels of fair value hierarchy of the Partnership's financial instruments.

Capital management

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

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

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

In thousands of US Dollars	**2017**	2016
Borrowings	**1,028,086**	1,019,411
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(39,924)**	(91,478)
Net debt	**988,162**	927,933
Equity	**604,934**	592,661
Total capital	**604,934**	592,661
Capital and net debt	**1,593,096**	1,520,594
Gearing ratio	**62%**	61%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

30. EVENTS AFTER THE REPORTING DATE

Call of the 2012 Notes and the 2014 Notes

On 18 January 2018, Zhaikmunai LLP issued conditional call notices for all outstanding 2012 Notes and 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries. The 2012 Notes were called at a price of 101.78125% plus accrued interest and the 2014 Notes were called at a price of 100.00% plus accrued interest.

On 16 February 2018, Zhaikmunai LLP announced that the conditions to the call notices had been satisfied by the issue of the 2018 Notes by Nostrum Oil & Gas Finance B.V. (see below). Therefore, with effect on 17 February 2018 (the "Call Date"), the outstanding 2012 Notes and the 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries were purchased from the bondholders by Nostrum Oil & Gas Finance B.V.

Partnership's guarantee of 2018 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. (the "2018 Issuer") issued USD 400,000 thousand notes (the "2018 Notes").

The 2018 Notes bear interest at the rate of 7.00% per year, payable on 16 February and 16 August of each year. The 2018 Notes may be redeemed by the 2018 Issuer in certain circumstances as set out in the relevant note indenture.

The 2018 Notes are jointly and severally guaranteed (the "2018 Guarantees") on a senior basis by Zhaikmunai LLP, Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A. and Nostrum Oil & Gas B.V. (the "2018 Guarantors"). The 2018 Notes are the 2018 Issuer's and the 2018 Guarantor's senior obligations and rank equally with all of the 2018 Issuer's and the 2018 Guarantor's other senior indebtedness.

The issue of the 2018 Notes was used primarily to fund the Call of the 2012 Notes and the 2014 Notes, as described above.

The covenants contained in the 2018 Notes match the covenants contained in the 2012 Notes, the 2014 Notes and the 2017 Notes.

Investor Information

Zhaikmunai LLP's equity is not listed and it is a wholly-owned indirect subsidiary of Nostrum. Nostrum's equity is listed on the premium segment of the London Stock Exchange. The Group's investor relations programme aims at developing an open and transparent communication between the Group (including Zhaikmunai LLP) and its stakeholders, providing information about the financial and operational performance of the Group. The ambition of the investor relations department of the Group is to ensure all questions that any of the Group's stakeholders have are dealt with in a timely manner and that the Group is viewed as being approachable and responsive to any potential queries.

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Zhaikmunai LLP

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Auditor
Ernst & Young LLP
77/7 Al-Farabi Avenue
Almaty
Republic of Kazakhstan

Trustee, Principal Paying Agent and Transfer Agent of the 2012 Notes, 2014 Notes, 2017 Notes and 2018 Notes
Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Registrar of the 2012 Notes, 2014 Notes, 2017 Notes and 2018 Notes
Citigroup Global Markets Deutschland AG
Frankfurter Welle Reuterweg 16 60323
Frankfurt am Main
Germany

Glossary

2010 Notes	10.500% notes issued in 2010
2012 Notes	7.125% notes issued in 2012
2014 Notes	6.375% notes issued in 2014
2017 Notes	8.000% notes issued in 2017
2018 Notes	7.000% notes issues in 2018
A	
API	American Petroleum Institute.
API gravity	The industry standard method of expressing specific density of crude oil or other liquid hydrocarbons as recommended by the American Petroleum Institute. Higher API gravities mean lower specific gravity and lighter oils. When the API gravity is greater than 10, the product is lighter and floats on water; if it is less than 10, it is heavier than water and sinks. Generally speaking, oil with an API gravity between 40 and 45 commands the highest prices.
appraisal well	A well or wells drilled to follow up a discovery and evaluate its commercial potential.
associated gas	Gas, which occurs in crude oil reservoirs in a gaseous state.
B	
barrel/bbl	The standard unit of volume: 1 barrel = 159 litres or 42 US gallons.
basin	A large area holding a thick accumulation of sedentary rock.
boe	Barrels of (crude) oil equivalent, i.e. the factor used by Nostrum to convert volumes of different hydrocarbon production to barrels of oil equivalent.
bopd	Barrels of crude oil per day.
boepd	Barrels of (crude) oil equivalent per day.
C	
C_1	Methane
C_2	Ethane
C_3	Propane
C_4	Butane
C_5	Pentane
C_6	Hexane
C_7	Heptane
CAC	A pipeline with two branches originating in Turkmenistan and meeting in Kazakhstan before crossing into Russia and connecting to the Russian pipeline system, with an annual throughput capacity of 60.2 billion cubic metres
Cash	Cash and cash equivalents including current and non-current investments.
casing	Relatively thin-walled, large diameter steel rods that are screwed together to form a casing string, which is run into a core hole or well and cemented in place.
Caspian region	Parts of countries adjacent to the Caspian Sea.
Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
CO_2	Carbon dioxide.
Competent Authority	The State's central executive agency, designated by the Government to act on behalf of the State to exercise rights relating to the execution and performance of subsoil use contracts, except for contracts for exploration and production of commonly occurring minerals. This is the Ministry of Energy of the Republic of Kazakhstan (MOE) with respect to the oil and gas industry.
condensate	Hydrocarbons which are gaseous in a reservoir, but which condense to form a liquid as they rise to the surface where the pressure is much less.
contingent resources	Deposits that are estimated, on a given date, to be potentially recoverable from known accumulations but that are not currently considered commercially recoverable.
cost oil	Cost oil denotes an amount of crude oil produced in respect of which the market value is equal to Zhaikmunai's monthly expenses that may be deducted pursuant to the PSA (include all

	operating costs, exploration costs and development costs up to an annual maximum of 90% of the annual gross realised value of hydrocarbon production).
crude oil	A mixture of liquid hydrocarbons of different molecular weights.
D	
development	During development, engineering teams design the most efficient development options to build wells and associated infrastructure to produce hydrocarbons from a gas field within a proven productive reservoir (as defined by exploration and appraisal activities). The three phases of development are exploration and appraisal, development and production.
downstream	Downstream refers to all petroleum operations occurring after delivery of crude oil or gas to a refinery or fractionation plant.
Development Plans	The development plans approved by the SCFD in March 2009.
directors or Board	The directors of Nostrum.
dry gas	Dry gas is natural gas (methane and ethane) with no significant content of heavier hydrocarbons. It is gaseous at subsurface and surface conditions.
E	
E&P	Exploration and production.
EBITDA	Profit Before Tax non-recurring expenses + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation – Interest Income + Other Expenses / (Income)
Environmental Code	The Kazakhstan Environment Code (No 212, dated 9 January 2007, as amended).
Exploration Permit	The geological allotment (Annex to the Licence) issued by the Competent Authority to Zhaikmunai LLP.
exploration phase	The phase of operations which covers the search for oil or gas by carrying out detailed geological and geophysical surveys followed up where appropriate by exploratory drilling.
exploration well	Well drilled purely for exploratory (information gathering) purposes in a particular area.
F	
farm-in	Transfer of a percentage of an oil or gas permit held by the farmor in return for (partial or complete) delivery of the work programme by the farmee(s). Note that this work would normally have had to have been delivered and paid for by the farmor.
farm-out	A contractual agreement with the holder of an oil and gas permit to assign all (or a percentage of) that interest to another party in exchange for delivering the work programme required by the permit, or fulfilling other contractually specified conditions.
FCA	Financial Conduct Authority of the United Kingdom.
FCA Uralsk	Sales made under free carrier terms according to which Nostrum delivers to the terminal in Uralsk and transportation risk and risk of loss are transferred to the buyer after delivery to the carrier.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure feature and/or stratigraphic condition.
FOB	Sales made under free on board terms.
FSU	Former Soviet Union.
G	
gas	Petroleum that consists principally of light hydrocarbons. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.
gas condensate	The mixture of liquid hydrocarbons that results from condensation of petroleum hydrocarbons existing initially in a gaseous phase in an underground reservoir.
Gas Treatment Facility (GTF)	Facility for the treatment of associated gas and gas condensate resulting in different products (stabilised condensate, LPG and dry gas) for commercial sales.
	GTU1 means the first unit of the Gas Treatment Facility.
	GTU2 means the second unit of the Gas Treatment Facility.
	GTU3 means the third unit of the Gas Treatment Facility.
GDRs	The global depository receipts of Nostrum Oil & Gas LP.
greenhouse gas	a gas that contributes to the greenhouse effect by absorbing infrared radiation, e.g. carbon dioxide
Group	Nostrum Oil & Gas PLC and, as the context requires, its direct and indirect consolidated subsidiaries.
H	
HSE	Health, safety and environment.
hydrocarbons	Compounds formed from the elements hydrogen (H) and carbon (C), which may be in solid, liquid or gaseous form.
hydrocarbon reserves	Hydrocarbon reserves have been proved, and are referred to as 3P, 2P and 1P depending on the likelihood of commercial production from that field.

I	
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards.
INED	Independent Non-Executive Director.
J	
joint venture	A joint venture is a set of trading entities who have agreed to act in concert to share the cost and rewards of exploring for and producing oil or gas from a permit.
joule	Unit of energy used for measuring gas volumes.
	megajoules = 106
	gigajoules = 109
	terrajoules = 1012
	petajoules = 1015
K	
Kazakhstan	The Republic of Kazakhstan.
KASE	Kazakhstan Stock Exchange.
KazMunayGas	State-owned oil and gas company of Kazakhstan.
KazMunaiGas Exploration Production (KMG EP)	Onshore oil and gas exploration production subsidiary of KazMunayGas
KazTransOil (KTO) pipeline	A tie-in to the KTO pipeline enables crude oil export sales via the Atyrau-Samara international export pipeline
L	
Licence	Licence series MG No. 253-D (Oil) issued to Zhaikmunai LLP by the Government on 26 May 1997, including amendments.
Licencing Law	The Kazakhstan Law "On Licensing" (No. 214, dated 11 January 2007, as amended, which came into effect on 9 August 2007).
liquids	A sales product in liquid form produced as a result of further processing by the onshore plant; for example, condensate and LPG.
LNG	Liquefied natural gas. Comprises mainly methane.
Listing Rules	The listing rules made by the Financial Services Authority (FSA) under section 73A of the FSMA.
London Stock Exchange or LSE	London Stock Exchange.
LPG	Liquefied petroleum gas, the name given to the mix of propane and butane in their liquid state.
M	
m	Metre(s)
m3	Cubic metres.
m3/d	Cubic metres per day.
Man -hours	an hour regarded in terms of the amount of work that can be done by one person within this period.
mmbbls	Millions of barrels of oil.
mboe	Thousands of barrels of oil equivalent.
mmboe	Millions of barrels of oil equivalent.
N	
NBK	National Bank of Kazakhstan.
NED	Non-Executive Director
Nostrum	Nostrum Oil & Gas PLC, the listed company of the Group.
Nostrum Oil & Gas PLC	Registered Office: 9th Floor 20 Eastbourne Terrace London W2 6LG UK Corporate Headquarters: Gustav Mahlerplein 23 B 1082 MS Amsterdam The Netherlands
O	
operator	The individual or company responsible for conducting oil and gas exploration, development and production activities on an oil and gas lease or concession on its own behalf and, if applicable, for other working interest owners, generally pursuant to the terms of a joint operating agreement or comparable agreement.
P	
Partnership	Nostrum Oil & Gas LP, which was the holding company of the Group before the reorganisation

petroleum	Hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.
Possible Reserves (3P)	Possible reserves are those reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves. Proven, probable and possible reserves are referred to as 3P.
processing	processing of saleable product from hydrocarbons sourced from oil wells and gas wells
Probable Reserves (2P)	Probable reserves are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Probable Reserves. Proven plus probable reserves are referred to as 2P.
Production Permit	The mining allotment (Annex to the Licence), issued by the Competent Authority to Zhaikmunai LLP
production well	A well that has been drilled for producing oil or gas, or one that is capable of production once the producing structure and characteristics are determined.
profit oil	Profit oil is the difference between cost oil and the total amount of crude oil produced each month, which is shared between the State and Zhaikmunai LLP.
prospective resources	Quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.
Proven Reserves (1P)	Proven or proved reserves (1P) are those reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.
PRMS	2007 Petroleum Resources Management System, which are a set of definitions and guidelines designed to provide a common reference for the international petroleum industry, sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers.
PSA or Production Sharing Agreement	The contract for additional exploration, production and production sharing of crude oil hydrocarbons in the Chinarevskoye oil and gas condensate field in the West-Kazakhstan oblast No. 81, dated October 31, 1997, as amended, between Zhaikmunai LLP and the Competent Authority (currently MOE), representing the State.
PSA Law	Kazakhstan Law No. 68-III "On Production Sharing Agreements for Constructing Offshore Petroleum Operations", dated 8 July 2005.
R	
recovery	The second stage of hydrocarbon production during which an external fluid such as water or gas is injected into the reservoir to maintain reservoir pressure and displace hydrocarbons towards the wellbore.
reservoir	A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.
royalty	An interest in an oil and gas property entitling the owner to a share of oil or gas production free of costs of production
RoK	Republic of Kazakhstan
Ryder Scott	Independent petroleum consultants Ryder Scott Company LP, headquartered at 621 Seventeenth Street, Suite 1550, Denver, Colorado, 80293, USA.
S	
sales gas	Natural gas that has been processed by gas plant facilities and meets the required specifications under gas sales agreements.
seismic	The use of shock waves generated by controlled explosions of dynamite or other means to ascertain the nature and contour of underground geological structures.
shut in	Cease production from a well
sidetrack well	A well or borehole that runs partly to one side of the original line of drilling.
social infrastructure:	assets that accommodate social services, i.e. hospitals, schools, community housing etc.
spud	The commencement of drilling operations
stakeholder	A person or entity who may affect, be affected by or perceive themselves to be affected by an entity's decisions or activities.
State	Republic of Kazakhstan.
State Share	The share of hydrocarbon production due (in cash or kind) to the Republic of Kazakhstan under the PSA.
Subsoil Law:	
Old Subsoil Law	The Kazakhstan Law "On Subsoil and Subsoil Use" (No. 2828, dated 27 January 1996, as amended), recently replaced with the New Subsoil Law.

New Subsoil Law	The most recent Kazakhstan Law "On Subsoil and Subsoil Use" (No. 291-IV, dated 24 June 2010 as amended).
suspended well	A suspended well is not currently used for assessment or production and has been shut in. It will either be returned to assessment or production or plugged and abandoned.
T	
Tenge or KZT	The lawful currency of the Republic of Kazakhstan.
tonne	Metric tonne.
trillion	10 to the power of 12
U	
UNGG	Uralsk Oil and Gas Explorations Expedition. The Government of the Kazakh Soviet Socialist Republic decided in March 1960 to create a consortium "Uralskneftegazrazvedka" for conducting oil and gas exploration in the Uralsk region. In the '60s, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed "Uralsk Enlarged Oil-Gas Exploration Expedition".
UK Corporate Governance Code	Set of principles of good corporate governance for listed companies promulgated by the UK Financial Reporting Council
W	
well	A hole drilled to test an unknown reservoir or to produce from a known reservoir.
wellhead	The wellhead includes the forged or cast steel fitting on top of a well (welded or bolted to the top of the surface casing), as well as casingheads, tubingheads, Christmas tree, stuffing box and pressure gauges.
work programme	A schedule of works agreed between parties (permit holders, farmees and government) contracted to be delivered in a defined time frame.
workover	Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.
WUP or Water Use Permit	The permit granted by the relevant Government authority with respect to water use pursuant to the Water Code.
Z	
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