Zhaikmunai LLP

Annual Report 2018

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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.

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

Nostrum is an independent multi-field oil and gas company engaging in the production, development and exploration of oil and gas 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.

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.

Subsidiaries

Since the corporate restructuring of the Group in 2014, Zhaikmunai LLP had no subsidiaries until December 2018, when Zhaikmunai LLP acquired a service company, Atom & Co LLP.

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 2018 can be found on page 66.

Our Investment Case and where we operate

STRATEGICALLY POSITIONED AT THE CROSSROADS OF MAJOR CENTRAL ASIAN PIPELINES...

Our advantageous location allows the Group to access multiple export markets to support our operations, including three export pipelines and one rail loading terminal.

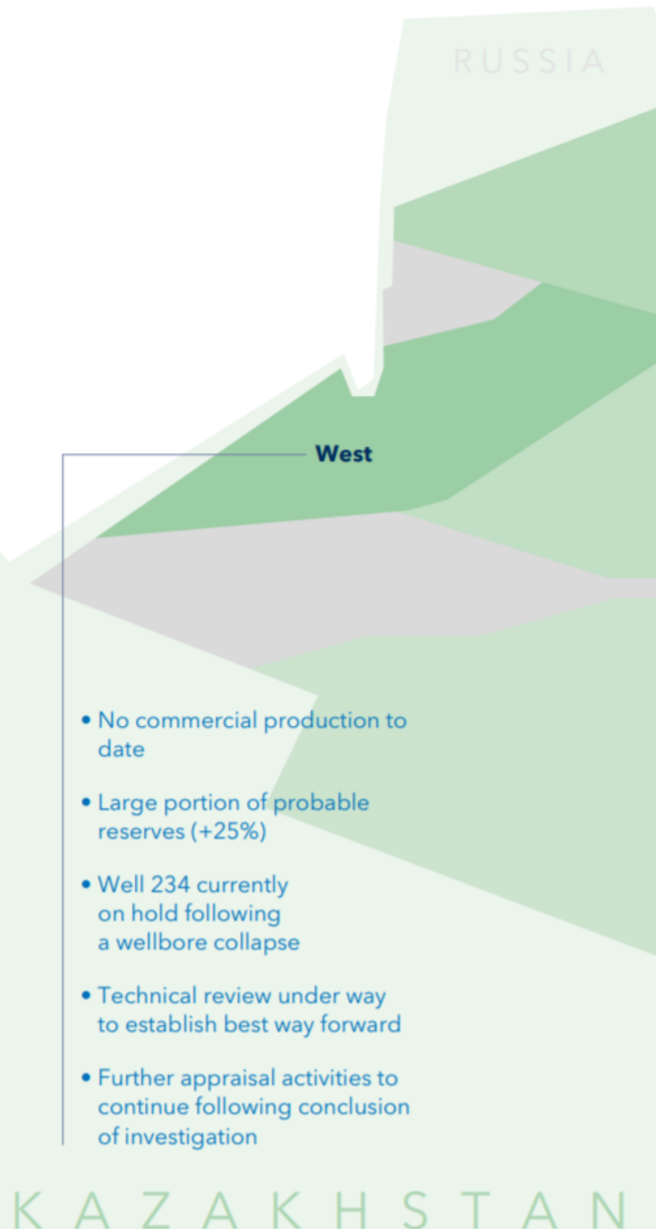
What sets us apart
...FORMING AN INFRASTRUCTURE HUB IN NORTH-WESTERN KAZAKHSTAN...
We have invested more than US$2 billion since 2004 to create a world-class top-to-tail infrastructure hub which is ideally positioned to monetise the resources in the region.
Nostrum's current producing asset is the Chinarevskoye field – a 274km² licence located to the north of Uralsk, near to the Russian border. Both national and regional pipelines run in close proximity to our hub, allowing us to transport all processed products safely and efficiently.
Darjinskoye
Yuzhno-Gremyachinskoye
Rostoshinskoye
80KM
100KM
Area shown
KAZAKHSTAN
Other fields
Nostrum fields
KazTransOil pipeline
>100
wells drilled at Chinarevskoye since 2004

Chinarevskoye field infrastructure
GAS TURBINE POWER UNIT
GTU 1&2
GTU3
OIL TREATMENT UNIT
CONDENSATE STORAGE
CAMP
LPG STORAGE
WATER INJECTION UNIT
GTU INLET MANIFOLD
Chinarevskoye field
Intergas Central Asia pipeline
RUSSIA
Nostrum oil pipeline
Nostrum gas pipeline
40KM
60KM
KAZAKHSTAN
Railway
4.2 bcm
raw gas processing capacity
>3mt
annual throughput capacity
1,790
bed accommodation capacity onsite at field camp
2
rigs onsite for 2019

...IN A RESOURCE-RICH REGION...

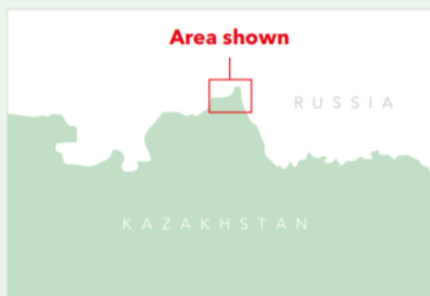
The Chinarevskoye field has produced more than 100 million boe since 2007. It is positioned in the pre-Caspian basin, which is the location of numerous gas discoveries. These include the Karachaganak and Rozhkovskoye fields (Ural Oil & Gas LLP) and our neighbouring three licences.

These three licence areas can provide additional growth potential, as well as the Northern Area of Chinarevskoye and other stranded gas assets in the region.



410 mmboe
2P reserves

98 mmboe
1P reserves

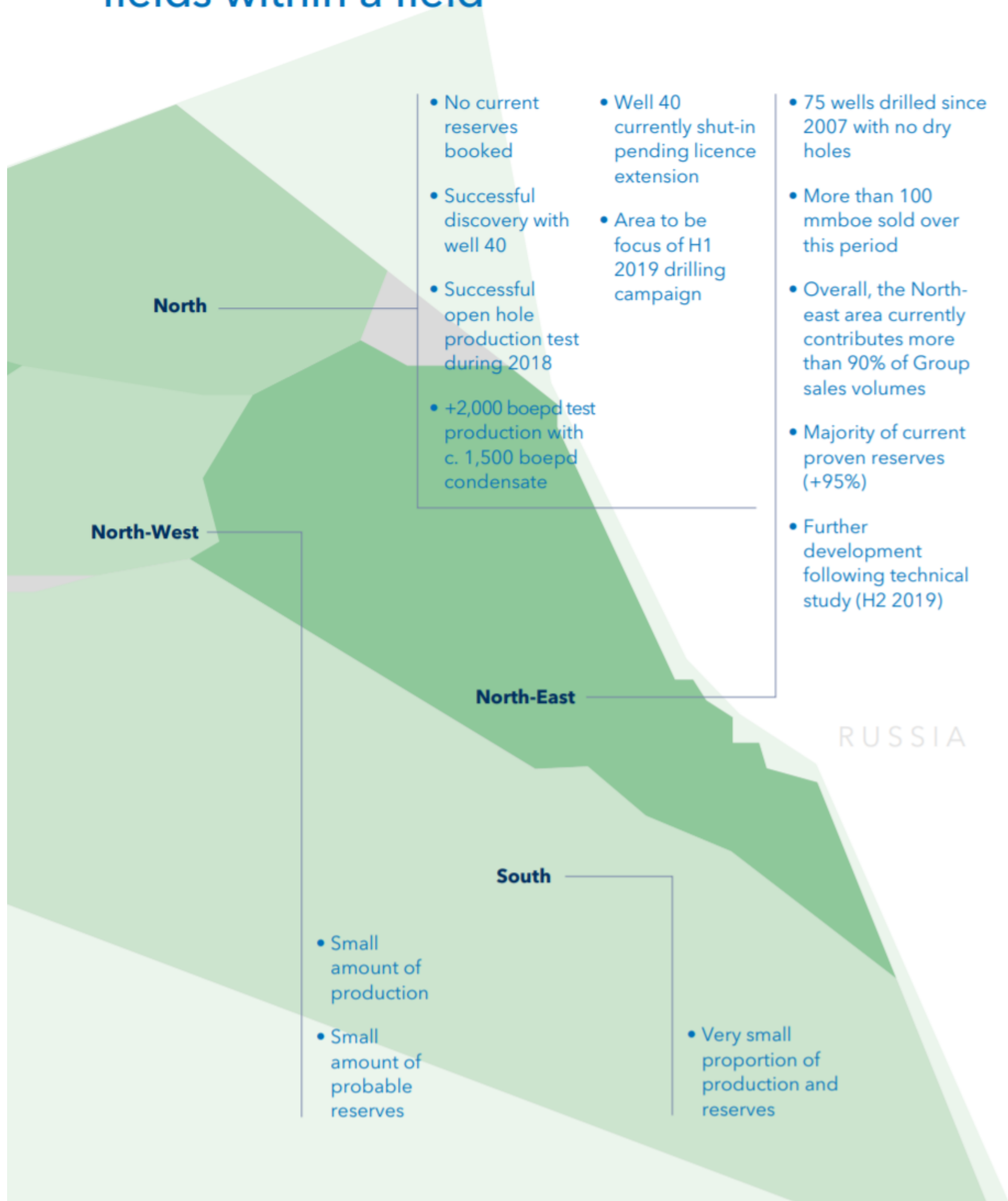


West

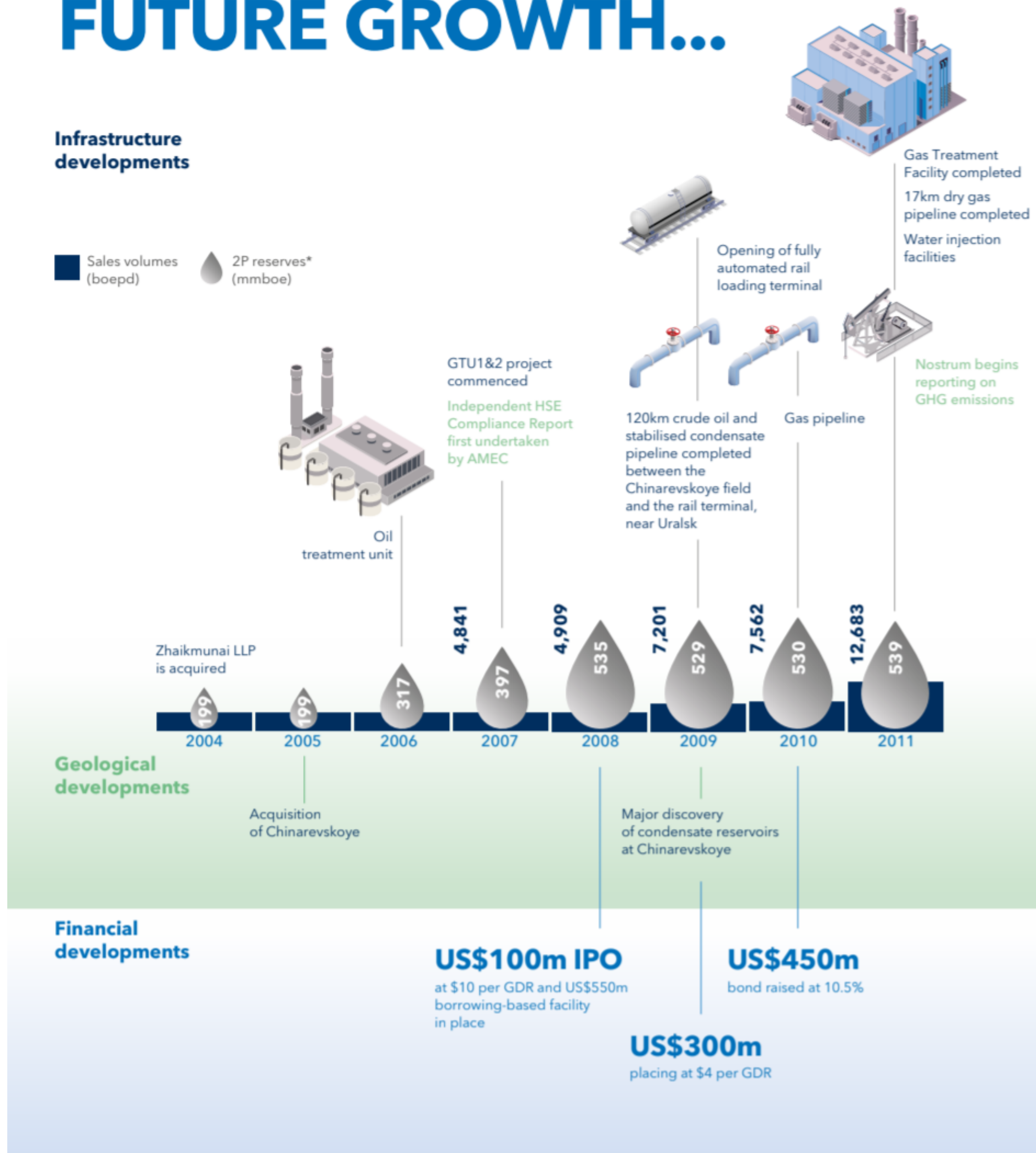
- No commercial production to date
- Large portion of probable reserves (+25%)
- Well 234 currently on hold following a wellbore collapse
- Technical review under way to establish best way forward
- Further appraisal activities to continue following conclusion of investigation

Source: Ryder Scott - 1 January 2019

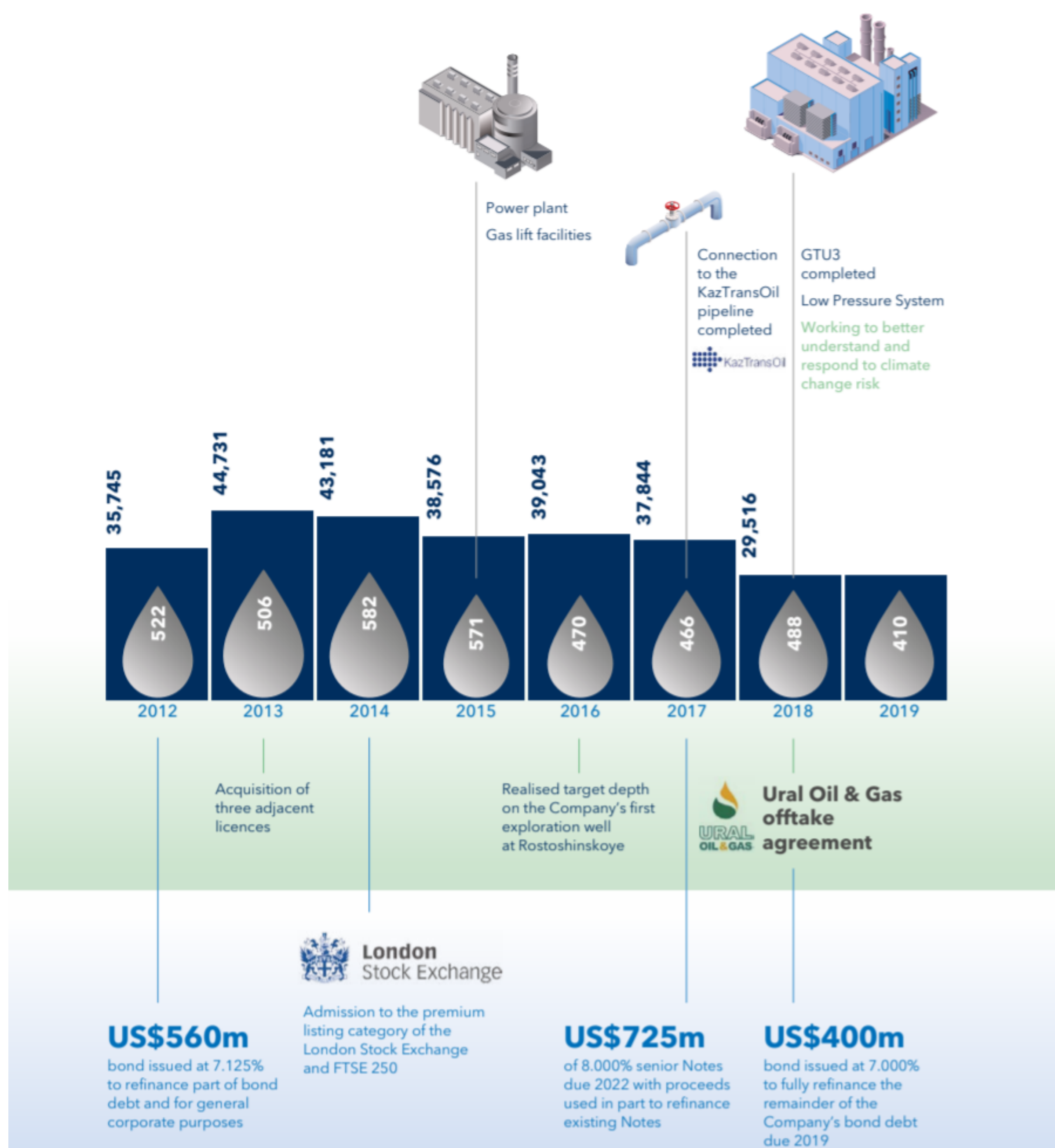
Chinarevskoye field overview: fields within a field



...WITH POTENTIAL FOR FUTURE GROWTH...



Low operating costs and more than US$100 million of cash on our balance sheet ensure the Group is in a stable position to execute its drilling programme over the next two years.



Key Performance Indicators

Zhaikmunai has an extensive infrastructure footprint, variety of sales products and multiple routes to export markets allow Zhaikmunai to generate stable operating cash flows throughout the commodity cycle through proactively managing netbacks. Zhaikmunai is positioned to realise the value of surrounding resources in North-western Kazakhstan.

Revenue – US$390m

2014 – 782

2015 – 449

2016 – 348

2017 – 406

EBITDA (Zhaikmunai LLP) – US$246 million

2014 – 496

2015 – 235

2016 – 211

2017 – 243

Net income (loss) – US$(105) million

2014 – 186

2015 – (77)

2016 – (68)

2017 – 17

Operating cash flow – US$198 million

2014 – 375

2015 – 179

2016 – 222

2017 - 208

Investing cash outflow – US$(172) million

2014 – (305)

2015 – (245)

2016 – (200)

2017 – (192)

Operating costs – US$49 million

2014 – 82

2015 – 62

2016 – 53

2017-57

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 (boepd) – 29,516

2014 – 43,181

2015 – 38,576

2016 – 39,043

2017 – 37,844

1P reserves (mmboe) – 98 mmboe

2014 – 192

2015 – 147

2016 – 147

2017 – 124

2P reserves (mmboe) – 410 mmboe

2014 – 571

2015 – 470

2016 – 466

2017 – 124

Total GHG emissions (tCO_2e)/mmboe – 254,715

2014 – 269,400

2015 – 228,029

2016 – 209,613

2017 – 254,972

Lost Time Injury Frequency (hours) – 1.05

2014 – 1.54

2015 – 2.75

2016 – 1.99

2017 – 2.48

Total Recordable Injury Frequency (hours) – 1.39

2014 – 3.09

2015 – 4.00

2016 – 2.59

2017 – 3.92

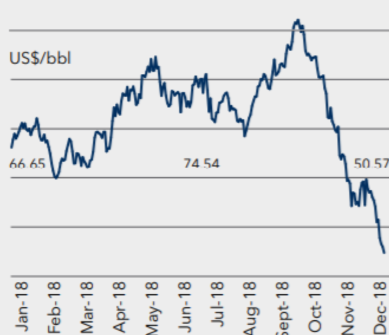
Key macroeconomic and microeconomic trends

Key macroeconomic and microeconomic trends

CONTINUED OIL PRICE VOLATILITY

Oil prices continued to be volatile throughout 2018, reaching a high of US$86/bbl in October and a low of US$51/bbl in December. Despite this volatility, consensus views of long-term prices of around US$60-70/bbl have remained broadly consistent as the industry continues to adjust to profoundly different global supply dynamics brought about by the rapid evolution of the US shale industry.

Oil prices



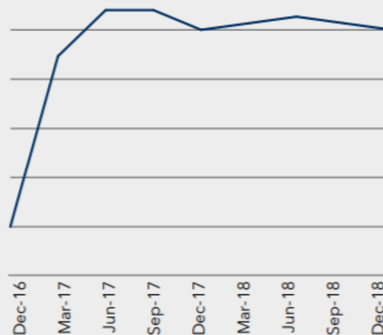
What it means for us

With no debt maturities until 2022 and over US$100 million of cash on our balance sheet, the Group is well positioned to weather near-term fluctuations in the oil price. Nostrum continues to focus on reducing its cost base to ensure the Group generates healthy cash flow and preserves capital while operational issues at the Chinarevskoye field are addressed during 2019.

KAZAKHSTAN ECONOMY

During 2018 Kazakhstan's economy grew by 3.7% (2017: 4.0%). Economic growth remains heavily dependent on the oil industry so an 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 345 KZT to USD (2017: 326 KZT to USD) and inflationary pressures were subdued with core inflation at 6.1% (2017: 7.4%).

GDP progression Q-on-Q real GDP growth (%)



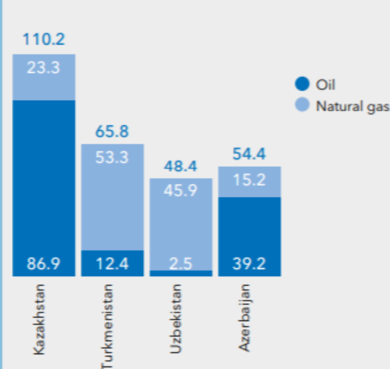
What it means for us

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.

COMPETITIVE ENVIRONMENT

Kazakhstan and Azerbaijan are the two main oil producing countries in the Caspian region, producing 1.8 million bopd and 0.8 million bopd in 2017 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 62 bcm and 53 bcm in 2017 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.

CIS production excl. Russia (mm tonnes)



What it means for us

Vast distances between Central Asian markets, long-established trading relationships and in-place infrastructure promote co-dependency between FSU exporters. Kazakhstan naturally benefits from its geo-strategic position between Russia and China. Nostrum is situated in the heart of the export corridor that exists between Russia and multiple markets to the west of the Caspian.

Products and processes

	Quality	Sales	Pricing	Transportation
Crude oil	Density at 150C- 0.813 kg/m³. API - 42-43 degrees. Average sulphur - 0.45%. Superior in quality to other primary benchmark crude oils produced in Kazakhstan.	85% Exported in accordance with the PSA. 15% Sold domestically. During 2018 all exported crude oil volumes were sold through the KTO pipeline. Rail exports to multiple destinations are also available.	Urals-based pricing for pipeline exports. Brent-based pricing for railcar exports. Domestic sales at c.50% discount.	Crude exports are delivered to the KTO pipeline through an extension to our own 120km pipeline from the field site. From here it is delivered to the Russian Baltic Sea port of Ust-Luga.
Stabilised condensate	Density at 150C - 0.740kg/m³. API - 59 degrees API. Average sulphur - <0.4%.	100% Exported. Destinations include the Russian Black Sea port of Taman.	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. Destinations include the Russian Black Sea Ports.	International Mediterranean LPG price Sonatrach for Black Sea deliveries. ARGUS DAF Brest quotation for Eastern European deliveries. ARGUS DAF Bekabad/ Galaba quotations for Asian deliveries.	Loaded onto LPG trucks from the field site to 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.

Message from management

Q: What has been the biggest challenge for Zhaikmunai during 2018?

A: The single biggest challenge we faced in 2018 was the disappointing operational performance of the Biyski North-east reservoir and western area of Chinarevskoye. Therefore, while our long-term vision and growth expectations remain unchanged, we have not made the progress we wanted to make in 2018 owing to these unforeseen operational difficulties within our licence area. The impact of subsurface challenges is a reduction in our 2P reserves by 78 million boe. We are focused on reversing both production decline and reserve decline during 2019.

Q: How has the Board sought to address these challenges?

A: The Board has assumed greater oversight of operational decision making. We now hold technical workshops each quarter where those Board members with a technical background act as a further sounding board for management on decisions related to drilling and reservoir plans. Given improving production is our priority, this is where the Board has specifically sought to support management in its decision making.

In addition to the Board bringing its own technical knowledge, it has requested that we seek leading external advice.

Accordingly, we have contracted Schlumberger to conduct a technical study of our main reservoirs to better understand their behaviour. We have also requested Schlumberger to evaluate the best way forward to complete our multi-frac appraisal well 234 in the west of the field. The technical work required to be able to move forward with further drilling activities in both areas is expected to be complete in Q3 2019.

We are also cognisant the cash position of Zhaikmunai needs to be carefully monitored to avoid any stress on our short-term liquidity position. As a result, the Board requested that we reduce the number of rigs from three to two, which will be focused in the Northern Area, whilst we are working on both Schlumberger studies. In addition, the Board also now approves each well that is drilled to ensure we are all taking responsibility for maximising the best possible chance of success on the investments we make.

From a financial perspective, the Board decided to err on the side of caution and take an impairment against the reduction in our 2P reserves. Whilst we have a significant volume of 2P reserves, we are cognisant of the challenges we faced with 2018 production and therefore have looked to stress the 2P production profile with higher sensitivities, resulting in an impairment being taken.

Q: What do you see as the biggest risks to Zhaikmunai in 2019?

A: While the commodity price environment is an ever-present risk in the industry, the key risks to Zhaikmunai in 2019 are encountering poor drilling results in the Northern Area.

We understand that the Group needs to deliver on the guidance it gives to the market and 2019 is about hitting the targets that we set and can control. In 2018 we rebased our production guidance for this year based on current producing wells, which we believe is appropriately conservative given the drilling programme is focusing on the unproven Northern Area.

We are awaiting the results from the technical studies undertaken on Biyski North-east and the western area which will help us define our drilling strategy going forward and these

results therefore present an inherent risk.

However, we believe our tight cost control, focused drilling campaign and third-party contractor and buyer relationships leave us well placed from a balance sheet perspective to maintain a healthy cash position and mitigate financial risk.

QHSE priorities for 2019

- Formalise Health, Safety, Environment and Communities Board Committee
- Foster diversity at all levels of the Group
- Participate in CDP disclosure
- Focus on improving contractor safety management practices

Q: How are you positioning the business for a sustainable future?

A: **An environmental, social and governance focus.**

ESG performance has and will always be central to how Zhaikmunai operates as a business. This includes maintaining high standards of QHSE, with the health and safety of our employees being paramount.

Our 2018 Health, Safety and Environment Compliance Audit, conducted independently by AMEC, found our HSE systems conform to all applicable standards and best practice, and have consistently shown improvement year-on-year.

To demonstrate that we take our responsibility with regard to the environment and climate change seriously, we plan to begin reporting to the CDP initiative this year.

We are proposing a new committee of the Board be established to deal with Health, Safety, Environment and Communities, and attention to climate change issues will be among the duties of this committee.

The Audit Committee and the Board have recognised that climate change should be included among the risks and uncertainties faced by Zhaikmunai and we will seek to quantify climate change related risks.

A: **Developing our people and culture.**

I am proud of our people and the culture at Zhaikmunai. That culture must be harnessed to focus on operational excellence in 2019 and on delivery against our targets, whilst ensuring Zhaikmunai is an attractive place to work with an inclusive environment that celebrates diversity.

We will continue to focus on diversity, and in particular gender diversity, across all levels throughout the Group. We are setting up a mechanism for regular reporting by our Human Resources team to the Board on this issue and we are grateful for the quality and commitment of our employees.

A: **Compliance with the Code**

The UK Corporate Governance Code 2016 is the standard against which we measured ourselves in 2018. A copy of the Code is available from the Financial Reporting Council's website. Nostrum complied with all provisions of the Code except for those provisions set out in our Corporate Governance Statement, available on our website: www.nog.co.uk. Until 16 August 2018, Nostrum did not comply with Provision D.2.2 of the Code as one member of the Remuneration Committee was not an independent nonexecutive director. As previously announced, with effect from 16 August 2018, the Committee is comprised solely of

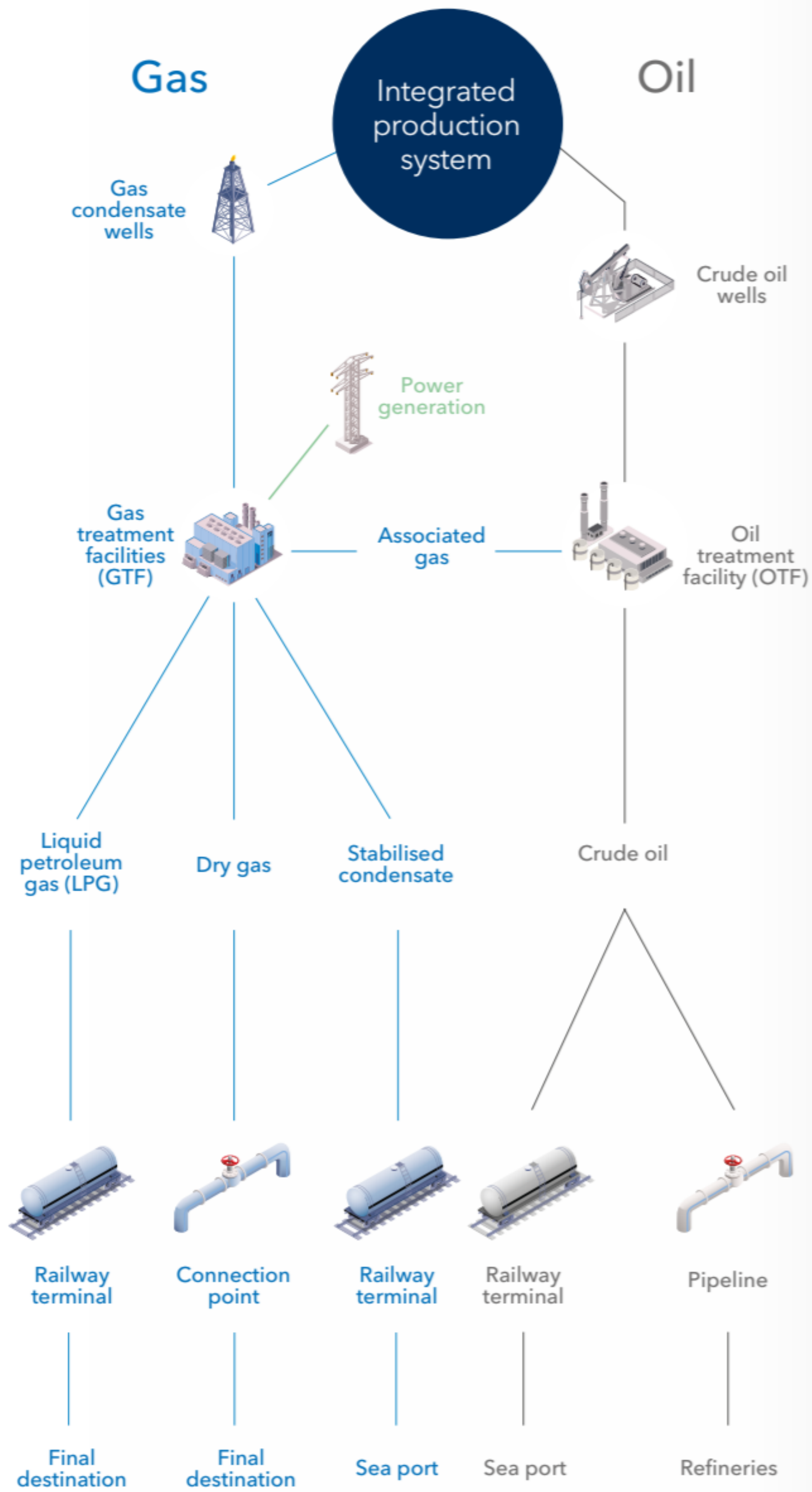
independent non-executive directors.

A: **New Corporate Governance Code**

The Nomination and Governance Committee reviewed Nostrum's compliance with the terms of the newly issued 2018 Code of Corporate Governance, in advance of its implementation on 1 January 2019, and has recommended actions to ensure compliance going forward, particularly around workforce engagement. Nostrum will report more fully on such actions in due course.

Our Business Model

Business model element	Key strengths
World-class infrastructure Well-placed to develop regional resources	• +US$2 billion invested since 2004 in production, storage and export facilities • Advantageous location is central to our business case, allowing us to leverage our existing footprint to develop assets within a tie-back radius of our facilities to deliver value through economies of scale • 4.2bcm of raw gas processing capacity
Substantial asset base Four licences within 120km of processing facilities	• Highly attractive 100% owned and operated asset base • Our main activities are located at the 274km² Chinarevskoye field which has produced more than 100 mmboe since 2007 • We have three additional licences with substantial upside potential
Stable financial platform Low operating costs and strong cash generation	• Efficient operations, a grandfathered PSA, a long track record of exports and an acute focus on costs allow the Group to generate cash flow to develop our assets • Access to multiple export markets allows the Group to proactively manage its netbacks for all sales products • Conservative financial policies ensure the Group can maintain at least US$50 million of cash at all times
Experienced management Extensive management experience in delivering large and complex projects in Kazakhstan	• Operating in Kazakhstan since 2004, we have extensive experience in exploring, appraising and developing hydrocarbon assets in the pre-Caspian basin • Unique understanding of regional geology and what is required to realise its potential • Strong corporate governance framework
Responsible operations Track record of safe development, proactively minimising any adverse environmental and social impact	• We have established a good reputation in Kazakhstan through operating in a responsible and socially conscious manner to create value for our stakeholders and the local community
Shared prosperity A leading employer in North-western Kazakhstan delivering sustainable benefits to the local community	• Long track record of delivering on local content and sponsorship commitments • Active engagement with local communities


Value chain
Gas
Integrated production system
Oil
Gas condensate wells
Crude oil wells
Power generation
Gas treatment facilities (GTF)
Associated gas
Oil treatment facility (OTF)
Liquid petroleum gas (LPG)
Dry gas
Stabilised condensate
Crude oil
Railway terminal
Connection point
Railway terminal
Railway terminal
Pipeline
Final destination
Final destination
Sea port
Sea port
Refineries

Our Business Strategy

Strategic pillars	2019 priorities
Maintain stable production levels while operational issues are addressed	• Two-rig drilling programme to drill up to six wells • Connecting existing wells to the Low Pressure System and full commissioning of GTU3 to increase liquid production efficiency
Continued cost reduction	• Continued reductions in both G&A and operating expenses against 2018 levels • Focus on bringing drilling costs and related capex as low as possible
2P reserve growth through M&A	• Continuously monitor M&A opportunities in a tie-back radius to the Company's existing infrastructure footprint
Integrating corporate responsibility into our business	• Increase presence in local communities and reported-on wellbeing of employees and working environment
Focus on delivering shareholder value	• Preserve capital while operational issues at Chinarevskoye are addressed • Post GTU3, start to generate positive post-tax free cash flow

KPIs	Risks	Forecasts, objectives and prospects for 2019-2021
• 30,000 boepd field production with 28,000 boepd of sales volumes • Full commissioning of GTU3	• Drilling can be subject to cost overruns and technical issues • Drilling programme for 2019 may be subject to change depending on appraisal results obtained throughout the year	• Maintain production above a level of 30,000 boepd • Prolong the life of existing wells to maximise the extraction of 2P reserves • Appraise Northern Area around well 40
• G&A below US$20 million • Operating costs below US$55 million • Drilling capex below US$70 million	• Sustained higher oil prices can lead to cost inflation • Cutting costs too aggressively can lead to adverse operational outcomes	• Reduce costs by a further 20% on a boe basis by 2021
• Grow 2P reserves in North-western Kazakhstan	• Acquisitions come with geological risk such that expected reserve figures can prove to be lower following further appraisal	• Grow reserves to ensure full capacity utilisation of the Group's processing facilities for many years beyond 2021
• 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 QSHE policies to include initiatives such as contractor QSHE management, environmental reporting and developing GHG reduction strategies • Formalise Board HSEC Committee to have oversight of QHSE issues, including those relating to climate change
• Approx. US$100 million of cash at YE 2019, with a minimum of US$50 million held at all times • Target post-tax free cash flow post commissioning of GTU3	• Commodity prices • Production performance • Success and specification of drilling programme	• Generate significant post-tax free cash flow beyond 2021

The Oil & Gas Market in Kazakhstan

Kazakhstan is one of the world's top countries in terms of oil and gas reserves and is the second largest oil producer in the Former Soviet Union after Russia. Since achieving independence in 1991, the country has more than trebled its oil and gas production, becoming one of the fastest-growing oil-producing nations outside of OPEC.

Kazakhstan's proven oil reserves

30 billion

barrels

Kazakhstan's proven gas reserves

1.1 trillion

cubic metres

Kazakhstan's 2017 oil production

1.8 million

barrels of oil per day

Kazakhstan's 2017 gas production

27 billion

cubic metres

Source: BP Statistical Review of World Energy 2018

Economic and political overview

The oil and gas market in Kazakhstan

Kazakhstan is the largest land-locked country in the world and has three primary export routes for its production: one via Russia (Atyrau-Samara and the Caspian Pipeline Consortium pipelines); one via Azerbaijan and Turkey (the Baku-Tbilisi-Ceyhan pipeline); and one via China (Atasu-Alashankou).

Since independence, Kazakhstan has been able to attract more foreign direct investment than any other country in the FSU, including Russia. The majority 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 recent overall production growth in the country, with crude oil and condensate output at the project exceeding expectations. During 2018 total oil production at the three major projects amounted to 49 million tonnes. 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 Former Soviet Union. 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 over the long term. During 2018, the signing of binding agreements with Ural Oil & Gas to process hydrocarbons from the Rozhkovskoye field demonstrates the substantial value of the Group's infrastructure and competitive positioning in the region.

Competitive analysis and market share – benchmarking our business against our peers

Strengths

- Advantageous location with access to multiple transportation routes
- Full control of liquid transportation logistics
- Extensive processing infrastructure allows Zhaikmunai to develop raw gas deposits in North-western 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, although we have a variety of sales products
- Unavoidable geological risks inherent in the oil and gas industry
- Seasonal temperature fluctuations in a harsh operating environment
- Lack of significant population reduces the size of the skilled workforce locally

Performance Review

Our main asset - the Chinarevskoye field

Zhaikmunai has a 100% owned top-to-tail infrastructure footprint in the resource rich pre-Caspian basin in North-western Kazakhstan. Zhaikmunai currently owns four licences, all located within a 120km radius of its substantial processing facilities.Zhaikmunai's current producing asset is the Chinarevskoye field – a 274km² licence located to the north of Uralsk, near to the Russian border. The Chinarevskoye licence comprises a 185km² production and 89km² exploration licence.

Despite recent operational setbacks, Zhaikmunai will continue to try to extract as many hydrocarbons as possible from our licence areas. We see the potential for our fields to produce for many years to come, and we are still opening up new areas after more than ten years of drilling at Chinarevskoye. During 2018 Zhaikmunai made an application to the state authorities to extend its production licence to cover the full extent of its licence area following the exploration success of well 40 during 2017-2018. For this purpose, changes were approved to the mining allotment in the Northern Area of the field which will be reflected in a supplemental agreement to the PSA once the updated RoK development project has been approved.

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 185km^2, with validity to 2032 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 2032 (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 17 reservoirs and 53 compartments spread over three areas. Commercial hydrocarbons have been found in the Lower Permian, Bashkirian, Bobrikovski, Tournaisian, Mullinski, Ardatovski, and Biyski-Afoninski reservoirs. Zhaikmunai is carrying out an appraisal programme to investigate the commerciality of the Frasnian reservoir found in well 40 in 2018.

Reserves

Based on a Ryder Scott report dated 1 January 2019, the proved and probable reserves for the Chinarevskoye field amount to 294 mmboe (2017: 358 mmboe). Proven reserves amount to 98 mmboe (2017: 124 mmboe) and probable reserves to 196 mmboe (2017: 234 mmboe). Oil and condensate amount to 110 mmbbl of proven and probable reserves (2017: 135 mmbbl), LPG to 42 mmbbl (2017: 54 mmbbl) and gas to 142 mmboe (2017: 168 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 100 wells and side-tracks drilled under the PSA between 2004-2018.

At the Chinarevskoye field 20 oil wells and 25 gas condensate production wells were in operation as at 31 December 2018. Three new gas condensate production wells were brought online in 2018. The first well for production, well 224, drilled in 2018 in a flank position of the Biyski North-east reservoir, encountered water and could not be brought to production. An increased water inflow to other existing wells was also observed on the southern flank of the Biyski structure which resulted in a lower than expected average daily production from this main producing reservoir. In the western area of the field, the multi-frac appraisal well 234 was drilled to planned final depth. However, the multi-fracs could not be performed due to technical issues in the wellbore. Comprehensive technical work is being carried out and will be completed in H1 2019. Therefore, Zhaikmunai plans to focus on an appraisal drilling programme in H1 2019 in the Northern Area of the Chinarevskoye field where well 724 and 40 discoveries were made in 2017 and 2018. The drilling programme will be conducted with two drilling rigs on the Chinarevskoye field. When the results of these appraisal wells are known, Zhaikmunai will be able to decide how best to proceed with the drilling programme for the remainder of the year.

On-site facilities

Location

Our facilities are located in an advantageous geographical position which encourages flexible transportation links for the off-takers of our sales 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.

Transportation

Crude oil transportation is provided by a short pipeline completed in 2017 which provides access to the KazTransOil ("KTO") pipeline for export.

GTU3

GTU3 was mechanically completed in December 2018. Commissioning of GTU3 is ongoing with first raw gas into the plant expected in 2019.

Oil and stabilised condensate pipeline and railway loading terminal

Since its completion in 2008 and commissioning in 2009, our 120km liquids pipeline and railway loading terminal located at Rostoshi near Uralsk have been used for the transportation of our crude oil and stabilised condensate. The products travel 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 three million tonnes per year. The rail loading terminal, which receives the crude oil and condensate, has a capacity of three to four 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 and Yuzhno-Gremyachinskoye

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, and we continue to appraise other nearby opportunities.

Subsoil rights acquisition

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, namely the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields. These fields were 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. Zhaikmunai subsequently applied for extensions to these three licences, two of which are effective with one outstanding decision expected to be received in H1 2019.

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 other reservoirs being 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 were evaluated in 2017 and 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 2019 has shown Zhaikmunai has 410 mmboe of proved and probable reserves, 116 mmboe of which are contained in the three adjacent 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 2019 for the Chinarevskoye area amount to 111 million barrels of liquids and 462 billion cubic feet of sales gas. For the three additional licences the contingent resources amount to 16 million barrels of liquids and 269 billion cubic feet of sales gas.

Demonstrating the value of our infrastructure

During 2018, Zhaikmunai entered into binding agreements to process third party hydrocarbons delivered by UOG from the Rozhkovskoye field which is situated less than 20km from the Chinarevskoye field. UOG will fund the connection of existing wells at the Rozhkovskoye field to Zhaikmunai's licence area. Thereafter, Zhaikmunai will process all of the hydrocarbons coming into the field. UOG is a company owned by KazMunaiGas ("KMG") (50%), Sinopec (27.5%) and MOL Group ("MOL") (22.5%).

Commercial terms agreed

The commercial terms comprise two parts. Firstly, a tolling fee for the stabilisation of liquid condensate which will be US$8 per barrel, and secondly the purchasing of raw gas from UOG at a price to be agreed at the point of delivery to Zhaikmunai's facilities.

The Rozhkovskoye field

The pre-salt Rozhkovskoye gas condensate field was discovered in 2008 on the Fedorovsky exploration block by UOG. The field has broadly analogous geology to the Chinarevskoye field which sits approximately 20km to the north. Rozhkovskoye's primary Tournaisian (Lower Carboniferous) reservoir tested positive for gas-condensate in all nine exploration and appraisal wells drilled by UOG. The Tournaisian consists of shallow marine limestones at 4,200-4,600 metres. The Bobrikovski horizon (Lower Carboniferous) also contains gas-condensate. In 2014, an oil discovery was announced in the Bashkirian (Upper Carboniferous). In April 2015, UOG signed a 25-year production contract for the Rozhkovskoye field, demonstrating a commitment to developing its licence area.

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.

Operational Structure

The Group has a simple and effective operating structure. The Group has Directors and a Senior Management Team led by the Executive Chairman and 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.

Infrastructure overview

Oil treatment facility

Zhaikmunai finalised the construction of an oil treatment facility in 2006 (“OTF”). Currently the OTF has a maximum annual throughput capacity of 400,000 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 was mechanically completed in 2018, with commissioning beginning in 2019. Once commissioned, GTU3 will add 2.5 billion cubic metres of additional raw gas processing capacity, bringing the Group’s combined capacity to 4.2 billion cubic metres per annum.

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.

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 2009. 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.

Low Pressure System

During 2018 Zhaikmunai completed and commissioned new a Low Pressure System which aims to reduce the decline rates of ageing gas condensate reservoirs through reducing the inlet pressure of the main manifold at the GTF from 10 to 42 bar.

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

2013 – Acquisition of three adjacent licences

Second phase of development 2014-2018

2014 – Completion of 3D seismic on three additional licences

2015 – Power plant and gas lift facilities

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 – Ural Oil & Gas offtake agreement

2018 – GTU mechanically completed

2018 milestone and goals for 2019 - Main factors contributing to the variance between forecast and actual results

Principal developments in the reporting period

During 2018 Zhaikmunai worked to achieve strategic, financial and operational targets in line with our strategy for progression.

Strategic

Ural Oil & Gas

We continuously monitored opportunities in and around the Chinarevskoye field to identify where stranded gas reserves could be processed through Zhaikmunai infrastructure, in accordance with our 2017 goal. Zhaikmunai signed binding agreements with Ural Oil & Gas LLP to process third-party hydrocarbons delivered to our processing facilities.

Financial

Cost reduction

In 2018 we targeted reductions in G&A and opex against 2017 figures. Continued efficiencies saw a reduction in G&A by 28% and operating costs by 14%. While this was partly a result of reduced production, we also streamlined our corporate structure leading to reduced payroll, as well as renegotiated key contracts.

Operational

Production and reserves

In 2018 we did not meet our production or reserve KPIs. Production was 20% lower due to operational challenges at field site. 2P reserves also declined by 78 million boe due to water losses and also other areas being moved into contingent resources, due to it not being commercially viable to drill in them at current oil prices.

Infrastructure

We targeted mechanical completion of GTU3 in 2018 and this was achieved in December 2018. Commissioning was planned for 2018 but is now anticipated in 2019. Additionally, we successfully implemented a Low Pressure System to extend the life of our producing wells.

QHSE

Reduction in TRIF and LTIF

Following a commitment to improve our Health & Safety processes in 2018, we saw our Total Recordable Injury Frequency rate reduced from 3.92 to 1.39 per million man hours worked, and our Lost Time Injury Frequency from 2.48 to 1.05 per million man hours worked.

Sustainable Accountability, QHSE and HR Management

Zhaikmunai maintains and promotes the highest standards of Environmental, Social and Governance practice. Zhaikmunai recognises it has a responsibility to operate in a sustainable and ethical manner for the benefit of the local community and all of our stakeholders.

We have operated in Kazakhstan for more than 20 years and during this time Zhaikmunai has sought to be a responsible and transparent company which places the public interest at the core of decision-making processes. We have a deep understanding of, and respect for, the needs of the communities in which we operate, and we therefore prioritise the ethical management of our people, our communities and our environment.

Zhaikmunai recognises both Kazakh and UK legislative and regulatory requirements in relation to our QHSE standards and we seek to comply with ISO 14001 Environmental Management System and ISO 50001 Energy Management standards.

In 2019, the Group will form a Board Health, Safety, Environment and Communities Committee which will have oversight over health, safety and environmental matters. This committee will be focused upon Leadership & Commitment, Incident Investigation, Contractor Management, Process Safety, Environmental & Climate Change and Social Responsibility. This will be undertaken as part of a five year strategic roadmap to achieve Zhaikmunai's HSE goals and objectives.

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.

Leadership & Commitment

Management will provide visible and active leadership in developing and maintaining QHSE culture.

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.

Hazards & Effects

Hazards are identified, 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.

Employment policies and equal opportunities

The Group is an inclusive and equal opportunity employer and complies with all applicable laws governing employment practices. The Group has also adopted and implemented policies and procedures which cover the recruitment, selection, training and development and promotion and retirement of its employees. The Group aims to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind based on race, religion, national origin, age, gender, disability, sexual orientation or political opinion or any other similarly protected characteristic is not tolerated. This principle applies to all aspects of employment from recruitment and promotion through to termination and all other terms and conditions of employment. It is the Group's aim that all employment policies are fair and equitable and consistent with the skills and abilities of the employee and the needs of the business. Employees are free to join a trade union or participate in collective bargaining arrangements.

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 Kazakh 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.

Health and safety

Our operational success is reliant upon a strong health and safety culture within our business. To ensure the security of all employees and contractors, we utilise active QHSE training and reporting procedures.

Zhaikmunai has a complete HSE Policy and QHSE management system which records comprehensive information on safety and environmental performance and health and hygiene monitoring results and statistics, as required by Kazakh law. This information is reported to management on a monthly basis, reflecting a strong commitment to employee safety at senior levels.

In 2018 both of our major injury frequency metrics were improved, with a significant reduction in both Lost Time Injury Frequency and Total Recordable Injury Frequency. This was owing to the successful implementation of HSE observation cards in 2018, Job Safety Analysis being adopted as a part of the Permit to Work System, reinforcement of HSE requirements amongst contractors and personnel adopting positive safety behaviour generally.

Safety communications

In 2018 there was an effort to improve employee safety communications. A pop-up HSE messaging system was developed in May 2018 in which a pop-up window appears on all PC screens when staff are logging in, and at 11:00 am every day, featuring a message from the QHSE department relating to safety, health or the environment. HSE Posters were also printed to communicate hazards and enhance HSE awareness.

The HSE Card System, which was developed in 2017, continued to be used in 2018 to report unsafe conditions observed by employees and contractors and to allow them to make suggestions on HSE improvements.

QHSE Management System Framework

A QHSE Management System Framework was developed and approved in March 2018. This provides a reference tool to assist employees and contractors in their efforts to ensure the system is implemented at all levels of the Group. The Framework provides an overview of all QHSE reference documentation and describes the elements of the integrated management system, including planning, implementation, monitoring and review.

Contractor management

Zhaikmunai sought to improve contractor management practices in 2018. During the year an updated Road Safety Procedure was developed in response to concerns about contractor transportation safety. In addition, two contractor transport audits were performed.

An updated contractor management framework is planned for 2019, which will involve HSE selection criteria in contractor prequalification, QHSE management system audits, periodic meetings with key contractors and senior management on both sides, contractor HSE safety forums and a final performance review. In 2019 nine contractor audits and six internal management safety audits have been scheduled, demonstrating an ongoing commitment to improved contractor management.

2019 initiatives

A further initiative planned for 2019 is the implementation of management leadership tours, which would increase visibility and promote ownership of QHSE targets. We plan to support this by hosting additional events to further promote health and safety, such as a HSE Day and Forum.

Additionally, an annual HSE Compliance Audit Report is consolidated to show the results of audits and inspections that have occurred over the year to identify trends and areas for improvement. In 2019 nine contractor audits and six internal safety audits have been scheduled.

Process safety

In 2019 the Group intends to set up a Process Safety Roadmap. The implementation of this Roadmap will involve KPIs and the development of a maintenance plan for all safety-critical elements with performance standards, frequency and methods.

Our people

Zhaikmunai is proud to engage a diverse workforce spanning many ages, nationalities and genders. The Group Code of Conduct protects all employees and contractors against illegal discrimination on the basis of race, religion, national origin, age, gender, disability, sexual orientation or political opinion.

Our business is led by a dedicated and experienced management team, diverse in age, nationality and gender. This is integral to advancing the Group's approach to diversity throughout the business.

Gender diversity

The Group is committed to improving the gender balance at all levels of the Group and in 2018 we engaged with interest groups to better understand how we might do this. Additionally, the Group adopted a corporate Equality and Diversity Policy in November 2017 to further support these ambitions. At present, 195 out of 820 Group employees are female and 625 are male.

The Board recognises the importance of continued improvement in this area and is committed to giving due regard to the benefits of diversity in our future appointments, including ensuring Kazakh nationals are properly represented at senior levels of the Group. The Board also focused on succession planning during 2018, and gender considerations will factor into this.

In addition, Human Resources is working towards a policy of promotion from within and building a pipeline of diverse employees at all levels of the business. We are pleased to report that 50% of Group recruitment in 2018 was female.

Employee relations and social guarantees

Zhaikmunai prides itself on being an integral community partner. Zhaikmunai is one of the largest employers in Western Kazakhstan, having 779 employees.

Location	2013	2014	2015	2016	2017	2018
Chinarevskoye Field	633	686	710	612	696	524

Uralsk	274	268	305	322	250	254
Other	56	51	6	4	1	1
Total	963	1,005	1021	938	947	779

We offer all staff members competitive remuneration packages in compliance with all regulatory bodies, guidelines and requirements. In 2018 the average monthly salary of locally-engaged employees increased by 11% in KZT.

In an effort to promote gender equality we will now also monitor gender pay discrepancies. In 2018 the average Group employee salary was 21.99% higher for males however the median employee salary was 2.72% higher for females.

In addition to remuneration, Zhaikmunai also offers personnel benefits in relation to:

Social security

Pension funds

Medical assistance and care

Insurance plans.

Education and training

We believe investing in our people is key to economic self-empowerment in the communities in which we operate. 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.

Our employees and their children are eligible for educational grants and financial support to assist with university and college expenses. Educational fellowships and assistance may also be awarded on a discretionary basis.

Zhaikmunai LLP age diversity

Age range	Quantity	%
under 30	87	11%
30-39	356	46%
40-49	184	23%
50-59	123	16%
over 60	29	4%

Zhaikmunai LLP gender diversity

Gender	Quantity	%%
Female	174	22%
Male	605	78%

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 (retired 2019 and replaced by Robert Tinkhof)

In 2018, Zhaikmunai supported 763 employees to benefit from education and training programmes. Zhaikmunai training costs in 2018 were US$1,085,475, and the total number of training days in 2018 was 9,744 days.

Training was undertaken by operational teams, department heads, specialist engineers and other technicians at different levels across the organisation.

Group Code of Conduct and Human Rights Policy

Zhaikmunai is committed to maintaining a Group-wide culture that recognises international standards of human rights. In 2019 the Group will develop and implement a Human Rights Policy which reflects a desire to comply with industry best practice.

This is in addition to the Group Code of Conduct ("the Code") which defines the 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. In 2018 the Code was updated to reflect changes in legislation relating to insider dealings and disclosure of insider information.

A copy of the Code 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

Under the Group’s standard supply contracts, the Group is entitled to require suppliers to demonstrate compliance with the Code and to hold its suppliers responsible for compliance by their supply chain with equivalent terms.

A copy of our Modern Slavery and Transparency Statement is available on our website: www.nog.co.uk.

In 2018 the Group also put collective agreements in place to provide for workforce representation.

Whistleblowing Policy

We have a Whistleblowing Policy which takes into account the Whistleblowing 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 in both Russian and English and on the Group’s website. At the time of writing we have received no reports under our Whistleblowing 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.

Communities and social review

Zhaikmunai engages both formally and informally with the communities in which we operate and strives to be responsive to stakeholder feedback, including from local residents, suppliers and government.

Zhaikmunai seeks to foster a culture of openness in regards to community engagement. The Group provides an avenue for feedback through an online portal and proactively engages with staff and contractors regarding appropriate behaviour towards local residents.

Additionally, we support our local communities through financing social infrastructure and community projects. In 2018 key initiatives included:

- Support of the ‘Akzhaik’ Charitable Foundation, including financing of the ‘Tugan Zher’ social project. This involved
  the funding of:
- Local historical educational programmes;
- Ecology and landscaping;
- The study of regional history;
- The restoration of cultural sites and historical monuments;
- Infrastructure support;
- Assistance to youth representatives; and

- Sponsorship of WKO children's participation in the 'Burabay Summer Fest' children's festival.

We also provided for social projects in the Zelenovskii Area, the location of the Chinarevskoye field and supporting infrastructure, involving:

- Improvements to Yanvartsevo Village including street lighting and repairing monuments, as well as support for the local primary school and other festive events;
- Financing of a children's playground in Sulukol rural district and support for the local secondary school;
- Part-financing of a recreation park construction in Beles rural district and support for the local secondary school;
- Financial support of the 'Zhas Kanat' Youth Association to assist with a festive concert dedicated to the city day;
- Ongoing sponsorship of the West Kazakhstan Volleyball Federation to support local youth teams;
- Financing of acquisitions and construction at local regional ecological and biological centre (city zoo);
- Funding of a regional orphanage, including repair of the 'Zhuldyz' rooms, medical post and purchase of furniture; and
- Financial support of the Baiterek Public Association, an organisation dedicated to assisting those with cerebral palsy.
- In addition, grants totalling over US$100,000 were made to sixteen schools in the region in order to upgrade equipment and technical capabilities.

Use of Group facilities

The Group allows the use of certain Zhaikmunai facilities by members of the community when it can be of assistance. This includes our medical staff and transportation being used in cases of emergency to provide first aid and deliver local residents to hospital. Additionally, our Fire Department provides community support in the event of wildfires. Zhaikmunai also offers the local government support with the clearing of rural roads and driveways when state machinery is not available, including during the winter of 2018-2019 when the community dealt with record-breaking amounts of snow.

Our environment

Zhaikmunai is committed to operating in a safe and environmentally sustainable manner. We comply with all legal and regulatory environmental requirements, and are working towards ISO standards in our environmental management system.

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. 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, information and monitoring;
- Research and development, exploration development and other works;
- Production waste utilisation; and
- Soil reclamation.

In 2019 our main environmental objectives are to participate in the CDP (formerly Carbon Disclosure Project), which is a key way for companies to disclose their environmental impact and risk management, as well as continuing to focus on greenhouse gas (GHG) emission reduction strategies.

Compliance with legislation

Zhaikmunai engages an independent auditor to measure and evaluate our environmental impact. In 2018 AMEC was again engaged to undertake a “Health, Safety and Environmental Compliance Audit” and report upon the content, methodology and results of the environmental efforts at Zhaikmunai during the year. Our 2018 AMEC report showed no non-compliance with Kazakh legislation or any significant environmental findings. The main conclusions drawn from AMEC’s 2018 audit were as follows:

- HSE management systems meet national and international standards and have demonstrated continuous improvement over several years;
- Major incident statistics were reduced in 2018, showing the effectiveness of QHSE initiatives; and
- The HSE card initiative and distribution of monthly HSE reports has facilitated the involvement of staff into the HSE control process.

Waste, water and soil management

The impact of Zhaikmunai’s operational activities on the environment are monitored through detailed waste, water and soil management systems. Zhaikmunai undertakes air, soil and subsurface water testing to ensure sanitary and epidemiological compliance with Kazakh legislation.

In 2018 93.4% of drilling waste was recycled by a contracted company. Soil and water survey results demonstrated compliance with all applicable environmental legislation.

For more detailed information please visit our website at www.nog.co.uk.

GHG emission reduction and reporting

Zhaikmunai seeks to minimise all GHG emissions and continues to invest in new technologies to improve GHG emission performance. In 2018 this included the commissioning of a Sulphur Regeneration Unit which will lead to a decrease in emissions. Zhaikmunai strictly adheres to both UK and Kazakh regulatory requirements with regard to GHG emissions and has been monitoring and reporting GHG emissions since 2011. In 2019 we will seek to participate in the CDP disclosure process to demonstrate our commitment to improvement and transparency in this area.

Zhaikmunai also follows UK company law requirements regarding GHG reporting as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, which requires the disclosure of all emission sources. 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.

GHG emissions

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 2018 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 type (tCO2e)

	2014	2015	2016	2017	**2018**
Carbon dioxide	236,556.0	208,466.2	195,453.3	242,275.6	**244,379.2**
Methane	27,424.8	13,919.8	10,817.0	10,723.4	**8,436.3**
Nitrous oxide	124.3	126.2	1,045.7	1,305.4	**1,303.5**
Hydrofluorocarbons	16.1	34.0	33.6	27.6	**36.6**
Total	264,121.2	222,546.2	207,349.6	254,332.0	**254,155.6**

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 (tCO2e)

	2014	2015	2016	2017	**2018**
Stationary combustion	260,124.4	205,701.9	195,576.1	243,001.1	**245,467.3**
Mobile combustion	2,135.2	1,498.2	757.9	434.9	**115.9**
Fugitive sources	1,861.6	15,346.1	11,015.6	10,896.0	**8,572.4**
Total	264,121.2	222,546.2	207,349.6	254,332.0	**254,155.6**

Stationary combustion sources formed the major portion of emitted GHGs. 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 (tCO2e)

	2014	2015	2016	2017	**2018**
Direct energy (Scope 1)	264,121.2	222,546.2	207,349.6	254,332.0	**254,155.6**
Indirect energy (Scope 2)	5,278.6	5,482.3	2,262.9	640.3	**559.2**
Total	269,399.8	228,028.5	209,612.5	254,972.3	**254,714.8**

Emissions intensity ratio

Tonnes of CO2 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 products of Zhaikmunai – crude oil, stabilised condensate, LPG

and dry gas – the chosen intensity ratio is expressed in metric tonnes of CO2e (mtCO2e) per tonne of oil equivalent (mmboe).

Table 4 shows intensity ratios for total (Scope 1 and Scope 2) emissions in the period 2014-2018.

Table 4: Emissions intensity ratios for total GHG emissions

	2014	2015	2016	2017	**2018**
Production, toe	2,366,023.6	2,152,421.6	2,156,171.2	2,088,917.0	**1,878,026.2**
tCO_2/toe	0.1	0.1	0.1	0.1	**0.1**
Production, mmboe	16.2	14.7	14.8	14.3	**12.9**
tCO_2/mmboe	16,623.8	15,467.3	14,193.4	17,820.7	**19,801.8**

According to adjusted GHG National Allocation Plan for 2018-2020, the total Zhaikmunai GHG distribution allowance has been set to 627,174 tonnes of CO2. The Kazakh Ministry of Energy is currently in co-operation with the World Bank to develop and implement an electronic GHG reporting platform which at present is being used in the deployment of a national GHG quota trading system. While we targeted a reduction in our GHG emission intensity ratio in 2018, our total emission levels stayed broadly the same whilst our levels of production fell. Unfortunately this resulted in an increase in our GHG emission intensity ratio and this is something that we are continually working to improve.

Climate change

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 was to better understand and respond to this challenge. During the year we partnered with an external agency to assist us in understanding and reporting on potential impacts to our business. We hope this will be a key step in our ongoing efforts to address the issue of climate change long term within our business.

Climate change can affect our business through physical disruption to operations due to changing weather conditions, legislative and policy changes, technology to help reduce emissions, and future changes in energy market demands. We plan to more rigorously assess the impact of climate change on our business in the near future, including through portfolio resilience testing. Climate change has been added to our risk register for 2018.

Future GHG reduction initiatives

We are committed to reducing our GHG emissions, and future plans include:

- Modernisation of equipment at the Oil Treatment Unit to reduce GHG emissions; and
- Undertaking an energy audit to identify ways in which GHG emissions can be reduced.

ESG risk is already a primary consideration, however Zhaikmunai is working to ensure Senior Management are focused on key issues affecting the business. In addition, the Remuneration Committee has the remit to take into account ESG issues when deciding on the remuneration of directors.

Zhaikmunai must also balance climate change responsibilities with our commitments to the Group'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.

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; and
3. The internal audit function.

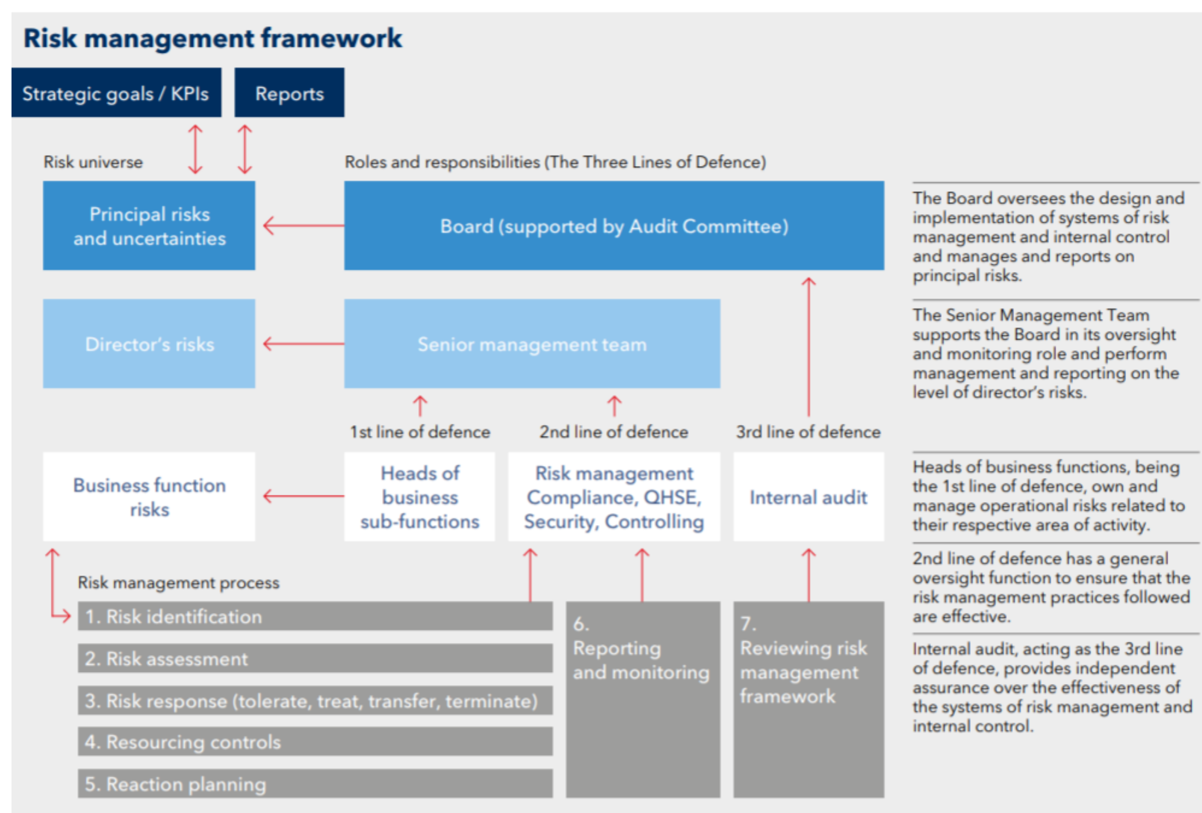
The risk management process goes through a set of coordinated activities starting with risk identification and ending with a review
of the risk management framework, as shown in the diagram below.

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 below in the section “Principal risks and uncertainties”.

In 2018, 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 September 2014.



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 on the next page.

The Board receive 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 Sustainable accountability section.

Changes from prior year risk assessment

In 2018, the principal risks and uncertainties managed and monitored by the Board and senior management mostly remained the same as in 2017, and the related risk assessments did not change significantly. One change relates to the section “Other Risks” where the risk of climate change has now been addressed.

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, regional situation affecting the Group’s areas of operations; and • 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 regarding Derivative Financial Instruments in the Consolidated 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 selling 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 or pipeline. To mitigate the geopolitical, regional 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 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	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”. In December 2018 the Group announced mechanical completion of GTU3 and the start of the commissioning process.

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.	Senior management and the Board continuously monitor the timing, scope and performance of the drilling programme and take 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 owing 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 that may lead to a deviation of production volumes from estimated and projected volumes. Unsuccessful drilling activities and failure to find additional commercial reserves could reduce future production of oil and natural gas, which is dependent on the rate of success of drilling activity. 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	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.

may adversely affect the fulfilment of the Group's strategic objectives.

Description of risk	Risk management
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, ISO 45001 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 owing 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 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.

the Group's business, financial performance and prospects.	
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 to maintain 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	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

to meet their contractual obligations owing to severe market conditions, etc.	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.
CLIMATE CHANGE RISKS	
Climate change Climate change risks is the group of risks including those stemming from more intense extreme weather events, rising energy intensity in the oil and gas industry, the changing regulatory landscape, the risk of fugitive emissions and climate change policies driving down the demand. The risk of more intense extreme weather events, for example, may lead to the following sub-risks: • Risks of reduced asset operation; • Risks of higher insurance premiums; and • Risks of disruptions to supply chains.	The Group is actively planning and managing projects designed to mitigate certain climate change related risks: • To decrease its exposure to rising fuel prices it retooled drilling rigs to derive more power from electricity rather than diesel; • In operations there is a permanent effort and commitment improve energy efficiency and to reduce flaring, venting and leaks; and • At campsite most of the water the Group utilises now is recycled. Climate change is on the Board's agenda. The Senior Management Team actively evaluates opportunities to further adapt and implement cost-effective mitigation measures.
OTHER RISKS	
Other significant risks Other risks are those that 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; or • The availability of human resources. They 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

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

The loss 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 KPIs on page 11.

Results of operations for the years ended 31 December 2018 and 2017

The table below sets forth the line items of the Group's consolidated statement of comprehensive income for the years ended 31 December 2018 and 2017 in US Dollars and as a percentage of revenue.

	For the year ended 31 December			
In thousands of US dollars	**2018**	**% of revenue**	2017	% of revenue
Revenue	**389,927**	100.0%	405,533	100.0%
Cost of sales	**(166,263)**	42.6%	(180,088)	44.4%
Gross profit	**223,664**	57.4%	225,445	55.6%
General and administrative expenses	**(12,380)**	3.2%	(17,184)	4.2%
Selling and transportation expenses	**(50,590)**	13.0%	(66,773)	16.5%
Taxes other than income tax	**(29,728)**	7.6%	(19,935)	4.9%
Impairment charge	**(117,575)**	30.2%	–	0.0%
Finance costs	**(55,798)**	14.3%	(41,452)	10.2%
Loss on derivative financial instruments	**–**	0.0%	(6,658)	1.6%
Foreign exchange loss, net	**(783)**	0.2%	(369)	0.1%
Interest income	**253**	0.1%	277	0.1%
Other income	**5,357**	1.4%	4,298	1.1%
Other expenses	**(46,204)**	11.8%	(12,213)	3.0%
Loss /(profit) before income tax	**(83,784)**	21.5%	65,436	16.1%
Income tax expense	**(20,722)**	5.3%	(47,986)	11.8%
Loss /(profit) for the year	**(104,506)**	26.8%	17,450	4.3%
Other comprehensive income for the year	**–**	0.0%	–	0%
Total comprehensive (income)/loss for the year	**(104,506)**	26.8%	17,450	4.3%

General note

For the year ended 31 December 2018 (the "reporting period") total comprehensive loss increased by US$121.9 million to US$104.5 million (FY 2017: profit US$17.5 million). The increase in loss is mainly due to the impairment charge for the year, which was partially offset by the improvement mainly driven by reductions in cost of sales, general and administrative expenses, selling and transportation expenses and finance costs, as explained in more detail below.

Revenue

The Group's revenue decreased by 3.8% to US$389.9 million for the reporting period (FY 2017: US$405.5 million). This is mainly explained by the decrease in production and sales volumes, which was partially offset by increase in the average Brent crude oil price from 54.7 US$/bbl during 2017 to 71.7 US$/bbl during the reporting period. The pricing for all the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil.

Revenues from sales to the Group's largest three customers amounted to US$258.9 million, US$80.5 million and US$7.0 million respectively (FY 2017: US$200.6 million, US$102.8 million and US$30.9 million).

The following tables present the Group's revenue breakdown by products and sales volumes and the breakdown by export/domestic sales for the reporting period and FY 2017:

	For the year ended 31 December			
In thousands of US dollars	**2018**	2017	Variance	Variance, %
Oil and gas condensate	**267,815**	261,069	6,746	2.6%
Gas and LPG	**122,112**	144,464	(22,352)	(15.5)%
Total revenue	**389,927**	405,533	(15,606)	(3.8)%
Sales volumes (boe)	**10,773,266**	13,813,060	(3,039,794)	(22.0)%
Average Brent crude oil price (US$/bbl)	**71.7**	54.7		

For the year ended 31 December

In thousands of US dollars	2018	2017	Variance	Variance, %
Revenue from export sales	**296,034**	262,767	33,267	12.7%
Revenue from domestic sales	**93,893**	142,766	(48,873)	(34.2)%
Total	**389,927**	405,533	(15,606)	(3.8)%

Cost of sales

	For the year ended 31 December			
In thousands of US dollars	2018	2017	Variance	Variance, %
Depreciation, depletion and amortisation	**115,347**	120,692	(5,345)	(4.4)%
Payroll and related taxes	**11,677**	12,481	(804)	(6.4)%
Repair, maintenance and other services	**16,133**	18,960	(2,827)	(14.9)%
Management fees	**7,726**	8,012	(286)	(3.6)%
Other transportation services	**6,116**	8,335	(2,219)	(26.6)%
Materials and supplies	**5,253**	6,333	(1,080)	(17.1)%
Well workover costs	**2,767**	4,159	(1,392)	(33.5)%
Environmental levies	**367**	375	(8)	(2.1)%
Change in stock	**134**	296	(162)	(54.7)%
Other	**743**	445	298	67.0%
Total	**166,263**	180,088	(13,825)	(7.7)%

Cost of sales decreased by 7.7% to US$166.3 million for the reporting period (FY 2017: US$180.1 million). The decrease is primarily explained by the decrease in depreciation, depletion and amortization, repair, maintenance and other services, other transportation services, materials and supplies and well workover costs, further described in more detail below. On a boe basis, cost of sales increased by 19.6% to US$15.43 for the reporting period (FY 2017: US$13.04) and cost of sales net of depreciation per boe increased by US$0.43, or 9.9%, to US$4.73 (FY 2017: US$4.3).

Depreciation, depletion and amortisation decreased marginally by 4.4% to US$115.3 million for the reporting period (FY 2017: US$120.7 million). Depreciation is calculated applying units of production method. Decrease of depreciation in 2018 in comparison with prior period is a consequence of the ratio change between the volumes produced and the proved developed reserves as well as addition to O&G assets in the amount of US$131.5 million during reporting period.

Repair, maintenance services decreased by 14.9% to US$16.1 million for the reporting period (FY 2017:US$19.0 million) and materials and supplies decreased by 17.1% to US$5.3 million for the reporting period (FY 2017: US$6.3 million). These expenses include services on repairs and maintenance of the facilities, specifically for the gas treatment facility as well as related spare parts and other materials. These costs fluctuate depending on the timing of the periodic scheduled maintenance works.

Other transportation services decreased by 26.6% to US$6.1 million for the reporting period (FY 2017:US$8.3 million). The decrease is explained by the successful cost optimisation implemented by the Group during the reporting period.

General and administrative expenses

In thousands of US dollars	For the year ended 31 December			
	2018	2017	Variance	Variance, %
Payroll and related taxes	**3,595**	5,990	(2,395)	(40.0)%
Management fees	**2,992**	4,025	(1,033)	(25.7)%
Depreciation and amortisation	**1,651**	1,950	(299)	(15.3)%
Insurance fees	**1,282**	1,236	(40)	3.7%
Professional services	**1,155**	1,628	(473)	29.1%
Transportation services	**430**	242	(188)	(77.7)%
Communication	**357**	411	(54)	(13.1)%
Business travel	**170**	407	(237)	(58.2)%
Materials and supplies	**168**	363	(195)	(53.7)%
Bank charges	**124**	169	(45)	(26.6)%
Other	**456**	763	(307)	(40.2)%
Total	**12,380**	17,184	(4.804)	(28.0)%

General and administrative expenses decreased by 28.0% to US$12.4 million for the reporting period (FY 2017: US$17.2 million). This was mainly caused by US$2.4 million or 40.0% decrease in payroll and related taxes services from US$6.0 million in 2017 to US$3.6 million in 2018, partially driven by Tenge depreciation and cost optimisation.

Selling and transportation expenses

In thousands of US dollars	For the year ended 31 December			
	2018	2017	Variance	Variance, %
Loading and storage costs	**18,881**	26,940	(8,059)	(29.9)%
Transportation costs	**15,017**	20,160	(5,143)	(25.5)%
Marketing services	**12,077**	15,158	(3,081)	(20.3)%
Payroll and related taxes	**2,058**	1,570	488	31.1%
Other	**2,557**	2,945	(388)	(13.2)%
Total	**50,590**	66,773	(16,183)	(24.2)%

Selling and transportation expenses decreased by 24.2% to US$50.6 million for the reporting period (FY 2017: US$66.8 million), owing primarily to decrease in sales volumes as well as further decrease effect in oil transportation costs resulting from successful connection to the KTO pipeline

Taxes other than income tax

In thousands of US dollars	For the year ended 31 December 2018	2017	Variance	Variance, %
Royalties	**15,155**	15,724	(569)	(3.6)%
Export customs duty	**11,233**	3,864	7,369	190.7%
Government profit share	**3,277**	248	3,029	1221.4%
Other taxes	**63**	99	(36)	(36.4)%
Total	**29,728**	19,935	9,793	49.1%

Royalties, which are calculated based on production and market prices for the different products, decreased by 3.6% to US$15.2 million for the reporting period (FY 2017: US$15.7 million), which is mainly owing to the relative decrease in the production volumes.

Export customs duty on crude oil increased by 190.7% to US$11.2 million for the reporting period (FY 2017: US$3.9 million), mainly owing to the relative decrease of export sales to CIS countries, which are not subject to export duties.

Government profit share increased by US$3.0 million to US$3.3 million for the reporting period (FY 2017: US$0.2 million).

Impairment charge

Considering the reserves downgrade the Group has stress-tested the impairment model with higher sensitivities and recognised non-cash impairment charge totalling US$117.6 million (FY 2017: nil) of oil and gas assets.

Finance costs

In thousands of US dollars	For the year ended 31 December 2018	2017	Variance	Variance, %
Interest expense on borrowings	**54,419**	40,163	14,256	35.5%
Unwinding of discount on amounts due to Government of Kazakhstan	**845**	866	(21)	(2.4)%
Unwinding of discount on abandonment and site restoration provision	**399**	225	(174)	77.3%
Unwidning of discount on social obligations liability	**–**	40	(40)	(100.0)%
Finance charges under finance leases	**135**	158	23	(14.6) %
Total	**54,419**	40,163	14,346	34.6%

Finance costs increased by 34.6% to US$54.4 million for the reporting period (FY 2017: US$40.2 million), which is mainly owing to the higher transactions costs on bonds refinancing, as well as relatively higher interest capitalisation rate.

Other

Other expenses increased to US$46.2 million for the reporting period (FY 2017: US$12.2 million). Such a significant increase in other expenses is mainly explained by non-recurring liquidity management fees of US$40.6 million incurred in 2018 covering the transaction costs incurred by Nostrum Oil & Gas Finance B.V. in relation to the issue of the 2018 Notes and the 2017 Notes and rebilled to the Group in 2018.

Income tax expense decreased by US$27.3 million to US$20.7 million for the reporting period (FY 2017: US$48.0 million). The decrease in income tax expense was primarily driven by impairment of oil and gas properties in the current period, the effect of which on the deferred tax liabilities was partially offset by the devaluation of Tenge against US Dollar during the reporting period.

Liquidity and capital resources

During the period under review, the Group's principal sources of funds were cash from operations and amounts borrowed from Nostrum Oil & Gas B.V. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2017 Notes and the 2018 Notes) and to funding capital expenditures and working capital requirements.

Cash flows

The following table sets forth the Group's consolidated cash flow statement data for the reporting period and FY 2017:

	For the year ended 31 December	
In thousands of US dollars	**2018**	2017
Cash and cash equivalents at the beginning of the year	**33,261**	85,498
Net cash flows from operating activities	**197,959**	208,262
Net cash used in investing activities	**(171,672)**	(192,006)
Net cash used in financing activities	**(52,468)**	(68,541)
Effects of exchange rate changes on cash and cash equivalents	**(21)**	48
Cash and cash equivalents at the end of the year	**7,059**	33,261

Net cash flows from operating activities

Net cash flow from operating activities was US$198.0 million for the reporting period (FY 2017: US$208.3 million) and was primarily attributable to:

- Loss before income tax for the reporting period of US$83.8 million (FY 2017: profit before income tax of US$65.5 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$117.0 million (FY 2017: US$122.6 million), impairment charge of US$117.6 million (FY 2017: nil), finance costs of US$55.8 million (FY 2017: US$41.5 million).
- A US$4.5 million decrease in working capital (FY 2017: US$19.5 million increase) was mainly due to a decrease in prepayments and other current assets of US$7.2 million (FY 2017: an increase of US$10.2 million), a decrease in trade payables of US$2.4 million (FY 2017: US$4.1 million) and a decrease in other current liabilities of US$6.4 million (FY 2017: an increase of US$0.4 million).
- Income tax paid of US$7.3 million (FY 2017: US$13.4 million).

Net cash used in investing activities

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$172.0 million (FY 2017: US$192.4 million) due primarily to costs associated with the drilling of new wells of US$87.5 million for the reporting period FY 2017: US$57.5 million), costs associated with the third gas treatment unit of US$55.8 million (FY 2017: US$157.5 million), and costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US$2.5 million (FY 2017: US$3.6 million).

Net cash used in financing activities

Net cash used in financing activities during the reporting period made up US$52.5 million, and was mainly represented by the payment of US$104.2 million of the finance costs on the Group's Notes and loans due to Nostrum Oil & Gas B.V. (FY 2017: US$69.7 million) partially offset with net additional loans from Nostrum Oil & Gas B.V. of US$52.3 million (FY 2017: US$2.5 million).

Commitments

Liquidity risk is the risk that the Group 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 Group's financial liabilities as at 31 December 2018 based on contractual undiscounted payments:

As at 31 December 2018	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	27.719	74.156	503.675	1.808.139	**2.410.689**
Trade payables	34.646	–	15,033	–	–	**49.679**
Other current liabilities	18.228	–	–	–	–	**18.228**
Due to Government of Kazakhstan	–	258	773	4,124	7,474	**12,629**
	52.874	**24.977**	**86.962**	**507.799**	**1.815.613**	**2.491.225**

Capital commitments

During the reporting period, the Group's cash used in capital expenditures for purchase of property, plant and equipment (excluding VAT) was approximately US$131.4 million (FY 2017: US$139.5 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, the Group achieved mechanical completion of a third unit in December 2018, with commissioning anticipated to be completed in 2019. The construction of GTU3 is important for implementing the Group'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 2018 Ryder Scott Report and assuming the full commissioning of the gas treatment facility in H2 2019, that the Group's annual production will gradually increase from 2019 onwards. The remaining costs for the completion of GTU3 are estimated at US$34.6 million.

Drilling

Drilling expenditures amounted to US$87.5 million for the reporting period (FY 2017 US$57.5 million). After the completion of GTU3, it is expected that the drilling expenditure will become the primary driver of the Group's investing activities.

Five Year Summary

In millions of US$ (unless mentioned otherwise)	2018	2017	2016	2015	2014
EBITDA reconciliation					
(Loss)/profit before income tax	**(83.8)**	65.4	(52.1)	86.7	348.3
Add back					
Impairment charge	**117.6**	–	–	–	–
Finance costs	**55.8**	41.5	46.4	51.7	72.1
Foreign exchange loss, net	**(0.8)**	(0.4)	(0.2)	20.0	3.4
Loss on derivative financial instruments	**–**	6.7	63.2	(37.1)	(60.3)
Interest income	**(0.3)**	(0.3)	(0.4)	(0.3)	(0.8)
Other expenses	**46.2**	12.2	(2.0)	30.5	50.3
Export customs duty[2]	**–**	–	–	(14.7)	(19.7)
Other income	**(5.4)**	(4.3)	(2.1)	(11.4)	(9.3)
Depreciation, depletion and amortisation	**117.0**	122.6	131.3	109.1	111.8
Proceeds from derivative financial instruments[3]	**–**	–	27.2	92.3	–
Purchase of derivative financial instruments[3]	**(8.6)**	–	–	(92.0)	–
EBITDA	**246.3**	243.4	211.3	234.8	495.8
Operating costs reconciliation					
Cost of sales	**166.3**	180.1	184.5	187.7	222.6
Less					
Depreciation, depletion and amortisation[4]	**(117.0)**	(122.6)	(131.3)	(109.1)	(111.8)
Royalties[5]	**–**	–	–	(14.4)	(24.3)
Government profit share[5]	**–**	–	–	(1.9)	(4.6)
Operating costs	**49.3**	57.5	53.2	62.4	81.9
Net debt reconciliation					
Long-term borrowings	**1,070.7**	1,012.9	1,003.9	996.7	1,035.1
Current portion of long-term borrowings	**4.6**	15.2	15.5	15.4	15.0
Less					
Cash and cash equivalents	**7.1**	33.3	85.5	134.9	361.4
Net debt	**1,068.2**	994.8	933.9	877.2	688.7
Net cash flows from operating activities	**198.0**	208.3	222.3	179.1	375.4
Net cash used in investing activities[6]	**(171.7)**	(192.0)	(199.8)	(242.8)	(310.2)
Net cash from / (used in) financing activities	**(52.5)**	(68.5)	(72.2)	(161.1)	127.2
EBITDA margin[7]	**63.2%**	60.0%	60.7%	52.3%	63.4%
Equity/assets ratio %	**24.2%**	28.3%	28.8%	31.0%	36.2%

1. The reorganisation costs are represented by the costs associated with the introduction of Nostrum as the new holding company of the Group and the respective reorganisation that took place in June 2014.
2. In 2016, 2017 and 2018, Export customs duty is included within Profit / (loss) before income tax (presented within 'taxes other than income tax'). In 2014 and 2015, Export customs duty is included within 'other expenses', therefore an adjustment is made to re-include Export customs duty within respective EBITDA.
3. Cash received from hedge contract represents the cash proceeds from the long-term hedging contract which in accordance with IAS7 Statement of Cash Flows is included within operating cash flows. While this item is not required to be presented in the Consolidated Income Statement, we have included this in our definition of EBIT and EBITDA in order to better align these non-GAAP measures with our operating cash flows.
4. Depreciation as it applies to operating assets only.
5. Prior to 2016, royalties and government profit share were reported within the cost of sales line.
6. IFRS term based on indirect cash flow methodology.
7. EBIDTA margin is calculated as EBITDA divided by total revenue.

Alternative performance measures

In the discussion of the Group's reported operating results, alternative performance measures (APMs) are presented to provide readers with additional financial information that is regularly reviewed by management to assess the financial performance or financial health of the Group, or is useful to investors and stakeholders to assess the Group's performance and position. However, this additional information presented is not uniformly defined by all companies including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted IFRS measure. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

EBITDA

EBITDA is defined as the results of operating activities before depreciation and amortisation, share-based compensation, fair value gains and losses on derivative instruments, foreign exchange losses, finance costs, finance income, non-core income or expenses and taxes, and includes any cash proceeds received or paid out from hedging activity. This metric is relevant as it allows management to assess the operating performance of the Group in absence of exceptional and non-cash items.

Operating costs

Operating costs are the cost of sales less depreciation, royalties and government profit share[5]. This metric is relevant as it allows management to see the cost base of the Group on a cash basis.

Corporate Governance Framework and Principles

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. 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.

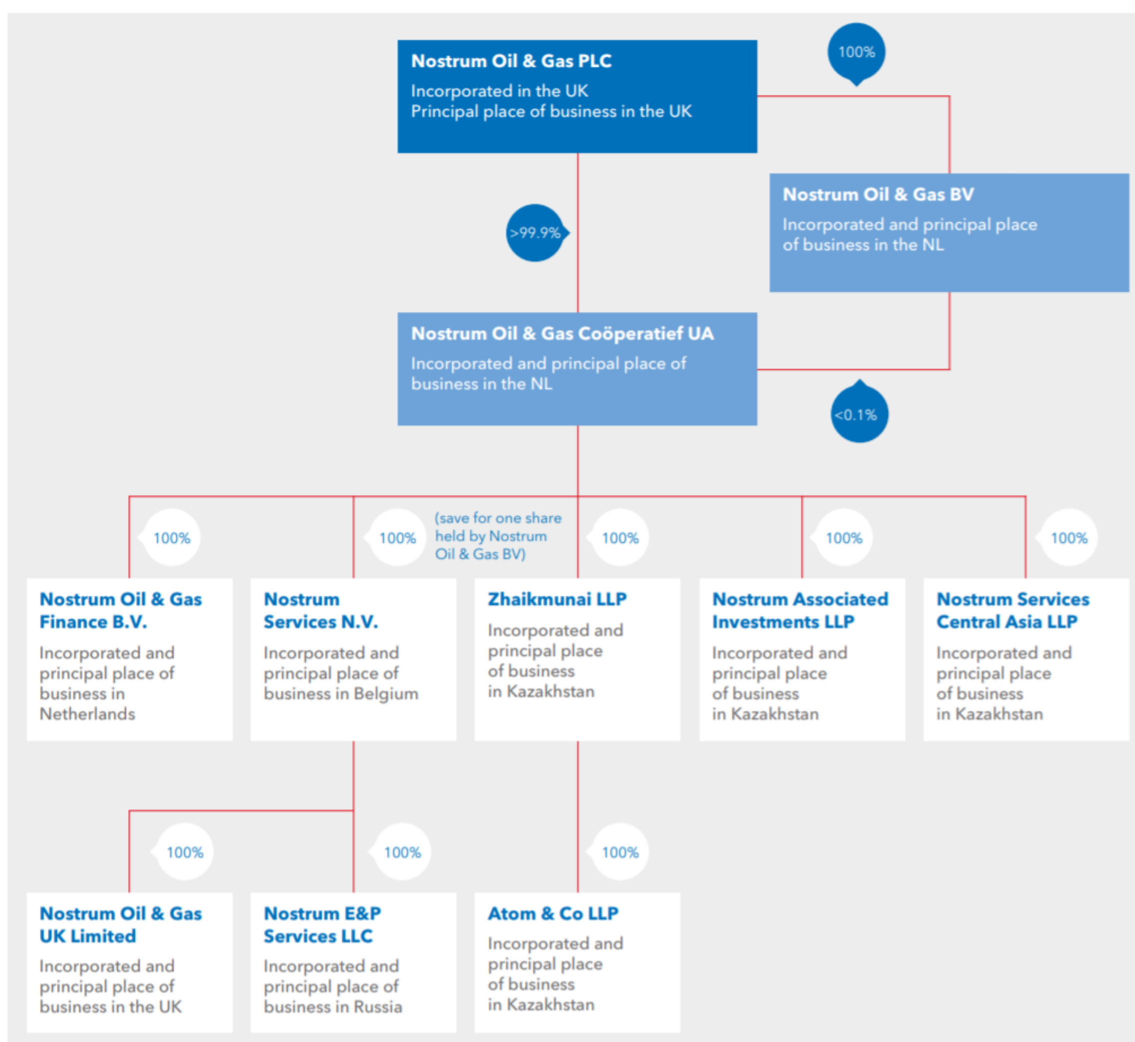
In 2016, Nostrum also updated its code of conduct to include provisions regarding slavery and human trafficking for the purposes of the Modern Slavery Act 2015. Further information regarding the steps Nostrum has taken to ensure there is no slavery or human trafficking in its supply chains can be found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

There were no major transactions in Zhaikmunai LLP's authorised capital or changes to Zhaikmunai LLP's ownership structure in the reporting period.

Group Structure Chart



Zhaikmunai LLP's participatory interests are held by Nostrum Cooperatief Oil & Gas U.A. ("Coop") (100.00%). In 2018, the contribution and results of Atom & Co LLP to the consolidated KPIs and consolidated results of Zhaikmunai LLP were insignificant.

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 2018 was KZT 70,186,000 (comprising his basic compensation). No performance related bonuses were paid in 2018.

Returns to holders of our participatory interests

We are a subsidiary within the Group, and the main operating subsidiary within the Group. We periodically make 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 nil in 2016, 2017 and 2018.

Financial Statements and Auditors Report

Zhaikmunai LLP

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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Independent auditor's report

To the Board of directors and Participant of Zhaikmunai LLP

Opinion

We have audited the consolidated financial statements of Zhaikmunai LLP and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated 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 consolidated financial statements* section of our report. We are independent of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 Group's performance. Management used Group's internal specialists and engaged an external specialist to assist internal specialists in the estimation of reserves volumes. The Group's disclosures about oil and gas reserves, related impairment testing and decommissioning provision are included in Note 4, Note 6 and Note 14.	We performed evaluation of management's assumptions including commercial assumptions, in particular we: • obtained understanding of the Group's internal process and key controls associated with the oil and gas reserves estimation process. • held discussions with external specialists, engaged by the Group, 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 analyzed volumes estimation and other input data prepared by internal specialists and used by the external specialist. 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 Group's calculations in respect of impairment, DD&A and decommissioning provision.

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Impairment of exploration licenses, oil and 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 Group's Cash Generating Unit ('CGU'), in particular, in respect of future prices, both in the short and long-term, the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes.

The Group uses a discounted cash flow model to determine value in use of its cash generating unit, on the basis of the following key assumptions:

- Future prices of oil, natural gas and related products;

- Operating and capital expenditure;

- Inflation and exchange rates;

- Production volumes based on oil and gas reserves; and

- Discount rate applied to the projected cash flows.

The impairment assessment is prepared by management with assistance of the Group's internal valuation experts.

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

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

- evaluated the Group's rights to explore under the relevant exploration area by obtaining and analyzing supporting documentation such as license agreements, signed supplemental agreements and communication with relevant government agencies.
- inquired management about the intention to carry out exploration and evaluation activity in the relevant exploration area and corroborated these responses by comparing them with the assumptions used in the cash-flow forecast models.
- assessed the Group'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, specifically required future capital spending, to the cash-flow forecast models.

For oil and 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 Group relating to the assessment of the carrying value of oil and 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 Group.

- 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 consolidated financial statement disclosures against the requirements of IFRSs.

Other information included in the Group's 2018 Annual report

Other information consists of the information included in the Group's 2018 Annual report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group 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 Group's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

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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.

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 consolidated 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

Kairat Medetbayev
Auditor

Gulmira Turmagambetova
General Director
Ernst & Young LLP

Audit qualification certificate No. МФ-0000137 dated 8 February 2013

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

26 March 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

In thousands of US Dollars.	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Exploration and evaluation assets	5	**50,241**	47,828
Property, plant and equipment	6	**1,926,262**	1,943,986
Restricted cash	11	**7,021**	6,663
Advances for non-current assets	7	**13,152**	14,598
		1,996,676	2,013,075
Current assets			
Inventories	8	**29,584**	29,746
Trade receivables	10	**35,732**	34,520
Prepayments and other current assets	9	**19,225**	25,969
Income tax prepayment		**–**	3,376
Cash and cash equivalents	11	**7,059**	33,261
		91,600	126,872
TOTAL ASSETS		**2,088,276**	**2,139,947**
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	12	**4,112**	4,112
Other reserves		**32,586**	32,586
Retained earnings		**468,579**	568,236
		505,277	604,934
Non-current liabilities			
Long-term borrowings	13	**1,070,736**	1,012,913
Long term finance guarantee	13	**4,111**	3,616
Abandonment and site restoration provision	14	**21,894**	23,590
Due to Government of Kazakhstan	15	**5,280**	5,466
Deferred tax liability	25	**395,224**	381,590
		1,497,245	1,427,175
Current liabilities			
Current portion of long-term borrowings	13	**4,627**	15,173
Current portion of finance guarantee	13	**1,594**	1,212
Trade payables	16	**49,679**	57,524
Advances received		**394**	1,279
Income tax payable		**484**	–
Current portion of due to Government of Kazakhstan	15	**1,031**	1,031
Other current liabilities	17	**27,945**	31,619
		85,754	107,838
TOTAL EQUITY AND LIABILITIES		**2,088,276**	**2,139,947**

General Director of Zhaikmunai LLP — *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 to 36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

In thousands of US Dollars	Notes	2018	2017
Revenue			
Revenue from export sales		**296,034**	262,767
Revenue from domestic sales		**93,893**	142,766
	18	**389,927**	405,533
Cost of sales	**19**	**(166,263)**	(180,088)
Gross profit		**223,664**	225,445
General and administrative expenses	**20**	**(12,380)**	(17,184)
Selling and transportation expenses	**21**	**(50,590)**	(66,773)
Finance costs	**22**	**(55,798)**	(41,452)
Taxes other than income tax	**23**	**(29,728)**	(19,935)
Impairment charge	**4,6**	**(117,575)**	–
Foreign exchange loss net		**(784)**	(369)
Loss on derivative financial instruments		**–**	(6,658)
Interest income		**253**	277
Other income		**5,357**	4,298
Other expenses	**24**	**(46,203)**	(12,213)
(Loss)/profit before income tax		**(83,784)**	65,436
Current income tax expense		**(10,156)**	(11,998)
Deferred income tax expense		**(10,565)**	(35,988)
Income tax expense	**25**	**(20,721)**	(47,986)
(Loss)/profit for the year		**(104,505)**	17,450
Other comprehensive (loss)/income for the year		**–**	–
Total comprehensive (loss)/income for the year		**(104,505)**	17,450

General Director of Zhaikmunai LLP — *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

In thousands of US Dollars	Notes	2018	2017
Cash flow from operating activities:			
(Loss)/profit before income tax		**(83,784)**	65,436
Adjustments for:			
Depreciation, depletion and amortisation	19, 20	**116,998**	122,642
Impairment charge	4, 6	**117,575**	–
Finance costs	22	**55,798**	41,452
Interest income		**(253)**	(277)
Foreign exchange loss/(gain) on investing and financing activities		**311**	(873)
Loss on disposal of property, plant and equipment		**1,510**	1,285
Other income		**(1,180)**	(349)
Loss on derivative financial instruments		**–**	6,658
Provision for doubtful debts		**85**	1,756
Accrued liabilities		**2,691**	3,458
Operating profit before working capital changes		**209,751**	241,188
Changes in working capital:			
Change in inventories		**164**	1,561
Change in trade receivables		**(1,212)**	(5,468)
Change in prepayments and other current assets		**7,203**	(10,159)
Change in trade payables		**(2,351)**	(4,082)
Change in advances received		**(885)**	(531)
Change in due to Government of Kazakhstan		**(1,031)**	(1,289)
Change in other current liabilities		**(6,365)**	420
Cash generated from operations		**205,274**	221,640
Income tax paid		**(7,315)**	(13,378)
Net cash flows from operating activities		**197,959**	208,262
Cash flow from investing activities:			
Interest received		**253**	277
Purchase of property, plant and equipment		**(167,733)**	(188,801)
Exploration and evaluation works		**(2,517)**	(3,482)
Acquisition of subsidiaries		**(1,675)**	–
Net cash used in investing activities		**(171,672)**	(192,006)
Cash flow from financing activities:			
Finance costs paid	13	**(104,223)**	(69,682)
Payment of finance lease liabilities	13	**(237)**	(676)
Repayment of borrowings	13	**(8,000)**	(7,500)
Transfer to restricted cash	11	**(358)**	(683)
Proceeds from borrowings	13	**60,350**	10,000
Net cash used in financing activities		**(52,468)**	(68,541)
Effects of exchange rate changes on cash and cash equivalents		**(21)**	48
Net decrease in cash and cash equivalents		**(26,202)**	(52,237)
Cash and cash equivalents at the beginning of the year		**33,261**	85,498
Cash and cash equivalents at the end of the year	11	**7,059**	33,261

General Director of Zhaikmunai LLP — *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

In thousands of US Dollars	Notes	Capital	Other reserves	Retained earnings	Total
As at 1 January 2017	**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	**3**	**4,112**	**32,586**	**568,236**	**604,934**
Impact of adopting IFRS 9				6,905	6,905
As at 1 January 2018 (restated under IFRS 9)		**4,112**	**32,586**	**575,141**	**611,839**
Loss for the year		–	–	(104,505)	(104,505)
Total comprehensive loss for the year		–	–	**(104,505)**	**(104,505)**
Issue of finance guarantee	13	–		(2,057)	(2,057)
As at 31 December 2018		**4,112**	**32,586**	**468,579**	**505,277**

General Director of Zhaikmunai LLP

Chief Accountant of Zhaikmunai LLP

Zhomart Darkeev

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 to 36 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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.

On 28 December 2018, the Partnership acquired 100% interest in Atom&Co LLP for a cash consideration of US$ 1.7 million for the main purpose of gaining control over the administrative office in Uralsk, which was under finance lease with this entity (Note 27). The Partnership and its subsidiary are further referred as the "Group".

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

The Group 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 consolidated financial statements were authorised for issue by the Partnership's General Director and Chief Accountant on 26 March 2019.

These consolidated financial statements include the financial position and the results of the operations of the Partnership and its wholly owned subsidiary Atom&Co LLP.

Subsoil use rights terms

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

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

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. Subsequently the exploration period for the Bobrishovskiy reservoir was extended to 26 May 2018.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. Subsequently, the exploration period was extended until 8 February 2019.

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 2021.

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 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Royalty payments

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

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

Government "profit share"

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

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared based on a historical cost basis. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Partnership and its subsidiary as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New standards, interpretations and amendments adopted by the Group

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 2018. The Group has not adopted any other standard, interpretation or amendment that has been

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

issued but is not yet effective. The nature and the impact of the amendment which is applicable to the Group's consolidated financial statements is described below:

IFRS 9 Financial Instruments adopted from 1 January 2018

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. However, as permitted by IFRS 9 the Group elected not to restate comparative information for the year ended 31 December 2017 for the financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

In thousands of US dollars	**As previously reported**	**Remeasurement**	**As adjusted**
Property, plant and equipment	1,943,986	2,362	1,946,348
Total non-current assets	2,013,075	2,362	2,015,437
Total assets	**2,139,947**	**2,362**	**2,142,309**
Retained earnings	568,236	6,905	575,141
Total equity	604,934	6,905	611,839
Long-term borrowings	1,012,913	(7,612)	1,005,301
Deferred tax liabilities	381,590	3,069	384,659
Total non-current liabilities	1,427,175	(4,543)	1,422,632
Total equity and liabilities	**2,139,947**	**2,362**	**2,142,309**

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group's financial assets. Trade receivables are held to collect contractual cashflows and are expected to give rise to cashflows representing solely payments of principal and interest, if applicable. Hence, the Group continued to measure these at amortised cost.

The classification and measurement of the Group's financial liabilities has remained materially unchanged on application of IFRS 9 with the exception of long-term borrowings accounted at amortised cost.

Under IFRS 9, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss, whereas under IAS 39 there was no such requirement to recognize gain or loss in such circumstances. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. Any fees and costs incurred are amortised over the remaining term of the asset.

In November 2011, the Notes 2010 were partially refinanced through issue of the Notes 2012 for which the modification was not considered to be significant under IAS 39. As a result, the change in contractual cash flows on the Notes 2010 was amortised over the new life of the Notes 2012, rather than taken straight to profit or loss. Under IFRS 9, the refinancing is a modification of the debt in which the difference in contractual cash flows should be taken straight to profit or loss. The cash flows were reassessed and, on 1 January 2018 on the adoption of IFRS 9, an adjustment for US$ 6,905 thousand was taken through opening reserves, property, plant and equipment (US$ 2,362 thousand), deferred tax liabilities (US$ 3,069 thousand) and through the amortised value of the Notes 2012 (US$ 7,612 thousand).

The adjustment of capitalized transaction costs and fees resulted in the change of the effective interest rate on the Notes from each date of refinancing. Hence, the interest capitalization rate has been revised and related adjustments made to the carrying amounts of property, plant and equipment and deferred taxes at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group applies the simplified approach and record lifetime expected losses on all trade receivables. There was no significant impact on Group's equity due to the short-term nature and high quality of its trade receivables as well as anticipation of low trade impairment losses on trade receivables based on the historical data.

(c) Hedging accounting

The hedge accounting requirements of IFRS 9 have been simplified. Under IFRS 9 all existing hedging relations will qualify as continuing hedging relations. IFRS 9 also introduces a new way of treating fair value movements on the time value of certain hedging instruments. Whereas under IAS 39 these movements were recognized in profit and loss, under IFRS 9 they are initially recognized in equity to the extent that they relate to the hedged item. The changes to hedge accounting under IFRS 9 had no impact on the consolidated financial statements of the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 (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.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Group has adopted IFRS 15 with effect from 1 January 2018, which did not represent a change from the Group's existing practice and did not have a significant effect on the Group's accounting or disclosures, and therefore no transition adjustment is presented.

(a) Sale of goods

The Group 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 had no significant impact on the revenues and profit or loss.

(b) Variable consideration

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group 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. Historically, the goods sold by the Group were not returned by customers, neither there were material volume rebates in contracts. Therefore, application of IFRS 15 has not resulted in a different amount of revenue being recognised than under current IFRS.

(c) Advances received from customers

Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group decided to use the practical expedient provided in IFRS 15, and did not adjust the promised amount of the consideration for the effects of significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group 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 Group does not account for a financing component. The Group receives only short-term advances from its customers. However, the Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Standards issued but not yet effective

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group has chosen to apply the modified retrospective approach which does not require comparatives. Under this approach the lease liability will be based on future rentals as determined under the standard, based on the term of the lease, and usually with a transition date discount rate.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

In summary, the Group estimated that IFRS 16 adoption will result to restatement to opening balance of property, plant and equipment and lease liabilities by US$ 33,747 thousand as at 1 January 2019. Where lease liabilities will be measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

If the full retrospective approach had been chosen, IFRS adoption would have the following impact on the consolidated statements of financial position as at 31 December 2018:

In thousands of US dollars	**1 January 2019**
Property, plant and equipment (right-of-use asset)	33,747
Total non-current assets	**33,747**
Total assets	**33,747**
Lease liabilities, long-term portion	17,207
Total non-current liabilities	**17,207**
Lease liabilities, current portion	16,540
Total current liabilities	**16,540**
Total equity and liabilities	**33,747**

The impact of the standard on 2019 underlying earnings and profit before tax following adoption is not expected to be significant although the income statement presentation of the cost of leases is expected to be changed. Instead of a rent expenses, the cost of leases will be allocated between the depreciation of right-of-use assets, and a finance charge representing the unwinding of the discount on lease liabilities.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date, which may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9: Prepayment features with negative compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. The Group does not expect any effect on its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Annual Improvements 2015-2017 Cycle (issued in December 2017)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group does not expect to pay dividends in the coming reporting period, these amendments will not have any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

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 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 respectively on 8 February 2019, 31 December 2021 and 31 December 2021. The Partnership's applications for extension of the Rostoshinskoye's license is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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*.

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 Group 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

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

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

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 Group'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 Group.

Significant estimates and assumptions: oil and gas reserves

The Group 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 Group 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 Group. 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 Group 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 Group'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 Group 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 Group's non-current assets consisting of all Group'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 Group's ability to transfer probable reserves into proved.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(a) Oil prices (in real terms): US$67.5/bbl for 2019-2032;

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

(c) Production profiles based on Group'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 15.4% (2017: 14.7%);

(g) Considering mechanical completion of GTU3 in December 2018 and the ongoing commissioning works, the first gas is planned for Q2 2019 and full commissioning of the plant during 2019, which is expected to lead to a gradual increase in the annual production volumes.

Owing to drilling challenges in the western area of the Chinarevskoye field accompanied with reduction of the 2P reserves expected to be recovered from the field over the period of 2019-2032, the Group performed stress-testing of the discounted cashflow model by applying higher sensitivities to oil prices and forecast production profiles while keeping discount rate at the same level. Based on such analysis the Group evaluated the value-in-use of the single CGU and recognized an impairment charge US$117,575 thousand allocated between working oil & gas assets and construction in progress proportionate to their carrying amounts at 31 December 2018 (US$67,740 thousand and US$49,835 thousand, respectively). Further downgrades of reserves or decline in oil prices may result in increase of the impairment charge in future periods. Successful drilling results in the western area, 2P reserves increase, and increase in utilisation of the Group's processing facilities would have the effect of reversal of the impairment partially or in full. Delay in commissioning of GTU3 up to 1-2 years will have no material impact on the VIU model used by management for the purpose of the impairment testing.

More detailed information related to carrying values of oil and gas properties and related depreciation, depletion, amortisation and impairment 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 Group 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 Group 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 Group.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 2018 and 2017, 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 2018.

The Group 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 2018 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained. 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$"). The functional currency of the subsidiary Atom&Co LLP is Tenge.

Transactions and balances denominated in foreign currencies

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

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 Group 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 Group 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 Group'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 CONSOLIDATED 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 2018 and 2017, please see *Note 8*.

Provisions and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed by the Group 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 Group 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 Group does not recognise contingent liabilities but discloses contingent liabilities in *Note 27*, unless the possibility of an outflow of resources embodying economic benefits is remote.

Decommissioning

Provision for decommissioning is recognised in full, when the Group 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 Group estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the obligation 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 Group 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 Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

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

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

Financial assets

Initial recognition, measurement and derecognition

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Group determines the classification of its financial assets at initial recognition.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial assets are de-recognised when the rights to receive cash flows from the asset have expired with gains and losses being recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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 Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

During the year ended 31 December 2018, the Group has not provided for impairment losses due to short-term nature and high quality of the financial assets.

Financial liabilities

Initial recognition, measurement and derecognition

All financial liabilities are recorded initially at fair value. The Group'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 consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and short-term deposits

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

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

For more detailed information in relation to cash and cash equivalents as at 31 December 2018 and 2017, please see *Note 11*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Revenue recognition

The Group 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 Group sells gas under agreements at fixed prices.

Revenue from the sale of crude oil, gas condensate, gas and LPG is recognised when when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The Group 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.

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

5. EXPLORATION AND EVALUATION ASSETS

During the year ended 31 December 2018 the Group had additions to exploration and evaluation assets of US$ 2,413 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (2017: US$ 3,557 thousand). Interest was not capitalised on exploration and evaluation assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2018 and 2017 property plant and equipment comprised the following:

In thousands of US Dollars	31 December 2018	31 December 2017
Oil and gas properties	**1,886,844**	1,898,711
Other property, plant and equipment	**39,418**	45,275
	1,926,262	1,943,986

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 2018 and 2017 was as follows:

In thousands of US Dollars	Working assets	Construction in progress	Total
Balance at 1 January 2017, 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
Additions	1,330	216,936	218,266
Transfers	131,900	(131,900)	–
Disposals	(2,203)	–	(2,203)
Disposals depreciation	842	–	842
Depreciation and depletion charge	(111,197)	–	(111,197)
Impairment charge	(67,740)	(49,835)	(117,575)
Balance at 31 December 2018, net of accumulated depreciation and depletion	1,083,317	803,527	1,886,844
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	1,130,385	768,326	1,898,711
As at 31 December 2018			
Cost	1,961,397	803,527	2,764,924
Accumulated depreciation and depletion	(878,080)	–	(878,080)
Balance, net of accumulated depreciation and depletion	1,083,317	803,527	1,886,844

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 10.33% and 10.89% in 2018 and 2017, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2018 and 2017. Depletion has been calculated using the unit of production method based on these reserves estimates.

During the year ended 31 December 2018 the Group evaluated the value-in-use of the single CGU and recognized an impairment charge US$117,575 thousand attributable to oil and gas properties (Note 4).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 2018 resulted in the decrease of the oil and gas properties by US$ 2,823 thousand (31 December 2017: the increase of US$ 1,391 thousand).

The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2018 and 2017:

In thousands of US Dollars	**31 December 2018**	**31 December 2017**
Borrowing costs including amortisation of arrangement fee	**107,572**	76,167
Capitalisation rate	**8.95%**	7.58%
Capitalised borrowing costs	**53,153**	36,004

As at 31 December 2018 the Group's property, plant and equipment of US$ 246,414 thousand were pledged as security for the loans due to Nostrum Oil & Gas B.V. (*Note 13*) (31 December 2017: US$ 230,490 thousand).

Other property, plant and equipment

In thousands of US Dollars	**Buildings**	**Machinery & equipment**	**Vehicles**	**Others**	**Construction in progress**	**Total**
Balance at 1 January 2017, net of accumulated depreciation	**34,529**	**4,254**	**1,209**	**8,802**	**44**	**48,838**
Additions	1,040	2,530	–	983	–	4,553
Transfers	67	22	–	(374)	–	(285)
Disposals	(8)	(452)	(1,198)	(468)	–	(2,126)
Disposals depreciation	7	360	956	276	–	1,599
Depreciation	(4,070)	(1,550)	(191)	(1,493)	–	(7,304)
Balance at 31 December 2017, net of accumulated depreciation and depletion	**31,565**	**5,164**	**776**	**7,726**	**44**	**45,275**
Additions	552	463	9	344	–	1,368
Transfers	115	(168)	–	97	(44)	–
Disposals	(324)	(78)	–	(240)	–	(642)
Disposals depreciation	222	76	–	195	–	493
Depreciation	(4,048)	(1,463)	(142)	(1,423)	–	(7,076)
Balance at 31 December 2018, net of accumulated depreciation	**28,082**	**3,994**	**643**	**6,699**	**–**	**39,418**
As at 31 December 2016						
Cost	49,152	18,094	2,800	14,532	44	84,622
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**	**48,838**
As at 31 December 2017						
Cost	50,251	20,194	1,602	14,673	44	86,764
Accumulated depreciation	(18,686)	(15,030)	(826)	(6,947)	–	(41,489)
Balance, net of accumulated depreciation	**31,565**	**5,164**	**776**	**7,726**	**44**	**45,275**
As at 31 December 2018						
Cost	50,602	20,410	1,566	14,881	–	87,459
Accumulated depreciation	(22,520)	(16,416)	(923)	(8,182)	–	(48,041)
Balance, net of accumulated depreciation	28,082	3,994	643	6,699	–	39,418

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. ADVANCES FOR NON-CURRENT ASSETS

In thousands of US Dollars	**31 December 2018**	**31 December 2017**
Advances for construction services	**12,632**	9,512
Advances for pipes and construction materials	**520**	5,086
	13,152	14,598

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.

8. INVENTORIES

As at 31 December 2018 and 2017 inventories comprised the following:

In thousands of US Dollars	**31 December 2018**	**31 December 2017**
Spare parts and other inventories	**23,479**	23,505
Gas condensate	**4,198**	4,064
Crude oil	**1,761**	1,968
LPG	**126**	189
Dry Gas	**20**	20
	29,584	29,746

As at 31 December 2018 and 2017 inventories are carried at cost.

9. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 31 December 2018 and 2017 prepayments and other current assets comprised the following:

In thousands of US Dollars	**31 December 2018**	**31 December 2017**
VAT receivable	**10,784**	14,728
Advances paid	**4,772**	6,306
Other taxes receivable	**2,947**	4,261
Other	**722**	674
	19,225	25,969

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2018, advances paid for legal services in the amount of US$ 1,841 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 2017	–
Charge for the year	1,756
As at 31 December 2017	1,756
Charge for the year	85
As at 31 December 2018	**1,841**

10. TRADE RECEIVABLES

As at 31 December 2018 and 2017 trade receivables were not interest bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 31 December 2018 and 31 December 2017 there were neither past due nor impaired trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	31 December 2018	31 December 2017
Current accounts in US Dollars	**6,194**	16,389
Current accounts in Tenge	**857**	16,859
Current accounts in other currencies	**–**	5
Petty cash	**8**	8
	7,059	33,261

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as liquidation fund deposit in the amount of US$ 658 thousand with Sberbank in Kazakhstan and US$ 6,363 thousand with Halyk bank (31 December 2017: US$ 6,663 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

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 2018 and 2017:

In thousands of US Dollars	31 December 2018	31 December 2017
Notes issued in 2012 and maturing in 2019	**559,617**	555,713
Notes issued in 2014 and maturing in 2019	**399,282**	408,045
Nostrum Oil & Gas B.V.	**116,464**	63,518
Finance lease liability (Note 27)	**–**	810
	1,075,363	1,028,086
Less amounts due within 12 months	**(4,627)**	(15,173)
Amounts due after 12 months	**1,070,736**	1,012,913

2012 and 2014 Notes

On 13 November 2012, Zhaikmunai International B.V. issued US$ 560,000 thousand notes (the "2012 Notes"). On 24 April 2013 Zhaikmunai LLP replaced Zhaikmunai International B.V. as issuer of the 2012 Notes and assumed all of the obligations of the issuer under the 2012 Notes.

On 14 February 2014, Nostrum Oil & Gas Finance B.V. issued US$ 400,000 thousand notes (the "2014 Notes"). On 6 May 2014, Zhaikmunai replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes and assumed all of the obligations of the issuer under the 2014 Notes.

On 17 February 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

On 2 May 2018, certain amendments to the terms and conditions of the 2012 and 2014 Notes became effective, whereby the interest rate on the 2012 and 2014 Notes was changed to 9.5%, being effective from 19 February 2018. The maturity dates of the 2012 and 2014 were moved to 25 June 2033 and 14 January 2033, respectively.

Interest on the 2012 and 2014 Notes is payable on 14 June and 14 December of each year.

Guarantee of 2017 Notes

On 25 July 2017, Nostrum Oil & Gas Finance B.V., an indirect wholly-owned subsidiary of Nostrum Oil & Gas PLC, issued US$ 725,000 thousand notes (the "2017 Notes").

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

As at 25 July 2017, the Partnership recognised the granted guarantee liability at the fair value of US$ 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 the 2017 Notes' interest rate. During the year ended 31 December 2018, the Partnership recognised guarantee gain in the amount of US$ 966 thousand and the outstanding balance as at 31 December 2018 of the guarantee, both current and non-current totaled US$ 3,861 thousand.

Guarantee of 2018 Notes

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

The 2018 Notes are jointly and severally guaranteed on a senior basis by Zhaikmunai LLP, Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A. and Nostrum Oil & Gas B.V.

As at 16 February 2018, the Partnership recognised the granted guarantee liability at the fair value of US$ 2,057 thousand, which is present value of the guarantee premium estimated based on the assessment of credit risk of the 2018 Issuer. The present value of the estimated guarantee premium is discounted by the 2018 Notes' interest rate. During the year ended 31 December 2018, the Partnership recognized guarantee gain in the amount of US$ 214 thousand and the outstanding balance as at 31 December 2018 of the guarantee, both current and non-current totaled US$ 1,844 thousand.

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.

Subsequently, the interest rate was changed to 6.625% and the maturity date was moved to 31 December 2022.

The outstanding balance of the loan as at 31 December 2018 has an interest rate of 6.625% (31 December 2017: 6.625%).

For the period running from 22 December 2010 to 31 December 2018, the amount of the earlier repayments net of the received additional loans totaled US$ 340,776 thousand.

Changes in borrowings arising from financing activities are as follows:

	1 January 2018	**Finance charges under finance leases**	**Cash flows**	**Borrowing costs including amortisation of arrangement fees**	**Other**	**31 December 2018**
Long-term borrowings	**1,012,913**	–	47,118	3,899	6,806	**1,070,736**
Current portion of long-term borrowings	**15,173**	135	(99,133)	88,577	(125)	**4,627**
	1,028,086	**135**	**(52,015)**	**92,476**	**6,681**	**1,075,363**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	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 the years ended 31 December 2018 and 2017 is as follows:

In thousands of US Dollars	2018	2017
Abandonment and site restoration provision as at 1 January	**23,590**	19,635
Additional provision	**728**	2,430
Unwinding of discount	**399**	225
Provision used	**–**	(91)
Change in estimates	**(2,823)**	1,391
Abandonment and site restoration provision as at 31 December	**21,894**	23,590

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 2018 were 2.3 % and 4.33 %, respectively (31 December 2017: 2.50 % and 3.63 %).

The change in the discount rate and inflation rate in the year ended 31 December 2018 resulted in the decrease of the abandonment and site restoration provision by US$ 2,823 thousand (31 December 2017: the increase by US$1,391 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 Group to the Government during the production period. The total amount of liability due to Government as stipulated by the Contract is US$ 25,000 thousand.

Repayment of this liability commenced in 2008 with the first payment of US$ 1,030 thousand in March 2008 and with further payments by equal quarterly instalments of US$ 258 thousand until 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 2018 and 2017 is as follows:

In thousands of US Dollars	2018	2017
Due to Government of Kazakhstan as at 1 January	**6,497**	6,920
Unwinding of discount	**845**	866
Paid during the year	**(1,031)**	(1,289)
	6,311	6,497
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,280**	5,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. TRADE PAYABLES

Trade payables comprise the following as at 31 December 2018 and 2017:

In thousands of US Dollars	**31 December 2018**	**31 December 2017**
US Dollar denominated trade payables	**23,088**	22,848
Tenge denominated trade payables	**20,672**	27,219
Euro denominated trade payables	**4,948**	6,417
Russian Rouble denominated trade payables	**971**	1,040
	49,679	57,524

17. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 31 December 2018 and 2017:

In thousands of US Dollars	**31 December 2018**	**31 December 2017**
Training obligations accrual	**11,609**	11,592
Other accruals	**5,682**	3,458
Taxes payable, other than corporate income tax	**4,926**	5,710
Accruals under the subsoil use agreements	**2,174**	6,484
Due to employees	**1,690**	2,532
Other current liabilities	**1,864**	1,843
	27,945	31,619

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 Group'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 2018 was US$ 71,69 (2017: US$ 54,74).

In thousands of US Dollars	**2018**	**2017**
Revenue from oil and gas condensate sales	**267,815**	261,069
Revenue from gas and LPG sales	**122,112**	144,464
	389,927	405,533

During the year ended 31 December 2018 the revenue from sales to three major customers amounted to US$ 258,898 thousand, US$ 80,499 thousand and US$ 11,924 thousand, respectively (2017: US$ 200,438 thousand, US$ 102,813 thousand and US$ 30,052 thousand, respectively).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. COST OF SALES

In thousands of US Dollars	2018	2017
Depreciation, depletion and amortisation	**115,347**	120,692
Repair, maintenance and other services	**16,133**	18,960
Payroll and related taxes	**11,677**	12,481
Management fees	**7,726**	8,012
Transportation services	**6,116**	8,335
Materials and supplies	**5,253**	6,333
Well workover costs	**2,767**	4,159
Environmental levies	**367**	375
Change in stock	**136**	296
Other	**741**	445
	166,263	180,088

20. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	2018	2017
Payroll and related taxes	**3,595**	5,990
Management fees	**2,992**	4,025
Depreciation and amortisation	**1,651**	1,950
Insurance fees	**1,282**	1,236
Professional services	**1,155**	1,628
Transportation services	**430**	242
Communication	**357**	411
Business travel	**170**	407
Materials and supplies	**168**	363
Bank charges	**124**	169
Other	**456**	763
	12,380	17,184

21. SELLING AND TRANSPORTATION EXPENSES

In thousands of US Dollars	2018	2017
Loading and storage costs	**18,881**	26,940
Transportation costs	**15,017**	20,160
Marketing services	**12,077**	15,158
Payroll and related taxes	**2,058**	1,570
Other	**2,557**	2,945
	50,590	66,773

22. FINANCE COSTS

In thousands of US Dollars	2018	2017
Interest expense on borrowings	**54,419**	40,163
Unwinding of discount on amounts due to Government of Kazakhstan	**845**	866
Unwinding of discount on abandonment and site restoration provision	**399**	225
Unwidning of discount on social obligations liability	**–**	40
Finance charges under finance leases	**135**	158
	55,798	41,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. TAXES OTHER THAN INCOME TAX

In thousands of US Dollars	2018	2017
Royalties	**15,155**	15,724
Export customs duty	**11,233**	3,864
Government profit share	**3,277**	248
Other taxes	**63**	99
	29,728	19,935

24. OTHER EXPENSES

In thousands of US Dollars	2018	2017
Liquidity management fees	**40,600**	–
Other accruals	**2,691**	3,024
Training	**2,382**	2,675
Loss on disposal of property, plant and equipment	**1,510**	1,810
Currency converting	**375**	481
Social program	**316**	316
Bad debt provision	**85**	1,756
Sponsorship	**52**	256
Accruals under subsoil agreements	**(3,327)**	587
Other expense	**1,519**	1,308
	46,203	12,213

Liquidity management fees include the transaction costs incurred by Nostrum Oil & Gas Finance B.V. in relation to the issue of the 2018 Notes and the 2017 Notes and rebilled to the Partnership (Notes 13).

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

25. INCOME TAX

The income tax expense consisted of the following:

In thousands of US Dollars	2018	2017
Corporate income tax expense	**11,007**	11,651
Deferred income tax expense	**10,565**	35,988
Adjustment in respect of the current income tax for the prior periods	**(851)**	347
Total income tax expense	**20,721**	47,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

In thousands of US Dollars	2018	2017
(Loss)/profit before income tax	**(83,784)**	65,436
Tax rate applicable to the subsoil use rights	**30%**	30%
Expected tax provision	**(25,135)**	19,631
Effect of exchange rate on the tax base	**18,284**	(390)
Adjustments in respect of current income tax of previous years	**(851)**	347
Effect of income taxed at different rate[1]	**–**	666
Technological losses	**–**	225
Non-deductible interest expense on borrowings	**29,055**	19,755
Non-deductible penalties	**(998)**	3,222
Loss on disposal of property, plant and equipment	**453**	386
Net foreign exchange loss	**(1,261)**	588
Non-deductible provision for impairment of advances paid	**26**	527
Non-deductible social expenditures	**–**	256
Non-deductible training expenditures	**–**	282
Other non-deductible expenses	**1,148**	2,491
Income tax expenses reported in the consolidated financial statements	**20,721**	47,986

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

The Group's effective tax rate for the year ended 31 December 2018 is negative 24.73% (2017: 73.8%). The Group's effective tax rate, excluding effect of movements in exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2018 is 31.8% (2017: 44%).

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

In thousands of US Dollars	2018	2017
Deferred tax asset		
Accounts payable and provisions	**4,883**	4,969
Deferred tax liability		
Property, plant and equipment	**(400,107)**	(386,559)
	(395,224)	(381,590)

The movements in the deferred tax liability were as follows:

In thousands of US Dollars	2018	2017
Balance as at 1 January	**381,590**	345,602
IFRS 9 adoption	**3,069**	–
Current period charge to statement of comprehensive income	**10,565**	35,988
Balance as at 31 December	**395,224**	381,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties as at 31 December 2018 and 2017 consisted of the following:

In thousands of US Dollars	31 December 2018	31 December 2017
Trade receivables and advances paid		
With significant influence over Partnership:		
JSC OGCC KazStroyService	**11,408**	7,573

Accounts payable to related parties as at 31 December 2018 and 2017 consisted of the following:

In thousands of US Dollars	31 December 2018	31 December 2017
Borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**115,850**	63,500
Trade payables		
With significant influence over the Partnership:		
JSC OGCC KazStroyService	**11,420**	10,063
Under common control:		
Nostrum Services N.V.	**1,505**	1,737
Nostrum Services Central Asia LLP	**–**	66

During the years ended 31 December 2018 and 2017 the Group had the following transactions with related parties:

In thousands of US Dollars	2018	2017
Repayment of borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**8,000**	7,500
Received borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**60,350**	10,000
Interest paid		
Under common control:		
Nostrum Oil & Gas B.V.	**4,912**	4,242
Purchases		
With significant influence over the Partnership:		
JSC OGCC KazStroyService	**13,975**	50,350
Liquidity management fees		
Under common control:		
Nostrum Oil & Gas Finance B. V.	**40,618**	–
Management fees and consulting services		
Under common control:		
Nostrum Services Central Asia LLP	**543**	1,503
Nostrum Services N.V.	**14,726**	14,359

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 eight supplemental agreements since 28 July 2014, the "Construction Contract").

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2018 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 2018 (year ended 31 December 2017: US$ 208 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.

27. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the consolidated 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 1.25. 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 2018 . As at 31 December 2018 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

The Partnership may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. 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 2018 the Partnership had contractual capital commitments in the amount of US$131,373 thousand (31 December 2017: US$ 139,462 thousand) mainly in respect to the Partnership's oil field exploration and development activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Operating lease

In 2010 the Partnership entered into several agreements on lease of 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 2018	31 December 2017
No later than one year	**5,417**	7,019
Later than one year and no later than five years	**5,431**	14,057

Lease expenses of railway tank wagons for the year ended 31 December 2018 amounted to US$ 5,296 thousand (2017: US$ 7,394 thousand).

Finance lease

On 12 April 2016 Zhaikmunai LLP entered into a finance lease agreement with Atom & Co LLP for the main administrative office in Uralsk for a period of 20 years for a fee of US$66 thousand per month, and a finance lease prepayment amounting to equivalent of US$12,163 thousand.

On 28 December 2018, the Group acquired 100% interest in Atom & Co LLP for a cash consideration of US$1.7 million and became the owner of the administrative building, hence the finance lease was derecognized (Note 1). At the date of the transaction the remaining balance of the finance lease prepayment in the amount of US$11,236 together with the cash consideration paid were considered to be part of the purchase price, has been allocated to the individually identifiable assets and liabilities on the basis of their fair values at the date of the transaction.

Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

	2018		2017	
In thousands of US Dollars	Minimum payments	Present value of payments	Minimum payments	Present value of payments
No later than one year	–	–	142	131
Later than one year and no later than five years	–	–	558	345
Later than five years	–	–	1,900	334
Total minimum lease payments	**–**	**–**	**2,600**	**810**
Less amounts representing finance charges	–	–	1,790	–
Present value of minimum lease payments	**–**	**–**	**810**	**810**

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 12 April 2018) require the subsurface user to:

(i) spend US$ 133 thousand for funding of development of Astana city;

(ii) invest at least US$ 12,209 thousand for exploration of the field during the exploration period;

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(iv) fund liquidation expenses equal to US$ 133 thousand.

(v) spend US$ 1,250 thousand to finance social infrastructure.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 31 October 2018) require the subsurface user to:

(i) invest at least US$ 19,837 thousand for exploration of the field during the exploration period;

(ii) spend US$ 201 thousand for education of personnel engaged to work under the contract during the exploration stage;

(iii) spend US$ 221 thousand to finance social infrastructure;

(iv) fund liquidation expenses equal to US$ 201 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 10 October 2018) require the subsurface user to:

(i) invest at least US$ 20,351 thousand for exploration of the field during the exploration period;

(ii) spend US$ 176 thousand for education of personnel engaged to work under the contract during the exploration stage;

(iii) spend US$ 220 thousand to finance social infrastructure;

(iv) fund liquidation expenses equal to US$ 176 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.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group’s financial instruments are interest rate risk, foreign exchange risk, liquidity risk, credit risk and commodity price risk. The Group’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 Group is not exposed to interest rate risk in 2018 and 2017 as the Group had no financial instruments with floating-rate as at years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Foreign currency risk

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

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

	Change in Tenge to US dollar exchange rate	Effect on profit before tax
2018		
US Dollar thousand	**14.00%**	(2,790)
US Dollar thousand	**(10.00)%**	1,993
2017		
US Dollar thousand	**10.00%**	(1,970)
US Dollar thousand	**(10.00)%**	1,970

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

As at 31 December 2018	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	865	–	–	–	865
Trade receivables	16,231	–	–	–	16,231
Trade payables	(20,672)	(971)	(4,948)	–	(26,591)
Other current liabilities	(16,336)	–	–	–	(16,336)
	(19,912)	**(971)**	**(4,948)**	**–**	**(25,831)**

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)**

Liquidity risk

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

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

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

The Group's total outstanding debt consists of US$ 116 million of loan due to Nostrum Oil & Gas B.V. and two notes: US$ 560 million issued in 2012 and maturing in 25 June 2033 and US$ 400 million issued in 2014 and maturing in 14 January 2033. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2018 and 2017 based on contractual undiscounted payments:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2018	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Borrowings	**–**	**24,719**	**74,156**	**503,675**	**1,808,139**	**2,410,689**
Trade payables	**34,646**	**–**	**15,033**	**–**	**–**	**49,679**
Other current liabilities	**18,228**	**–**	**–**	**–**	**–**	**18,228**
Due to Government of Kazakhstan	**–**	**258**	**773**	**4,124**	**7,474**	**12,629**
	52,874	**24,977**	**89,962**	**507,799**	**1,815,613**	**2,491,225**

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**

Credit risk

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

The Group places its tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba3 (stable) from Moody's rating agency and ING with a credit rating of Aa3 (stable) from Moody's rating agency at 31 December 2018. The Group does not guarantee obligations of other parties.

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

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

An impairment analysis is performed at each reporting date on an individual basis for major clients. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The 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 Group's financial instruments, other than those with carrying amounts reasonably approximating their fair values:

	Carrying amount		**Fair value**	
In thousands of US Dollars	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**(1,075,363)**	(1,027,276)	**(620,440)**	(1,018,635)
Finance lease liability	**–**	(810)	**–**	(1,267)
Total	**(1,075,363)**	(1,028,086)	**(620,440)**	(1,019,902)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

During the year ended 31 December 2018 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

Capital management

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

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

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

In thousands of US Dollars	**2018**	**2017**
Borrowings	**1,075,363**	1,028,086
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(14,080)**	(39,924)
Net debt	**1,061,283**	988,162
Equity	**505,277**	604,934
Total capital	**505,277**	604,934
Capital and net debt	**1,566,560**	1,593,096
Gearing ratio	**68%**	62%

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2018.

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 to develop an open and transparent communication between the Group (including Zhaikmunai LLP) and its shareholders, providing information about the financial and operational performance of the Group. The Investor Relations department of the Group seeks to ensure all questions received from any of the Group's stakeholders are dealt with in a timely manner based on the underlying principle that the Group is approachable and responsive to any potential queries.

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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 issued 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 sedimentary rock.
bcm	Billion cubic metres.
Boe	Barrels of (crude) oil equivalent, i.e. the factor used by Zhaikmunai to convert volumes of different hydrocarbon production to barrels of oil equivalent.
Boepd	Barrels of (crude) oil equivalent per day.
Bopd	Barrels of crude oil 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.
CDP	CDP is an organisation based in the United Kingdom which supports companies to disclose their environmental impact (formerly known as the Carbon Disclosure Project).

Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
CO_2	Carbon dioxide.
commissioning	Process to assure a facility or plant such as GTU3 is tested to verify if it functions according to technical objectives and specifications before use.
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 Zhaikmunai 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

G&A General and administrative expenses.

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.

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

KASE Kazakhstan Stock Exchange.

Kazakhstan The Republic of Kazakhstan.

KazMunaiGas 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.
LTIP	Long-term incentive plan.

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.
mboe	Thousands of barrels of oil equivalent.
mechanical completion	Final construction or installation phase whereby a facility can then undergo commissioning activities
mmbbls	Millions of barrels of oil.
mmboe	Millions of barrels of oil equivalent.

N

NBK	National Bank of Kazakhstan.
NED	Non-executive director
Nostrum	Nostrum Oil & Gas PLC Registered Office: 9th Floor 20 Eastbourne Terrace London W2 6LG United Kingdom

O

OPEC	The Organisation of Petroleum Exporting Countries.
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

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.
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.
processing	processing of saleable product from hydrocarbons sourced from oil wells and gas wells.
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.

Q

QHSE	Quality, Health, Safety and the Environment.

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.
RoK	Republic of Kazakhstan.
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.
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.
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

TCFD	Task Force on Climate-related Financial Disclosures.
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 1960s, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed “Uralsk Enlarged Oil-Gas Exploration Expedition”.
UOG	Ural Oil and Gas LLP.
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

Zhaikmunai LLP	Principal operating entity of the Group Corporate Office: 43/1 Karev str. Uralsk, 090000 Republic of Kazakhstan