Nostrum Oil & Gas PLC

Consolidated financial statements
For the year ended 31 December 2015

with Independent auditors' report

Consolidated financial statements
Contents

Page

Independent auditor's report **114**

Consolidated statement of financial position **126**

Consolidated statement of comprehensive income **127**

Consolidated statement of cash flows **128**

Consolidated statement of changes in equity **129**

Notes to the consolidated financial statements **130**

1. General 130
2. Basis of preparation and consolidation 131
3. Changes in accounting policies and disclosures 132
4. Summary of significant accounting policies 135
5. Business combinations 143
6. Goodwill 144
7. Exploration and evaluation assets 145
8. Property, plant and equipment 145
9. Advances for non-current assets 148
10. Inventories 148
11. Trade receivables 148
12. Prepayments and other current assets 148
13. Current investments 148
14. Cash and cash equivalents 149
15. Share capital and reserves 149
16. Earnings per share 150
17. Borrowings 150
18. Abandonment and site restoration provision 152
19. Due to government of Kazakhstan 152
20. Trade payables 153
21. Other current liabilities 153
22. Revenue 154
23. Cost of sales 154
24. General and administrative expenses 155
25. Selling and transportation expenses 155
26. Finance costs 155
27. Finance costs – reorganisation 156
28. Employees' remuneration 156
29. Derivative financial instruments 158
30. Other expenses 158
31. Income tax 159
32. Related party transactions 160
33. Audit and non-audit fees 161
34. Contingent liabilities and commitments 162
35. Financial risk management objectives and policies 163
36. Events after the reporting period 167

Consolidated financial statements

Independent auditors' report to the members of Nostrum Oil & Gas PLC

We present our audit report on the Group and Parent company financial statements of Nostrum Oil & Gas PLC (the 'financial statements'), which comprise the Group and Parent primary statements and related notes.

Our opinion on the financial statements

In our opinion:

► Nostrum Oil & Gas PLC's Group financial statements and Parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;

► the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

► the Parent company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and

► the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Nostrum Oil & Gas PLC's financial statements comprise:

Group	**Parent company**
Consolidated statement of financial position as at 31 December 2015	Statement of financial position as at 31 December 2015
Consolidated statement of Comprehensive Income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Cash flow statement for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 14 to the financial statements
Related notes 1 to 36 to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Consolidated financial statements

Independent auditors’ report to the members of Nostrum Oil & Gas PLC

Overview of our audit approach

Risks of material misstatement	▪ Estimation of oil and gas reserves and its impact on the impairment testing, depreciation, depletion and amortisation and decommissioning provision ▪ Impairment of exploration licenses, goodwill and oil & gas development and production fixed assets ▪ Revenue recognition ▪ Completeness of related party transactions and related disclosures ▪ Risk of management override
Audit scope	▪ We performed an audit of the complete financial information of 3 components across United Kingdom, Kazakhstan and Belgium and audit procedures on specific balances for a further 5 components across United Kingdom, Kazakhstan, Russia and the Netherlands. ▪ The components where we performed full or specific audit procedures accounted for approximately 100% of Profit before tax, Revenue and Total assets.
Materiality	▪ Overall Group materiality of US$3.6m which represents 5% of Profit before tax.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Estimation of oil and gas reserves and its impact on the impairment testing, depreciation, depletion and amortisation and decommissioning provision *Refer to the Audit Committee Report on page 82; the estimates and judgements on page 123 and the disclosures in note 8 of the Consolidated Financial Statements (page 133)* This was considered to be a significant risk due to the subjective nature of reserves estimates and their pervasive impact on the financial statements through impairment, DD&A calculations and decommissioning provision estimate. Reserves are also considered a fundamental indicator of the future potential of the Group's performance. The estimation of oil and gas reserves is a significant area of judgement due to the technical uncertainty in assessing reserves quantities. Consistent with the previous year, management has engaged a third party specialist in connection with the estimation of reserves volumes.	Our audit procedures have focused on management's estimation process, including whether bias exists in determination of reserves. We challenged management's assumptions including commercial assumptions to ensure that they are based on supportable evidence. We have: ▪ carried out procedures to walkthrough and understand the Group's internal process and key controls associated with the oil and gas reserves estimation process. ▪ met with management's third party specialist during the planning and execution of the audit and assessed their competence and objectivity by inquiring their qualifications, practical experience and independence. We have also assessed the competence of internal management's specialists, to satisfy ourselves they are appropriately qualified to carry out the volumes estimation and prepare the input data used by the third party specialist. We checked the accuracy of the data transfer to the third party specialist. ▪ corroborated management's commercial assumptions by checking they lie within an acceptable range compared to publicly available benchmarks where appropriate. We compared management's internal assumptions to the latest plans and budgets for consistency; we have also challenged management's capabilities to execute on such plans by comparison to prior performance. ▪ reviewed the final oil and gas reserves estimation report prepared by management's third party specialist in light of our understanding of the business and we confirmed with them that all significant changes in reserves were made in appropriate period, and in compliance with relevant industry standards. ▪ validated that the updated reserves	Based on our procedures we consider that the reserves estimations are reasonable for use in the impairment testing, calculation of DD&A and the determination of decommissioning dates.

Risk	Our response to the risk	What we concluded to the Audit Committee
	estimates were included appropriately in the Group's consideration of impairment, in accounting for DD&A and determination of decommissioning dates. We performed full scope audit procedures over this risk area in one location (Kazakhstan), which covered 100% of the risk.	
The risk of Impairment of exploration licenses, goodwill and oil & gas development and production fixed assets *Refer to the Audit Committee Report on page 82; the estimates and judgements on page 123 and the disclosures in notes 6 to 8 of the Consolidated Financial Statements (page 132-134).* *At 31 December 2015 the carrying value of goodwill was US$32,425 thousand (2014: US$32,425 thousand); exploration licenses: US$36,917 thousand (2014: US$24,380 thousand); oil & gas development and production assets, including non-current advances: US$1,697,363 thousand (2014: US$1,536,196 thousand).* The continued decline in worldwide crude oil prices and the prices of related refined products over the current year pose a heightened impairment risk for the Group. Management have identified an impairment trigger with respect to the oil & gas development and production fixed assets in Kazakhstan. We focused on this area 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') around the future prices of oil, natural gas and related products, both in the short and long-term, the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes.	For exploration licenses we have evaluated management's assessment of each impairment trigger per IFRS 6 'Exploration for and Evaluation of Mineral Resources'. We have: ▪ verified that the Group had the right to explore in the relevant exploration licence which included obtaining and reviewing supporting documentation such as license agreements and signed supplemental agreements and communication with relevant government agencies. In the event of non-compliance the Group can evidence that the terms are modified and any relevant penalties and fines accrued. ▪ inquired that management had the intention to carry out exploration and evaluation activity in the relevant exploration area and corroborated these responses by reviewing management's cash-flow forecast models to verify they include further spend on the exploration activities. We discussed the intentions and strategy of the Group with senior management and Directors to confirm our understanding. ▪ validated whether the Group has the ability to finance any planned future exploration and evaluation activity. ▪ assessed the competency of management's experts, and (where applicable), the competency and objectivity of third party specialists engaged for the purposes of assessing the reserves and resources associated with those exploration and evaluation assets. ▪ corroborated the commercial viability of the exploration fields to the cash-flow forecast models. In addressing the risk of impairment for	The Group's price assumptions are within the range of analyst expectations and other market data, including the range of what we understand other market participants are considering as a long-term oil and gas prices. The pre-tax discount rate of 14% is within the range of our expectations. Based on our procedures, we believe that the cash flow projections estimated are reasonable, the assumptions are supportable and the range of economic conditions that could exist over the remaining useful lives of the assets have been considered appropriately.

Independent auditors' report to the members of Nostrum Oil & Gas PLC

Risk	Our response to the risk	What we concluded to the Audit Committee
	Goodwill and oil & gas development and production fixed assets we utilised our valuation specialists and challenged management's impairment assessment by evaluating the key assumptions. We have: ▪ walked through the controls designed by the Group relating to the assessment of the carrying value of goodwill and oil & gas development and production fixed assets. ▪ tested the integrity of models with the assistance of our own specialists. ▪ tested price and discount rate assumptions by comparing forecast oil price assumptions to the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts; and benchmarking the discount rate to the risks faced by the group. ▪ focused our audit procedures on oil & gas reserves estimates, as described elsewhere in our report. ▪ 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 management's sensitivity analysis of goodwill and oil & gas development and production fixed assets impairment testing in order to assess the potential impact of a range of reasonably possible outcomes. These sensitivities included adjustments to the discount rate, prices, future production volumes, opex and capex assumptions. ▪ evaluated the financial statement disclosures for compliance with the requirements of accounting standards.	
	We performed full scope audit procedures over this risk area at the Group level (Goodwill), we also audited the impairment assessment prepared by management for exploration licenses and oil & gas development and production fixed assets in Kazakhstan. By performing these procedures we obtained coverage of 100%	

Risk	Our response to the risk	What we concluded to the Audit Committee
	of the risk amount.	
Revenue recognition *Refer to the Audit Committee Report on page 82; The Summary of significant accounting policies in page 123and the disclosures in note 22 of the Consolidated Financial Statements (page 141)* Revenue for the year ended 31 December 2015 amounts to US$426,764 thousand (2014: US$676,064 thousand). Revenue sales include crude oil, gas condensate, dry gas and liquefied petroleum gas ('LPG'). There exists a risk of management manipulation to overstate or understate revenue. This could be achieved by potentially recording sales in an incorrect period.	Our component team in Kazakhstan performed procedures to walkthrough and understand the process and test key controls associated with the revenue recognition and accounts receivable process. We made enquiries of management and analysed contracts to evaluate whether revenue was recognised in accordance with the terms. We have: ▪ audited sales agreements to understand the contractual terms and appropriate revenue recognition by inspecting supporting evidence for a sample of revenue transactions and agreeing the period when revenue should be recognised to the contractual terms. ▪ performed substantive test of details on a sample of sales transactions by inspecting delivery documents, delivery terms, volumes and prices. ▪ performed audit procedures on the trade debtors' ageing and collectability to identify any doubtful and or irrecoverable debtors, confirmed the material debtor balances with the relevant counterparties as well as tested that debtor amounts were received subsequent to year-end. ▪ carried out other analytical review procedures on each individual revenue stream using disaggregated volume by product, by customer and by month to assess the respective products' underlying performance and corroborate the appropriateness of the timing of revenue recognition. ▪ evaluated the financial statement disclosures for compliance with the requirements of accounting standards.	We believe that Revenue is recognised in accordance with sales agreements. We also consider the disclosures with respect to Revenue included in the financial statements are reasonable and adequate.
	We performed full scope audit procedures over this risk area in one location (Kazakhstan), which covered 100% of the risk amount.	
Completeness of related party transactions ("RPT") and related disclosures *Refer to the Audit Committee Report on*	Our audit procedures have focused on obtaining evidence over the completeness of related party transactions and the related disclosures. We have: ▪ obtained an understanding of the	Based on the procedures performed, we have not noted any undisclosed related party transactions that may result in a material misstatement. We believe that the disclosures of related

Risk	Our response to the risk	What we concluded to the Audit Committee
page 82 and the disclosures of related party transactions in note 32 of the Group Financial Statements (page 147) Transactions with related parties mainly comprise transactions between the subsidiaries of the Company and entities controlled by the shareholders with significant influence of the Group. Given the number of related parties and the significant monetary amounts involved we consider RPTs and related disclosures to be a significant risk.	process that management has established to identify, account for and disclose RPTs and authorise and approve significant RPTs and arrangements outside the normal course of business. ▪ inspected bank and legal confirmations, minutes of meetings and significant agreements with new counterparties. ▪ identified high value and unusual transactions, if any, and if necessary performed further procedures. ▪ obtained an updated list of all related parties to the Group and reviewed the general ledger against this list to ensure completeness of transactions; ▪ made enquiries of management in order to identify if any related party transactions outside the normal course of business have taken place. ▪ verified the completeness of disclosures in the financial statements. In addressing this risk, audit procedures were performed by component team in Kazakhstan and the Group engagement team.	party transactions are complete.
Risk of management override We consider the likelihood of management override occurring. We base our consideration on our understanding of the nature and risk of both management's opportunity and incentive to manipulate accounting records and earnings or financial ratios or to misappropriate assets given the sizable shareholdings of senior executives. Specifically we considered the heightened impairment risks, the risk of overstatement of the hedge instruments' valuation, and compliance with bank covenants in the light of the continued decline in worldwide crude oil prices and the prices of related refined products over the current year.	We considered whether there was evidence of bias by the Directors and senior management in significant accounting estimates and judgements relevant to the financial statements. This included performing procedures with a particular focus on those key judgements and estimates which relate to the risks of estimation of oil and gas reserves, impairment of non-current assets, revenue recognition and related parties transactions as highlighted above. We tested manual and automated journal entries and included a selection of journals, with a focus on those journal entries that may impact the carrying value of the long term assets, related to other significant risks identified as part of our audit engagement. As part of our audit procedures to address this fraud risk, we assessed the overall control environment and interviewed senior management and the Group's internal audit function to understand whether there had been any reported actual or alleged instances of fraudulent activity during the year.	We have not identified any instances of management override or bias in significant estimates and judgements.

Independent auditors' report to the members of Nostrum Oil & Gas PLC

Risk	Our response to the risk	What we concluded to the Audit Committee
	In addressing this risk, audit procedures were performed by component team in Kazakhstan and the Group engagement team. We tested manual and automated journal entries for all 3 components where we performed full scope audit.	

Our audit approach and assessment of the risks of material misstatements change in response to changes in circumstances affecting the Group financial statements. The continued decline in worldwide crude oil prices and the prices of related refined products over the current year has resulted in the deterioration of the recoverable amount of oil & gas development and production fixed assets and an increased potential impact of this risk on the Group's financial statements. This has led us to an increased focus on this area, unlike the 2014 audit where the primarily focus of our audit effort was on the risk of impairment of exploration licenses and goodwill.

The scope of our audit

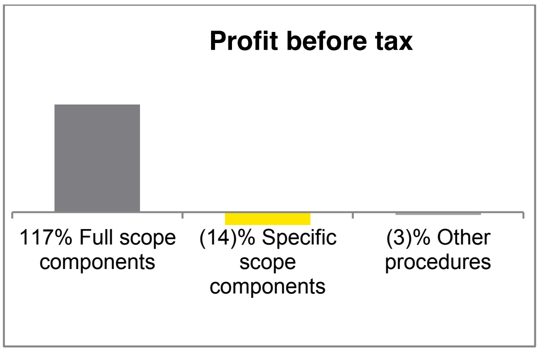
our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements under International Standards on Auditing (UK and Ireland). We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

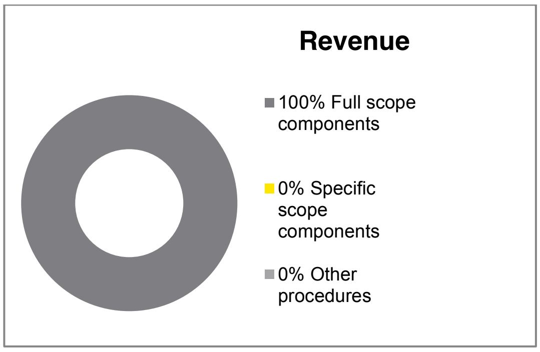
Tailoring the scope

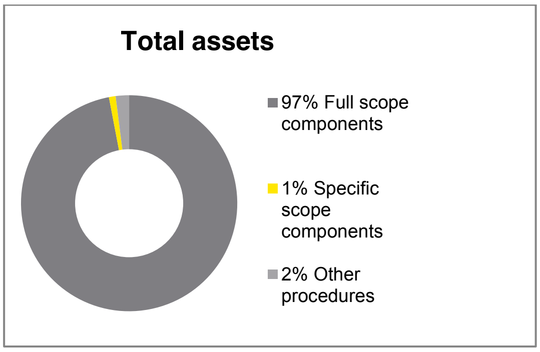
In establishing our overall approach to the Group audit we determined the type of work that needed to be undertaken at each of the components by us, as the Group engagement team, or by component auditors from another EY global network firm operating under our instructions. The Group engagement team performed the audit of the consolidation in the United Kingdom. In assessing the risk of material misstatement to the Group financial statements, our Group audit scope focused on the Group's main operating locations. Of the 16 reporting components of the Group, we selected eight components covering entities within the Netherlands, Belgium, Russia, United Kingdom and Kazakhstan, which represent the principal business units within the Group and account for approximately 100% of the Group's profit before tax. Of the eight components selected, we performed an audit of the complete financial information of three components ("full scope components") which were selected based on their size or risk characteristics. For the remaining five components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. The three full scope components account for 85% of the Group net assets, 100% of the Group's revenue and 117% of the Group's profit before tax. The profit before tax coverage of 117% represents one full scope components having a positive contribution of 133% offset by two full scope components having a negative contribution of 16%. The specific scope locations do not have income generating activities and we audited cash, payroll, general and administrative costs, the employee share option plan and other current liabilities.

Of the remaining 8 components having together a negative contribution of 3% of the Group's Profit before tax, none are individually greater than 1% of the Group's Profit before tax. For these components, we performed other procedures, including analytical review, inquiry procedures and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.







Changes from the prior year

Our scope allocation in the current year is broadly consistent with 2014 in terms of overall coverage of the Group. However we have made some changes in the number of components subject to full and specific scope procedures. In particular, we changed our scope to include three service entities which are now considered significant based on materiality of payroll and general and administrative costs.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For the one full scope component in Kazakhstan, where the work was performed by the component auditor, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. The work on the Group consolidation and remaining 7 full and specific scope components in Russia, the Netherland and Belgium was performed by the primary audit team.

During the 2015 audit cycle the primary audit team continued to have close interactions with the component audit team in Kazakhstan. The primary audit team held a global audit team event in the year led by the Senior Statutory Auditor, where both teams came together in Almaty, Kazakhstan, to consider the audit risk and strategy. The primary team visited the component team in Kazakhstan to attend the component closing meeting with local management, visited the operating field, reviewed key working papers and was responsible for the scope and direction of the audit process. Video and telephone conference meetings were also held with the component team in Kazakhstan throughout the current year's audit cycle. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Independent auditors’ report to the members of Nostrum Oil & Gas PLC

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$3.6 million (2014: US$17 million), which is approximately 5% (2014: 5%) of Profit before tax (2014: adjusted Profit before tax. In 2014 profit before tax was adjusted by US$29 million mainly relating to the costs associated with the reorganisation of the Group that we concluded are non-recurring and therefore added back when calculating materiality. We believe this provides us with a consistent year on year basis for determining planning materiality and the most relevant performance measure for the stakeholders of the group. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

Performance materiality

Application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group’s overall control environment, our judgement was that performance materiality was 50% (2014: 50%) of our planning materiality, namely US$1.8m (2014: US$8.5m). We have set performance materiality at this percentage due to our past experience of the audit that indicate a higher risk of misstatements, both corrected and uncorrected.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$0.2m to US$1.4m (2014: US$1.7m to US$6.4m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all audit differences in excess of US0.2m (2014: US0.85m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group’s and the parent company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors’ Responsibilities Statement set out on page 111, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

► the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

► the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: ▪ materially inconsistent with the information in the audited financial statements; or ▪ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or ▪ otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	We are required to report to you if, in our opinion: ▪ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or ▪ the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or ▪ certain disclosures of directors' remuneration specified by law are not made; or ▪ we have not received all the information and explanations we require for our audit.	We have no exceptions to report.
Listing Rules review requirements	▪ We are required to review: ▪ the directors' statement in relation to going concern, set out on page 108, and longer-term viability, set out on page 60; and ▪ the part of the Corporate Governance Statement relating	We have no exceptions to report.

	to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: ▪ the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; ▪ the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; ▪ the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and ▪ the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Signature

Richard Addison (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London

29 March 2016

Notes:

1. The maintenance and integrity of the Nostrum Oil&Gas PLC's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated financial statements

Consolidated statement of financial position

As at 31 December 2015

In thousands of US dollars	**Notes**	**31 December 2015**	31 December 2014
ASSETS			
Non-current assets			
Exploration and evaluation assets	**7**	**36,917**	24,380
Goodwill	**6**	**32,425**	32,425
Property, plant and equipment	**8**	**1,605,756**	1,442,157
Restricted cash	**14**	**5,375**	5,024
Advances for non-current assets	**9**	**130,660**	134,355
Derivative financial instruments	**29**	**43,005**	60,301
		1,854,138	1,698,642
Current assets			
Inventories	**10**	**28,951**	25,443
Trade receivables	**11**	**31,337**	30,110
Prepayments and other current assets	**12**	**27,411**	39,642
Derivative financial instruments	**29**	**54,095**	–
Income tax prepayment		**26,926**	13,925
Current investments	**13**	**–**	25,000
Cash and cash equivalents	**14**	**165,560**	375,443
		334,280	509,563
TOTAL ASSETS		**2,188,418**	2,208,205
EQUITY AND LIABILITIES			
Share capital and reserves	**15**		
Share capital		**3,203**	3,203
Treasury capital		**(1,888)**	(1,888)
Retained earnings and reserves		**772,441**	916,365
		773,756	917,680
Non-current liabilities			
Long-term borrowings	**17**	**936,470**	930,090
Abandonment and site restoration provision	**18**	**15,928**	20,877
Due to Government of Kazakhstan	**19**	**5,777**	5,906
Deferred tax liability	**31**	**347,769**	206,784
		1,305,944	1,163,657
Current liabilities			
Current portion of long-term borrowings	**17**	**15,024**	15,024
Employee share option plan liability	**28**	**4,284**	6,449
Trade payables	**20**	**41,463**	49,619
Advances received		**245**	2,670
Income tax payable		**1,692**	1,459
Current portion of due to Government of Kazakhstan	**19**	**1,031**	1,031
Other current liabilities	**21**	**44,979**	50,616
		108,718	126,868
TOTAL EQUITY AND LIABILITIES		**2,188,418**	2,208,205

The consolidated financial statements of Nostrum Oil & Gas PLC, registered number 8717287, were approved by the Board of Directors. Signed on behalf of the Board:

Kai-Uwe Kessel	Jan-Ru Muller
Chief Executive Officer ________________	*Chief Financial Officer* ________________

The accounting policies and explanatory notes on pages 130 through 167 are an integral part of these consolidated financial statements

Consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2015

In thousands of US dollars	Notes	2015	2014
Revenue			
Revenue from export sales		**426,764**	676,064
Revenue from domestic sales		**22,138**	105,814
	22	**448,902**	781,878
Cost of sales	**23**	**(186,567)**	(221,921)
Gross profit		**262,335**	559,957
General and administrative expenses	**24**	**(49,309)**	(54,878)
Selling and transportation expenses	**25**	**(92,970)**	(122,254)
Finance costs	**26**	**(45,998)**	(61,939)
Finance costs - reorganisation	**27**	**(1,053)**	(29,572)
Employee share option plan fair value adjustment	**28**	**2,165**	3,092
Foreign exchange loss, net		**(21,200)**	(4,235)
Gain on derivative financial instruments	**29**	**37,055**	60,301
Interest income		**515**	986
Other income		**11,296**	10,086
Other expenses	**30**	**(30,560)**	(49,844)
Profit before income tax		**72,276**	311,700
Current income tax expense		**(25,656)**	(111,042)
Deferred income tax expense		**(140,985)**	(54,233)
Income tax expense	**31**	**(166,641)**	(165,275)
(Loss)/profit for the year		**(94,365)**	146,425
Currency translation difference		**(456)**	–
Other comprehensive loss		**(456)**	–
Total comprehensive (loss)/income for the year		**(94,821)**	146,425
(Loss)/profit for the period attributable to the shareholders (in thousands of US dollars)		**(94,821)**	146,425
Weighted average number of Common Units/shares		**184,828,819**	184,678,352
Basic and diluted earnings per share (in US dollars)		**(0.51)**	0.79

All items in the above statement are derived from continuous operations.

The accounting policies and explanatory notes on pages 130 through 167 are an integral part of these consolidated financial statements

Consolidated financial statements

Consolidated statement of cash flows

For the year ended 31 December 2015

In thousands of US dollars	Notes	2015	2014
Cash flow from operating activities:			
Profit before income tax		**72,276**	311,700
Adjustments for:			
Depreciation, depletion and amortisation	23,24	**109,351**	111,869
Finance costs - reorganisation	27	**1,053**	29,572
Finance costs	26	**45,998**	61,939
Employee share option plan fair value adjustment		**(2,165)**	(3,093)
Interest income		**(515)**	(986)
Foreign exchange gain on investing and financing activities		**(3,003)**	(574)
Loss on disposal of property, plant and equipment		**39**	–
Proceeds from derivative financial instruments		**92,255**	–
Purchase of derivative financial instruments		**(92,000)**	–
Gain on derivative financial instruments	29	**(37,055)**	(60,301)
Accrued expenses		**(1,098)**	(2,296)
Operating profit before working capital changes		**185,136**	447,830
Changes in working capital:			
Change in inventories		**(3,508)**	(3,358)
Change in trade receivables		**(1,227)**	36,455
Change in prepayments and other current assets		**12,231**	(7,714)
Change in trade payables		**7,337**	(5,633)
Change in advances received		**(2,426)**	2,921
Change in due to Government of Kazakhstan		**(1,031)**	(1,032)
Change in other current liabilities		**(2,090)**	341
Payments under Employee share option plan		**–**	(2,475)
Cash generated from operations		**194,422**	467,335
Income tax paid		**(41,165)**	(118,213)
Net cash flows from operating activities		**153,257**	349,122
Cash flow from investing activities:			
Interest received		**515**	986
Purchase of property, plant and equipment		**(256,136)**	(325,462)
Sale of property, plant and equipment		**543**	–
Exploration and evaluation works	7	**(12,943)**	(10,445)
Acquisition of subsidiaries	5	**(2,296)**	372
Placement of bank deposits		**(17,000)**	(25,000)
Redemption of bank deposits		**42,000**	55,000
Loans granted		**(5,000)**	–
Repayment of loans granted		**5,000**	–
Net cash used in investing activities		**(245,317)**	(304,549)
Cash flow from financing activities:			
Finance costs paid		**(65,400)**	(62,229)
Issue of notes	17	**–**	400,000
Expenses paid on arrangement of notes		**–**	(6,525)
Repayment of notes		**–**	(92,505)
Transfer to restricted cash		**(351)**	(807)
Treasury shares sold/(purchased)		**–**	3,715
Distributions paid	15	**(49,060)**	(64,615)
Funds borrowed - reorganisation	27	**–**	2,350,405
Funds repaid - reorganisation		**–**	(2,350,405)
Finance costs - reorganisation		**(1,053)**	(29,572)
Net cash (used in)/from financing activities		**(115,864)**	147,462
Effects of exchange rate changes on cash and cash equivalents		**(1,959)**	(1,506)
Net (decrease)/increase in cash and cash equivalents		**(209,883)**	190,529
Cash and cash equivalents at the beginning of the year	14	**375,443**	184,914
Cash and cash equivalents at the end of the year	**14**	**165,560**	375,443

The accounting policies and explanatory notes on pages 130 through 167 are an integral part of these consolidated financial statements

Consolidated financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2015

In thousands of US dollars	Notes	Share capital	Share premium	Partnership capital	Treasury capital	Additional paid-in capital	Other reserves	Retained earnings	Total
As at 1 January 2014		**–**	**–**	**380,874**	**(30,751)**	**8,126**	**3,437**	**470,765**	**832,451**
Profit for the year		–	–	–	–	–	–	146,425	146,425
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**146,425**	**146,425**
Sale of treasury capital (GDRs)		–	–	–	440	769	–	–	1,209
Profit distribution		–	–	–	–	–	–	(64,615)	(64,615)
Group reorganisation:									
Replacement of GDRs		–	–	(380,874)	30,311	(8,895)	255,459	–	(103,999)
Issue of share capital		3,203	102,797	–	(2,001)	–	–	–	103,999
Effect of the Group reorganisation	**15**	**3,203**	**102,797**	**(380,874)**	**28,310**	**(8,895)**	**255,459**	**–**	**–**
Transfer to distributable reserves		–	(102,797)	–	–	–	–	102,797	–
Sale of treasury capital		–	–	–	113	–	2,393	–	2,506
Transaction costs		–	–	–	–	–	–	(296)	(296)
As at 31 December 2014		**3,203**	**–**	**–**	**(1,888)**	**–**	**261,289**	**655,076**	**917,680**
Loss for the year		–	–	–	–	–	–	(94,365)	(94,365)
Other comprehensive loss		–	–	–	–	–	(456)	–	(456)
Total comprehensive loss for the year		**–**	**–**	**–**	**–**	**–**	**(456)**	**(94,365)**	**(94,821)**
Profit distribution		–	–	–	–	–	–	(49,060)	(49,060)
Transaction costs		–	–	–	–	–	–	(43)	(43)
As at 31 December 2015		**3,203**	**–**	**–**	**(1,888)**	**–**	**260,833**	**511,608**	**773,756**

The accounting policies and explanatory notes on pages 130 through 167 are an integral part of these consolidated financial statements

Consolidated financial statements

Notes to the consolidated financial statements

1. GENERAL

Overview

Nostrum Oil & Gas PLC ("the Company" or "the Parent") is a public limited company incorporated on 3 October 2013 under the Companies Act 2006 and registered in England and Wales with registered number 8717287. The registered address of Nostrum Oil & Gas PLC is: 4th Floor, 53-54 Grosvenor Street, London, UK, W1K 3HU.

The Parent became the holding company of the remainder of the Group (via its subsidiary Nostrum Oil Coöperatief U.A.) on 18 June 2014 and was listed on the London Stock Exchange ("LSE") on 20 June 2014 (Note 15). On the same date the former parent of the Group, Nostrum Oil & Gas LP, was delisted from the LSE. In addition to the subsidiaries of Nostrum Oil & Gas LP, Nostrum Oil Coöperatief U.A. acquired substantially all of the assets and liabilities of Nostrum Oil & Gas LP on 18 June 2014. The Parent does not have an ultimate controlling party.

These consolidated financial statements include the financial position and the results of the operations of Nostrum Oil & Gas PLC and its following wholly owned subsidiaries:

Company	Country of registration or incorporation	Form of capital	Ownership, %
Claydon Industrial Limited	British Virgin Islands	Ordinary shares	100
Grandstil LLC	Russian Federation	Participatory interests	100
Jubilata Investments Limited	British Virgin Islands	Ordinary shares	100
Nostrum Associated Investments LLP[1]	Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC[2]	Russian Federation	Participatory interests	100
Nostrum Oil & Gas Coöperatief U.A.[3]	Netherlands	Members' interests	100
Nostrum Oil & Gas BV[4]	Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	England and Wales	Ordinary shares	100
Nostrum Services Central Asia LLP[5]	Republic of Kazakhstan	Participatory interests	100
Nostrum Services CIS BVBA[6]	Belgium	Ordinary shares	100
Nostrum Services N.V.[7]	Belgium	Ordinary shares	100
Zhaikmunai LLP	Republic of Kazakhstan	Participatory interests	100

[1] *Formerly Condensate Holding LLP*

[2] *Formerly Investprofi LLC*

[3] *Formerly Nostrum Oil Coöperatief U.A.*

[4] *Formerly Zhaikmunai Netherlands B.V, which was also merged with Nostrum Oil & Gas Finance BV and Nostrum Oil BV during 2015*

[5] *Formerly Amersham Oil LLP*

[6] *Formerly Prolag BVBA*

[7] *Formerly Probel Capital Management N.V.*

Nostrum Oil & Gas PLC and its wholly-owned subsidiaries are hereinafter referred to as "the Group". The Group's operations comprise of a single operating segment with three exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

As at 31 December 2015, the Group employed 1,063 employees (2014: 1,010).

Subsoil use rights terms

Zhaikmunai LLP 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 Zhaikmunai LLP 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 Zhaikmunai LLP 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 Zhaikmunai LLP has acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the 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. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated 12 January 2004 and 23 June 2005, respectively. In accordance with the supplement dated 5 June 2008, Tournaisian North reservoir entered into production period as at 1 January 2007. Following additional commercial discoveries during 2008, the exploration period under the Chinarevskoye subsoil use rights, other than for the Tournaisian horizons, was extended for an additional 3-year period, which expired on 26 May 2011. A further extension to 26 May 2014 was made under the supplement dated 28 October 2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031. On 28 July 2015 the eleventh supplementary agreement to the Contract was signed extending the exploration period to 26 May 2016. Zhaikmunai LLP's application for further extension of the Chinarevskoye exploration period is under approval at the MOE.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 27 April 2009 the exploration period was extended so as to have a total duration of 6 years. Subsequently, the exploration period was extended until 8 February 2017.

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

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

Royalty payments

Zhaikmunai LLP 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"

Zhaikmunai LLP 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 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") as adopted by the European Union and the requirements of the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to annual financial statements.

The consolidated financial statements have been prepared based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies (Note 4). The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of 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.

Group reorganisation

The Group has been formed through a reorganisation that took place in June 2014 in which Nostrum Oil & Gas PLC became a new parent entity of the Group (Note 15). The reorganisation is not a business combination and does not result in any change of economic substance of the Group. Accordingly, the consolidated financial statements of Nostrum Oil & Gas PLC are a continuation of the existing group (Nostrum Oil & Gas LP and its subsidiaries). The consolidated financial statements reflect the difference in share capital as an adjustment to equity (Other reserves) that is not subject to reclassification to income statement in the future periods.

Going concern

These consolidated financial statements have been prepared on a going concern basis. The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard or amendment which is applicable to the consolidated financial statements of the Group is described below:

Annual improvements 2010-2012 Cycle

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Group had not granted any awards during 2014 and 2015. Thus, these amendments did not impact the Group's financial statements or accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

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

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact on the financial statements of the Group considering that the Group's property, plant and equipment are stated at historical cost.

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations

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

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

These amendments did not have any impact on the Group's consolidated financial statements, since the Group has no joint arrangements.

IFRS 13 Fair Value Measurement

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

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

IFRS 7 Financial Instruments: Disclosures

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

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

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

Amendments to IAS 1 Disclosure Initiative

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group will apply those amendments from the effective date.

IFRS 16 Leases

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

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

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

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

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

IFRS 16 is effective from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers.

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

The amendments are not yet endorsed for use in the EU, expected endorsement is not yet determined. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

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

Oil and gas reserves

Oil and gas reserves are a material factor in the 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.

The Group uses the reserve estimates provided by an independent appraiser on an annual basis to assess the oil and gas reserves of its oil and gas fields. 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 that long-term planning price assumptions (Note 6) 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. Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Group.

Fair value of financial instruments

The fair value measurement of the *Group*'s financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: quoted prices in active markets for identical items (unadjusted)
- Level 2: observable direct or indirect inputs other than Level 1 inputs
- Level 3: unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The financial statements for the years ended 31 December 2015 and 2014 include derivative financial instruments recognised at fair value. For more detailed information in relation to the derivative financial instruments, please refer to Note 29.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 35.

Abandonment and site restoration (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. Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimates of timing of cash flow and discount rate. The management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights.

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 applicable rate. 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 provide the best estimates of applicable risk uncorrected discount 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:

- 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
- 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 provision for decommissioning liabilities are disclosed in Note 18.

Other current liabilities

The Group makes accruals for liabilities related to the underperformance and or adjustments of work programs under subsoil use agreements (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.

For more detailed information in relation to the accruals under the subsoil use agreements instruments, please refer to Note 21.

Impairment of Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

For more detailed information in relation to goodwill, please refer to 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 authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Group and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Current income tax

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

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

Deferred income tax

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

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

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

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

For more detailed information in current and deferred income tax disclosure as at 31 December 2015 and 2014, please see Note 31.

Significant accounting policies

Property, plant and equipment

Exploration expenditure

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

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

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

For more detailed information in relation to exploration and evaluation assets, please see Note 7.

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 8.

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

The functional currency of the Company is the United States dollar (the “US dollar” or “US$”). The functional currencies of the Group’s subsidiaries are as follows:

Company	**Functional currency**
Claydon Industrial Limited	US dollar
Grandstil LLC	Russian rouble
Jubilata Investments Limited	US dollar
Nostrum Associated Investments LLP	Tenge
Nostrum E&P Services LLC	Russian rouble
Nostrum Oil & Gas Coöperatief U.A.	US dollar
Nostrum Oil & Gas BV	US dollar
Nostrum Oil & Gas UK Ltd.	British Pound
Nostrum Services Central Asia LLP	Tenge
Nostrum Services CIS BVBA	Euro
Nostrum Services N.V.	Euro
Zhaikmunai LLP	US dollar

Transactions in foreign currencies are initially recorded by the Group’s subsidiaries at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange 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.

In the consolidated financial statements, the assets and liabilities of non-US dollar functional currency subsidiaries are translated into US dollars at the spot exchange rate on the balance sheet date. The results and cash flows of non-US dollar functional currency subsidiaries are translated into US dollars using average rates of exchange. In the consolidated financial statements, exchange adjustments arising when the opening net assets and the profits for the year retained by non-US dollar functional currency subsidiaries are translated into US dollars are reported in the statement of comprehensive income.

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 9.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest ("NCI") in the acquiree. For each business combination, the Group elects whether to measure NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognised separately, but instead are subsumed in goodwill.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a Cash Generating Unit ("CGU") and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Impairment of non-financial assets

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

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

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

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

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

Borrowing costs

The Group capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs 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 consolidated 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 8.

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 2015 and 2014, please see Note 10.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. 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.

Contingent liabilities

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 28*, unless the possibility of an outflow of resources embodying economic benefits is remote.

Financial assets

Initial recognition and measurement

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

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

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

Loans and receivables

Loans and receivables are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

Derecognition

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

Impairment of financial assets

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

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

Financial assets carried at amortised cost

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

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

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the EIR. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the 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.

Derivative financial instruments and hedging

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

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

For more detailed information in relation to derivative financial instruments, please refer to Note 29

Cash and short-term deposits

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

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

For more detailed information in relation to cash and cash equivalents as at 31 December 2015 and 2015, please see Note 14.

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 delivery has taken place and risks and rewards of ownership have passed to the customer.

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

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in other reserves. Voting rights related to treasury shares are nullified for the Group and no distributions are accepted in relation to them. Share options exercised during the reporting period are satisfied with treasury shares.

Share-based payments

The Group measures the cost of cash-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 28.

5. BUSINESS COMBINATIONS

On 19 May 2014 the Group agreed to acquire 100% of the share capital of Nostrum Services CIS BVBA (formerly Prolag BVBA) and Nostrum Services Central Asia LLP (formerly Amersham Oil LLP), companies providing management and consulting services to the Group, from related parties of the Group, in connection with the premium listing on the London Stock Exchange of the Group's listed entity, so as to comply with certain exchange requirements that listed companies be managed by persons employed by entities within the listed company's group.

A cash consideration consisting of initial purchase price of US$1 and a price adjustment of US$212 thousand was agreed and paid with respect to the acquisition of Nostrum Services CIS BVBA during the year ended 31 December 2014. Historically, it provided consulting services to the Group on certain marketing, transportation and logistics matters.

Nostrum Services Central Asia LLP was acquired in exchange for a cash consideration consisting of initial purchase price of US$1,915 thousand and a price adjustment of US$381 thousand which were paid by the Group during the year ended 31 December 2015. Certain managers of the Group historically provided services to the Group pursuant to a service agreement between Nostrum Services Central Asia LLP and the Group.

The goodwill arising on acquisition represents the savings of the Group on management fees and is not expected to be deductible for tax purposes.

There were no significant revenues or profits/losses of the acquired subsidiaries since the respective acquisition dates included in the consolidated statements of comprehensive income for the year ended 31 December 2014.

The fair values of the identifiable assets and liabilities of Nostrum Services CIS BVBA and Nostrum Services Central Asia LLP as at the date of acquisition were:

In thousands of US dollars	**Nostrum Services CIS BVBA**	**Nostrum Services Central Asia LLP**	**Total**
Assets			
Property, plant and equipment	15	2	17
Advances for non-current assets	287	–	287
Prepayments and other current assets	721	15	736
Cash and cash equivalents	219	365	584
	1,242	**382**	**1,624**
Liabilities			
Trade payables	496	7	503
Other current liabilities	427	12	439
	923	**19**	**942**
Total identifiable net assets at fair value	**319**	**363**	**682**
Goodwill arising on acquisition		2,039	2,039
Gain arising on acquisition	(107)	–	(107)
Total purchase consideration	**212**	**2,402**	**2,614**

The purchase consideration comprised of:

In thousands of US dollars	**2015**	2014
Consideration satisfied by cash	**2,296**	212
Working capital adjustment	**106**	2,402
Total purchase consideration	**2,402**	2,614
Consideration satisfied by cash	**(2,296)**	(212)
Cash and cash equivalents acquired	**–**	584
Purchase of subsidiaries per the cash flow statement	**(2,296)**	372

6. GOODWILL

As at 31 December 2015 and 31 December 2014, goodwill comprised the following due to business combinations:

In thousands of US dollars	**2015**	2014
Balance as at 1 January	**32,425**	30,386
Goodwill addition	**–**	2,039
Balance as at 31 December	**32,425**	32,425

Impairment testing

The goodwill arising from the purchase of Nostrum Services CIS BVBA and Nostrum Services Central Asia LLP (Note 5) relates to a single cash-generating unit. Respectively, goodwill is tested for impairment by comparing the recoverable amount against the carrying value of the underlying cash generating unit.

The 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. Impairment testing is performed by comparing the recoverable amount against the carrying value of the cash generating unit. 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, which formally approved by the management, 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 models reflect past experience and take account of external factors. These assumptions are:

- Oil prices (in real terms): US$30/bbl for 2016-2017 and US$60/bbl for 2018-2032;
- Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;
- Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates and production profiles; and
- Pre-tax discount rate of 14% (2014: 14%).

None of the reasonably possible changes in key assumptions causes the cash generating unit's carrying amount to exceed its recoverable amount.

7. EXPLORATION AND EVALUATION ASSETS

In thousands of US dollars	**31 December 2015**	31 December 2014
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**21,082**	8,545
	36,917	24,380

During the year ended 31 December 2015 the Group had additions to exploration and evaluation assets of US$12,537 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (FY 2014: US$3,946 thousand). Interest was not capitalised on exploration and evaluation assets. During the year ended 31 December 2014 the Group repaid capitalised contingent consideration under the acquisition agreements for the Darjinskoye and Yuzhno-Gremyachinskoye oil and gas fields in the amount of US$ 5,300 thousand.

8. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2015 and 31 December 2014 property, plant and equipment comprised the following:

In thousands of US dollars	**31 December 2015**	31 December 2014
Oil and gas properties	**1,566,703**	1,401,847
Other property, plant and equipment	**39,053**	40,310
	1,605,756	1,442,157

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 2015 and 2014 was as follows:

In thousands of US dollars	**Working assets**	**Construction in progress**	**Total**
Balance at 1 January 2014, net of accumulated depreciation and depletion	**1,089,822**	**202,251**	**1,292,073**
Additions	9,730	205,153	214,883
Transfers	38,640	(38,445)	195
Disposals	(666)	–	(666)
Disposals depreciation	214	–	214
Depreciation and depletion charge	(104,852)	–	(104,852)
Balance at 31 December 2014, net of accumulated depreciation and depletion	**1,032,888**	**368,959**	**1,401,847**
Additions	(1,131)	265,569	264,438
Transfers	101,481	(99,369)	2,112
Depreciation and depletion charge	(101,694)	–	(101,694)
Balance at 31 December 2015, net of accumulated depreciation and depletion	**1,031,544**	**535,159**	**1,566,703**
As at 31 December 2013			
Cost	1,411,752	202,251	1,614,003
Accumulated depreciation and depletion	(321,930)	–	(321,930)
Balance, net of accumulated depreciation and depletion	**1,089,822**	**202,251**	**1,292,073**
As at 31 December 2014			
Cost	1,459,457	368,959	1,828,416
Accumulated depreciation and depletion	(426,569)	–	(426,569)
Balance, net of accumulated depreciation and depletion	**1,032,888**	**368,959**	**1,401,847**
As at 31 December 2015			
Cost	1,559,807	535,159	2,094,966
Accumulated depreciation and depletion	(528,263)	–	(528,263)
Balance, net of accumulated depreciation and depletion	**1,031,544**	**535,159**	**1,566,703**

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 10.20% and 10.02% in 2015 and 2014, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2015 and 2014. Starting from 1 October 2015 and 2014 the depletion has been calculated using the unit of production method based on these reserves estimates.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (Note 18) in the year ended 31 December 2015 resulted in the decrease of the oil and gas properties by US$ 5,622 thousand (31 December 2014: an increase of US$ 4,306 thousand).The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2015 and 31 December 2014:

In thousands of US dollars	**31 December 2015**	31 December 2014
Borrowing costs including amortisation of arrangement fee	**71,782**	77,959
Capitalisation rate	**7.01%**	7.28%
Capitalised borrowing costs	**27,112**	17,134

Other property, plant and equipment

In thousands of US dollars	**Buildings**	**Machinery & equipment**	**Vehicles**	**Others**	**Construction in progress**	**Total**
Balance at 1 January 2014, net of accumulated depreciation	**26,296**	**6,478**	**1,395**	**4,614**	**47**	**38,830**
Additions	585	1,501	324	6,279	258	8,947
Transfers	24	309	412	(940)	–	(195)
Disposals	(6)	(24)	(159)	(244)	–	(433)
Disposals depreciation	5	16	157	193	–	371
Depreciation	(3,136)	(2,430)	(484)	(1,160)	–	(7,210)
Balance at 31 December 2014, net of accumulated depreciation	**23,768**	**5,850**	**1,645**	**8,742**	**305**	**40,310**
Additions	1,101	1,699	268	6,126	231	9,425
Transfers	270	912	(6)	(3,071)	(217)	(2,112)
Disposals	–	(24)	(1,933)	(285)	–	(2,242)
Disposals depreciation	–	22	1,370	57	–	1,449
Depreciation	(3,213)	(2,535)	(363)	(1,549)	–	(7,660)
Translation difference	–	–	(4)	(113)	–	(117)
Balance at 31 December 2015, net of accumulated depreciation	**21,926**	**5,924**	**977**	**9,907**	**319**	**39,053**
As at 31 December 2013						
Cost	30,887	13,285	3,513	7,166	47	54,898
Accumulated depreciation	(4,591)	(6,807)	(2,118)	(2,552)	–	(16,068)
Balance, net of accumulated depreciation	**26,296**	**6,478**	**1,395**	**4,614**	**47**	**38,830**
As at 31 December 2014						
Cost	31,497	15,068	4,167	12,270	305	63,307
Accumulated depreciation	(7,729)	(9,218)	(2,522)	(3,528)	–	(22,997)
Balance, net of accumulated depreciation	**23,768**	**5,850**	**1,645**	**8,742**	**305**	**40,310**
As at 31 December 2015						
Cost	32,868	17,655	2,461	14,895	319	68,198
Accumulated depreciation	(10,942)	(11,731)	(1,484)	(4,988)	–	(29,145)
Balance, net of accumulated depreciation	**21,926**	**5,924**	**977**	**9,907**	**319**	**39,053**

9. ADVANCES FOR NON-CURRENT ASSETS

In thousands of US dollars	**31 December 2015**	31 December 2014
Advances for pipes and construction materials	**76,806**	67,465
Advances for construction services	**53,854**	66,884
Advances for purchase of software licenses	**–**	6
	130,660	134,355

Increase in the advances for non-current assets is mainly driven by an increase in prepayments made to suppliers of services and equipment for construction of a third unit for the Group's gas treatment facility.

10. INVENTORIES

As at 31 December 2015 and 31 December 2014 inventories comprised the following:

In thousands of US dollars	**31 December 2015**	31 December 2014
Materials and supplies	**20,368**	20,472
Gas condensate	**5,684**	3,383
Crude oil	**2,528**	1,262
LPG	**371**	326
	28,951	25,443

As at 31 December 2015 and 31 December 2014 inventories are carried at cost.

11. TRADE RECEIVABLES

As at 31 December 2015 and 31 December 2014 trade receivables were not interest-bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 31 December 2015 and 31 December 2014 there were neither past due nor impaired trade receivables.

12. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 31 December 2015 and 31 December 2014 prepayments and other current assets comprised the following:

In thousands of US dollars	**31 December 2015**	31 December 2014
VAT receivable	**18,709**	22,581
Other taxes receivable	**2,888**	5,921
Advances paid	**4,254**	9,184
Other	**1,560**	1,956
	27,411	39,642

Advances paid consist primarily of prepayments made to service providers.

13. CURRENT INVESTMENTS

Current investments as at 31 December 2014 were represented by an interest-bearing short-term deposit placed on 30 September 2014 for a six-month period with an interest rate of 0.24% per annum.

14. CASH AND CASH EQUIVALENTS

In thousands of US dollars	**31 December 2015**	31 December 2014
Current accounts in US dollars	**114,346**	356,316
Current accounts in tenge	**2,038**	8,709
Current accounts in other currencies	**7,167**	10,413
Petty cash	**9**	5
Bank deposits with maturity less than three months	**42,000**	–
	165,560	375,443

Bank deposits were represented by an interest-bearing deposit placed on 30 December 2015 for a one-month period with an interest rate of 0.25% per annum and an interest-bearing deposit placed on 23 June 2015 for a six-month period with an interest rate of 0.45% per annum.

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$5,375 thousand with Sberbank in Kazakhstan (31 December 2014: US$5,023 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

15. SHARE CAPITAL AND RESERVES

As at 31 December 2015 the ownership interests in the Parent consist of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

Number of GDRs/shares	**In circulation**	**Treasury capital**	**Total**
As at 1 January 2014	**184,527,884**	**3,655,074**	**188,182,958**
Share options exercised	300,935	(300,935)	–
As at 31 December 2014	**184,828,819**	**3,354,139**	**188,182,958**
As at 31 December 2015	**184,828,819**	**3,354,139**	**188,182,958**

Treasury shares were issued to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and are held by Elian Employee Benefit Trustee Limited, which upon request from employees to exercise options, sells shares on the market and settles respective obligations under the ESOP. This trust constitutes a special purpose entity under IFRS and therefore, these shares are recorded as treasury capital of the Company.

Other reserves of the Group include foreign currency translation reserve accumulated before 2009, when the functional currency of Zhaikmunai ZLLP was Kazakhstani Tenge and the difference between the partnership capital, treasury capital and additional paid-in capital of Nostrum Oil & Gas LP and the share capital of Nostrum Oil & Gas PLC amounting to US$255,459, that arose during the reorganisation of the Group (Note 2).

Distributions

During the year ended 31 December 2015 Nostrum Oil & Gas PLC made a distribution of US$ 0.27 per share to the shareholders which amounted to a total of US$ 49,060 thousand and was paid in full on 26 June 2015.

During the year ended 31 December 2014 Nostrum Oil & Gas LP made a distribution of US$ 0.35 per common unit to the holders of common units representing limited partnership interests which amounted to a total of US$ 64,615 thousand and was paid in full on 6 June 2014.

Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 31 December 2015 the book value per share amounted to US$3.94 (31 December 2014: US$4.70).

16. EARNINGS PER SHARE

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of Common Units/ shares outstanding during the period.

The basic and diluted EPS are the same as there are no instruments that have a dilutive effect on earnings.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

In thousands of US dollars	**2015**	2014
(Loss)/profit for the period attributable to the shareholders (in thousands of US dollars)	**(94,821)**	146,425
Weighted average number of Common Units/shares	**184,828,819**	184,678,352
Basic and diluted earnings per share (in US dollars)	**(0.51)**	0.79

17. BORROWINGS

Borrowings comprise the following as at 31 December 2015 and 31 December 2014:

In thousands of US dollars	**31 December 2015**	31 December 2014
Notes issued in 2012 and maturing in 2019	**545,868**	540,793
Notes issued in 2014 and maturing in 2019	**405,626**	404,321
	951,494	945,114
Less amounts due within 12 months	**(15,024)**	(15,024)
Amounts due after 12 months	**936,470**	930,090

2012 Notes

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

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

The 2012 Notes bear interest at the rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013. Prior to 13 November 2016, the 2012 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2012 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2012 Notes (including Additional Notes as defined in the indenture relating to the 2012 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2012 Notes may be redeemed, in whole or in part, at any time prior to 13 November 2016 at the option of the 2012 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2012 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2012 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2012 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2012 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2012 Note at 13 November 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2012 Note through 13 November 2016 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2012 Note.

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

2014 Notes

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

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

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

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

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

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

Covenants contained in the 2012 Notes and the 2014 Notes

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

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;

- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including shares of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses; and
- consolidate or merge with other entities.

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

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

18. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in abandonment and site restoration provision during years ended 31 December 2015 and 2014 is as follows:

In thousands of US dollars	**2015**	2014
Abandonment and site restoration provision as at 1 January	**20,877**	13,874
Unwinding of discount	**426**	197
Additional provision	**247**	2,500
Change in estimates	**(5,622)**	4,306
Abandonment and site restoration provision as at 31 December	**15,928**	20,877

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 2015 were 2.49% and 5.54%, respectively (31 December 2014: 3.75% and 4.88%).

The change in the long-term inflation rate, discount rate and liquidation cost estimates in the year ended 31 December 2015 resulted in the decrease of the abandonment and site restoration provision by US$ 5,622 thousand (31 December 2014: the increase by US$ 4,306 thousand).

19. 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 2015 and 31 December 2014 is as follows:

In thousands of US dollars	**2015**	2014
Due to Government of Kazakhstan as at 1 January	**6,937**	7,052
Unwinding of discount	**902**	917
Paid during the year	**(1,031)**	(1,032)
	6,808	6,937
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,777**	5,906

20. TRADE PAYABLES

Trade payables comprise the following as at 31 December 2015 and 31 December 2014:

In thousands of US dollars	**31 December 2015**	31 December 2014
Tenge denominated trade payables	**22,364**	27,030
US dollar denominated trade payables	**14,032**	17,889
Euro denominated trade payables	**2,875**	3,479
Russian rouble denominated trade payables	**1,928**	965
Trade payables denominated in other currencies	**264**	256
	41,463	49,619

21. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 31 December 2015 and 31 December 2014:

In thousands of US dollars	**31 December 2015**	31 December 2014
Accruals under the subsoil use agreements	**16,902**	14,435
Training obligations accrual	**11,443**	9,686
Due to employees	**3,992**	4,605
Taxes payable, other than corporate income tax	**9,748**	17,191
Liability accrued with respect to acquisitions	**–**	2,402
Other current liabilities	**2,894**	2,297
	44,979	50,616

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

The changes in the adjusted work programs in the supplements to the subsoil use agreements lead to an overall increase of the accrued liability of US$ 2,467 thousand compared to the previous year, predominantly due to SUA amendments and the occurred underperformance per license as well as the statute of limitations.

22. 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 2015 was US$53.6 (FY 2014: US$99.7)

In thousands of US dollars	**2015**	**2014**
Oil and gas condensate	**297,777**	620,164
Gas and LPG	**151,125**	161,714
	448,902	781,878

During the year ended 31 December 2015 the revenue from sales to three major customers amounted to US$141,359 thousand, US$104,978 thousand and US$85,954 thousand respectively (FY 2014: US$321,755 thousand, US$124,823 thousand and US$77,113 thousand respectively). The Group’s exports are mainly represented by deliveries to Finland, the Black Sea ports of Russia and the United Arab Emirates.

23. COST OF SALES

In thousands of US dollars	**2015**	**2014**
Depreciation, depletion and amortisation	**107,678**	110,460
Repair, maintenance and other services	**26,557**	35,818
Payroll and related taxes	**18,682**	21,560
Royalties	**14,364**	24,330
Materials and supplies	**7,838**	10,929
Well workover costs	**5,182**	6,296
Other transportation services	**3,049**	2,929
Government profit share	**1,880**	4,594
Environmental levies	**1,391**	1,098
Change in stock	**(3,613)**	376
Other	**3,559**	3,531
	186,567	221,921

24. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	**2015**	**2014**
Payroll and related taxes	**16,636**	15,668
Professional services	**13,997**	19,776
Business travel	**6,091**	4,786
Training	**3,110**	2,535
Insurance fees	**1,715**	1,768
Depreciation and amortisation	**1,673**	1,409
Sponsorship	**1,314**	1,826
Lease payments	**1,012**	895
Communication	**766**	1,195
Materials and supplies	**635**	626
Bank charges	**607**	813
Other taxes	**339**	1,006
Social program	**302**	300
Management fees	**–**	605
Other	**1,112**	1,670
	49,309	54,878

25. SELLING AND TRANSPORTATION EXPENSES

In thousands of US dollars	**2015**	**2014**
Transportation costs	**45,071**	54,878
Loading and storage costs	**41,229**	56,351
Payroll and related taxes	**1,901**	2,211
Management fees	**159**	183
Other	**4,610**	8,631
	92,970	122,254

26. FINANCE COSTS

In thousands of US dollars	**2015**	**2014**
Interest expense on borrowings	**44,670**	60,825
Unwinding of discount on amounts due to Government of Kazakhstan	**902**	917
Unwinding of discount on abandonment and site restoration provision	**426**	197
	45,998	61,939

27. FINANCE COSTS – REORGANISATION

The "finance costs – reorganisation" are represented by the costs associated with introduction of Nostrum Oil & Gas PLC as the new holding company of the Group and respective reorganisation that took place in June 2014. In 2014 these costs included US$14,389 thousand under the facility agreements with VTB Capital plc (under which US$3,000,000 thousand were committed and US$2,350,405 thousand were lent), US$7,193 thousand related to the new listing and the cancellation of the GDR program and US$7,990 thousand financing costs related to advisory and other services incurred in relation to the reorganisation. During the year ended 31 December 2015 additional costs related to advisory and other services in amount of US$1,053 thousand were incurred by the Group with regard to reorganisation.

28. EMPLOYEES' REMUNERATION

The average monthly number of employees (including Executive Directors) employed was as follows:

	2015	2014
Management and administrative	**303**	289
Technical and operational	**765**	721
	1,068	1,010

Their aggregate remuneration comprised:

In thousands of US dollars	2015	2014
Wages and salaries	**35,092**	36,025
Social security costs	**5,757**	4,333
Share-based payments	**–**	2,475
	40,849	42,833

Part of the Group's staff costs shown above is capitalised into the cost of intangible and tangible oil and gas assets under the Group's accounting policy for exploration, evaluation and oil and gas assets.

The amount ultimately remaining in the income statement was US$38,789 thousand (FY 2014: US$39,440 thousand).

Key management personnel remuneration

In thousands of US dollars	2015	2014
Short-term employee benefits	**4,703**	5,273
Share-based payments	**–**	2,475
	4,703	7,748

Directors' remuneration

In thousands of US dollars	2015	2014
Short-term employees benefits	**3,328**	3,767
Share-based payments	**–**	1,750
	3,328	5,517

Employee share option plan

The Group operates one option plan (the Phantom Option Plan), that was adopted by the board of directors of the Company on 20 June 2014 to allow for the continuation of the option plan previously maintained by Nostrum Oil & Gas LP. The rights and obligations in relation to this option plan were transferred to Nostrum Oil & Gas PLC from Nostrum Oil & Gas LP following the reorganisation (Note 2).

Employees (including senior executives and executive directors) of members of the Group or their associates receive remuneration in the form of equity-based payment transactions, whereby employees render services as consideration for share appreciation rights, which can only be settled in cash ("cash-settled transactions").

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The equity-based payment plan is described below.

During 2008-2015, 4,297,958 equity appreciation rights (SARs) which can only be settled in cash were granted to senior employees and executive directors of members of the Group or their associates. These generally vest over a five year period from the date of grant, so that one fifth of granted SARs vests on each of the five anniversaries from the date of grant. The contractual life of the SARs is ten years. The fair value of the SARs is measured at the grant date using a trinomial lattice valuation option pricing model taking into account the terms and conditions upon which the instruments were granted. SARs are exercisable at any time after vesting till the end of the contractual life and give its holder a right to a difference between the market value of the Group's ordinary shares at the date of exercise and a stated base value. The services received and a liability to pay for those services are recognised over the expected vesting period.

Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

The carrying value of the liability relating to 2,611,413 of SARs at 31 December 2015 is US$ 4,284 thousand (31 December 2014: 2,611,413 SARs with carrying value of US$ 6,449 thousand). During the year ended 31 December 2015 302,000 SARs were fully vested (FY 2014:302,000).

The following table illustrates the number ("No.") and exercise prices ("EP") of, and movements in, SARs during the year:

	2015		2014	
	No.	**EP,US$**	No.	EP,US$
Total outstanding at the beginning of the year (with EP of US$ 4)	**1,351,413**	**4**	1,646,348	4
Total outstanding at the beginning of the year (with EP of US$ 10)	**1,260,000**	**10**	1,266,000	10
Total outstanding at the beginning of the year	**2,611,413**		2,912,348	
Share options exercised	**–**	**4**	(294,935)	4
Share options exercised	**–**	**10**	(6,000)	10
Total outstanding at the end of the year	**2,611,413**		2,611,413	
Total exercisable at the end of the year	**2,117,413**		1,815,413	

There were no SARs granted during the years ended 31 December 2015 and 2014. The weighted average price at the date of exercise for SARs exercised during the year ended 31 December 2014 amounted to US$ 8.22 per SAR. The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for the plan for the years ended 31 December 2015 and 2014:

	2015	2014
Price at the reporting date	**6.0**	6.6
Distribution yield (%)	**3.0%**	3.0%
Expected volatility (%)	**45.0%**	85.0%
Risk-free interest rate (%)	**2.5%**	1.0%
Expected life (years)	**10**	10
Option turnover (%)	**10.0%**	10.0%
Price trigger	**2.0**	2.0

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Option turnover rate represents the rate of employees expected to leave the Company during the vesting period, which is based on historical data and is may not necessarily be the actual outcome. The model considers that when share price reaches the level of exercise price multiplied by the price trigger the employees are expected to exercise their options.

29. DERIVATIVE FINANCIAL INSTRUMENTS

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

On 14 December 2015, Zhaikmunai LLP entered, at cost of US$ 92,000 thousand, into a long-term hedging contract covering oil sales of 14,674 bbls/day for the first calculation period and 15,000 bbls/day for the subsequent calculation periods or a total of 10,950,000 bbls running through 14 December 2017. The counterparty to the hedging agreement is VTB Capital Plc. Based on the hedging contract Zhaikmunai LLP bought a put, which protects it against any fall in the price of oil below US$ 49,16/bbl.

During the years ended 31 December 2015 and 2014 the movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US dollars	**2015**	2014
Derivative financial instruments at fair value at 1 January	**60,301**	–
Proceeds from sale of hedging contract	**(92,256)**	–
Purchase of hedging contract	**92,000**	–
Gain on derivative financial instruments	**37,055**	60,301
Derivative financial instruments at fair value at 31 December	**97,100**	60,301
Less current portion of derivative financial instruments	**(54,095)**	–
Derivative financial instruments at fair value as at 31 December	**43,005**	60,301

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 35.

30. OTHER EXPENSES

In thousands of US dollars	**2015**	2014
Export customs duty	**14,669**	19,733
Compensation	**2,531**	10,116
Accruals under subsoil use agreements	**2,156**	16,083
Other expense	**11,204**	3,912
	30,560	49,844

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

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

31. INCOME TAX

The income tax expense comprised the following:

In thousands of US dollars	**2015**	**2014**
Deferred income tax expense	**140,985**	54,233
Corporate income tax	**24,219**	116,948
Withholding tax	**2,821**	879
Adjustment in respect of the current income tax for the prior periods	**(1,384)**	(6,785)
Total income tax expense	**166,641**	165,275

The Group's profits are assessed for income taxes mainly 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	**2015**	2014
Profit before income tax	**72,275**	311,700
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**21,682**	93,510
Effect of exchange rate on the tax base	**101,043**	34,533
Adjustments in respect of current income tax of previous years	**(1,384)**	(6,785)
Effect of income taxed at different rate[1]	**(2,921)**	(3,790)
Non-deductible interest expense on borrowings	**20,698**	23,390
Deferred tax asset not recognised	**5,297**	10,384
Non-deductible penalties	**3,656**	4,556
Non-deductible compensation for gas	**–**	2,813
Net foreign exchange loss	**12,086**	1,020
Non-deductible social expenditures	**1,021**	886
Non-deductible cost of technological loss	**141**	192
Non-deductible training expenditures	**561**	–
Other non-deductible expenses	**4,761**	4,566
Income tax expenses reported in the consolidated financial statements	**166,641**	165,275

[1] *Jurisdictions which contribute significantly to this item are Republic of Kazakhstan with an applicable statutory tax rate of 20% (for activities not related to the Contract), and the Netherlands with an applicable statutory tax rate of 20%.*

As at 31 December 2015 the Group has tax losses of US$21,233 thousand that are available to offset against future taxable profits in the companies in which the losses arose within 9 years after generation and will expire in the period 2023-2024. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group.

Deferred tax liability is 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	**31 December 2015**	31 December 2014
Deferred tax asset		
Accounts payable and provisions	**4,486**	3,616
Deferred tax liability		
Property, plant and equipment	**(332,835)**	(196,855)
Derivative financial instruments	**(19,420)**	(12,060)
Other	**–**	(1,485)
Net deferred tax liability	**(347,769)**	(206,784)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	**2015**	2014
Balance as at 1 January	**206,784**	152,545
Current period charge to statement of comprehensive income	**140,985**	54,239
Balance as at 31 December	**347,769**	206,784

32. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2015 and 31 December 2014 consisted of the following:

In thousands of US dollars	**31 December 2015**	31 December 2014
Trade receivables and advances paid		
KazStroyService JSC	**35,832**	36,915
Cervus Business Services	**132**	–
Crest Capital Management N.V.	**78**	–
Telco B.V.	**4**	–

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2015 and 31 December 2014 consisted of the following:

In thousands of US dollars	**31 December 2015**	31 December 2014
Trade payables		
KazStroyService JSC	**4,144**	2,753
Telco B.V.	**–**	29

During the years ended 31 December 2015 and 2014 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

In thousands of US dollars	**2015**	**2014**
Purchases		
KazStroyService JSC	**29,906**	6,538
Management fees and consulting services		
Cervus Business Services	**1,392**	1,981
Crest Capital Management N.V.	**990**	824
Telco B.V.	**499**	744
Nostrum Services Central Asia LLP	**–**	455
Nostrum Services CIS BVBA	**–**	668

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

With effect from 1 August 2015 the Group entered into a technical support & service agreement with the Contractor for an initial term ending on 31 December 2015 and an initial consideration of US$ 3,375 thousand.

With effect from 10 September 2015 the Group entered into a service agreement with the Contractor valid until 31 March 2016 for the provision of engineering staff for an aggregate consideration of US$ 245 thousand.

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2015 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 Zhaikmunai LLP and Nostrum Services Central Asia LLP (formerly Amersham Oil LLP) and Nostrum Services CIS BVBA related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Following the agreement on 19 May 2014 to acquire Nostrum Services Central Asia LLP and Nostrum Services CIS BVBA, these management fees were eliminated as intercompany transactions.

During the year ended 31 December 2015 management and consulting services were provided in accordance with business centre and consultancy agreements signed between members of the Group and Cervus Business Services BVBA, Crest Capital Management N.V. and Telco B.V.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$4,703 thousand for the year ended 31 December 2015 (FY 2014: US$5,273 thousand). There were no payments made under the ESOP during the year ended 31 December 2015 (FY 2014: US$2,475).

33. AUDIT AND NON-AUDIT FEES

During the years ended 31 December 2015 and 2014 audit and non-audit fees comprise the following:

In thousands of US dollars	**2015**	2014
Audit of the financial statements	**358**	684
Total audit services	**358**	684
Audit-related assurance services	**180**	319
Taxation compliance services	**–**	40
Services relating to corporate finance transactions	**–**	730
Other non-audit services	**23**	–
Total non-audit services	**203**	1,089
Total fees	**561**	1,773

The audit fees in the table above include the audit fees of US$10 thousand in relation to the Parent.

34. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2015. As at 31 December 2015 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

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

Capital commitments

As at 31 December 2015 the Group had contractual capital commitments in the amount of US$123,529 thousand (31 December 2014: US$248,644 thousand) mainly in respect to the Group's oil field exploration and development activities.

Operating lease

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

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

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

In thousands of US dollars	**31 December 2015**	31 December 2014
No later than one year	**12,471**	14,788
Later than one year and no later than five years	**4,623**	17,671
Later than five years	**–**	–

Lease expenses of railway tank wagons for the year ended 31 December 2015 amounted to US$15,690 thousand (FY 2014: US$14,622 thousand).

Social and education commitments

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

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

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

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 3 July 2015) require the subsurface user to:

- spend US$ 1,000 thousand for funding of development of Astana city in case of commercial discovery;
- invest at least US$ 5,888 thousand for exploration of the field during the exploration period;
- reimburse historical costs of US$ 383 thousand to the Government upon commencement of production stage; and
- fund liquidation expenses equal to US$ 35 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 30 December 2015) require the subsurface user to:

- invest at least US$ 18,976 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 130 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 30 December 2015) require the subsurface user to:

- invest at least US$ 30,453 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 154 thousand.

Domestic oil sales

In accordance with Supplement # 7 to the Contract, Zhaikmunai LLP 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.

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

Interest rate risk

The Group is not exposed to interest rate risk in 2015 and 2014 as the Group had no financial instruments with floating rates as at years ended 31 December 2015 and 2014.

Foreign currency risk

As a significant portion of the Group's operation is the tenge denominated, the Group's statement of financial position can be affected by movements in the US dollar / tenge exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in US dollars and denominating sales in US dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar 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
2015		
US dollar thousand	+ 60.00%	18,250
US dollar thousand	- 20.00%	(6,083)
2014		
US dollar thousand	+ 17.37%	(1,168)
US dollar thousand	- 17.37%	1,168

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

As at 31 December 2015	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	2,047	70	6,472	626	9,215
Trade receivables	1,455	–	–	–	1,455
Trade payables	(22,364)	(1,928)	(2,876)	(264)	(27,432)
Other current liabilities	(11,554)	(159)	(855)	(1,783)	(14,351)
	(30,416)	**(2,017)**	**2,741**	**(1,421)**	**(31,113)**

As at 31 December 2014	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	8,713	–	10,307	106	19,126
Trade receivables	12,331	–	–	–	12,331
Trade payables	(27,030)	(965)	(3,479)	(256)	(31,730)
Other current liabilities	(19,331)	(115)	(7,010)	(7)	(26,463)
	(25,317)	**(1,080)**	**(182)**	**(157)**	**(26,736)**

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: a) not more than 25% of borrowings should mature in the next twelve-month period and b) a minimum balance of US$ 50 million is retained on the balance sheet post repayment or refinancing of any debt due in the next twelve-month period.

The Group's total outstanding debt consists of two notes: US$ 560 million issued in 2012 and maturing in 2019 and US$ 400 million issued in 2014 and maturing in 2019. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2015 and 31 December 2014 based on contractual undiscounted payments:

As at 31 December 2015	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Borrowings	–	12,750	52,650	1,156,200	–	**1,221,600**
Trade payables	37,934	–	3,529	–	–	**41,463**
Other current liabilities	17,554	–	–	–	–	**17,554**
Due to Government of Kazakhstan	–	258	773	4,124	10,567	**15,722**
	55,488	**13,008**	**56,952**	**1,160,324**	**10,567**	**1,296,339**

As at 31 December 2014	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Borrowings	–	12,750	52,650	1,221,600	–	**1,287,000**
Trade payables	48,095	–	1,524	–	–	**49,619**
Other current liabilities	18,126	–	–	–	–	**18,126**
Due to Government of Kazakhstan	–	258	773	4,124	11,340	**16,495**
	66,221	**13,008**	**54,947**	**1,225,724**	**11,340**	**1,371,240**

Credit risk

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

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

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

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

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

Fair values of financial instruments

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

	Carrying amount		Fair value	
In thousands of US dollars	**31 December 2015**	**31 December 2014**	**31 December 2015**	**31 December 2014**
Derivative financial instruments	**97,100**	60,301	**97,100**	60,301
Interest bearing borrowings	**(951,494)**	(945,114)	**(809,824)**	(1,037,320)
Total	**(854,394)**	(884,813)	**(712,724)**	(977,019)

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

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

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 31 December 2015 and 31 December 2014:

	31 December 2015	31 December 2014
Future price at the reporting date (US$)	**37.19-48.75**	59.2-67.9
Historical volatility (%)	**30.31**	16.02-17.73
Risk-free interest rate (%)	**0.32-0.69**	0.25-0.67
Maturity (months)	**1-23**	3-15

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

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

	Increase in the assumption	**Decrease in the assumption**
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl)	(12,857)	15,521
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	3,590	(3,561)

Movement in the derivative financial instruments is disclosed in Note 29.

During the years ended 31 December 2015 and 2014 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

Capital management

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

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

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

In thousands of US dollars	**2015**	2014
Interest bearing borrowings	**951,494**	945,114
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(170,935)**	(405,467)
Net debt	**780,559**	539,647
Equity	**773,756**	917,680
Total capital	**773,756**	917,680
Capital and net debt	**1,554,315**	1,457,327
Gearing ratio	**50%**	37%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

36. EVENTS AFTER THE REPORTING PERIOD

The technical support and service agreement with the Contractor that was originally valid until 31 December 2015 was extended on 24 February 2016 until 30 June 2016.

With effect from 1 January 2016 Kazakhstan reduced export duties for crude oil from US$60 to US$40 per tonne.

With effect from 1 February 2016 Kazakhstan introduced floating rates of export duties for crude oil based on average market prices.